

PUBLIC EMPLOYEE RETIREMENT COMMISSION



2004 ANNUAL REPORT

Commonwealth of Pennsylvania

2004
Annual Report
of the
Public Employee Retirement Commission



Public Employee Retirement Commission
Commonwealth of Pennsylvania
March 2005

PUBLIC EMPLOYEE RETIREMENT COMMISSION

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
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March 2005

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 2004.

During 2004, the Commission authorized the attachment of seventeen actuarial notes to seven bills, two bills as amended, and eight 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, the Public School Employees' Retirement System, and the Pennsylvania Municipal Retirement System. This report also describes research conducted during 2004 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-second 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 2004.

Sincerely,

A handwritten signature in cursive script that reads "Paul D. Halliwell".

*Paul D. Halliwell
Chairman*

Introduction

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

Under the Public Employee Retirement Commission Act, the Commission has two main responsibilities. One is to issue the required actuarial notes for proposed legislation affecting public employee retirement systems. The other is to study, on a continuing basis, public employee retirement system policy 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 two 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, an amount that exceeded \$190 million in 2004.

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 nineteenth 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 2004.

TABLE OF CONTENTS

	Page
LETTER OF TRANSMITTAL	i
INTRODUCTION	iii
TABLE OF CONTENTS	v
DUTIES AND RESPONSIBILITIES OF THE COMMISSION	1
Part I. Preparation of Actuarial Notes and Advisory Notes	3
A. Statutory Provisions	3
B. Summary of 2004 Activity	4
C. Synopses of Advisory Notes	4
• House Bill Number 1413, Printer’s Number 1747, Municipal Police Pension Law (Act 600 of 1955)	4
• House Bill Number 2520, Printer’s Number 3718, Public School Employees’ Retirement System and State Employees’ Retirement System	4
D. Synopses of Actuarial Notes	5
• Senate Bill Number 388, Printer’s Number 399, Public School Employees’ Retirement System	6
• Senate Bill Number 528, Printer’s Number 576, Municipal Police Pension Law (Act 600 of 1955)	11
• Senate Bill Number 732, Printer’s Number 850, Municipal Police Pension Law (Act 600 of 1955)	15
• House Bill Number 798, Printer’s Number 930, City of Philadelphia	19
• House Bill Number 1413, Printer’s Number 1747, Municipal Police Pension Law (Act 600 of 1955)	22
• House Bill Number 1951, Printer’s Number 2545, as amended by Amendment Number 2944, Pennsylvania Municipal Retirement System	25

TABLE OF CONTENTS (Cont'd)

	Page
D. Synopses of Actuarial Notes (Cont'd)	
• Amendment Number 0017 to House Bill Number 2109, Printer's Number 3111, State Employees' Retirement System	28
• Amendment Number 0112 to House Bill Number 2109, Printer's Number 3111, State Employees' Retirement System	32
• Amendment Number 0113 to House Bill Number 2109, Printer's Number 3111, State Employees' Retirement System	35
• Amendment Number 2171 to House Bill Number 2109, Printer's Number 3111, Public School Employees' Retirement System and State Employees' Retirement System	39
• Amendment Number 3535 to House Bill Number 2109, Printer's Number 3111, State Employees' Retirement System	44
• Amendment Number 4807 to House Bill Number 2109, Printer's Number 3111, State Employees' Retirement System	47
• Amendment Number 4808 to House Bill Number 2109, Printer's Number 3111, State Employees' Retirement System	50
• Amendment Number 4991 to House Bill Number 2109, Printer's Number 3111, State Employees' Retirement System	54
• House Bill Number 2467, Printer's Number 3519, Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984)	58
• House Bill Number 2773, Printer's Number 4212, Pennsylvania Municipal Retirement System	61
• House Bill Number 2865, Printer's Number 4416, as amended by Amendment Number 4064, Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984)	63

TABLE OF CONTENTS (Cont'd)

	Page
Part II. Public Employee Retirement System Administration	67
A. Administration of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984)	67
B. Administration of Act 293 of 1972	67
Part III. Public Employee Retirement System Policy Development and Coordination	69
A. Statutory Provisions	69
B. Research	69
C. Statewide Public Employee Retirement System Reviews	70
• Pennsylvania Municipal Retirement System Actuarial Valuation Review ..	71
• Public School Employees' Retirement System Actuarial Valuation Review .	73
• State Employees' Retirement System Actuarial Valuation Review	77
APPENDICES	83
A. Advisory Committees and Consulting Actuaries	85
B. Legislative Procedures	87
C. By-Laws	89
D. Comprehensive List of 2003-2004 Sessions Legislation Regarding Public Employee Retirement Issues	93
E. Concise Index to Actuarial Notes	121

**DUTIES AND RESPONSIBILITIES
OF THE COMMISSION**

PART I

**PREPARATION OF ACTUARIAL NOTES
AND ADVISORY NOTES**

A. STATUTORY PROVISIONS.

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

Section 6. Powers and duties.

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

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

Section 7. Actuarial notes.

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

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

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

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

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

A. STATUTORY PROVISIONS. (Cont'd)

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

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

B. SUMMARY OF 2004 ACTIVITY.

During 2004, the Commission authorized the attachment of seventeen actuarial notes to seven bills, eight amendments and two bills as amended. In addition, the Commission's staff provided the General Assembly with two advisory notes.

C. SYNOPSES OF ADVISORY NOTES.

- House Bill Number 1413, Printer's Number 1747. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on February 3, 2004, the Commission staff provided an advisory note on House Bill Number 1413, Printer's Number 1747. House Bill Number 1413, Printer's Number 1747, would amend the Municipal Police Pension Law (Act 600 of 1955) to permit municipalities to refund member contributions to retired police officers, not to exceed a maximum of two percent of a pension fund's actuarial accrued liability in any given year, if 1) a pension plan's actuarial value of assets exceeds its actuarial accrued liability by 100 percent and 2) a pension plan will remain overfunded by 100 percent following the payment of any such refunds.
- House Bill Number 2520, Printer's Number 3718. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on August 18, 2004, the Commission staff provided an advisory note on House Bill Number 2520, Printer's Number 3718. House Bill Number 2520, Printer's Number 3718, would amend the Public School Employees' Retirement Code and the State Employees' Retirement Code by mandating the establishment of a centrally administered statewide retirement system for all local government police employees. A local government is defined by the bill as any

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

municipality, excluding a county. The bill will systematically implement a gradual consolidation and integration of the existing decentralized local police pension plan structure into a single statewide system to be known as the Government Employees' Retirement System. The new system will be of a size, scope and structure intended to assure fiscal and actuarial stability, proper funding, benefit adequacy, benefit equity and security, administrative cost savings and increased efficiency, prudent investment of pooled assets, enhanced member services, and employee portability.

D. SYNOPSES OF ACTUARIAL NOTES.

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

BILL ID:	Senate Bill Number 388, Printer's Number 399
SYSTEM:	Public School Employees' Retirement System
SUBJECT:	Purchase of Service Credit for Service in Nonpublic and Private Schools

SYNOPSIS

Senate Bill Number 388, Printer's Number 399, would amend the Public School Employees' Retirement Code to permit an active member of the Public School Employees' Retirement System (PSERS) to:

- 1) purchase up to five years of nonschool service credit at the rate of one year for every year of previous nonschool service as a school employee, teacher or instructor, in an accredited Pennsylvania nonpublic elementary or secondary school or an accredited Pennsylvania licensed private school, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered; and
- 2) purchase an unlimited amount of nonschool service credit at the rate of one year for every year of previous nonschool service as a teacher or instructor of special education classes in an accredited Pennsylvania-approved private elementary or secondary school, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered.

The bill requires the member to elect to purchase the nonschool service within three years of becoming eligible to do so, requires the member to pay the full actuarial cost of the increase in the projected superannuation annuity resulting from the service purchase, and in the case of paragraph "1" above, prohibits the member from withdrawing the service purchase amount under retirement Option 4.

DISCUSSION

The Public School Employees' Retirement System (PSERS) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of PSERS is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 2003, there were approximately 695 participating units, generally school districts, area vocational-technical schools, and intermediate units in PSERS. Membership in PSERS is mandatory for most public school employees. Certain other employees are not required, but are given the option, to participate. As of June 30, 2003, there were 246,700 active members and 145,693 retired members of PSERS.

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

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

The bill would expand the list of purchasable nonschool service to include up to five years of nonschool service credit at the rate of one year for every year of previous nonschool service as a school employee, teacher or instructor, in an accredited Pennsylvania nonpublic elementary or secondary school or an accredited Pennsylvania licensed private school, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered, and an unlimited amount of nonschool service credit at the rate of one year for every year of previous nonschool service as a teacher or instructor of special education classes in an accredited Pennsylvania-approved private elementary or secondary school, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered.

Under current law, a “nonpublic school” is defined as any nonprofit school, other than a public school within the Commonwealth of Pennsylvania, wherein a resident of the Commonwealth may legally fulfill compulsory school attendance requirements. A “private academic school” or “private school” is distinguished from a nonpublic school by being defined as a school maintained for the purpose of offering instruction for consideration, profit or tuition. The term “approved private school” is defined in 22 PA. Code Section 171.11, describing a private school, the mission of which is to provide special education to children with exceptional needs. Special education includes clinical, remedial, and guidance services for exceptional children, that is, both gifted children and children with severe disabilities. For example, an individual holding a certificate endorsed in one of the four special education areas is qualified to teach students with disabilities how to understand, overcome, compensate for and/or adjust to their disabilities through the use of adaptive instructional strategies, instructional accommodations, individualized learning activities, and specially designed services.

The bill would permit not only members of PSERS who held provisional or permanent teaching certificates during the period when the purchasable service was rendered, but also members who only were eligible for such certificates to purchase service credit. This eligibility criterion will require an after-the-fact determination by the Department of Education of whether a member would have been eligible for certification at some previous time.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has reviewed the bill and determined that any increase in unfunded actuarial accrued liability resulting from the bill will depend on the method selected by the PSERS Board of Trustees, based on the advice of the PSERS actuary, to determine the full actuarial cost paid by the member and that there will be no increase in the unfunded actuarial accrued liability if the full actuarial cost is determined using the same methodology and assumptions used by the PSERS consulting actuary for the PSERS annual valuation. If, however, the method or assumptions used to determine the full actuarial cost to be paid by the member should differ from the System’s current valuation methodology and assumptions, there could be a change in the unfunded actuarial accrued liability due to the service purchase. Suggested amendatory language designed to assure that the full actuarial cost of the bill is determined in accordance with the System’s current actuarial methods and assumptions and to assure full

payment by the member of the actuarial cost attributable to the service purchase would read as follows: The full actuarial cost shall be determined by utilizing the actuarial methodology and assumptions utilized by the consulting actuary of the System in preparing the most recent annual actuarial valuation of the System. The purchase payment shall be made in lump sum by the member within 30 days of certification by the board of the required purchase amount. The suggested amendment should be inserted on page 3, line 16, beginning after the word “experience” and also on page 3, line 26, after the word “experience.”

As currently drafted the bill would prohibit withdrawal of the service purchase amount under retirement Option 4 for service as a school employee, teacher or instructor, in an accredited Pennsylvania nonpublic elementary or secondary school or an accredited Pennsylvania licensed private school, but would permit withdrawal under Option 4 for service as a teacher or instructor of special education classes in an accredited Pennsylvania-approved private elementary or secondary school. Because it appears that the intent of the bill is to require the member to pay the full actuarial cost of all of the proposed types of service purchases, the staff of the Commission believes this discrepancy to be merely a drafting oversight and that it is the intent of the bill’s sponsors that the amount paid for any service under the bill should be precluded from withdrawal under Option 4. To correct the oversight, the bill should be amended by striking out “and” on page 4, line 2, of the bill and inserting “and (3)” after “(2)” on page 4, line 2, of the bill.

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

POLICY CONSIDERATIONS

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

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

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

Appropriateness of Service Purchase Authorizations. 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 the purchase

of service for situations that are not among the situations which the Commission views as warranting service credit purchase authorizations.

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

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

Limits on the Amount of Service Purchased. A limit on the length of service which may be purchased in connection with a service purchase authorization serves to assure that a public employee's retirement benefit will be based principally on the amount of time served with the employer providing the benefit. In the absence of any such limit, some public employees may be able to purchase virtually all of the service credit required for vesting or for superannuation retirement and become eligible to receive a retirement benefit from an employer to whom they provided an insignificant period of service. The bill limits to five years the amount of service that may be purchased for previous service as a school employee, teacher or instructor, in an accredited Pennsylvania nonpublic elementary or secondary school or an accredited Pennsylvania licensed private school, however, the bill contains no restriction on the amount of service that may be purchased by an employee for previous service as a teacher or instructor of special education classes in an accredited Pennsylvania-approved private elementary or secondary school. If it is the intent of the bill sponsors to limit all service purchases authorized under the bill to a maximum of five years, the bill should be amended by inserting , not to exceed a total of five years after the first occurrence of the word "service" on line 16, page 2, of the bill.

Prohibition on Option 4 Withdrawal of Purchase Contribution. A service credit purchase transaction that favors a member at the expense of the retirement system is viewed by the Commission as appropriate only where necessary for the purpose of equity. For the service credit purchase authorizations to be at the full actuarial cost, the bill must prohibit a lump sum withdrawal of the purchase contribution under retirement Option 4 by the member upon retirement. As currently drafted, the bill would preclude withdrawal of the service purchase amount under retirement Option 4 for service as a school employee, teacher or instructor, in an accredited Pennsylvania nonpublic elementary or secondary school or an accredited Pennsylvania licensed private school, but would permit withdrawal under Option 4 for service as a teacher or instructor of special education classes in an accredited Pennsylvania-approved private elementary or secondary school. To correct this discrepancy, the bill should be amended by striking out the word "and" on page 4, line 2, of the bill and inserting "and (3)" after "(2)" on page 4, line 2, of the bill.

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

Drafting Considerations. The staff of the Commission identified the following drafting considerations.

Determination of Full Actuarial Cost. If the method or assumptions used to determine the full actuarial cost to be paid by the member for the service purchase

POLICY CONSIDERATIONS (CONT'D)

authorization provided under the bill should differ from the System's current valuation methodology and assumptions, there could be an increase in the unfunded actuarial accrued liability due to the service purchase. Amendatory language intended to assure that the full actuarial cost of the bill is determined in accordance with the System's current actuarial methods and assumptions and to assure full payment by the member of the actuarial cost attributable to the service purchase would read as follows: The full actuarial cost shall be determined by utilizing the actuarial methodology and assumptions utilized by the consulting actuary of the System in preparing the most recent annual actuarial valuation of the System. The purchase payment shall be made in lump sum by the member within 30 days of certification by the board of the required purchase amount. The suggested amendment should be inserted on page 3, line 16, beginning after the word "experience" and also on page 3, line 26, after the word "experience."

Inconsistent Application of Option 4 Withdrawal Prohibition. In what appears to be a drafting oversight, the bill would prohibit withdrawal of the service purchase amount under retirement Option 4 for service as a school employee, teacher or instructor, in an accredited Pennsylvania nonpublic elementary or secondary school or an accredited Pennsylvania licensed private school, but would permit withdrawal under Option 4 for service as a teacher or instructor of special education classes in an accredited Pennsylvania-approved private elementary or secondary school. To correct the oversight, the bill should be amended by striking out "and" on page 4, line 2, of the bill and inserting "and (3)" after "(2)" on page 4, line 2, of the bill.

Inconsistent Limitation on Amount of Service Purchased. The bill limits to five years the amount of service that may be purchased for previous service as a school employee, teacher or instructor, in an accredited Pennsylvania nonpublic elementary or secondary school or an accredited Pennsylvania licensed private school, however, the bill contains no restriction on the amount of service that may be purchased by an employee for previous service as a teacher or instructor of special education classes in an accredited Pennsylvania-approved private elementary or secondary school. If it is the intent of the bill sponsors to limit all service purchases authorized under the bill to a maximum of five years, the bill should be amended by inserting , not to exceed a total of five years after the first occurrence of the word "service" on line 16, page 2, of the bill.

COMMISSION RECOMMENDATION

On April 7, 2004, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

Senate Bill Number 388, Printer's Number 399, was referred to the Senate Finance Committee on March 3, 2003.

BILL ID:	Senate Bill Number 528, Printer's Number 576
SYSTEM:	Municipal Police Pension Law (Act 600 of 1955)
SUBJECT:	Length-of-Service Increments and Excess Benefits

SYNOPSIS

Senate Bill Number 528, Printer's Number 576, would amend the Municipal Police Pension Law (Act 600 of 1955) to 1) increase the maximum permissible length-of-service increment that may be paid to a retiree for service in excess of 25 years in addition to the member's basic pension from \$100 per month to \$500 per month, and 2) permit a municipality or regional police department operating under a home rule charter which had pension plans in effect prior to the effective date of the bill that provide pension benefits in excess of current Act 600 limits to continue to do so.

DISCUSSION

The Municipal Police Pension Law (Act 600 of 1955) 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. Under current law, the length-of-service increments cannot total more than \$100 per month.

Length-of-Service Increments

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 25 years of service, while there is an incentive for remaining in service longer under a conventional "formula-based" retirement plan.

The disincentive in Act 600 is somewhat lessened by the fact that, in times of salary progression, the officer's pension is higher with each year of employment because of the higher final average salary. In an attempt to remedy further the disincentive inherent in the "fixed benefit" approach, Act 600 was amended to permit the payment of length-of-service increments. When the service increments were added to Act 600, they were limited to a maximum of \$100 per month. Inherent in any named dollar limit is the change in the purchasing power of the dollar amount over a long period of time. As a result of the change in purchasing power over time, the Act 600 service

increment benefits have become relatively less valuable because of the \$100 per month limit. The bill would permit an increase in the limit from \$100 per month to \$500 per month, but it provides no guidance with respect to the schedule of the maximum permitted service increment increase for each year of service beyond 25 years.

Unauthorized or Excess Benefits

Section 2 of the bill would amend Act 600 to permit a municipality or regional police department operating under a home rule charter which had pension plans in effect prior to the effective date of the bill that provide pension benefits in excess of current Act 600 limits to continue to do so. This provision of the bill appears to conflict with the decision of the Commonwealth Court in this matter and with the current policy of the Department of the Auditor General (Department) because it would permit the payment of pension benefits in excess of the Act 600 limits to police officers hired on or after January 24, 2001.

On January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee*, 767 A.2d 596 (Pa. Commw. 2001), in which the court held that section 2962(c)(5) of the Home Rule Charter and Optional Plans Law precludes home rule municipalities from providing pension benefits different from those prescribed in general law, including Act 600. In Department of the Auditor General Municipal Pension Bulletin No. 2001-01, entitled *Unauthorized or Excess Benefits*, issued July 1, 2001, the Department set forth its position, based on the court's decision, with respect to the payment of retirement benefits that are beyond the limits authorized by law. The Department's position is that if a municipality or regional police department operating under a home rule charter provides benefits to employees hired on or after January 24, 2001, (the date of the Commonwealth Court decision) that are in excess of those permitted under Act 600, such excess benefits are to be considered unauthorized benefits, and may be cited as such as part of the Department's audit responsibilities. In effect, the Commonwealth Court decision, as implemented by the Auditor General's policy, allows affected municipalities to continue to provide unauthorized or excess benefits to current employees (hired before January 24, 2001) but prohibits the provision of those benefits to new employees (hired on or after January 24, 2001).

If a municipality has granted unauthorized or excess benefits to employees hired on or after January 24, 2001, which is contrary to the Commonwealth Court decision and the Department's administrative policy, there are potential financial implications. First, the municipality's pension costs are increased. Section 302 of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) establishes an actuarial funding standard for municipal retirement systems. If a municipality provides unauthorized or excess benefits, the mandated funding requirements of a municipality are increased. However, because the actuarial costs of the unauthorized or excess benefits are not reflected by the Department in its allocation of General Municipal Pension System State Aid (State aid), the State aid allocated to the municipality is not increased even though the municipality may be eligible to receive a State aid allocation equal to its pension costs. As a result, the increased pension costs attributable to the unauthorized or excess benefits, in all cases, must be paid by the municipality. The bill would sanction all benefits provided by the affected municipalities and thereby make the municipalities eligible for State aid allocations based on the benefits provided under their pension plans, including those previously considered to be unauthorized or in excess of Act 600 limits.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission’s consulting actuary has reviewed the bill and determined the enhanced service increment provision of the bill would have the following aggregate actuarial cost impact.

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liabilities	\$13,000,000 – \$13,500,000	
	<u>Amount</u>	<u>As a % of Payroll</u>
Increases in Employers' Annual Costs		
Normal Costs	\$ 230,000 – \$ 280,000	0.06% – 0.07%
Amortization Payments ¹	<u>1,379,000 – 1,432,000</u>	<u>0.35% – 0.37%</u>
Total Increases in Employers' Annual Costs	\$1,609,000 – \$1,712,000	0.41% – 0.44%

¹ Fifteen year level-dollar payments assuming a 7.62% interest rate.

POLICY CONSIDERATIONS

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

Need for Periodic Modification. Periodic modification of the flat dollar limits on service increments is appropriate because of erosion in the value of the limits over time. An alternative to the flat dollar approach would be to provide service increments based upon a percentage of salary, which would have the advantage of not requiring future modification.

Absence of Cost Sharing. The additional costs resulting from increasing the maximum permissible service increments would be imposed entirely upon the employer without requiring any contributions by the benefitted members.

Payment of Unauthorized or Excess Benefits. The bill would permit the payment of pension benefits by certain Home Rule Charter municipalities that are beyond the current benefit limits of Act 600.

Approximate Benefit Parity. The bill would provide parity between the police pension funds in cities and the police pension funds in boroughs and townships by providing the same maximum monthly service increment adjustment (\$500/month). However, unlike the Third Class City Code provision, the bill does not provide for a formula or schedule to determine the service increment adjustment to be made for each year of service beyond twenty-five years.

Impact on MMO and State Aid. Providing pension benefits beyond those currently authorized by Act 600 increases an affected municipality’s pension costs. A municipality is currently not eligible for a corresponding increase in State aid. However, under the bill, an affected municipality would be eligible for a corresponding increase in its allocation of State aid to defray the increased pension costs.

COMMISSION RECOMMENDATION

On April 7, 2004, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

A later version of Senate Bill Number 528 (P. N. 1914) had first consideration in the Senate on November 9, 2004, and was referred to the Senate Appropriations Committee on November 10, 2004.

BILL ID:	Senate Bill Number 732, Printer's Number 850
SYSTEM:	Municipal Police Pension Law (Act 600 of 1955)
SUBJECT:	Age and Service Requirements for Normal Retirement Benefits and Length-of-Service Increments

SYNOPSIS

Senate Bill Number 732, Printer's Number 850, would amend the Municipal Police Pension Law (Act 600 of 1955) to:

Permit a reduction in the service requirement for normal retirement eligibility from 25 years to not less than 20 years;

Permit a reduction in the minimum age requirement for normal retirement from age 55 to *not less than* age 50; and

Change the eligibility criteria for, and the amount of, the length of service increment that may be paid to a retiree in addition to the basic pension from \$100 a month for service in excess of 25 years to an amount not to exceed 25% of a member's monthly average salary for years of service beyond the prescribed minimum period of service (20 years under the bill).

DISCUSSION

The Municipal Police Pension Law (Act 600 of 1955) 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, 2003, there were at least 633 municipal police officer retirement systems with three or more members operating under the Municipal Police Pension Law, covering 7,836 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, or any age between age 50 and 55, pursuant to the Supreme Court's 1988 decision in *Chirico v. Bd. of Supervisors of Newtown Township*. 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. Under current law, the length-of-service increments cannot total more than \$100 per month.

The bill would amend Section 3 of the Municipal Police Pension Law to permit each affected municipality to change the eligibility requirements for normal retirement benefits by: 1) reducing the service requirement for retirement eligibility from 25 years to not less than 20 years; and 2) reducing the minimum age requirement for normal retirement from age 55 to *not less than* age 50. Because the retirement benefit for Act 600 pension plans is a fixed percentage (50%) of the member's final average salary, providing the retirement benefit earlier effectively increases the retirement benefit earned for each year of service. With the current service requirement of 25 years, the effective annual accrual rate for these pension plans is 2%. With implementation of the proposed minimum service requirement of 20 years, the effective accrual rate for the plans will increase to 2.5%. This would result in a basic retirement benefit equal to 50% of final average salary after 20 years of service.

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 25 years of service, while there is an incentive for remaining in service longer under a conventional formula-based retirement plan.

The disincentive in Act 600 is somewhat lessened by the fact that, in times of salary progression, the officer's pension is higher with each year of employment because of the higher final average salary. In an attempt to remedy further the disincentive inherent in the fixed benefit approach, Act 600 was amended to permit the payment of length-of-service increments. When the service increments were added to Act 600, they were limited to a maximum of \$100 per month. Inherent in any named dollar limit is the change in the purchasing power of the dollar amount over a long period of time. As a result of the change in purchasing power over time, the Act 600 service increment benefits have become relatively less valuable because of the \$100 per month limit. The bill replaces the current flat dollar limit by providing for service increments that are instead based upon a percentage of the member's salary. The bill limits the service increment to no more than 25% of a member's monthly average salary for years of service beyond the *prescribed minimum period of service* (20 years).

SUMMARY OF ACTUARIAL COST IMPACT

For the purpose of calculating the actuarial cost of the bill, the Commission's consulting actuary assumed that all affected municipalities would fully implement the benefit enhancements provided by the bill and that all affected members would retire upon attainment of age 50 and completion of 20 years of service. Based upon these assumptions, the Commission's consulting actuary has reviewed the bill and determined that the bill would have the following maximum aggregate actuarial cost impact.

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	<u>Amount</u>	
Increase in Aggregate Actuarial Accrued Liabilities	\$326,000,000 – \$364,000,000	
	<u>Amount</u>	<u>As a % of Payroll</u>
Increases in Employers' Annual Costs		
Normal Costs	\$12,700,000 – \$14,200,000	3.26% – 3.65%
Amortization Payments ¹	<u>37,528,000 – 41,903,000</u>	<u>9.64% – 10.76%</u>
Total Increases in Employers' Annual Costs	\$50,228,000 – \$56,103,000	12.90% – 14.41%

¹ Thirteen year level-dollar payments assuming a 7.62% interest rate. Thirteen years equals the average expected future service of active members.

POLICY CONSIDERATIONS

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

Level of Retirement Benefit. The bill would permit a maximum pension benefit that is equivalent to the product of two and one-half percent (2.5%) multiplied by 20 years of service multiplied by the member's final average salary and that will be supplemented by enhanced length-of-service increments, periodic cost-of-living allowances, and Social Security benefits. The General Assembly must determine whether this level of retirement benefit is appropriate from a public pension policy perspective.

Elimination of Need for Periodic Modification. Under current provisions of the Municipal Police Pension Law, periodic modification of the flat dollar limits on service increments are necessary because of erosion in the value of the limits over time. The bill provides an appropriate alternative to the flat dollar approach by providing for service increments based upon a percentage of salary, which has the virtue of eliminating the need for future legislative modification. However, the failure to provide for a gradual phase-in of the service increment over a period of years raises a concern, since the entire 25% increase could be awarded for a single year of service beyond 20 years.

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

COMMISSION RECOMMENDATION

On November 9, 2004, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

Senate Bill Number 732, Printer's Number 850, was referred to the Senate Finance Committee on May 12, 2003.

BILL ID:	House Bill Number 798, Printer's Number 930
SYSTEM:	Philadelphia City Police
SUBJECT:	Continuation of Surviving Spouse's Benefit For Life Regardless of Remarriage

SYNOPSIS

House Bill Number 798, Printer's Number 930, would:

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

DISCUSSION

Act 242 of 1915 was among the statutes that established the pension plan for City of Philadelphia police officers and other municipal employees prior to the adoption of the City's home rule charter under the First Class City Home Rule Act. Section 4.1 of Act 242 (53 P.S. § 13437) provides that the pension to be paid to a surviving spouse shall continue to be paid during the lifetime of a surviving spouse, unless a surviving spouse remarries, in which case payment of the survivor benefit is to be terminated.

As of July 1, 2002, there were 6,203 active police members of the City of Philadelphia Municipal Retirement System and 34 members who had terminated service with vested or deferred benefits. The system was paying benefits to 5,794 retired members (including DROP participants), 2,122 disabled members, 1,974 surviving spouses, and 195 surviving children.

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

The bill proposes to remove a provision in Act 242 that is based upon an orientation toward survivor retirement benefits that is deemed to be outdated and inappropriate. However, the bill applies only to the surviving spouses of police officers and police employees. The spouse beneficiaries of firefighters and nonuniformed employees of the City of Philadelphia would remain subject to the current provisions of Act 242, which require termination of survivor spouse benefits upon remarriage.

DISCUSSION (CONT'D)

Statutory provisions requiring the termination of survivor spouse benefits upon remarriage were once a common feature of municipal pension plans. Similar provisions were previously applicable to paid firefighters and police officers under The Third Class City Code, and police officers in boroughs, incorporated towns, townships, and regional police departments under the Municipal Police Pension Law but these provisions have since been repealed. Under the pension plans for nonuniformed employees of the City of Scranton and the standard pension plans administered by the Pennsylvania Municipal Retirement System, at the time of retirement a municipal employee may elect to receive a single life annuity or, if the retiring employee wishes to provide financial assistance for dependents who may outlive the retiree, an employee may choose from one of several benefit options designed to provide survivor benefits for one or more designated beneficiaries. In neither system do any of the survivor options available to members terminate the retirement benefits to a surviving spouse upon remarriage.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the City of Philadelphia has informed the Commission that the probability of remarriage for surviving spouses of deceased police officers is not valued by the actuary in preparing the actuarial valuations of the police officers' retirement system. Accordingly, there will be no change in the funding requirements of the City of Philadelphia upon enactment of the bill. The consulting actuary of the Commission has reviewed the bill and determined that there will be no significant actuarial cost impact upon the City of Philadelphia Municipal Retirement System resulting from passage of the bill.

POLICY CONSIDERATIONS

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

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

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

Uniformity and Equity of Pension Benefits. The same Act 242 provisions for termination of surviving spouses' benefits upon remarriage apply to the surviving spouses of deceased firefighters and nonuniformed employees of the City of Philadelphia as well as to police officers and police employees. If the proposal in the bill is determined to be appropriate, the same modification of survivor benefit provisions should be extended to all public employees of the City. Draft wording for an amendment to make the bill applicable to all employees of the City of Philadelphia is attached.

COMMISSION RECOMMENDATION

On June 9, 2004, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 798, Printer's Number 930, was signed into law by the Governor as Act 184 of 2004 on November 30, 2004.

BILL ID:	House Bill Number 1413, Printer's Number 1747
SYSTEM:	Municipal Police Pension Law (Act 600 of 1955)
SUBJECT:	Reimbursement of Member Contributions

SYNOPSIS

House Bill Number 1413, Printer's Number 1747, would amend the Municipal Police Pension Law (Act 600 of 1955) to permit municipalities to refund member contributions to retired police officers, not to exceed a maximum of two percent of a pension fund's actuarial accrued liability in any given year, if 1) a pension plan's actuarial value of assets exceeds its actuarial accrued liability by 100 percent and 2) a pension plan will remain overfunded by 100 percent following the payment of any such refunds.

DISCUSSION

The Municipal Police Pension Law governs the establishment of police officers' retirement systems in every borough, incorporated town, and township with three or more full-time police officers and every regional police department (municipality). At its option, a municipality with fewer than three full-time police officers also may establish a police officers' retirement system under the Municipal Police Pension Law. As of January 1, 2001, there were at least 621 municipal police officers' retirement systems operating under the Municipal Police Pension Law. In addition, there also were some one- and two-officer systems that were operating under the Municipal Police Pension Law. The 621 systems covered 7,561 active police officers.

Under the Municipal Police Pension Law, a police officer may retire after a total of 25 years of service with the same municipality when the officer reaches age 55. If an actuarial valuation shows it is feasible, the retirement age may be reduced to not less than age 50. The monthly pension, excluding length-of-service increments and cost-of-living adjustments, is one-half of the monthly salary of the officer averaged over the last 36 to 60 months of employment.

The bill would amend the Municipal Police Pension Law by adding a section that would permit municipalities to refund member contributions to retired police officers, not to exceed a maximum of two percent of a pension fund's actuarial accrued liability in any given year, if 1) a pension plan's actuarial value of assets exceeds its actuarial accrued liability by 100 percent and 2) a pension plan will remain overfunded by 100 percent following the payment of any such refund.

In police pension plans subject to the Municipal Police Pension Law, the three primary sources of pension plan funding are: 1) employer (municipal) contributions, 2) General Municipal Pension System State Aid (GMPSSA), and 3) employee contributions. Over the course of a member's career, member contributions to the pension plan may be required to assist in funding retirement benefits. In actual practice, many police pension plans subject to Act 600 do not require member contributions in those cases in which the amount of General Municipal Pension System State Aid provided to a municipality is sufficient to satisfy the minimum municipal obligation (MMO) for the plan as mandated by the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). In pension plans where member contributions are required and members of a police pension plan are covered by Social Security, the rate of member contributions to the plan is equal to 5% of compensation. If members are not covered by Social Security, member contributions can be set as high as 8% of compensation. However, in any given year, the governing body of a

municipality maintaining a pension plan subject to Act 600 can reduce or eliminate the requirement for member contributions.

Presumably, members contribute to the pension plan during years in which such contributions are needed based upon the funding status of the pension plan in those years. Subsequent events may change the funding status of the pension plan to permit member contributions to be suspended. However, the current funding status of the pension plan does not change the fact that in prior years the funding status of the pension plan dictated the need for member contributions in those years.

Under the bill, only a pension plan with an actuarial value of assets in excess of 100% of the plan's actuarial accrued liability (a 200% funded ratio) would be permitted to refund member contributions to retired members. A review of the Commission's records reveals that, as of January 1, 2001, there were 120 plans that met the funding criteria required by the bill. Given the investment returns of 2001 and 2002, there are probably fewer than 120 pension plans that currently meet the funding criteria required to implement the member contribution refunds under the bill. Because the affected pension plans are required to be overfunded to such an extent, it is likely that the members of these pension plans were never required to make contributions and, therefore, would have no member contributions to refund.

The funding status of a pension plan is affected by many factors, including the level of benefits provided to the plan members and the investment experience of the plan assets. If a benefit change is made to the plan, such as the one permitted under House Bill Number 1413, the funding status changes due to the additional benefits being provided to the plan members. If the refund of member contributions to retired police officers is made and the pension plan continues to be overfunded by more than 100% after the reimbursement has been made, the funding criteria of the bill have been met. However, within a short period of time, poor investment performance could reduce the funding status of the pension plan such that the assets no longer exceed the actuarial accrued liability by 100% and the funding criteria in the bill are not satisfied.

SUMMARY OF ACTUARIAL COST IMPACT

The funding status of a pension plan is affected by many factors, including the level of benefits provided, the investment performance of fund assets, and actuarial experience. The impact of the bill would be to reduce the funding status of the affected pension plans due to the return of member contributions which, in effect, would be treated as a type of benefit enhancement. However, it is the opinion of the Commission's consulting actuary that the statewide actuarial cost impact of the bill would most likely be negligible due to the small number and small size of the affected plans.

POLICY CONSIDERATIONS

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

Appropriate Alternative Remedies Available. Postretirement cost-of-living adjustments are commonly provided in public pension plans as a means of offsetting the effects of inflation on the purchasing power of retiree pensions. If the objective of the bill is to provide additional funds to retired members, Act 600 currently permits the provision of postretirement cost-of-living adjustments to retired members. Not only is the provision of postretirement cost-of-living adjustments more appropriate, but members will probably benefit more from a postretirement cost-of-living adjustment than they would from the return of member contributions.

Departure from Accepted Public Pension Practice. Municipal pension plans in Pennsylvania are funded through a combination of employer (municipal) contributions, State aid (GMPSSA), and employee contributions. It is accepted practice among public pension systems in Pennsylvania that contributions, once made, should remain with the fund and should be managed for the sole purpose of paying the specified retirement benefits to plan participants. The bill would implement a departure from this currently accepted public pension fund management practice by permitting the withdrawal of member contributions from pension trust funds by individuals eligible for and receiving pension benefits.

Contradictory Eligibility Criteria. Because the pension plans that would be allowed to refund member contributions to retirees under the bill are greatly overfunded, it is unlikely that the members of these plans were required to make contributions as an active employee. Therefore, in many instances, there would be no member contributions to refund to retired members.

Arbitrary Eligibility Criteria. The provision of any benefit enhancement should be driven by the needs of the membership rather than the achievement and maintenance of an arbitrary funding criteria.

Conflict with Actuarial Funding Methodology. Actuarial funding methodology is mandated for all municipal pension plans in the Commonwealth under the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). The proposed refund of member contributions to retirees effectively provides a benefit after the service of the member has been terminated. Accordingly, the proposed benefit cannot be funded in accordance with actuarial funding methodology, which seeks to fund all retirement benefits, other than ad hoc cost-of-living adjustments, over the working careers of the pension plan members.

Potential Statutory and Administrative Conflicts. The proposed refunds to retired members of municipal pension plans, which represent the amount that those members contributed to the pension plan as active members, may conflict with provisions of Act 15 of 1974, which governs the Pennsylvania Municipal Retirement System, and insurance company contracts that have been executed to administer affected individual municipal retirement systems.

COMMISSION RECOMMENDATION

On June 9, 2004, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1413, Printer's Number 1747, had first consideration in the House on May 11, 2004, and was tabled on June 21, 2004.

BILL ID:	House Bill Number 1951, Printer's Number 2545, as amended by Amendment Number 2944
SYSTEM:	Pennsylvania Municipal Retirement System
SUBJECT:	Service Credit for Intervening and Nonintervening Military Service

SYNOPSIS

House Bill Number 1951, Printer's Number 2545, as amended by Amendment Number 2944, would amend the Pennsylvania Municipal Retirement Law (Law) to liberalize current provisions of the Law pertaining to the types of military service for which members may receive service credit. The bill as amended would remove existing statutory language that requires intervening or nonintervening military service to have occurred "in times of war, armed conflict, or National Emergency, so proclaimed by the President of the United States," in order to be considered creditable service under the Law.

DISCUSSION

The Pennsylvania Municipal Retirement System (PMRS) is a governmental, multiple-employer retirement system created by the Commonwealth under the Law for the purpose of administering employee retirement systems for municipalities on a contracted basis. Responsibility for the organization and administration of PMRS is vested in the 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. Therefore, PMRS is considered a related organization of the Commonwealth.

Participating municipalities are financially responsible only for their own plan obligations. PMRS is maintained by contributions from municipalities, payroll deductions and other contributions of employees, and by earnings from the investments of the system. While the monies of individual municipalities are accounted for separately, they are pooled for investment experience. PMRS also pools certain cost experiences, including the cost of administration, disability experience, and retired life experience. As of January 1, 2002, PMRS covered 644 defined benefit and 154 defined contribution plans in participating municipalities.

One of the most common service purchase authorizations provided by public employee retirement systems is for periods of military service which interrupt or delay the commencement of a career with the public employer. In 1994, the United States Congress passed the Uniformed Services Employment and Re-employment Rights Act (USERRA), which replaced the former Veterans Reemployment Rights Law (VRRL). To ensure that they are not held at a disadvantage in their employment rights, USERRA requires that all employees rendering intervening military service (service that interrupted employment) be considered as having been on leave of absence during that time, a policy that is also reflected in the Commonwealth of Pennsylvania's Military Code and in most state pension plan statutes. The Pennsylvania General Assembly also has chosen to authorize the purchase of nonintervening military service (service completed prior to commencement of employment with the public employer) in most of the Commonwealth's public pension plans. Permitting a member to receive retirement service credit for military service is of benefit to the member because the member's retirement benefit can be enhanced through the acquisition of additional service credit, and in some cases, retirement eligibility can be accelerated.

Under the Law, active members of PMRS are entitled to purchase retirement service credit for all periods of intervening military service and are entitled to purchase up to five years of nonintervening military service that occurred “in times of war, armed conflict or national emergency, so proclaimed by the President of the United States.” Military service rendered during any period that does not meet this standard would not be considered creditable service under the Law. However, because USERRA had the effect of superceding the Law with respect to the rights of members purchasing intervening military service, PMRS has not denied a member’s request to purchase such service in recent years. USERRA does not, however, supercede the eligibility requirements contained in the Law pertaining to the purchase of nonintervening military service. As a result, approximately 25% of requests to purchase nonintervening military service have been denied by PMRS because the service was not performed “in times of war, armed conflict or national emergency, so proclaimed by the President of the United States.” The bill as amended would have the effect of liberalizing the service purchase eligibility criteria for nonintervening military service and would bring the Law into compliance with USERRA with respect to the purchase of intervening military service.

Under the Law, a member electing to purchase intervening military service is required to contribute an amount computed by applying the member’s contribution rate to his annual rate of compensation at the time of the member’s entry into active military service, and multiplying the result by the number of years and fractional part of a year of creditable intervening military service, plus interest, from the date of return to employment to the date of purchase. This formula results in the member paying an amount equal to the member contributions to PMRS, plus interest, that would have been made if the member had remained an active contributing member of PMRS during the period of intervening military service.

A member electing to purchase creditable nonintervening military service must contribute the member’s basic contribution rate, plus the rate of contribution made by the employing municipality during its first year of entry into PMRS or during the year in which the member began employment with the municipality, multiplied by the member’s appropriate salary, multiplied by the number of years and fractional part of a year being purchased, plus interest, from the date of the member’s employment with the municipality to the date of purchase. This formula results in the member paying both the member and employer share, plus interest, for the service purchased.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission’s consulting actuary reviewed the bill and determined that, based upon the experience of PMRS with respect to the rate of denial of service purchase requests for nonintervening military service credit and the minimal additional costs associated with granting such service purchases, the actuarial cost of the bill will be negligible.

POLICY CONSIDERATIONS

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

Equity in the Treatment and Crediting of Military Service. Permitting a member to receive retirement service credit for military service has been a longstanding policy among the major public employee retirement systems of the Commonwealth. Other than the case of PMRS, the Commission staff is unaware of any other major retirement system in the Commonwealth that distinguishes between, or assigns lesser or greater value to, the military service of members based upon the historical context within which the service took place. The bill as amended removes language in the Law that currently treats military service inequitably for retirement credit purposes.

POLICY CONSIDERATIONS (CONT'D)

Compliance with Federal Law. The bill as amended brings the Pennsylvania Municipal Retirement Law into compliance with Federal statute by removing language in the Law pertaining to members' eligibility for the purchase of intervening military service that directly conflicts with the provisions of USERRA.

COMMISSION RECOMMENDATION

On September 29, 2004, 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.

FINAL LEGISLATIVE STATUS

House Bill Number 1951, Printer's Number 2545, as amended by Amendment Number 2944 (P. N. 4479), had first consideration in the House on October 5, 2004, and was tabled on October 5, 2004.

BILL ID:	Amendment Number 0017 to House Bill Number 2109, Printer's Number 3111
SYSTEM:	State Employees' Retirement System
SUBJECT:	Purchase of Credit for Nonstate Service as a Municipal or Federal Employee

SYNOPSIS

Amendment Number 0017 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 a full-time employee of a Pennsylvania municipality or as a full-time employee of the federal government, provided the member files an application to purchase the nonstate service credit within the later of three years of the effective date of the bill or within three years of entering State service, and provided the member pays the full actuarial cost attributable to the service purchase authorization under the bill. The amendment also prohibits an eligible member from withdrawing the service purchase amount under retirement Option 4.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory, defined benefit pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. As of December 31, 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.

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 service with the former Delaware River Joint Free Bridge Commission.

The amendment 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 of service credit.

Under the current provisions 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 wholly or partially paid for by any other governmental entity. In order to be eligible to purchase credit for nonstate service under the amendment, a member would have already surrendered, or would be required to surrender, retirement system rights in the municipal or federal retirement system.

The amendment would limit the time during which the proposed purchase option could be exercised to the three year period immediately following the effective date of the amendment or within three years of entering state service, whichever occurs later. 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 any potential actuarial loss to the system caused by the service purchases.

The amendment requires the member to pay an amount equal to the present value of the full actuarial cost of the increase in the superannuation annuity caused by the additional service credited as a result of the service purchase. If the methods and assumptions used in determining the full actuarial cost to be paid by the member are the same as the System's current valuation methodology and assumptions, there would be no increase in unfunded actuarial accrued liability due to the service purchases. If, however, the methods or assumptions used to determine the full actuarial cost attributable to the service purchases differ from those currently use by the System's actuary, there could be an increase or decrease in the unfunded actuarial accrued liability due to the service purchases.

In addition to any direct actuarial cost to the Commonwealth for the increased SERS benefits resulting from the amendment, 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 amendment, 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 Commission's consulting actuary reviewed the amendment and determined that there would be no increase in unfunded actuarial accrued liability or employer normal cost due to the amendment, if the full actuarial cost is determined in accordance with the methodology and assumptions used by the System's consulting actuary in the annual actuarial valuation of the System.

POLICY CONSIDERATIONS

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

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

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

Appropriateness of Credit for Municipal/Federal Service. The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The service for which credit is to be made purchasable under the amendment 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.

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 amendment 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 System.

Contributions to purchase other types of service under the Code 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 calculated 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 permit these additional payment options for the purchase of municipal or federal 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 System's investments

rather than 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 amendment 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 amendment contains a provision prohibiting the withdrawal of the service purchase amount at retirement under Retirement Option 4.

Drafting Ambiguity and Disparity in Limit on Service Purchased. The amendment would allow members to purchase the lesser of five years of service or one-half of the member's credited State service at the time the application is made to purchase the service credit. However, since the election to purchase the service is to be made within three years of the later of the date of the amendment's enactment or the date of employment, new employees would be effectively limited to only one and one-half years of purchasable service credit, while current employees generally would benefit from much higher limits (maximum of five years) of purchasable service credit.

Collateral Benefit Eligibility and Costs. Although there would be no immediate actuarial cost impact upon the Systems resulting from the amendment 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.

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.

COMMISSION RECOMMENDATION

On February 26, 2004, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2109, Printer's Number 3111, had second consideration in the House on December 8, 2003, and was referred to the House Rules Committee on March 31, 2004.

BILL ID:	Amendment Number 0112 to House Bill Number 2109, Printer's Number 3111
SYSTEM:	State Employees' Retirement System
SUBJECT:	Conversion of Local Government Service to State Service

SYNOPSIS

Amendment Number 0112 would amend the State Employees' Retirement Code (Code) to permit an active member to elect to convert certain previous local government service to state service and receive up to five years of state service credit for the previous municipal service. The types of municipal service eligible for conversion to credited state service under the amendment are service as an elected officer of any county or a mayor, council member or controller of any city of the third class.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory, defined benefit pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. 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. For most members, the retirement 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 State Employees' Retirement Code, like many public employee defined benefit plan statutes, contains provisions that permit members to receive service credit for certain categories of previous service rendered to an employer other than the Commonwealth. These nonstate service credits are acquired by the member through a process known as a "purchase of service." As the nomenclature implies, in a service purchase the eligible member is required to "purchase" the additional service credit by contributing an amount that represents all or a portion of the actuarial cost associated with the benefit increase resulting from the additional service credited to the member.

The addition of any new authorization for the purchase of previously noncreditable service involves an actuarial cost. In most cases, a significant portion of this cost is borne by the employee. However, unlike a service purchase authorization, the amendment would permit an eligible member to convert up to five years of previous service as an elected officer of any county or a mayor, council member or controller of any city of the third class. The amendment would have the effect of providing an eligible member with additional service credit in SERS without requiring any contribution by the benefitted member. Under the amendment, the increased actuarial liability

resulting from providing the additional service credit in SERS would be paid entirely by the Commonwealth.

In addition to any direct actuarial cost to the Commonwealth for the increased SERS benefits resulting from the amendment, there may be other retirement benefit costs incurred by the Commonwealth. By receiving additional 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 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 all or a majority of the retiree's medical insurance costs.

Under the Code, most members under age 60 must have 35 years of service credit to retire and receive a full pension. The amendment, therefore, would permit a 57-year-old member with 30 years of Commonwealth service to convert 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.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary reviewed the amendment and determined that, due to the many technical ambiguities in the amendment and the absence of reliable census data on the members likely to be eligible for the proposed service credit conversion, a reliable estimate of the actuarial cost of the amendment cannot be made.

POLICY CONSIDERATIONS

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

Departure from Current Policy. Under the SERS Code, members may purchase and receive service credit for limited amounts of well defined types of previous nonstate service. Permitting members to simply convert previous nonstate service to state service and receive additional retirement service credit in SERS at the expense of the Commonwealth represents a departure from current policy.

Absence of Cost Sharing. Under the amendment, the cost associated with the service credit conversion will be borne entirely by the Commonwealth. Providing members with the right to receive state service credit in SERS for previous nonstate service at no cost to the member represents a change in the long standing practice of requiring members to bear all or a portion of the actuarial cost associated with the provision of additional service credit through a service purchase authorization.

Inequitable Treatment of Similarly Situated Employees. The amendment limits the types of service that may be converted to service as an elected officer of any county or a mayor, council member or controller of any city of the third class. The public policy rationale for limiting the application of the service credit conversion to these specific categories of previous nonstate service while excluding other categories of service is not apparent and will result in the inequitable treatment of similarly situated public employees.

Ambiguous Technical Provisions. The amendment fails to address several key technical issues related to the proposed service credit conversion. The amendment is silent on how or whether assets would be transferred from a municipal retirement system to SERS in order to fund all or a portion of the additional liability resulting from the crediting of additional service. Although the amendment specifies that the previous nonstate service is to be converted to state service, the amendment fails to specify the class of service for which the converted service is to be credited. In addition, the amendment contains no provision to require the county or municipal government to be notified that the service has been converted, and it does not explicitly mandate the county or municipality to delete the converted service from the employee's service time used for the determination of retirement eligibility and benefits. The amendment should be amended or redrafted to specifically address these issues.

Ancillary Benefit Eligibility and Costs. In addition to the direct actuarial cost impact upon the System resulting from the amendment, there may be other retirement benefit costs incurred by the Commonwealth. Through the service conversion, 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 be eligible to do so.

Potential Documentation Problems. In the case of a member applying to convert service credit for county or city service that occurred many years prior to the purchase, the member, the local government, and SERS may encounter difficulty in documenting the prior nonstate service.

COMMISSION RECOMMENDATION

On June 9, 2004, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2109, Printer's Number 3111, had second consideration in the House on December 8, 2003, and was referred to the House Rules Committee on March 31, 2004.

BILL ID:	Amendment Number 0113 to House Bill Number 2109, Printer's Number 3111
SYSTEM:	State Employees' Retirement System
SUBJECT:	Purchase of Service Credit by Surviving Spouses

SYNOPSIS

Amendment Number 0113 would amend the State Employees' Retirement Code (Code) to permit the surviving spouse of a member who was an active officer of the Pennsylvania State Police and who died in service, to purchase any nonintervening and intervening military service which the deceased member failed to purchase prior to the member's death. Under the amendment, the surviving spouse would be permitted to purchase the deceased member's unpurchased nonintervening or intervening military service within 90 days of the member's death or within 90 days of the effective date of the amendment. If enacted, the amendment would apply retroactively to July 1, 1991.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. 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, 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.

For most members of SERS, the pension benefit is the product of a formula utilizing a base benefit accrual rate multiplied by the member's number of years of service credit multiplied by the member's final average (highest three years) salary. The final benefit is then obtained by multiplying the result of this formula by the appropriate class of service multiplier. However, for officers of the Pennsylvania State Police, the normal benefit formula is replaced by 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.

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 State Employees' Retirement Code, like many public

employee defined benefit plan statutes, contains provisions that permit members to receive service credit for certain categories of previous service rendered to an employer other than the Commonwealth. These nonstate service credits are acquired by the member through a process known as a “purchase of service.” As the nomenclature implies, in a service purchase the eligible member is required to “purchase” the additional service credit by contributing an amount that represents all or a portion of the actuarial cost associated with the benefit increase resulting from the additional service credited to the member.

Under current Code provisions, eligible members may purchase 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 service with the former Delaware River Joint Free Bridge Commission.

With the exception of the 1955 amendment to the Pennsylvania Constitution which authorized the payment of postretirement adjustments (Cost-of-Living Adjustments) to retired public employees, the Constitution (Article 3, Section 26) has consistently been interpreted as forbidding the enactment of any legislation providing extra compensation to public employees following termination of service or following the death of the employee. The Constitution has also been consistently interpreted as prohibiting the postretirement adjustment of survivor benefits. For this reason, only active members and active multiple service members of SERS are permitted to purchase retirement service credit. There are no provisions in the SERS Code permitting the purchase of service by an annuitant, the beneficiary of an annuitant, or the beneficiary of a member who dies in service, as a method of enhancing the value of benefits paid to members or their beneficiaries.

The amendment would amend the Code, in potential conflict with the Constitution, to permit the surviving spouses of state police officers who died in service to purchase service credit on behalf of the deceased state police officer. Under the amendment, the surviving spouse would be permitted to purchase the deceased member’s unpurchased nonintervening or intervening military service within 90 days of the member’s death or within 90 days of the effective date of the amendment. If enacted, the amendment would apply retroactively to July 1, 1991.

The amendment would implement a major change in public pension policy in the Commonwealth by permitting the surviving spouse of a deceased member to purchase service on behalf of the decedent in order to enhance the value of benefits paid to the surviving spouse. Although it appears that the intent of the amendment is to permit the spouse of a deceased member to enhance his or her survivor benefit by acquiring additional service credit through the proposed service purchase, the amendment fails to provide a clear mechanism for achieving that end and it is unclear what, if any, effect the proposed service purchase authorization would have upon the survivor benefit under the amendment as written. The potentially unconstitutional nature of the amendment, and its failure to adequately incorporate the specificity required for its correct interpretation and implementation renders it technically deficient and unworkable.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has reviewed the amendment and estimates the amendment would have the following actuarial cost impact.

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$3,000,000	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Costs		
Normal Cost	\$ 0	0.00%
Amortization Payment ¹	<u>500,000</u>	<u>0.01%</u>
Total Increase in Employer Annual Costs ²	\$500,000	0.01%

¹ Amortization calculated as level dollar payments over ten years.

² Amortization payments cease after 10 years.

POLICY CONSIDERATIONS

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

Potential Constitutional and Statutory Conflicts. The amendment provides for a benefit enhancement that is potentially unconstitutional in nature and which conflicts with basic service purchase provisions of the SERS Code.

Appropriateness of Benefit Enhancement. The amendment represents an attempt to provide a benefit enhancement to the surviving spouses of certain deceased members of SERS. The General Assembly must determine whether such a benefit enhancement is appropriate.

Service Purchase Disincentive. Permitting the crediting of additional service after the death of an active member in order to enhance the benefit to be paid to a deceased member's surviving spouse serves as a disincentive for the member to purchase the service at all and will result in additional actuarial cost to SERS.

Potential Benefit Disparity. Under current Code provisions, only active members of the system may purchase service credit for certain types of previous nonstate service, including military service. The bill would permit the surviving spouse of a state police officer who dies in service to receive an enhanced benefit based upon up to five years of additional service credit for intervening and nonintervening military service that the deceased member failed to purchase prior to the member's death. The public policy rationale for limiting the provision of this benefit enhancement to the spouses of state police officers is not apparent.

Absence of Adequate Technical Provisions. Although it appears that the intent of the amendment is to permit the spouse of a deceased member to enhance his or her survivor benefit through the acquisition of additional service credit, the amendment fails to provide a clear mechanism for achieving that end and it is unclear what, if any, effect the proposed service purchase authorization would have upon the survivor benefit under the amendment as written. The amendment provides no guidance on the service purchase method, nor does the amendment address other key issues, such as the recalculation of the survivor benefit due to the service purchase, the selection of benefit payment options, or the crediting of interest in the case of the retroactive application of the amendment. The

POLICY CONSIDERATIONS (CONT'D)

amendment fails to adequately incorporate the specificity required for its correct interpretation and implementation, rendering it technically deficient and unworkable.

COMMISSION RECOMMENDATION

On June 9, 2004, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2109, Printer's Number 3111, had second consideration in the House on December 8, 2003, and was referred to the House Rules Committee on March 31, 2004.

BILL ID:	Amendment Number 2171 to House Bill Number 2109, Printer's Number 3111
SYSTEM:	Public School Employees' Retirement System and State Employees' Retirement System
SUBJECT:	Cost-of-Living Adjustments

SYNOPSIS

Amendment Number 2171 to House Bill Number 2109, Printer's Number 3111, would amend the Public School Employees' Retirement Code and the State Employees' Retirement Code by granting five annual cost-of-living adjustments (COLAs) for the years July 1, 2004, through July 1, 2008. The COLAs would be provided to any annuitant of the Systems receiving a superannuation, withdrawal, or disability annuity and whose most recent effective date of retirement is prior to January 1, 2002. Each of the five cost-of-living adjustments will provide a benefit increase equal to 5% of the member's annuity in effect on January 1, 2002. Those members who retired and subsequently received the enhanced retirement benefits provided by Act 9 of 2001, would be excluded from eligibility for the COLAs. The amendment specifies that the additional liability resulting from the provision of the COLAs is to be amortized through level dollar payments over a period of 30 years beginning July 1 of the year following the payment of each COLA.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of PSERS and SERS (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. 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, 2003, PSERS had 246,700 active members and 145,693 annuitants and beneficiaries. As of December 31, 2003, SERS had 109,018 active members and 94,412 annuitants and beneficiaries.

Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees. Temporary provisions of the Codes also have permitted members with 30 or more years of service to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to the superannuation or normal retirement age. The most recent special early retirement provision expired June 30, 1999.

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

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

The amendment would amend both the PSERS and SERS Codes to provide five ad hoc COLAs to all annuitants of both Systems, with the first COLA commencing with the first monthly annuity payment after July 1, 2004, and the last COLA commencing with the first monthly annuity payment after July 1, 2008. All withdrawal, superannuation, and disability annuitants whose most recent effective dates of retirement were prior to January 1, 2002, would be eligible for the COLAs. Annuitants who received service credit as Class T-D, Class AA or Class D-4, due to the benefit enhancement provided pursuant to Act 9 of 2001, would be ineligible for the COLAs. The unfunded accrued liability resulting from the benefit increases will be amortized through level dollar payments over a period of 30 years beginning July 1 of the year following the payment of each COLA.

For each of the five annual COLAs, the amount of the COLA is based upon the amount of the retired member's annuity in effect on January 1, 2002, and will be paid in accordance with the schedule contained in the following table.

Special Supplemental Postretirement Adjustment commencing	Percentage Increase
July 1, 2004	5.0%
July 1, 2005	5.0%
July 1, 2006	5.0%
July 1, 2007	5.0%
July 1, 2008	5.0%

Act 38 of 2002 provided a two-step COLA to eligible annuitants of both PSERS and SERS, beginning July 1, 2002, and July 1, 2003, respectively. The percentage increases paid to annuitants varied depending upon an annuitant's effective date of retirement, with the objective of providing proportionally larger COLAs to annuitants who had been retired the longest. Percentage increases ranged from a low of 2.7% for an annuitant with an effective date of retirement from July 2, 2001, to July 2, 2002, to as much as 25% for an annuitant who retired prior to July 2, 1980. Given the recent enactment of ad hoc COLAs commencing in 2002 and 2003, and the relatively low level of inflation that has been experienced in recent years, the need to enact a 5% annual COLA for five consecutive years appears unclear from a public pension policy perspective.

SUMMARY OF ACTUARIAL COST IMPACT

In preparing the actuarial cost note for Amendment Number 2171, the Commission's consulting actuary reviewed actuarial cost data provided to the Commission staff by the consulting actuaries of the Public School Employees' Retirement System and the State Employees' Retirement System. The Commission's consulting actuary has prepared cost estimates for the Systems based upon both a 30-year amortization schedule, as provided for in the amendment, and a 10-year amortization schedule, as currently mandated by the Codes of the Systems. The estimates for the Systems are displayed in the following table.

Public School Employees' Retirement System (PSERS)

	<u>Amount</u>	
Total Increase in Unfunded Actuarial Accrued Liability (UAL) Over Time ¹	\$3,382,700,000	
	<u>Amount</u>	<u>As a % of Payroll</u>
Total Increase in Employer Costs		
Total UAL Amortization (30-year Level Dollar)	\$327,900,000	2.65%
Total UAL Amortization (10-year Level Dollar)	\$537,000,000	4.33%

¹ This figure represents the total UAL for PSERS resulting from the provision of all five annual COLAs mandated by the amendment.

State Employees' Retirement System (SERS)

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability (UAL) Over Time ¹	\$1,500,000,000	
	<u>Amount</u>	<u>As a % of Payroll</u>
Increase in Employer Costs		
Total UAL Amortization (30-year Level Dollar)	\$151,500,000	2.59%
Total UAL Amortization (10-year Level Dollar)	\$248,000,000	4.25%

¹ This figure represents the total UAL for SERS resulting from the provision of all five annual COLAs mandated by the amendment.

POLICY CONSIDERATIONS

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

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

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

Appropriateness of Amortization Period. Generally, the period of time over which a liability is amortized should closely match the period over which the benefit is likely to be paid. In the case of a COLA, an appropriate period would be the expected remaining lifetime of eligible annuitants. The PSERS and SERS Codes currently mandate that the liabilities attributable to the provision of COLAs be amortized through level dollar payments over a 10-year period. The amendment's use of a 30-year amortization period to fund the postretirement adjustments is not appropriate from an actuarial funding standpoint because it exceeds the anticipated remaining period over which the COLAs are likely to be paid. In contrast, the use of a shorter amortization period reduces the interval between the point in time when the liability is incurred and the point in time when the liability is funded and thereby reduces the degree of inter-generational cost transfer. The increased contributions in the early years of a shorter amortization period provide an opportunity for additional investment income which would otherwise not be available to reduce the aggregate contributions required to fund the retirement plan. The use of a shorter amortization period also 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.

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 amendment contains no provision for the partial pre-funding of future COLAs.

Need Determination Factor. Cost-of-living adjustments in public employee retirement systems are granted for the purpose of maintaining the adequacy of the retirement benefits after retirement occurs. The change in the Consumer Price Index (CPI) during an applicable period of retirement has been the predominate basis for determining the need for and amount of COLAs. Given the recent enactment of ad hoc COLAs commencing in 2002 and 2003, and the relatively low rates of inflation that have been experienced in recent years, the need for enactment at this time of a 5% annual COLA for five consecutive years appears unclear. The General Assembly must ultimately determine whether the proposed COLAs are appropriate, however, the absence of demonstrable need in determining the annual COLA amounts would appear to make the merits of the amendment questionable from a public pension policy perspective.

Benefit Eligibility Criteria. Historically, COLA benefit payments have been provided to all retired members upon the attainment of normal (superannuation) retirement age, with disability retirees normally receiving the post-retirement adjustment immediately. The amendment represents a departure from past practice by permitting the immediate payment of COLA benefits to early retirees. Additionally, the proposed COLAs preclude from eligibility those annuitants who elected a class of service (Classes AA, T-D and D-4) pursuant to Act 9 of 2001 prior to retirement.

Inter-System Parity. Historically, the General Assembly has engaged in the practice of providing substantially similar benefits to both state and public school employees. The proposal in the bill conforms to this trend by providing a COLA to retired members of both Systems.

COMMISSION RECOMMENDATION

On September 29, 2004, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2109, Printer's Number 3111, had second consideration in the House on December 8, 2003, and was referred to the House Rules Committee on March 31, 2004.

BILL ID:	Amendment Number 3535 to House Bill Number 2109, Printer's Number 3111
SYSTEM:	State Employees' Retirement System
SUBJECT:	Benefit Enhancement for Philadelphia Municipal Court Bail Commissioners

SYNOPSIS

Amendment Number 3535 to House Bill Number 2109, Printer's Number 3111, would amend the State Employees' Retirement Code (Code) to permit an active member who is a bail commissioner of the Philadelphia Municipal Court to, within 30 days of the effective date of the bill, elect Class E-2 membership for all periods of previous bail commissioner service.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. 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, 2003, SERS membership consisted of 109,018 active members and 94,412 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. For most members, 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.

The position of bail commissioner with the Philadelphia Municipal Court was created in 1984, through the amendment of Section 1123(a)(5) of the Judicial Code. 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 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.

Under the SERS Code, a member's class of service and the corresponding "class of service multiplier" has an effect both on the calculation of the regular member contributions and on the member's annuity. In determining the member contribution rate, the regular member contribution is the product of the basic contribution rate of 5.0% of compensation, multiplied by the class of service multiplier. The calculation of a member's retirement benefit is the product of 2.0% multiplied by the member's years of credited service, multiplied by the member's final average salary (highest three years), multiplied by the member's class of service multiplier. Prior to the passage of Act 9 of 2001, most members of SERS, including bail commissioners, were members of Class A, which had a class of service multiplier of 1.0. Therefore, the annuities of Class A members were calculated based upon a 2.0% annual accrual rate (2.0% accrual x 1.0 class of service multiplier = 2.0%) and the member contributions of Class A members were 5.0% of pay (basic member contribution rate of 5% x 1.0 = 5.0%).

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, including bail commissioners, had the option of electing Class AA membership. Although a percentage of state employees who were eligible to elect Class AA have chosen 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 increased the value of affected members' retirement benefits by 25% over Class A levels, and includes a corresponding increase in the employee contribution rate from 5.0% to 6.25% of pay for all future service. According to 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 elected membership in Class AA following the passage of Act 9.

Act 40 of 2003 provided a further 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 Act. Prior to the passage of Act 40, bail commissioners were members of Class AA. Under the Act, currently employed bail commissioners had 30 days from the effective date of the Act to elect Class E-2, and new employees would have 30 days from the date of hire. The benefit staff of SERS has informed the Commission staff that all bail commissioners have elected Class E-2 membership and are currently members of that membership class. As is the case with all other classes of service, 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 a correspondingly higher 7.50 percent. The benefit enhancement provided by Act 40 had the effect of increasing the affected member's annual pension benefit accrual rate from 2.5% (as Class AA members) to 3.0% (as Class E-2 members) for all future service performed as a bail commissioner. The bail commissioner (Class E-2) component of the member's final pension benefit will be added to any prior or future service credit earned by the member through another type of state or school service, and any service credit accruing to the member through purchases of nonstate service in determining the member's final pension benefit.

The amendment would provide an additional benefit enhancement beyond that already provided by Act 40 by permitting active members who are bail commissioners to elect to have Class E-2 service credit applied retroactively to all previous bail commissioner service in addition to future service. The amendment would have the effect of increasing the affected members annual benefit accrual rate from 2.5% to 3.0% for all periods of bail commissioner service.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission reviewed the amendment 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 amendment. 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.

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	<u>Amount</u>	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Unfunded Actuarial Accrued Liability	\$130,000	
Increase in Employer Annual Costs		
Normal Cost	\$ 0	0%
Amortization Payment ¹	<u>20,000</u>	<u>4.77%</u>
Total Increase in Employer Annual Costs	\$20,000	4.77%

¹ Level dollar payments for ten years.

POLICY CONSIDERATIONS

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

Absence of Cost Sharing. SERS is a contributory public employee retirement plan, with members contributing a percentage of pay toward their retirement benefits that is in proportion to the members' class of service. The amendment would have the effect of enhancing the value of the affected members' previous service credit without requiring proportionally increased employee contributions on account of the previous service. The material costs resulting from the amendment would, therefore, be imposed entirely upon the Commonwealth.

Appropriateness of Benefit Enhancement. Act 40 of 2003 provided a benefit enhancement to bail commissioners by permitting these members to elect membership in Class E-2 for all future service as bail commissioners. The amendment would provide an additional benefit enhancement by permitting these members to receive enhanced service credit for past service. The General Assembly must determine whether the additional benefit enhancement provided by the amendment is appropriate for this group of employees.

COMMISSION RECOMMENDATION

On September 29, 2004, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2109, Printer's Number 3111, had second consideration in the House on December 8, 2003, and was referred to the House Rules Committee on March 31, 2004.

BILL ID:	Amendment Number 4807 to House Bill Number 2109, Printer's Number 3111
SYSTEM:	State Employees' Retirement System
SUBJECT:	Service Credit Conversion for Certain Class E-2 Members

SYNOPSIS

Amendment Number 4807 to House Bill Number 2109, Printer's Number 3111, would amend the State Employees' Retirement Code to mandate that an active member who is a member of Class E-2 on the effective date of the bill receive Class AA service credit for all previous Class A service, except for service performed as a State Police officer or service for which a member could have elected membership in Class C, Class D-3, Class E-1 or Class E-2, performed prior to July 1, 2001.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. As of December 31, 2002, 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, 2002, there were 111,059 active members and 91,228 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. The membership of SERS is subdivided into over a dozen "membership classes," which generally correspond to a number of employment categories. It is not unusual for employees to have service credit in more than one membership class. Each membership class is assigned a "class of service multiplier," which has an effect on both the calculation of regular member contributions and on the member's annuity. Most members of SERS currently are members of Class AA, which includes most regular state employees and employees of certain Commonwealth commissions and authorities.

For most members of SERS, the pension benefit is the product of a formula utilizing a benefit accrual rate multiplied by the member's number of years of service credit multiplied by the member's final average (highest three years) salary. The final benefit is obtained by multiplying the result of this formula by the appropriate class of service multiplier. Prior to the passage of Act 9 of 2001, most members of SERS were members of Class A. The class of service multiplier for Class A is 1.0, making the retirement benefit equal to a 2.0% annual accrual rate for a member of Class A. Among its other provisions, effective July 1, 2001, Act 9 created a new membership class in SERS, known as Class AA. The Act permitted all Class A members of SERS to elect membership in Class AA prospectively and to convert all previous Class A service to Class AA service. The class of service multiplier for Class AA members, who since the passage of Act 9, now constitute the bulk of SERS members, is 1.25, which creates the effect of a 2.5% benefit accrual rate. The net result of the Act was to increase the value of a former Class A member's basic retirement benefit by 25%. Members of the judiciary, including district justices, were not affected by the benefit changes provided by Act 9 of 2001 and received no additional benefit enhancements from it.

Currently, district justices have the option of electing either Class A or Class E-2 membership in SERS for all periods of judicial service. The district justices are excluded from electing Class AA membership in lieu of Class A service, and they are not permitted to receive Class AA service for previous Class A service. With the passage of Act 40 of 2003, Philadelphia Municipal Court Bail Commissioners now may also elect Class E-2 membership, which results in an enhanced pension benefit. The annuity for Class E-2 members is obtained by multiplying the standard single-life annuity resulting from the base formula described above by a class of service multiplier of 1.5, which in effect makes the pension benefit equal to 3.0% multiplied by the member's years of Class E-2 service multiplied by the member's final average salary. In addition to judicial service, current members of Class E-2 may have earned significant amounts of Class A service credit for state service performed prior to entering service with the judiciary.

The amendment would permit current members of Class E-2 to convert prior Class A service credit to Class AA service credit without requiring affected members to contribute the correspondingly higher employee contributions applicable to Class AA service credit. The effect of the conversion would be to enhance the value of an eligible member's prior Class A service credit for the purpose of determining the member's retirement benefit by an amount equal to 25%. The conversion election would provide a benefit enhancement to the member without requiring additional member contributions attributable to the higher membership class. Based upon census data provided to the Commission by the staff of SERS, there are currently 111 Class E-2 members with prior Class A service credit.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has reviewed the amendment and estimates the amendment would have the following actuarial cost impact.

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$650,000	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Costs		
Normal Cost	\$ 0	0.00%
Amortization Payment ¹	<u>99,000</u>	<u>1.48%</u>
Total Increase in Employer Annual Costs ²	\$99,000	1.48%

¹ Amortization calculated as level dollar payments over ten years.

² Amortization payments cease after 10 years.

POLICY CONSIDERATIONS

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

Appropriateness of Benefit Enhancement. The amendment would permit a current Class E-2 member who has earned previous Class A service credit to enhance the retirement benefit value of previously earned Class A service by 25% at no cost to the member. In considering the proposed legislation, the General Assembly must determine whether the benefit enhancement is warranted for this group of employees.

Absence of Cost Sharing. The amendment provides a benefit enhancement applicable to certain active SERS members. It may be appropriate for a portion of the cost of the benefit increase to be allocated to active members through increased member contributions.

Potential Benefit Disparity. The amendment would provide a benefit enhancement to individuals who are members of Class E-2 on the effective date of the amendment. Other members of the judiciary, including district justices who have elected Class A membership, and future members who become Class E-2 members, would be excluded from the benefit enhancement. The public pension policy rationale for the creation of this benefit disparity among similarly situated employees is not apparent, and the disparity may result in future requests for the benefit disparity to be rectified.

COMMISSION RECOMMENDATION

On February 26, 2004, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2109, Printer's Number 3111, had second consideration in the House on December 8, 2003, and was referred to the House Rules Committee on March 31, 2004.

BILL ID:	Amendment Number 4808 to House Bill Number 2109, Printer's Number 3111
SYSTEM:	State Employees' Retirement System
SUBJECT:	Service Credit Conversion for Certain Members

SYNOPSIS

Amendment Number 4808 to House Bill Number 2109, Printer's Number 3111, would amend the State Employees' Retirement Code to mandate that 1) an employee who becomes an active member of the System after the effective date of the bill and who is employed in a position for which Class E-2 service credit may be elected shall be permitted to elect membership in Class AA in lieu of membership in Class E-2; 2) an eligible member who elects Class AA membership and was previously a member of Class A or was previously employed in a position for which Class A membership could have been earned shall have all previous Class A service credit reclassified as Class AA, excluding service performed as a State Police officer or for which a class of service other than Class A was earned or could have been elected; and 3) an active member who is a member of Class A on the effective date of the bill and who is employed in a position for which Class E-2 service could have been elected may elect to become a member of Class AA by filing a written notice with the Board prior to July 1, 2004, or prior to termination from state service, whichever first occurs.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. As of December 31, 2002, 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, 2002, there were 111,059 active members and 91,228 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. The composition of SERS membership is subdivided into over one dozen "membership classes," which generally correspond to a number of employment categories. It is not unusual, therefore, for employees to have service credit in more than one membership class. Each membership class is assigned a "class of service multiplier," which has an effect on both the calculation of regular member contributions and on the member's annuity. Most members of SERS currently are members of Class AA, which includes most regular state employees and employees of certain Commonwealth commissions and authorities.

For most members of SERS, the pension benefit is the product of a formula utilizing a benefit accrual rate multiplied by the member's number of years of service credit multiplied by the member's final average (highest three years) salary. The final benefit is obtained by multiplying the result of this formula by the appropriate class of service multiplier. Prior to the passage of Act 9 of 2001, most members of SERS were members of Class A. The class of service multiplier for

Class A is 1.0, making the retirement benefit equal to a 2.0% annual accrual rate for a member of Class A. Among its other provisions, effective July 1, 2001, Act 9 created a new membership class in SERS, known as Class AA. The Act permitted eligible Class A members of SERS to elect membership in Class AA prospectively and to convert all previous Class A service to Class AA service. The class of service multiplier for Class AA members, who since the passage of Act 9, now constitute the bulk of SERS members, is 1.25, which creates the effect of a 2.5% benefit accrual rate. The net result of the Act was to increase the value of a former Class A member's retirement benefit by 25%. Members of the judiciary, including district justices, were not affected by the benefit changes provided by Act 9 of 2001 and received no additional benefit enhancements from it.

Currently, district justices have the option of electing either Class A or Class E-2 membership in SERS for all periods of judicial service. The district justices are precluded from electing Class AA membership in lieu of Class A service, and they are not permitted to receive Class AA service for previous Class A service. With the passage of Act 40 of 2003, Philadelphia Municipal Court Bail Commissioners now may also elect Class E-2 membership, which results in an enhanced pension benefit. The annuity for Class E-2 members is obtained by multiplying the standard single-life annuity resulting from the base formula described above by a class of service multiplier of 1.5, which in effect makes the pension benefit equal to 3.0% multiplied by the member's years of Class E-2 service multiplied by the member's final average salary. In addition to Class A judicial service, current Class E-2 members may have earned significant amounts of Class A service credit for state service performed prior to entering service with the judiciary.

The amendment would permit 1) an employee who becomes an active member of the System after the effective date of the bill and who is employed in a position for which Class E-2 service credit may be elected (a district justice or bail commissioner of the Philadelphia municipal court) to elect membership in Class AA in lieu of membership in Class E-2; 2) a member who elects Class AA service pursuant to the amendment and was previously a member of Class A or was previously employed in a position for which Class A membership could have been earned to have all previous Class A service credit reclassified as Class AA, excluding service performed as a State Police officer or for which a class of service other than Class A was earned or could have been elected; and 3) an active member who is a member of Class A on the effective date of the bill and who is employed in a position for which Class E-2 service could have been elected may elect to become a member of Class AA by filing a written notice with the Board prior to July 1, 2004, or prior to termination from state service, whichever first occurs. According to census data provided by staff of the State Employees' Retirement System, there are 64 district justices who are currently members of Class A.

Although the amendment permits new members who are otherwise eligible to elect Class E-2 service to elect Class AA service and convert prior Class A service to Class AA service and permits current Class A members to become Class AA members prospectively, the amendment does not appear to permit a district justice who is currently a member of Class A and who elects membership in Class AA to convert prior Class A service credit to Class AA service credit. The public pension policy rationale for the creation of this potential benefit disparity between similarly situated employees is not apparent. If it is the intent of the General Assembly to permit current Class A district justices to convert prior Class A service credit to Class AA service credit, then the amendment will need to be revised to specifically authorize the conversion of service credit by these members.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has reviewed the amendment and provided the following estimates of actuarial cost impact. Table 1 below displays the actuarial cost impact for the

amendment as written. Table 2 displays the actuarial cost impact if the amendment is revised to permit current Class A district justices to convert prior Class A service to Class AA service, which the staff of the Commission believes may be the intent of the amendment's sponsors.

Table 1
Actuarial Cost for the Amendment As Written

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$275,000	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Costs		
Normal Cost	\$25,000	0.63%
Amortization Payment ¹	<u>42,000</u>	<u>1.07%</u>
Total Increase in Employer Annual Costs ²	\$67,000	1.70%

¹ Amortization calculated as level dollar payments over ten years.

² Amortization payments cease after 10 years.

Table 2
Actuarial Cost for the Amendment if
Revised to Also Permit Current Class A District Justices to
Convert Prior Class A Service to Class AA Service

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$1,400,000	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Costs		
Normal Cost	\$ 25,000	0.63%
Amortization Payment ¹	<u>213,000</u>	<u>5.41%</u>
Total Increase in Employer Annual Costs ²	\$238,000	6.04%

¹ Amortization calculated as level dollar payments over ten years.

² Amortization payments cease after 10 years.

POLICY CONSIDERATIONS

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

Appropriateness of Benefit Enhancement. In considering the proposed legislation, the General Assembly must determine whether the benefit enhancement is warranted for this group of employees.

POLICY CONSIDERATIONS (CONT'D)

Absence of Cost Sharing. The proposed legislation provides a benefit enhancement applicable to active SERS members. It may be appropriate for a portion of the cost of the benefit increase to be allocated to active members through increased member contributions.

Potential Benefit Disparity. As written, the amendment does not appear to permit district justices who are currently members of Class A and who elect membership in Class AA to convert prior Class A service credit to Class AA service credit. However, the amendment permits newly hired district justices to elect Class AA service prospectively and to convert prior Class A service to Class AA service retroactively. The public pension policy rationale for the creation of this benefit disparity between similarly situated employees is not apparent, and the disparity may result in future requests for the benefit disparity to be rectified.

COMMISSION RECOMMENDATION

On February 26, 2004, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2109, Printer's Number 3111, had second consideration in the House on December 8, 2003, and was referred to the House Rules Committee on March 31, 2004.

BILL ID:	Amendment Number 4991 to House Bill Number 2109, Printer's Number 3111
SYSTEM:	State Employees' Retirement System
SUBJECT:	Optional SERS Membership for Employees of the Philadelphia Parking Authority

SYNOPSIS

Amendment Number 4991 to House Bill Number 2109, Printer's Number 3111, would amend the State Employees' Retirement Code (Code) to: 1) permit newly hired Philadelphia Parking Authority employees to elect to become Class AA members of SERS; 2) permit current Philadelphia Parking Authority employees the option of electing Class AA membership in SERS prospectively, or of retaining current membership in the City of Philadelphia's retirement system; and 3) permit current Philadelphia Parking Authority employees who elect to become members of SERS to purchase all previous Parking Authority service and receive Class A (nonstate) service credit for that service in SERS.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. 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, 2003, there were 109,018 active members and 94,412 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. The composition of SERS membership is subdivided into over one dozen "membership classes," which generally correspond to a number of employment categories. It is not unusual, therefore, for employees to have service credit in more than one membership class. Each membership class is assigned a "class of service multiplier," which has an effect on both the calculation of regular member contributions and on the member's annuity. Most members of SERS currently are members of Class AA, which includes most regular state employees and employees of certain Commonwealth commissions and authorities. For Class AA members, the pension benefit is equivalent to 2.5% multiplied by the member's years of credited service, multiplied by the member's final average salary (average of the highest three years of compensation). The employee contribution rate for Class AA members is 6.25% of pay.

Through a City Ordinance enacted January 11, 1950, the City of Philadelphia created the Philadelphia Parking Authority (Authority) pursuant to the provisions of the Philadelphia Parking Authority Law (Act of June 5, 1947, 53 P.S. § 341 et. seq.). The basic mission of the Authority is to provide the City of Philadelphia with centralized, comprehensive parking management services and to support the City's economic development by contributing to the improvement of traffic flow and public safety.

The Parking Authority Law was amended by Act 22 of 2001 and Act 230 of 2002 which provided for a gradual replacement of the prior governing board appointed by the mayor with a new board

appointed by the governor. Initially, the six state members served as additional members on an eleven member board, with the mayoral appointees being reduced through attrition upon the expiration of their terms of office. All mayoral appointments expire as of June 1, 2006, with only the state appointees continuing as a six member board. In addition, the new enactments require the annual distribution of excess retained earnings from the authority to the Philadelphia School District.

The Authority employs a staff of approximately 991 employees. The majority of Authority employees are members of one of two retirement plans administered by the City of Philadelphia for nonuniformed employees. Employees hired prior to January 8, 1987, are members of Municipal Plan J, also referred to as the "1967 Plan." Under the 1967 Plan, the eligibility requirement for normal retirement benefits is age 55 with one year of service. The normal retirement benefit is equivalent to 2.5% of the employee's final average compensation (average of the highest three years of compensation) multiplied by the employee's years of service for the first 20 years of service, and 2.0% of final average compensation for each year beyond 20 years of service, up to a maximum of 80% of average final compensation. Employees hired on or after January 8, 1987, are members of the "1987 Plan." Under the 1987 Plan, eligibility for normal retirement benefits is age 60 with 10 or more years of credited service, or if the employee made additional contributions in order to become vested in five years, five years of credited service. The employee contribution rate is equal to 30% of normal cost, which currently equals 2.01% of pay. The normal retirement benefit is equivalent to 2.2% of the employee's final average compensation for the first 10 years of service, and 2.0% for each year thereafter, subject to a maximum benefit limit of 100% of average final compensation.

The amendment would permit current and future employees of the Philadelphia Parking Authority to become members of SERS. These employees would, in effect, become state employees for retirement credit purposes. Effective July 1, 2005, a newly hired Philadelphia Parking Authority employee would automatically become a Class AA member of SERS, unless the employee makes an affirmative election to become a member of the City of Philadelphia's retirement system within 30 days of commencing employment with the Authority. A current Philadelphia Parking Authority employee would have the option of electing Class AA membership in SERS prospectively, or of retaining current membership in the City of Philadelphia's retirement system. A current employee who wishes to become a member of SERS must elect to do so prior to July 1, 2005. If SERS membership is not elected prior to July 1, 2005, then membership in SERS is prohibited.

A current employee of the Authority who elects SERS membership may choose to either keep the previous Authority service in the City's retirement system, or the employee may elect to purchase the previous service and receive Class A (nonstate) service credit in SERS for all previous service with the Authority. For an employee who elects to keep previous service credit in the City's plan, but who elects prospective membership in SERS, the employee's benefit in the City's system would be frozen, and the employee would begin to accrue new service credit as a Class AA member of SERS. Alternatively, an affected employee could elect to purchase previous Authority service as nonstate service in SERS. The amendment would expand the list of purchasable nonstate service to include service as an employee of the Authority. 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 Class A (nonstate) service credit purchased.

Under the amendment, contributions for the purchase of nonstate service credit for all previous service with the Authority shall be the contribution rate attributable to Class A members (basic contribution rate of 5.0%) plus the employer normal rate, multiplied by the employees annual rate of pay at the time of transfer, plus interest at the statutory rate of 4.0% until the date of purchase. In a departure from the normal service purchase requirements of the Code, there is no minimum service requirement or matching service requirement in SERS for the purchase of nonstate service credit for Parking Authority service.

DISCUSSION (CONT'D)

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.

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.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the State Employees' Retirement System provided the Commission staff with an actuarial note on the amendment, which in-turn was reviewed and found to be reasonable by the Commission's consulting actuary. In preparing the actuarial cost estimate, the System's consulting actuary reviewed the 2003 Actuarial Valuation Report of the Philadelphia pension plan filed with the Commission pursuant to the reporting requirements of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). Based upon that review, the actuary assumed that the demographic distribution and salary data for the Authority employees were similar to the membership of the Philadelphia retirement system as a whole. Further, it was the consensus of both the System's consulting actuary and the Commission's consulting actuary that the great majority of Parking Authority employees will find that retaining membership in the Philadelphia retirement plan will be of greater value than membership in SERS. While the purchase of service credits in SERS could eventually result in higher net benefits in certain atypical cases, it was the consensus of the actuaries that it is unlikely that many individuals would view such a decision as advantageous. Therefore, it was the judgement of the actuaries that no more than approximately 10%, and in all probability fewer than 10%, of eligible employees would choose to purchase nonstate service credit under the amendment. Based upon these assumptions, the actuarial cost impact of the amendment is summarized in the following table.

	<u>Amount</u>		
		<u>Amount</u>	<u>As a % of Total Payroll</u>
			<u>Estimated Affected Authority Payroll ³</u>
Increase in			
Unfunded Actuarial Accrued Liability	\$4,000,000		
Increase in Employer Annual Costs			
Amortization Payment ¹	\$610,000	0.01%	1.52%
Total Increase in Employer Annual Costs ²	\$610,000	0.01%	1.52%

¹ Amortization calculated as level dollar payments over ten years.

² Amortization payments cease after 10 years.

³ Based upon an estimated total payroll of \$40,000,000.

POLICY CONSIDERATIONS

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

Appropriateness of SERS Membership for Authority Employees. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits to employees of the Commonwealth and certain independent agencies. The General Assembly must determine whether membership in SERS is appropriate for Philadelphia Parking Authority employees.

Appropriateness of Credit for Parking Authority Service. In the past, the situations for which the Commission has considered the use of service purchase authorizations to be appropriate included transfers of a governmental function between employing agencies. Although Act 22 of 2001 and Act 230 of 2002 cannot be said to transfer a government function from the Parking Authority to the Commonwealth, it is clear that they did transfer control of the authority (which performs a government function) from the City to the Commonwealth. As such, this is a hybrid situation that cannot be said to comport with or violate the general rule concerning transfer of pension service credits in conjunction with a transfer of governmental function.

Adequacy of Service Purchase Payments. Contributions for the purchase of nonstate service credit for Parking Authority service will be determined based upon the contribution rate attributable to Class A members (basic contribution rate of 5.0%) plus the employer normal rate, multiplied by the employee's annual rate of pay at the time of transfer, plus interest at the statutory rate of 4.0% until the date of purchase. This method for calculating the member contributions to purchase service credit for Parking Authority service will result in a member paying a portion of the employer cost, but less than the full actuarial cost of the increased benefit acquired through the service credit purchase. However, use of the member's current annual salary, rather than the existing statutory method of applying the member's compensation at the time of entry into service, helps to ameliorate the cost of the service purchase authorization.

Absence of Option 4 Withdrawal Prohibition on Contributions Representing Employer Share. The SERS Code permits the lump-sum withdrawal of accumulated employee contributions, with interest, at retirement. Known as retirement Option 4, these amounts can include the equivalent of the employer cost attributable to any purchased service, unless specifically prohibited. The Commission has recommended that the portion of the payment representing the employer cost be precluded from withdrawal by a member upon retirement 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. Unless the amendment is changed to exclude the employer portion of the purchase payment from Option 4 lump-sum withdrawal, it will enable an eligible member to receive Class A service credit for previous Parking Authority service and have the entire purchase amount returned upon retirement as part of the member's lump-sum withdrawal of contributions under retirement Option 4.

COMMISSION RECOMMENDATION

On November 17, 2004, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2109, Printer's Number 3111, had second consideration in the House on December 8, 2003, and was referred to the House Rules Committee on March 31, 2004.

BILL ID:	House Bill Number 2467, Printer's Number 3519
SYSTEM:	All Municipal Pension Systems
SUBJECT:	Amortization of Liabilities

SYNOPSIS

The bill would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to: 1) beginning in calendar year 2003, permit a municipality to change the amortization period for the outstanding balance of the increment of unfunded actuarial accrued liability attributable to the net investment losses incurred in calendar years 2001 and 2002 from 15 years to 30 years; 2) require that, in addition to the regular actuarial valuation report required to be filed with the Public Employee Retirement Commission on or before March 31, 2004, a municipality electing to extend the amortization period must file a revised actuarial valuation report reflecting the amortization period extension with the Commission no later than September 30, 2004; 3) require that the revised report be used solely for the purposes of recalculating a municipality's 2004 Minimum Municipal Obligation and for calculating a municipality's 2005 Minimum Municipal Obligation to reflect the extended amortization period; and 4) preclude the revised actuarial valuation report from affecting the distribution of General Municipal Pension System State Aid under Chapter 4 of the Act.

The bill would also amend the Municipal Pension Plan Funding Standard and Recovery Act to permit a municipality to amortize the increment of unfunded actuarial accrued liability attributable to the provision of survivor benefits payable under Section 5(e)(2) of the Municipal Police Pension Law (Act 600 of 1955) over a period of 40 years beginning with the end of the plan year in which the survivor benefits were first payable.

DISCUSSION

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 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.

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 any unfunded actuarial accrued liabilities over the applicable amortization periods 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 standardized actuarial reports prepared and submitted to the Commission. The reports are submitted every two years and must be filed with the Commission on or before the last business day of March following each reporting year. The valuation date for the reports must be January 1 of the reporting year unless an alternate valuation date for the pension plan was formally established prior to December 31, 1982. The chief administrative officer of a municipal retirement system must formally certify the following year's Minimum Municipal Obligation to the governing body of the municipality no later than the last business day in September. 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.

Investment earnings and losses on pension plan assets can directly affect a municipality's Minimum Municipal Obligation. Act 205 specifies a range of acceptable interest assumptions for use in the preparation of actuarial valuation reports. Generally, the actuarial assumed rates of return on investments established by a pension plan may not be less than 5% nor more than 9%. When investment earnings fall below a pension plan's actuarial assumed rate of return, contributions from other sources must be increased to offset the losses. Because member contributions to pension plans tend to remain stable as a percentage of payroll and because General Municipal Pension System State Aid remains fairly level, municipal contributions, as the only remaining available funding source, must be increased to meet the required Minimum Municipal Obligation when investment earnings are less than those actuarially assumed.

The aggregate rate of return on investments for Pennsylvania's municipal pension plans in 2001 and 2002 were reportedly some of the worst on record and were well below the average actuarial assumed rates of return for these plans. Under Act 205, the currently mandated period for the amortization of any unfunded actuarial accrued liability attributable to investment gains or losses is 15 years. The bill would provide a measure of financial relief by permitting a municipality to change the amortization period for the outstanding balance of the increment of unfunded actuarial accrued liability attributable to the net investment losses incurred in calendar years 2001 and 2002 from 15 years to 30 years.

In addition to the regular actuarial valuation report required to be filed with the Commission on or before March 31, 2004, the bill would require a municipality electing to extend the amortization period under the bill to file a revised actuarial valuation report reflecting the amortization period extension with the Commission no later than September 30, 2004. Under the bill, the revised report could be used only for the purpose of recalculating a municipality's 2004 Minimum Municipal Obligation and for calculating a municipality's 2005 Minimum Municipal Obligation to reflect the extended amortization period.

The bill would have no negative impact on the allocation of State aid to municipalities. The bill would, however, provide a more indirect method of allocating State aid in 2004 and 2005, because the affected municipalities would receive State aid in those years potentially based upon the higher pension costs associated with a 15-year amortization period, while they would be funding based upon the lower pension costs associated with a 30-year amortization period.

Among its other benefit provisions, Act 30 of 2002 amended the Municipal Police Pension Law (Act 600 of 1955) to mandate a killed-in-service benefit payable for life to a member's beneficiary that is equal to 100% of the member's salary at the time of the member's death. Although it is a rare occurrence, municipal police pension plans subject to Act 600 are now faced with potentially very large liabilities in the event a member is killed in service, a situation which could prove particularly difficult for smaller pension plans. Currently, Act 205 requires that any increase in unfunded actuarial accrued liability attributable to such an actuarial loss must be amortized over a period of no more than 15 years. However, depending upon the age of the surviving beneficiary entitled

DISCUSSION (CONT'D)

to the 100% killed-in-service benefit, a pension plan could be required to pay this benefit for up to 60 years or more. The bill would amend Act 205 by permitting a municipality to amortize the increment of unfunded actuarial accrued liability attributable to the provision of the killed-in-service survivor benefit over a period of 40 years. Because of the potentially long remaining lifetime of a surviving beneficiary entitled to the killed-in-service benefit, the extended amortization period is appropriate because it more closely approximates the anticipated remaining period over which the survivor benefit is likely to be paid.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary reviewed the bill and determined that the bill would not add any additional actuarial cost to the affected pension plans because it provides only for extended amortization periods applicable to certain specific liabilities and provides no additional benefit enhancements. The only potential for actuarial cost associated with the bill is that the reduction in contribution requirements for certain pension plans could result in the provision of benefit enhancements that would otherwise not have been granted if municipalities were required to fund the pension plans in accordance with the current provisions of Act 205.

POLICY CONSIDERATIONS

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

Appropriateness of Extended Amortization Periods. The extended amortization period applicable to the outstanding balance of the increment of unfunded actuarial accrued liability attributable to the net investment losses incurred in calendar years 2001 and 2002 is appropriate because it provides financial relief to affected municipalities while maintaining the funding standard mandated by Act 205. The extended amortization period applicable to the potential actuarial losses resulting from the payment of killed-in-service benefits under Act 600 is appropriate because it more closely approximates the anticipated remaining period over which the survivor benefit is likely to be paid.

Deviation From Actuarial Funding Standard. While the extraordinary economic conditions that occurred in 2001 and 2002 may result in increased contribution requirements for municipalities in the near term, the proposed limited-term modification of the Act 205 actuarial funding standard to accommodate this short-term economic impact may not be necessary in view of the high probability of offsetting experience over the longer term.

COMMISSION RECOMMENDATION

On April 7, 2004, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2467, Printer's Number 3519, was signed into law by the Governor as Act 81 of 2004 on July 15, 2004.

BILL ID:	House Bill Number 2773, Printer's Number 4212
SYSTEM:	Pennsylvania Municipal Retirement System
SUBJECT:	Administrative Expenses

SYNOPSIS

House Bill Number 2773, Printer's Number 4212, would amend Section 112 of the Pennsylvania Municipal Retirement Law (Law) retroactive to January 1, 2001, to extend to calendar years 2001, 2002, 2003, 2004, and 2005 the authority of the Pennsylvania Municipal Retirement System (PMRS) to use interest earnings in excess of the "regular interest" to pay administrative expenses not covered by the \$20 a member per year assessments.

DISCUSSION

The Pennsylvania Municipal Retirement System (PMRS) is a governmental multiple-employer retirement system created by the Commonwealth under the Law for the purpose of administering employee retirement systems for municipalities on a contracted basis. Responsibility for the organization and administration of PMRS is vested in the 11-member Pennsylvania Municipal Retirement Board (Board). The Commonwealth appoints all 11 Board members, but the Commonwealth is not financially accountable as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with PMRS. PMRS, therefore, is considered a related organization of the Commonwealth.

Participating municipalities are financially responsible only for their own plan obligations. PMRS is maintained by contributions from municipalities, payroll deductions and other contributions of employees, and by earnings from the investments of the system. While the monies of individual municipalities are accounted for separately, they are pooled for investment experience. PMRS also pools certain cost experiences, including the cost of administration, disability experience, and retired life experience. As of January 1, 2002, PMRS covered 644 defined benefit and 154 defined contribution plans in participating municipalities.

"Regular interest" means the rate fixed by the Board, from time to time, on the basis of earnings on investments. Under Section 110 of the Law, the Board annually credits "regular interest" to each contributor's account, municipal account, retired member's reserve account, and total disability reserve account. The "regular interest" rate is fixed by the Board annually, with the advice of its consulting actuary, and currently is fixed at 6.5 percent.

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

- 1) an annual assessment per member levied on participating municipal employing entities as set by the Board, which is not to exceed \$20 per active member; and
- 2) a charge against the PMRS investment income in excess of the "regular interest" set by the Board, which is not to exceed six-tenths of one percent of the total value of the assets of PMRS.

DISCUSSION (CONT'D)

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

SUMMARY OF ACTUARIAL COST IMPACT

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

POLICY CONSIDERATIONS

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

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

COMMISSION RECOMMENDATION

On September 29, 2004, the Commission voted to attach the actuarial note transmittal to the bill, recommending that the General Assembly and the Governor consider the policy issue identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2773, Printer's Number 4212, had first consideration in the House on July 3, 2004, and was tabled on November 16, 2004.

BILL ID:	House Bill Number 2865, Printer's Number 4416 as amended by Amendment Number 4064
SYSTEM:	All Municipal Pension Systems
SUBJECT:	Alternative Amortization Schedules

SYNOPSIS

The bill as amended by Amendment Number 4064 would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to authorize affected municipalities to adopt alternative amortization periods that differ from the amortization periods currently authorized under Act 205 in order to accommodate certain extraordinary events. To qualify as an “extraordinary event,” an affected municipality’s actuarial valuation report must show an increment in actuarial accrued liabilities that: 1) produces an increment of unfunded actuarial accrued liability (UAL) that exceeds \$9 million; 2) causes at least a 30% increase in the aggregate actuarial accrued liability of the municipal pension plan; and 3) is attributable to a single benefit enhancement granted prior to January 1, 2004. Under these circumstances, an affected municipality may adopt one of two alternate amortization schedules, depending upon when the alternate amortization period is adopted. For actuarial valuation reports prepared with a valuation date of 2005, a municipality may choose to adopt an alternative amortization schedule with an amortization period of 30 years and with amortization payments increasing by no more than 5% annually. For actuarial valuation reports prepared with a valuation date occurring after December 31, 2005, a 30-year level dollar amortization schedule is required.

DISCUSSION

Act 205 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.

Under Act 205, 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 any unfunded actuarial accrued liabilities over the applicable amortization periods established under Act 205. A municipality’s minimum financial obligation, referred to as the Minimum Municipal Obligation (MMO), is the full annual actuarial cost of the retirement system reduced by the expected amount of any member contributions.

Act 205 specifies a range of maximum amortization periods that are based upon accepted actuarial funding standards and practices. Generally, a municipality is required to amortize an unfunded actuarial accrued liability in its pension plan by making level dollar payments over a period of years that varies depending upon the cause of the liability. The following table summarizes the various amortization periods.

Cause of Increase in Unfunded Actuarial Accrued Liability	Maximum Amortization Period in Years
Initial Amount When Act 205 Became Effective	30
Establishment of Plan, If after Effective Date of Act 205	30
Change in Actuarial Assumptions	20
Change in Plan Provisions Applicable to:	
Active Members	20
Retired Members	10
Actuarial Gains or Losses:	
Actuarial Investment Losses in 2001 and 2002	30
Other Actuarial Gains or Losses	15
Killed-in-Service Benefits under the Police Pension Law (Act 600)	40

The bill would amend Act 205 to authorize the adoption of alternative amortization periods by affected municipalities in order to accommodate certain extraordinary events that have had a negative impact on a municipality's ability to comply with the amortization schedules mandated by Act 205. Under the bill, beginning in plan year 2005 or thereafter, a municipality subject to the provisions of Act 205 may adopt an amortization schedule that differs from the amortization schedules currently mandated by Section 202(b)(4) of Act 205 under the following conditions: 1) there exists an increment of unfunded actuarial accrued liability that exceeds \$9,000,000; 2) the increment of unfunded actuarial accrued liability causes at least a 30% increase in the aggregate actuarial accrued liability of the municipal pension plan; and 3) the increment of unfunded actuarial accrued liability is attributable to a single benefit enhancement granted prior to January 1, 2004, and which is being newly recognized in the pension plan's actuarial valuation report.

The bill also requires that the alternative amortization schedule be formally adopted by the governing body of the affected municipality, and shall provide for an amortization target date that results in an amortization period of 30 years, with level percentage amortization payments increasing by no more than 5% annually if adopted in an actuarial valuation report with a valuation date in 2005, and with level dollar amortization payments over 30 years if adopted in an actuarial valuation report with a valuation date occurring after December 31, 2005.

Finally, the bill requires that following a municipality's adoption of an alternative amortization schedule, the initial and all subsequent actuarial valuation reports filed with the Commission during the operation of the alternative amortization schedule shall separately disclose: 1) the initial amount of the increment of unfunded actuarial accrued liability; 2) the date that the alternative amortization schedule was established; 3) the amortization target date; 4) the original amortization period; 5) the remaining balance of the increment of unfunded actuarial accrued liability; and 6) the amortization payment for the year following the valuation date of the actuarial valuation report.

The bill as amended appears to have been crafted to address a specific situation, or at most, a very limited number of situations, in which a municipality granted a single benefit enhancement prior to January 1, 2004, but the benefit enhancement was not recognized in prior actuarial valuation reports. If that benefit enhancement also increased the pension plan's aggregate actuarial accrued

liabilities from active, inactive and retired members by more than 30%, and also by more than \$9 million, the municipality would then be eligible for special relief in the form of the alternate amortization schedules provided for in the bill.

Additionally, because the alternate amortization schedules are made available only for the amortization of liabilities associated with a single benefit enhancement granted prior to January 1, 2004, the bill would not create an incentive for a municipality to grant a benefit enhancement in order to qualify for the more liberal alternate amortization schedules.

SUMMARY OF ACTUARIAL COST IMPACT

In reviewing the bill as amended, the Commission's consulting actuary prepared a comparison of required amortization payments for a hypothetical increase in actuarial accrued liability. The following table summarizes the impact of the alternate amortization schedules on the amortization contribution requirements attributable to a hypothetical \$10 million increase in actuarial accrued liability and assuming an annual interest rate of 7.5%. The table shows that the adoption of an alternate amortization schedule would provide short-term relief to an affected municipality by significantly reducing the initial amortization contribution requirement. However, extending the amortization period in this way would dramatically increase the total payments required to fully amortize the increased liability.

**Comparison of
First Year and Total Amortization for an Increase of
\$10,000,000 in Actuarial Accrued Liabilities**

	Current Act 205 Amortization Schedules for Benefit Enhancements Attributable to:		Alternate Amortization Schedules Under House Bill 2865	
	Retirees (10-year level dollar)	Active Members (20-year level dollar)	Adopted in 2005 (30-year increasing 5% per year)	Adopted after 2005 (30-year level dollar)
First Year Payment	\$ 1,456,859	\$ 980,922	\$ 493,736	\$ 846,712
Total Amortization Requirement¹	\$14,568,593	\$19,618,438	\$32,803,263	\$25,401,371

¹ Assumes an annual interest rate of 7.5%.

POLICY CONSIDERATIONS

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

Appropriateness of Alternate Amortization Periods. The alternate amortization periods provided for in the bill may be appropriate because they may provide short-term financial relief to an affected municipality while maintaining the funding standard mandated by Act 205.

POLICY CONSIDERATIONS (CONT'D)

Limited Nature of Relief. Although the alternate amortization schedules provided for in the bill do represent a liberalization of the Act 205 actuarial funding standard, the bill's unusually stringent eligibility criteria would appear to severely limit its applicability to all but the rarest of circumstances.

Precedent for Future Requests. Although the bill's applicability appears to be severely limited, it may create a precedent for requests by certain municipalities for similar special relief in the future.

COMMISSION RECOMMENDATION

On November 9, 2004, 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.

FINAL LEGISLATIVE STATUS

House Bill Number 2865, Printer's Number 4416, as amended by Amendment Number 4064 (P. N. 4716), was signed into law by the Governor on November 30, 2004, as Act 200 of 2004.

PART II

PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

A. ACT 205 OF 1984.

- **2003 Filing Period**

March 31, 2004, was the deadline for the 2003 municipal pension plan reports. Of the 4,500 local governments submitting questionnaire responses, 1,983 indicated that they had established one or more pension plans. About 131 of the local governments required to submit employee pension plan reports to be eligible for General Municipal Pension System State Aid failed to meet the statutory filing deadline. Through transmitting multiple delinquency notices, the Commission was able to significantly reduce the number of delinquent local governments that were not included in the initial State aid certification to the Department of the Auditor General on August 12th. Only 25 municipalities remained delinquent as of the date of initial certification. As of December 31, 2004, only one municipality remained delinquent in submitting their 2003 municipal pension plan reports, and the Commission was actively engaged in enforcing the reporting requirements. That municipality has since met its filing obligation.

With 54% of the over 3,000 municipal pension plan actuarial valuation reports received near the filing deadline, the Commission utilized its computer assisted review procedures to expedite the review of the incoming reports. The data extracted from the reporting forms was verified using electronic data processing. The Commission will issue its *Status Report on Local Government Pension Plans* based on the 2003 Act 205 data early in 2005.

- **Municipal Pension Cost Certification**

In the summer of 2004, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2004 allocation of General Municipal Pension System State Aid. In 2004, the State aid provided to municipalities to offset their employee pension costs totaled \$190.5 million. Calculation of the municipal pension cost data for the over 1,400 municipalities was accomplished through the municipal employee pension plan data base that is maintained by the Commission through the data extracted from the over 3,000 pension plan reports submitted by municipalities.

B. ACT 293 OF 1972.

- **2004 Filing Period**

The Commission transmitted filing notices and reporting forms to the 66 counties required to submit employee pension plan reports for 2004. The reports are due March 31, 2005.

PART III

PUBLIC EMPLOYEE RETIREMENT SYSTEM

POLICY DEVELOPMENT AND COORDINATION

A. STATUTORY PROVISIONS.

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

Section 6. Powers and Duties.

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

- (1) To study generally the subject of retirement, income after retirement, disability and death benefits and the retirement needs of public employees. The Commission shall have responsibility to formulate principles and objectives applicable thereto and to recommend any new legislation it deems advisable.*
- (2) To analyze on its own or upon request from either the legislative or executive branch any bill relating to public employee retirement or pension policy and issue a report thereto in a timely fashion. Such report shall be submitted to the General Assembly and the Governor and shall include an assessment of the actuarial soundness, feasibility and cost of such legislation.*
- (9) To monitor and evaluate from time to time all the laws and systems thereunder which relate to public employee pension and retirement policy in the Commonwealth.*
- (10) To study the relationship of retirement and pension policy to other aspects of public personnel policy and to the effective operation of government generally.*
- (11) To examine the interrelationships among public employee pension and retirement systems throughout the State.*

B. RESEARCH.

- **Status Report on Local Government Pension Plans**

During the second half of 2004, research began on the Commission's tenth 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). The research

B. RESEARCH. (Cont'd)

was completed in November of 2004. The report is a summary and analysis of municipal employee retirement system actuarial valuation reports as of January 1, 2003, submitted to the Commission under the Act and of county employee retirement system actuarial valuation reports as of January 1, 2002, submitted to the Commission under Act 293 of 1972. The data in the report has been extracted from the individual pension plan reports containing actuarial, financial, and demographic information. The report contains both the Commission's comments on trends and conditions and the associated recommendations of the Commission. The Commission endeavors to use the status reports on local government pension plans to focus the attention of State policymakers on the specific issues and reform measures that it views as warranting attention. To encourage these necessary remedial actions, the Commission has compiled the numerous municipal pension issues and reforms addressed in its status and special reports during the last twenty years, and makes corresponding formal recommendations. Draft legislation to implement each of the Commission's recommendations is contained in an appendix to the status report.

- **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 final report was released in February 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 Pennsylvania Municipal Retirement System (PMRS) in February 2004, the Public School Employees' Retirement System (PSERS) in April 2004, and the State Employees' Retirement System (SERS) in November 2004.

Commission's Review of the PMRS Actuarial Valuation Report

At the February 26, 2004, meeting of the Commission, the staff presented a summary of the January 1, 2002, Actuarial Valuation Report of the Pennsylvania Municipal Retirement System (PMRS) issued May 8, 2003, and reviewed some significant facts concerning the condition of the System since the prior valuation.

General Information

PMRS was established to provide pension administrative services to any municipality or authority within the Commonwealth that elected to join the system. While PMRS is referred to as a "retirement system," each member municipality has considerable flexibility in constructing the benefit plan it prefers. Each participating municipal plan is maintained as a separate entity and is self-insured except in the areas of investment return experience, one-year term disability cost, administrative expenses and common risk of mortality loss or gain on retired life reserves.

The PMRS actuarial valuation broadly covers the condition of the system. It serves primarily to summarize information. Each actuarial item is calculated separately for each municipality and affects only the contribution rate for that municipality.

The actuarial valuation summarizes the following information:

- 1) the demographic data of all PMRS active and benefit recipients;
- 2) the actuarial assumptions and methods used;
- 3) the actuarial value of the PMRS assets and the changes in the assets since the prior valuation;
- 4) the investment status of the assets; and
- 5) the excess interest to be allocated to municipalities.

* * * * *

The Commission reviewed this report with Mr. Douglas Bowen, Board Chairman, Mr. James B. Allen, Secretary, and Mr. Eli Greenblum, Consulting Actuary, of the Pennsylvania Municipal Retirement System.

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

Summary of Actuarial Valuation Pennsylvania Municipal Retirement System as of January 1, 2002

The following is a summary of the January 1, 2002, Actuarial Valuation of the Pennsylvania Municipal Retirement System and a comparison of the 2002 results with those of 2001.

	<u>1/1/01</u>	<u>1/1/02</u>
<u>Membership</u>		
Active Members		
– Defined Benefit (D. B.)	7,911	7,834
– Defined Contribution (D. C.)	683	739
Number of Municipalities		
– Defined Benefit	630	644
– Defined Contribution	139	154
Deferred Vested Members	331	351
Retired Members (D. B.)	2,324	2,428
Survivor Beneficiaries (D. B.)	363	371
<u>Payroll and Annuities</u>		
Total Annual Payroll	\$234,438,096	_____
Annual Annuities & Benefits	22,617,906	\$28,942,000
<u>Valuation Data</u>		
Assets		
– Market Value	\$1,046,552,000	\$ 996,963,000
– Actuarial Value	979,068,000	1,029,062,000
<u>Support</u>		
Member	\$12,189,000	\$13,008,000
Municipal	22,933,000	21,010,000
<u>Actuarial Assumptions</u>		
Interest – 6.5%		
Salary – Inflation assumption of 3.5% per year with age-specific percentages reflecting merit and promotional increases.		
<u>Market Rate of Return</u>	3.30%	(3.90)%
<u>GASB Statement No. 25</u>		
	<u>1/1/01</u>	
Actuarial Value of Assets	\$959,454,800	
Actuarial Accrued Liability	812,645,100	
Unfunded Actuarial Accrued Liability	(146,809,700)	
<u>Funded Ratio</u>	118.1%	

Commission's Review of the PSERS Actuarial Valuation Report

At the April 7, 2004, meeting of the Commission, the staff presented a summary of the June 30, 2003, Actuarial Valuation Report of the Public School Employees' Retirement System issued January 30, 2004, and reviewed some significant facts concerning the condition of the System since the prior valuation.

General Funding Information

- Increase in employer contributions of .46%.
- Establishment of 4.00% minimum employer contribution.
- Decrease in the funded ratio from 104.8% to 97.2%.
- Change in amortization funding periods.
- Unfunded accrued liability of \$1,543,300,000.
- Increase in total cost rate to 14.60% from 14.33%.
- Employer contribution rate without minimum — .38%

Changes in Contribution Rate

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
2004/2005	7.12%	7.48%	(7.10)%	.23%	4.23%
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%

Reasons for Change in the Rate

The employer contribution rate increased from 3.77% for fiscal year 2003/2004 to 4.23% for fiscal year 2004/2005. The increase of 0.46% is due to the following reasons:

- | | |
|---|---------------|
| • Increase Due to Change in Normal Rate | .23 |
| • Decrease Due to Method Change for Valuing the Liability for Vestees | (.36) |
| • Increase Due to Payroll Growth | .19 |
| • Increase Due to July 1, 2003, COLA under Act 38 | 1.22 |
| • Decrease Due to 1.15% Floor on 2002/2003
Employer Contribution Rate under Act 38 | (.46) |
| • Increase Due to Actuarial Loss on Assets | 5.69 |
| • Decrease Due to Actuarial Gain on Liabilities | (.03) |
| • Decrease Due to Change in Health Insurance Contribution Rate | (.56) |
| • Decrease Due to Act 40 | <u>(5.46)</u> |
| Total | .46% |

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

Reasons for Increase in Unfunded Accrued Liability

- Experience (Gains) Losses
 - Loss from Investment Return on Actuarial Value of Assets \$3,805,818,000
 - Gain from Salary Increases Less than Expected (126,576,000)
 - Gain from Retirement and Other Separation Experience (139,098,000)
 - Loss from Annuitants' Mortality Experience 240,662,000

Total \$3,780,806,000

* * * * *

The Commission reviewed this report with Mr. Jeffrey B. Clay, Executive Director, Mr. Alan VanNoord, 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, 2003

The following is a summary of the June 30, 2003, Actuarial Valuation of the Public School Employees' Retirement System and a comparison of the 2003 results with those of 2002.

	<u>6/30/02</u>		<u>6/30/03</u>	
Membership				
Active Members	242,616		246,700	
Inactive and Vested Members	61,295		65,453	
Retired Members	128,203		132,005	
Disabled Members	6,097		6,378	
Survivors and Beneficiaries	7,114		7,310	
Payroll and Annuities Payable				
Total Annual Payroll	\$9,378,944,000		\$9,652,881,000	
Annual Annuities and Benefits	\$2,248,291,000		\$2,545,135,000	
Valuation Data				
Accrued Liability ¹	\$51,796,511,000		\$54,443,775,000	
Assets	<u>54,296,368,000</u>		<u>52,900,465,000</u>	
Unfunded Accrued Liability ¹	\$ (2,499,857,000)		\$ 1,543,310,000	
Fund Ratio	104.8%		97.2%	
Funding Costs				
Normal Cost	\$1,344,002,675	14.33 %	\$1,409,320,626	14.60 %
Amortization ²	<u>(400,480,909)</u>	<u>(4.27)%</u>	<u>(685,354,551)</u>	<u>(7.10)%</u>
Full Actuarial Funding	\$ 943,521,766	10.06 %	\$ 723,966,075	7.50 %
Support - Minimum ³				
Member				
School District	\$664,029,235	7.08%	\$ 687,285,127.2	7.12%
Commonwealth	139,746,265.5	1.49%	193,057,620	2.00%
Total Support ⁴	<u>139,746,265.5</u>	<u>1.49%</u>	<u>193,057,620</u>	<u>2.00%</u>
	\$943,521,766	10.06%	\$1,073,400,367.2	11.12%
Support - No Minimum ³				
Member				
School District	\$664,029,235	7.08%	\$687,285,127.2	7.12%
Commonwealth	139,746,265.5	1.49%	18,340,473.9	.19%
Total Support	<u>139,746,265.5</u>	<u>1.49%</u>	<u>18,340,473.9</u>	<u>.19%</u>
	\$943,521,766	10.06%	\$723,966,075	7.50%

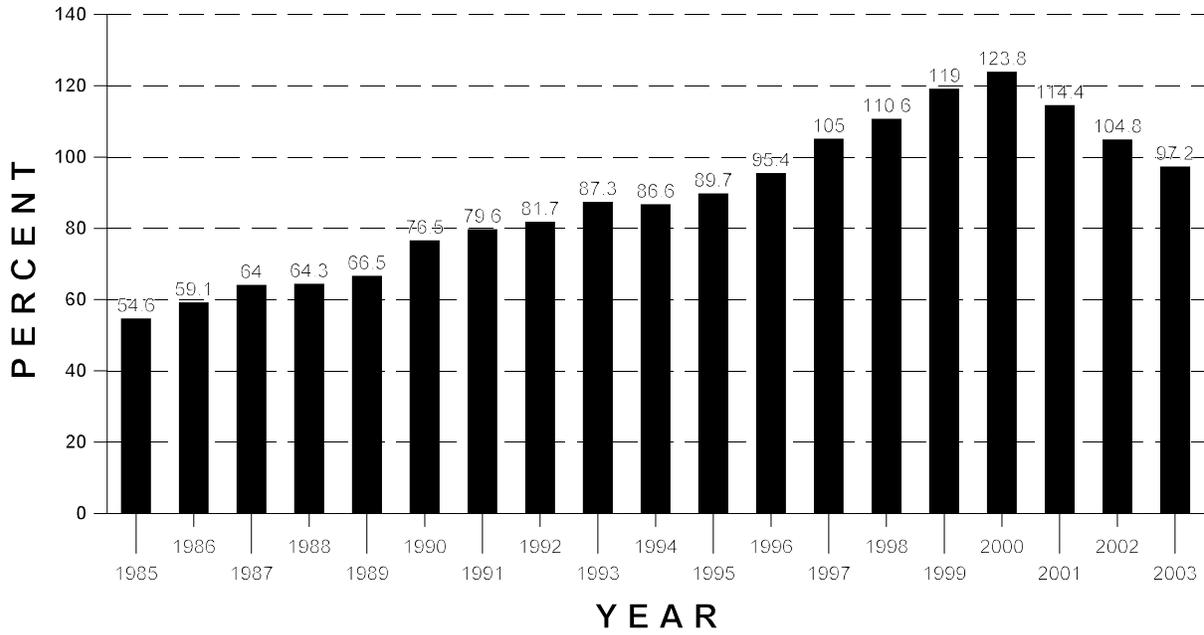
¹ Includes liability for health care payments.

² Act 40 of 2003 amended the actuarial cost method. The outstanding balance of the unfunded accrued liability (UAL) as of June 30, 2001, and the decrease in the UAL due to the actuarial asset method change provided by Act 38 continue to be amortized over a 10-year period, with level dollars, beginning July 1, 2002. The increases in the UAL due to the 7/1/02 and 7/1/03 cost-of-living adjustments continue to be amortized over a 10-year period, with level dollars, starting 7/1/03 and 7/1/04 respectively. All other changes in the UAL at 6/30/01, 6/30/02, and 6/30/03 – including Act 9 changes – are amortized over a 30-year period, with level dollars funding, starting on 7/1/02, 7/1/03 and 7/1/04 respectively. Future benefit improvements will be amortized over 10 years, level dollar funding. Future gains and losses will be amortized over 30 years, level dollar funding.

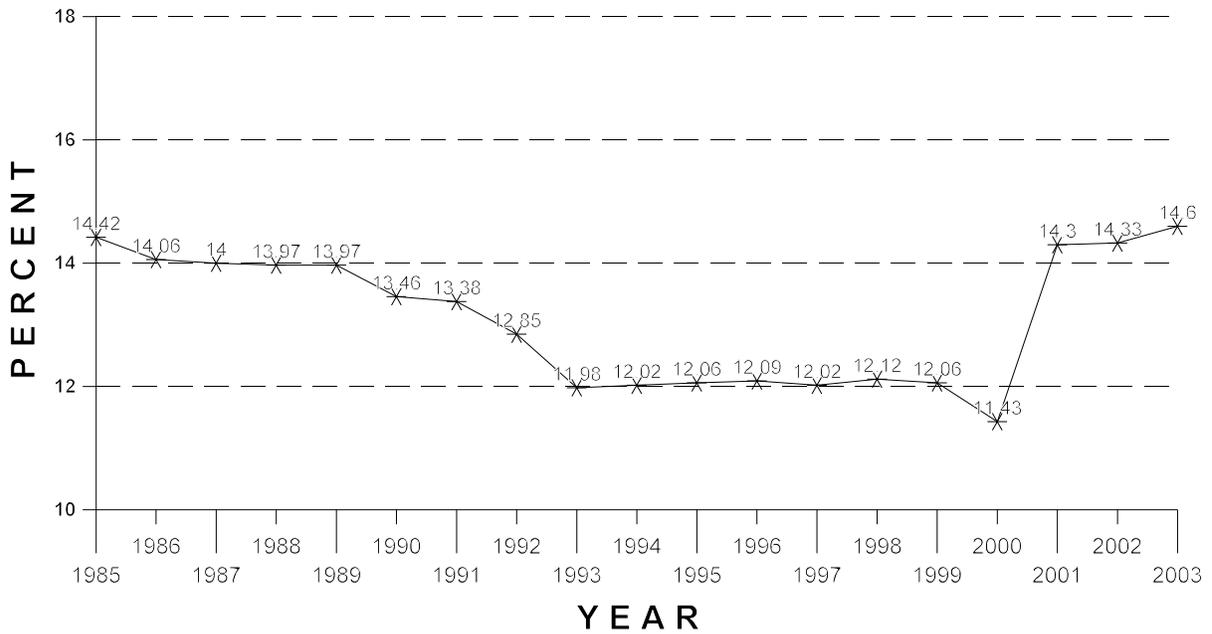
³ Act 40 provides a 4.0% minimum employer pension rate. Rates are provided with and without the mandated minimum rate.

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

PSERS FUNDED RATIO TREND



PSERS NORMAL COST TREND



Commission's Review of the SERS Actuarial Valuation Report

At the November 9, 2004, meeting of the Commission, the staff presented a summary of the December 31, 2003, Actuarial Valuation Report of the State Employees' Retirement System issued April 21, 2004, and reviewed some significant facts concerning the condition of the System since the prior valuation.

General Discussion

The valuation includes the impact of Act 40 of 2003 which made the following changes.

- Amortization
 - Changed the amortization of liabilities for Act 9 of 2001 benefits and actuarial gains and losses from 10 years to 30 years.
- Minimum Contribution
 - Established minimum annual employer contribution levels of 2 percent of payroll, 3 percent of payroll, and 4 percent of payroll for fiscal years 2004, 2005, and 2006 respectively.
- Funding Changes
 - The funding of the System (because of Act 40) is 2.00 percent. As of 12/31/03, the net amortization credit is greater than the normal cost. This would have resulted in a zero cost. However, Act 40 requires a 2.00 percent contribution.
 - The valuation also includes the second stage of the Act 38 of 2002 mandated cost-of-living adjustment. Funding for the second stage began on July 7, 2004, and the liability is included in this valuation.

Summary of Changes

The following elements affected the employer contribution rate:

	Normal Cost	Unfunded Liabilities	Total
• Change in amortization periods under Act 2003-40		- 6.46%	- 6.46%
• Loss from investment earnings		3.18%	3.18%
• Change in salary increase assumptions	- 0.13%	- 1.35%	- 1.48%
• Act 2002-38 cost-of-living adjustment		1.21%	1.21%
• Pay increase different than assumptions		- 0.56%	- 0.56%
• Change in actuarial methods and assumptions		0.29%	0.29%
• Change in amortization due to change in payroll		- 0.20%	- 0.20%
• Other differences between actual experience and actuarial assumptions		0.19%	0.19%
• Change in demographics of new entrants	0.02%	- 0.03%	- 0.01%
• Total Change	- 0.11%	- 3.73%	- 3.84%

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

The following elements affected the amount of the unfunded liability:

• Loss from investment earnings	\$1,034,700,501
• Change in salary increase assumptions	(721,493,669)
• Act 2002-38 cost-of-living adjustment	395,800,000
• Pay increase different than assumptions	(182,235,744)
• Change in actuarial methods and assumptions	157,128,603
• Other differences between actual experience and actuarial assumptions	63,390,653
• Change in demographics of new entrants	<u>(9,889,329)</u>
– Total Change	\$ 737,401,015
December 31, 2003, Unfunded Liability	\$(1,285,854,082)

Employer Normal Cost Rate

Normal Cost Rate for New Active Members:

• Superannuation and Withdrawal	12.48%
• Disability	0.92%
• Death	0.75%
• Refunds	<u>0.42%</u>
– Total	14.57%
– Member Contributions	6.25%
– Employer Normal Cost	8.32%

* * * * *

The Commission reviewed this report with Mr. Eric Henry, Executive Director, Mr. John Winchester, Deputy 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, 2003

The following is a summary of the December 31, 2003, actuarial valuation of the State Employees' Retirement System and a comparison of the 2003 results with those of 2002.

	<u>12/31/02</u>		<u>12/31/03</u>	
<u>Membership</u>				
Active	111,059		109,018	
Inactive	5,216		5,741	
Retired	76,574		79,322	
Disabled	6,231		6,486	
Survivors and Beneficiaries	8,423		8,604	
<u>Payroll and Annuities Payable</u>				
Total Annual Payroll	\$4,845,615,000		\$4,853,372,000	
Annual Annuities and Benefits	\$1,169,299,912		\$1,337,439,856	
<u>Valuation Data</u>				
Accrued Liability	\$25,285,589,041		\$26,179,760,863	
Assets ¹	<u>27,497,464,261</u>		<u>27,465,614,945</u>	
Unfunded Accrued Liability	\$ (2,211,875,220)		\$ (1,285,854,082)	
Funded Ratio	108.7%		104.9%	
<u>Funding Costs</u>				
Normal Cost ²	\$ 711,336,282.0	14.68%	\$ 707,136,300.4	14.57%
Amortization ³	<u>\$ 358,090,948.5</u>	<u>(7.39)%</u>	<u>\$ (539,694,966.4)</u>	<u>(11.12)%</u>
Full Actuarial Funding	\$ 353,245,333.5	7.29%	\$ 167,441,334.0	3.45%
<u>Support</u>				
Member	\$ 302,850,937.5	6.25%	\$ 303,335,750	6.25 %
Commonwealth	<u>\$ 50,394,396.0</u>	<u>1.04%</u>	<u>\$ (135,894,416)</u>	<u>(2.80)%</u>
Total Support	\$ 353,245,333.5	7.29%	\$ 167,441,334	3.45 %
Mandated Commonwealth Contribution ⁴			\$ 97,067,440	2.00%

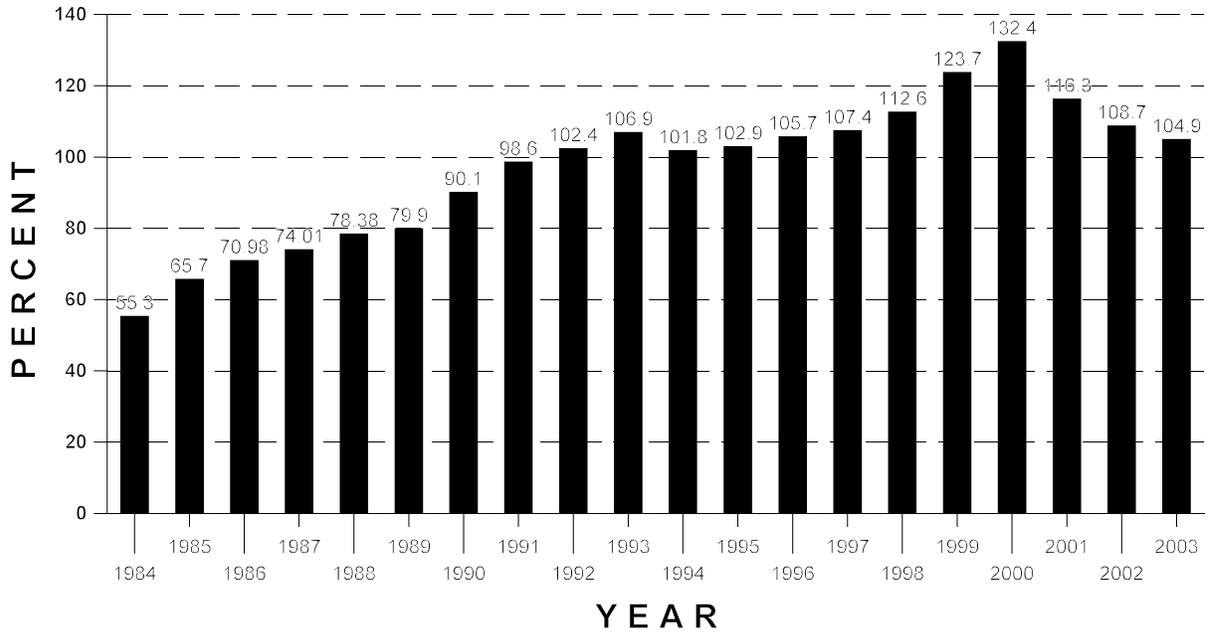
¹ The Assets figure is the actuarial value not the market value. The accrued liabilities do not include a liability of approximately \$364,800,000 for the second stage of the Act 38 COLA which was payable in July 2003 for which funding began July 1, 2004.

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

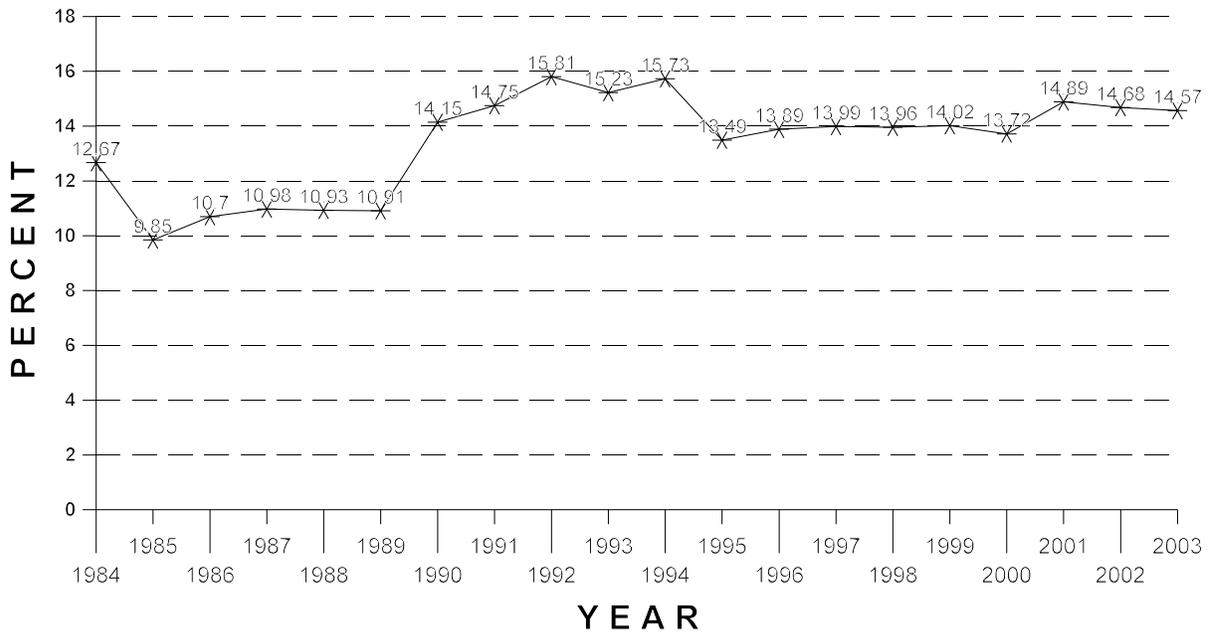
³ Act 40 of 2003 changed the amortization period for funding experience gains and losses to 30 years.

⁴ Act 40 of 2003 established minimum annual employer contribution levels of 2 percent of payroll, 3 percent of payroll, and 4 percent of payroll for fiscal years beginning July 1, 2004, July 1, 2005, and July 1, 2006, respectively. Therefore, the Commonwealth's contribution will be 2.00% rather than (2.80)% or zero percent. The total Commonwealth support contribution for the SERS plan includes a .03% contribution for the newly established Benefits Completion Plan.

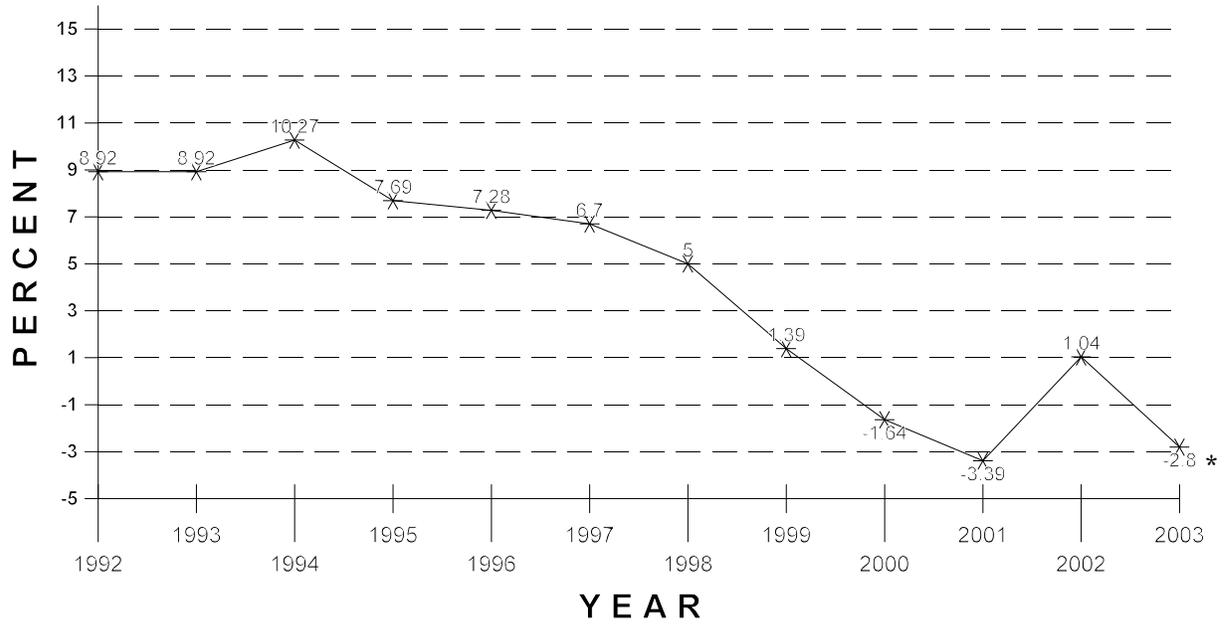
SERS FUNDED RATIO TREND



SERS NORMAL COST TREND



SERS EMPLOYER CONTRIBUTION RATE



*2.00 percent mandated contribution per Act 40 of 2003.

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 2004 and their sponsoring organizations were as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

Mr. Lee J. Janiczek
PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP COMMISSIONERS

A. Christopher Cap
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. Jeff Haste
COUNTY COMMISSIONERS ASSOCIATION OF PENNSYLVANIA

Mr. Douglas E. Bilheimer
PENNSYLVANIA MUNICIPAL AUTHORITIES ASSOCIATION

MUNICIPAL EMPLOYEE PENSION ADVISORY COMMITTEE

Mr. George Tomasak
PENNSYLVANIA PROFESSIONAL FIRE FIGHTERS' ASSOCIATION

Mr. Daniel C. Zakraysek
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 P. Testerman
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 2004 were:

Conrad Siegel Actuaries

Mr. David H. Killick

Milliman

Mr. William A. Reimert

Mercer Human Resource Consulting

Mr. Stephen T. McElhaney

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, 2004

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
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; 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); 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 Govern-	Actuarial Note (Doc. #5598)	07/16/03

BILL NUMBER
PRINTER'S NUMBER
(PRIME SPONSOR)

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

mental 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).	Actuarial Note (Doc. #5599)	07/16/03
S. B. 25 P. N. 20 (Rhoades)	PSERS, permitting the purchase of service credit for unused sick leave.	Referred to Senate Finance Committee Actuarial Note (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 Actuarial Note (P. N. 58)	01/24/03 02/12/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
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
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 Actuarial Note (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 Actuarial Note (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 Actuarial Note (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 sheriffs to retire upon attaining age fifty with 25 years service.	Referred to Senate Finance Committee	02/04/03
S. B. 200 P. N. 1765 (A. Williams)	PSERS, amending Section 8346(b) of the Code by: 1) extending from 95-days to a full school year the period during which an annuitant may return to school service in an emergency without cessation of the member's annuity; 2) prohibiting an annuitant from earning additional service credit for the service rendered during the	Referred to Senate Finance Committee First Consideration Re-referred to Appropriations Commission Letter (A. 3959) Actuarial Note (P. N. 200) Commission Letter (A. 0239) Reported as amended Second Consideration	02/06/03 10/27/03 10/29/03 11/19/03 12/17/03 02/09/04 02/09/04 02/10/04

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

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

	emergency return to service and prohibiting additional retirement contributions;	Commission Letter (A. 0280)	03/08/04
		Commission Letter (A. 0582)	03/15/04
	3) changing one of the categories of school employer that may employ an annuitant in an extracurricular capacity from a "school entity" to a "public school;"	Commission Letter (A. 0693)	03/22/04
	and 4) defining "extracurricular position."	Commission Letter (A. 0694)	03/22/04
		Amended on third consideration	03/22/04
		Third Consideration and Final Passage (48-1)	03/23/04
		Referred to House Education Committee	03/26/04
		Reported as amended	05/26/04
		First Consideration	05/26/04
		Commission Letter (P. N. 1644)	05/28/04
		Second Consideration	06/09/04
		Commission Letter (A. 2143)	06/21/04
		Commission Letter (A. 2357)	06/21/04
		Third Consideration with amendments	06/22/04
		Final passage (198-0)	06/22/04
		Referred to Senate Rules Committee	06/23/04
		Commission Letter (A. 2650)	06/28/04
		Re-reported on concurrence, as amended	06/28/04
		Commission Letter (A. 2721)	06/29/04
		Senate concurred in House amendments, as amended by the Senate	06/29/04
		Commission Letter (P. N. 1765)	06/30/04
		Commission Letter (A. 2941)	06/30/04
		Referred to House Rules Committee	06/30/04
		Re-reported on concurrence as committed	06/30/04
		House concurred in Senate amendments to House amendments	06/30/04
		To Governor	07/02/04
		Signed by Governor (Act 63 of 2004)	07/04/04
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
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

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

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

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 Actuarial Note (P. N. 399)	03/03/03 04/07/04
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 Actuarial Note (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
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
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 Actuarial Note (P. N. 576) First Consideration	03/24/03 04/07/04 11/09/04
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 Actuarial Note (P. N. 789)	05/02/03 10/23/03
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 of 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,	Referred to Senate Law and Justice Committee First Consideration Second Consideration Third Consideration and Final Passage Referred to House Local Government Committee	05/02/03 06/10/03 06/16/03 06/17/03 06/23/03

BILL NUMBER
PRINTER'S NUMBER
(PRIME SPONSOR)

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

	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).	Reported as amended First Consideration Second Consideration Actuarial Note (A. 3401) Re-committed to Appropriations	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 Actuarial Note (P. N. 850)	05/12/03 11/09/04
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
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 First Consideration Re-referred to Senate Appropriations Committee Re-reported as Amended	09/15/03 12/08/03 12/16/03 11/08/04

BILL NUMBER
PRINTER'S NUMBER
(PRIME SPONSOR)

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

		Second Consideration	11/09/04
		Third Consideration and Final Passage (50-0)	11/10/04
		Referred to House Judiciary Committee	11/15/04
		First Consideration	11/15/04
		Second Consideration	11/16/04
		Third Consideration and Final Passage (195-0)	11/18/04
		Signed by Governor (Act 207 of 2004)	11/30/04
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. 1328 (Orie)	An act providing for intergovernmental cooperation in the City of Pittsburgh and establishing an intergovernmental authority. Amendment 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 Commission Letter (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) In the Senate, Bill and Governor's veto message laid on the table	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 01/06/04
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. 1956 (Dent)	PSERS, amending the Code by increasing the number of annuitant members of the Board from one to three.	Referred to Senate Finance Committee First Consideration Re-referred to Senate Appropriations Reported as Amended Second Consideration	11/24/03 11/09/04 11/15/04 11/16/04 11/17/04
S. B. 971 P. N. 1340 (Earll)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding sexual offenses committed by school employees against children to the list of offenses in the Act warranting pension forfeiture.	Referred to Senate Finance Committee First consideration Second consideration Third consideration and final passage (49-0)	12/19/03 03/16/04 03/22/04 03/24/04

BILL NUMBER
PRINTER'S NUMBER
(PRIME SPONSOR)

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

		Referred to House Finance Committee	03/26/04
		First Consideration	06/23/04
		Second Consideration	07/02/04
		Third Consideration and Final Passage	
		(201-0)	07/04/04
		Signed by Governor (Act 87 of 2004)	07/15/04
S. B. 994 P. N. 1349 (D. White)	PSERS, amending the Code to: 1) credit the annuity reserve account with "actual interest," which the bill defines as the difference between the Fund's earnings and the actuarial assumed rate of return (currently 8.5%), instead of the currently mandated, "valuation interest, " defined in the Code as 5.5% and which is credited to all accounts (including the annuity reserve account) except for the members' savings account which is credited at 4%; 2) changing the amortization period for COLA liabilities from the currently mandated 10-year level dollar to 20-year level dollar; and 3) beginning July 1, 2004, and annually thereafter, provide an automatic COLA to all annuitants of the System who retired on or before July 1, 2004, and equal to the lesser of 3% or the increase in CPI during the previous year.	Referred to Senate Finance Committee	12/24/03
S. B. 1071 P. N. 1483 (C. Williams)	PSERS, permitting the purchase of up to five years of nonschool service credit for the period spent on a mandatory maternity leave of absence occurring prior to May 17, 1975, where the employer failed to rehire the member due to a hiring freeze.	Referred to Senate Finance Committee	03/25/04
S. B. 1079 P. N. 1493 (M. White)	Third Class City Code, permitting a beneficiary of the pension fund who returns to service as an elected official to continue to receive pension benefits if the individual is not receiving a salary for services.	Referred to Senate Local Government Committee	03/25/04
		First Consideration	09/29/04
		Second Consideration	11/10/04
		Third Consideration and Final Passage	
		(47-0)	11/15/04
S. B. 1135 P. N. 1683 (Robbins)	PSERS, amending the Code to: 1) credit the annuity reserve account with "actual interest," which the bill defines as the difference between the Fund's earnings and the actuarial assumed rate of return (currently 8.5%), instead of the currently mandated, "valuation interest, " defined in the Code as 5.5% and which is credited to all accounts (including the annuity reserve account) except for the members' savings account which is credited at 4%; and 2) changing the amortization period for COLA liabilities from the currently mandated 10-year level dollar to 20-year level dollar.	Referred to Senate Finance Committee	06/09/04

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
S. B. 1146 P. N. 1672 (Greenleaf)	SERS, permitting the purchase of non-state service credit for military "active duty for training."	Referred to Senate Finance Committee	06/09/04
S. B. 1206 P. N. 1812 (Wonderling)	PSERS, 1) beginning January 1, 2005, extending eligibility for participation in the health insurance premium assistance program to annuitants who retired prior to normal retirement age with 15 years service; and 2) enhancing the premium assistance benefit from the currently mandated maximum of \$100 monthly to an amount equal to 28% of the member's monthly premium for members who are under age 65, and 65% (plus 2% annually thereafter up to a maximum of 100%) for members age 65 and over.	Referred to Senate Finance Committee	08/11/04
S. B. 1240 P. N. 1872 (M. White)	County Pension Law (Act 96 of 1971), permitting the board of a county pension system subject to the Act to grant a benefit for any or all covered health care costs incurred by retired employees if the fund is at least 100% funded and actuarially sound as certified by the board's actuary.	Referred to Senate Finance Committee	10/15/04
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
S.R. 297 P. N. 1834 (D. White)	A resolution directing the Legislative Budget and Finance Committee to study the feasibility of providing state premium assistance to surviving spouses of SERS members who participated in the Retired Employee Health Program (REHP) through the Pennsylvania Employees Benefit Trust Fund.	Referred to Senate Finance Committee	09/21/04
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 Commission Letter (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, 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	Referred to House State Government Committee Actuarial Note (P. N. 104) First Consideration Second Consideration Third Consideration and Final Passage (198-0) Referred to Senate Finance Committee Actuarial Note (A. 0218) First Consideration Second Consideration Referred to Senate Appropriations Commission Letter (A. 4482) Third Consideration and Final Passage	02/03/03 02/12/03 04/07/03 04/28/03 04/30/03 05/01/03 05/22/03 10/27/03 10/29/03 10/29/03 12/09/03 12/09/03

BILL NUMBER
PRINTER'S NUMBER
(PRIME SPONSOR)

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

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.

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

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
Actuarial Note (P. N. 122)

02/03/03
05/22/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
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 non-state service credit for prior service with any Pennsylvania county.	Referred to House State Government Committee	02/11/03
H. B. 225 P. N. 3461 (Perzel)	PSERS, 1) 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; and 2) amending the return to school service in an extracurricular position provisions of the Code by liberalizing participation criteria and defining extracurricular activity.	Referred to House Education Committee Actuarial Note (P. N. 254) Reported as Amended First Consideration Commission Letter (P. N. 1898) Second Consideration Third Consideration and Final Passage (199-0) Referred to Senate Finance Committee Reported as amended First Consideration Re-referred to Senate Appropriations 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 03/16/04 03/16/04 03/22/04
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 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 House State Government Committee Actuarial Note (P. N. 379)	02/18/03 07/16/03
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
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 Actuarial Note (P. N. 647) First Consideration Second Consideration Third Consideration and Final Passage (197-0) Referred to Senate Finance Committee First Consideration Commission Letter (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 Commission Letter (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. 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 Common-	Referred to House Environmental Resources and Energy First Consideration Second Consideration Referred to Appropriations Actuarial Note (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 First Consideration	03/04/03 06/17/03 06/23/03 06/23/03 10/23/03 11/24/03 11/24/03 11/26/03 03/30/04

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	wealth-funded medical benefits to crew-leaders.	Re-referred to Senate Appropriations Committee	04/13/04
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 Actuarial Note (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 Actuarial Note (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 First Consideration Laid on Table Second Consideration Re-referred to House Appropriations Actuarial Note (P. N. 930) Third Consideration and Final Passage (201-0) Referred to Senate Finance Committee First Consideration Second Consideration Third Consideration and Final Passage (47-0) Signed by Governor (Act 184 of 2004)	03/10/03 03/23/04 03/23/04 05/10/04 05/10/04 06/09/04 06/15/04 06/23/04 11/09/04 11/17/04 11/18/04 11/30/04
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 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.	Referred to House Local Government Committee Advisory Note (P. N. 947)	03/11/03 06/18/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
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 Advisory Note (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 First Consideration Laid on Table	03/20/03 10/06/04 10/06/04
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 of the police force who terminates employment after reaching normal retirement age.	Referred to House Local Government Committee Actuarial Note (P. N. 1162)	03/26/03 12/17/03
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 Actuarial Note (P. N. 1649) First Consideration Reported as Amended Second Consideration Commission Letter (P. N. 2112) Commission Letter (A. 4105) Commission Letter (A. 4161) Commission Letter (A. 4554)	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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Third Consideration with Amendments (184-12)	12/15/03
		Final Passage (184-12)	12/15/03
		Referred to Senate Finance Committee	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 Commission Letter (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
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 Advisory Note (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
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 Advisory Note (P. N. 1747) First Consideration Actuarial Note (P. N. 1747) Laid on Table	05/07/03 02/03/04 05/11/04 06/09/04 06/21/04
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 Actuarial Note (P. N. 1778) First Consideration Actuarial Note (A. 2861) Second Consideration Actuarial Note (A. 2133) Commission Letter (A. 3642) Commission Letter (A. 3753) Laid on Table Re-committed to House Rules Committee	05/12/03 05/22/03 07/01/03 07/16/03 09/16/03 10/23/03 10/27/03 10/27/03 12/18/03 03/31/04
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 Commission Letter (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
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	Referred to House Finance Committee Re-referred to State Government Committee	05/29/03 07/08/03

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	member retires prior to superannuation age (age 50).		
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. 4239 (Hutchinson)	PSERS, permitting active members to purchase up to 5 years of nonschool service credit for previous service as a county employee, other than a county nurse.	Referred to House Education Committee Reported as amended First Consideration Commission Letter (P. N. 4239) Second Consideration Third Consideration and Final Passage (196-0) Referred to Senate Finance Committee	08/15/03 06/30/04 06/30/04 11/05/04 11/08/04 11/10/04 11/15/04
H. B. 1951 P. N. 4479 (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 Re-referred to House Local Government Committee Actuarial Note (P. N. 2545 as amended by A. 2944) Reported as amended First Consideration Laid on Table	09/08/03 06/29/04 09/29/04 10/05/04 10/05/04 10/05/04

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
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 Actuarial Note (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. Amendment 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 Commission Letter (A. 4625) Third Consideration and Final Passage (195-0) Referred to Senate Appropriations First Consideration Second Consideration Third Consideration and Final Passage (49-0) Signed by Governor (Act 11 of 2004)	10/16/03 11/24/03 12/09/03 12/16/03 02/04/04 02/04/04 02/09/04 02/10/04 02/12/04
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 Referred to House State Government Committee	09/30/03 03/22/04
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 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	Referred to House State Government Committee Commission Letter (P. N. 2826) Actuarial Note (A. 3875) Reported as amended First Consideration Second Consideration Re-referred to Appropriations Commission Letter (A. 4714) Commission Letter (A. 4557) Commission Letter (A. 4729)	10/21/03 10/21/03 10/23/03 11/25/03 11/25/03 12/08/03 12/08/03 12/15/03 12/16/03 12/16/03

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

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

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.

Re-reported as amended 12/16/03
Laid on Table 02/11/04
Actuarial Note (A. 0017) 02/26/04
Actuarial Note (A. 4807) 02/26/04
Actuarial Note (A. 4808) 02/26/04
Commission Letter (A. 0065) 03/01/04
Re-referred to House Rules Committee 03/31/04
Actuarial Note (A. 0112) 06/09/04
Actuarial Note (A. 0113) 06/09/04
Actuarial Note (A. 2171) 09/29/04
Actuarial Note (A. 3535) 09/29/04
Commission Letter (A. 3978) 10/29/04
Commission Letter (A. 4904) 11/17/04
Commission Letter (A. 4940) 11/17/04
Actuarial Note (A. 4991) 11/17/04
Commission Letter (A. 4919) 11/18/04

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
First Consideration 03/17/04
Second Consideration 03/23/04
Re-referred to House Appropriations Committee 03/23/04

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) explicitly 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,

Referred to House Finance Committee 12/11/03
Commission Letter (P. N. 3086) 12/16/03

BILL NUMBER
PRINTER'S NUMBER
(PRIME SPONSOR)

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

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>H. B. 2269 P. N. 4218 (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 report; 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; and authorize the establishment and administration of In-Service Retirement Option Plans (IROPs) by local governments in the Commonwealth.</p>	<p>Referred to House Finance Committee 12/17/03 First consideration 06/15/04 Commission Letter (A. 2263) 06/22/04 Second consideration 06/23/04 Commission Letter (P. N. 3120) 06/28/04 Third consideration with amendments 06/29/04 Final Passage (201-0) 06/29/04 Referred to Senate Finance Committee 07/04/04</p>
<p>H. B. 2303 P. N. 3212 (Wansacz)</p>	<p>PSERS and SERS, amending the Codes of the Systems to mandate that nonintervening military service shall be credited as school or state service (2.5% accrual rate) instead of the currently mandated nonschool or nonstate service (2.0% accrual rate).</p>	<p>Referred to House Finance Committee 01/27/04</p>
<p>H. B. 2309 P. N. 3227 (O'Neill)</p>	<p>PSERS, amending the Code to: 1) credit the annuity reserve account with "actual interest," which the bill defines as the difference between the Fund's earnings and the actuarial assumed rate of return (currently 8.5%), instead of the currently mandated, "valuation interest," defined in the Code as 5.5% and which is credited to all accounts (including the annuity reserve account) except for the members' savings account which is credited at 4%; 2) changing the amortization period for</p>	<p>Referred to House Education Committee 01/26/04</p>

BILL NUMBER
PRINTER'S NUMBER
(PRIME SPONSOR)

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

COLA liabilities from the currently mandated 10-year level dollar to 20-year level dollar; and 3) beginning July 1, 2004, and annually thereafter, provide an automatic COLA to all annuitants of the System who retired on or before July 1, 2004, and equal to the lesser of 3% or the increase in CPI during the previous year.

<p>H. B. 2337 P. N. 3257 (Hutchinson)</p>	<p>SERS, amending the code to mandate that: 1) an employee who becomes an active member of the System after the effective date of the bill and who is employed in a position for which Class E-2 service credit may be elected, shall be permitted to elect membership in Class AA in lieu of membership in Class E-2; 2) if a member was previously a member of Class A or was previously employed in a position for which Class A membership could have been earned, shall have all previous Class A service credit reclassified as Class AA, excluding service performed as a state police officer or for which a class of service other than Class A was earned or could have been elected; and 3) an active member who is a member of Class A on the effective date of the bill and who is employed in a position for which Class E-2 service could have been elected, may elect to become a member of Class AA by filing a written notice with the Board prior to July 1, 2004, or prior to termination from state service, whichever first occurs.</p>	<p>Referred to House Finance Committee</p>	<p>02/03/04</p>
<p>H. B. 2338 P. N. 3258 (Hutchinson)</p>	<p>SERS, amending the Code to mandate that an active member who is a member of Class E-2 on the effective date of the bill receive Class AA service credit for all previous Class A service, except for service performed as a state police officer or service for which a member could have elected membership in Class C, Class D-3, Class E-1 or Class E-2, performed prior to July 1, 2001.</p>	<p>Referred to House Finance Committee</p>	<p>02/03/04</p>
<p>H. B. 2351 P. N. 3279 (Phillips)</p>	<p>Borough Pension Systems, amending the Borough Code to: 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 bor-</p>	<p>Referred to House Finance Committee Re-referred to House Local Government Committee Commission Letter (P. N. 3279) First Consideration Second Consideration Re-referred to House Appropriations Third Consideration and Final Passage (200-0) Referred to Senate Finance Committee Reported as committed First consideration Second consideration</p>	<p>02/04/04 03/22/04 03/29/04 04/13/04 05/10/04 05/10/04 05/25/04 06/09/04 06/23/04 06/23/04 06/29/04</p>

BILL NUMBER
PRINTER'S NUMBER
(PRIME SPONSOR)

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

	ough 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).	Third consideration and final passage (50-0) To Governor Signed by Governor (Act 79 of 2004)	07/02/04 07/07/04 07/15/04
H. B. 2356 P. N. 3299 (Goodman)	PSERS, expanding the membership of the PSERS Board of Trustees and providing for the appointment of designees.	Referred to House Education Committee	02/09/04
H. B. 2395 P. N. 3372 (Dally)	PSERS, permitting the purchase of up to five years of nonschool service credit for previous service as a school employee, teacher or instructor in an accredited Pennsylvania nonpublic elementary or secondary school, if the member was entitled to a provisional or professional certificate to teach in the public schools of the Commonwealth at the time the service was rendered and provided the member bears the full actuarial cost of the service purchase authorization.	Referred to House Education Committee	03/08/04
H. B. 2467 P. N. 3519 (Forcier)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), the bill would amend the Act to: 1) beginning in calendar year 2003, permit a municipality to change the amortization period for the outstanding balance of the increment of unfunded actuarial accrued liability attributable to the net investment losses incurred in calendar years 2001 and 2002 from 15 years to 30 years; 2) require that, in addition to the regular actuarial valuation report required to be filed with the Commission on or before March 31, 2004, a municipality electing to extend the amortization period must file a revised actuarial valuation report reflecting the amortization period extension with the Public Employee Retirement Commission no later than September 30, 2004, require that the revised report be used solely for the purposes of recalculating a municipality's 2004 Minimum Municipal Obligation and for calculating a municipality's 2005 Minimum Municipal Obligation to reflect the extended amortization period, and preclude the revised actuarial valuation report from affecting the distribution of General Municipal Pension System State Aid under Chapter 4 of the Act; and 3) permit a municipality to amortize the increment of unfunded actuarial accrued liability attributable to the provision of survivor benefits payable under Section 5(e)(2) of the Municipal Police Pension Law (Act 600 of 1955) over a period of 40 years beginning with the	Referred to House Finance Committee Re-referred to House Local Government Committee Actuarial Note (P. N. 3519) First Consideration Second Consideration Re-referred to House Appropriations Third Consideration and Final Passage (200-0) Referred to Senate Finance Committee First consideration Second consideration Third consideration and final passage To Governor Signed by Governor (Act 81 of 2004)	03/23/04 03/31/04 04/07/04 04/13/04 05/10/04 05/10/04 05/25/04 06/09/04 06/23/04 06/30/04 07/02/04 07/07/04 07/15/04

BILL NUMBER
PRINTER'S NUMBER
(PRIME SPONSOR)

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	end of the plan year in which the survivor benefits were first payable.		
H. B. 2496 P. N. 3615 (Herman)	PSERS and SERS, amending the Codes to, beginning January 1, 2005, and annually thereafter, provide a COLA to all superannuation annuitants who have been on annuity for at least 24 months in an amount to be determined by the Boards of the Systems.	Referred to House Education Committee	03/31/04
H. B. 2513 P. N. 3711 (E. Z. Taylor)	SERS, permitting an active member to purchase up to five years of nonstate service credit for previous service as an employee of the American Red Cross.	Referred to House Finance Committee Re-referred to State Government Committee	04/13/04 05/25/04
H. B. 2520 P. N. 3718 (Bard)	PSERS and SERS, providing for the establishment and operation of a consolidated statewide Local Government Police Employee Retirement System and Board of Trustees.	Referred to House Finance Committee Re-referred to Local Government Committee Advisory Note (P. N. 3718)	04/13/04 05/25/04 08/18/04
H. B. 2524 P. N. 4196 (Argall)	SERS, making an appropriation in the amount of \$23,490,000 to the SERS Board for the fiscal year beginning July 1, 2004.	Referred to House Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (196-0) Referred to Senate Appropriations Committee First Consideration Second consideration Re-committed to Appropriations Re-reported as amended Third Consideration and Final Passage (50-0) Signed by Governor (Act 3A of 2004)	04/12/04 04/13/04 04/15/04 05/10/04 05/12/04 06/21/04 06/22/04 06/22/04 06/28/04 06/29/04 07/02/04
H. B. 2525 P. N. 3668 (Argall)	PSERS, making an appropriation in the amount of \$41,776,000 to the PSERS Board for the fiscal year beginning July 1, 2004.	Referred to House Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (198-0) Referred to Senate Appropriations Committee First consideration Second consideration Third Consideration and Final Passage (50-0) Signed by Governor (Act 4A of 2004)	04/12/04 04/13/04 04/15/04 05/10/04 05/12/04 06/21/04 06/22/04 06/29/04 07/02/04
H. B. 2620 P. N. 3890 (T. Stevenson)	PSERS, amending the Code to: 1) credit the annuity reserve account with "actual interest," which the bill defines as the difference between the Fund's earnings and the actuarial assumed rate of return (currently 8.5%), instead of the currently mandated "valuation interest," defined in the Code as 5.5% and which is credited to all accounts (including the annuity reserve account) except for the members'	Referred to House Education Committee	05/24/04

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	savings account which is credited at 4%; and 2) changing the amortization period for COLA liabilities from the currently mandated 10-year level dollar to 20-year level dollar.		
H. B. 2686 P. N. 4008 (Cappelli)	An act mandating the payment by municipal retirement systems of annual COLAs to retired municipal employees, providing for financing of the COLAs and reimbursement of costs by the Commonwealth to municipalities.	Referred to House Finance Committee	06/08/04
H. B. 2689 P. N. 4025 (Nickol)	PSERS, changing the basis upon which payments are made by the Commonwealth to school employers on account of Social Security deductions made pursuant to the Social Security Act from "covered wages" to "compensation."	Referred to House Education Committee	06/09/04
H. B. 2733 P. N. 4120 (O'Neill)	Municipal Police Pension Law (Act 600), increasing the maximum service increment from \$100 to \$500 monthly.	Referred to House Finance Committee	06/17/04
H. B. 2735 P. N. 4122 (Keller)	SERS, amending the emergency return to service provisions of the Code to permit the Secretary of the Department of General Services to authorize an annuitant who retired as a Capitol Police Officer to return to service with the Capitol Police under certain circumstances without being subject to the cessation of annuity provisions of the Code.	Referred to House Finance Committee	06/17/04
H. B. 2748 P. N. 4663 (R. Miller)	PMRS (Act 15 of 1974), amending the act to: 1) permit municipalities that are participants in the Pennsylvania Municipal Retirement System (PMRS) to exclude newly hired part-time employees from membership in PMRS; 2) preserve the PMRS membership rights of part-time employees who are currently members of PMRS and permit these employees the option of voluntarily withdrawing from membership in PMRS; and 3) make certain supporting technical or editorial changes to the Law.	Referred to House Finance Committee Commission Letter (P. N. 4161) Commission Letter (A. 3277) Commission Letter (A. 2943) Reported as amended First Consideration Second Consideration Commission Letter (P. N. 4285) Commission Letter (A. 3901) Commission Letter (A. 3930) Commission Letter (A. 3931) Commission Letter (A. 3934) Commission Letter (A. 4013) Commission Letter (A. 4295) Third Consideration with amendments Final Passage (198-0) Referred to Senate Local Government Committee First Consideration Commission Letter (A. 4663) Second Consideration Third Consideration and Final Passage (47-0) Signed by Governor (Act 169 of 2004)	06/23/04 06/30/04 07/02/04 07/02/04 07/03/04 07/03/04 10/05/04 10/18/04 10/18/04 10/18/04 10/18/04 10/18/04 10/18/04 10/19/04 11/09/04 11/09/04 11/09/04 11/10/04 11/10/04 11/15/04 11/15/04 11/15/04 11/18/04 11/29/04

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 2759 P. N. 4175 (Clymer)	Public Employee Retirement Commission Act (Act 66 of 1981), amending Section 7(d), pertaining to the content of actuarial notes.	Referred to House Finance Committee	06/28/04
H. B. 2773 P. N. 4212 (Herman)	PMRS, amending section 112 of the Law retroactive to January 1, 2001, to extend to calendar years 2001, 2002, 2003, 2004, and 2005 the authority of the Board to use excess interest earnings to pay administrative expenses.	Referred to House Local Government Committee First Consideration Actuarial Note (P. N. 4212) Laid on Table	06/29/04 07/03/04 09/29/04 11/16/04
H. B. 2815 P. N. 4340 (Frankel)	Public Employee Pension Forfeiture Act, adding felony offenses listed under the Controlled Substance, Drug, Device and Cosmetic Act, to the list of offenses for which a public employee would be subject to pension forfeiture.	Referred to House Finance Committee	07/29/04
H. B. 2853 P. N. 4391 (Reed)	PSERS, 1) beginning January 1, 2005, extending eligibility for participation in the health insurance premium assistance program to annuitants who retired prior to normal retirement age with 15 years service; and 2) enhancing the premium assistance benefit from the currently mandated maximum of \$100 monthly to an amount equal to 28% of the member's monthly premium for members who are under age 65, and 65% (plus 2% annually thereafter up to a maximum of 100%) for members age 65 and over.	Referred to House Finance Committee	09/29/04
H. B. 2865 P. N. 4716 (Stetler)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), providing authorization for alternate amortization schedules to accommodate extraordinary events.	Referred to House Finance Committee First Consideration Actuarial Note (P. N. 4416 as amended by A. 4064) Second Consideration Commission Letter (P. N. 4416) Third Consideration with amendments Final Passage (192-0) Referred to Senate Finance Committee First Consideration Second Consideration Third Consideration and Final Passage (46-0) Signed by Governor (Act 200 of 2004)	09/29/04 10/19/04 11/09/04 11/09/04 11/15/04 11/15/04 11/15/04 11/16/04 11/17/04 11/18/04 11/19/04 11/30/04
H. B. 2916 P. N. 4534 (Kenney)	PSERS, authorizing certain annuitant associations to obtain annuitant data from the system for the purpose of promoting membership in the annuitant associations.	Referred to House Education Committee	10/18/04
H. B. 2979 P. N. 4672 (Nickol)	PSERS and SERS, permitting the Boards of the respective Systems to exempt certain types of investment information from disclosure under the Right-to-Know Law.	Referred to House Education Committee	11/10/04
H. B. 2986 P. N. 4678 (Herman)	SERS, amending the Code to permit certain employees who are members of an independent retirement program to elect	Referred to House State Government Committee	11/10/04

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	to become members of SERS and to receive service credit in SERS for all previous school service during which the employee was a member of the independent retirement program.		
H. B. 2990 P. N. 4704 (Major)	PSERS, amending the code to permit an active member to purchase up to three years of nonschool service credit for previous work experience performed by the member to obtain certification as a vocational teacher under a nonbaccalaureate program.	Referred to House Education Committee	11/12/04
H. R. 170 P. N. 1261 (Tangretti)	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.	Referred to House Rules Committee	04/08/03
H. R. 263 P. N. 1580 (Hasay)	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 investments tied to known terrorist states or organizations.	Referred to House Rules Committee Adopted (198-0)	05/05/03 05/07/03
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
H. R. 795 P. N. 4088 (Wansacs)	A resolution directing the Legislative Budget and Finance Committee to study the feasibility of providing state premium assistance to surviving spouses of SERS members who were participants in the REHP.	Referred to House Finance Committee	06/16/04

APPENDIX E

CONCISE INDEX TO ACTUARIAL NOTES

	Page
ACT 15 OF 1974 – SEE PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM	124
ACT 205 OF 1984 – SEE MUNICIPAL PENSION PLAN FUNDING STANDARD AND RECOVERY ACT (Act 205 of 1984)	123
ACT 600 OF 1955 – SEE MUNICIPAL POLICE PENSION LAW	124
 AMORTIZATION METHODOLOGY	
<u>Municipal Employees’ Retirement Systems</u>	
House Bill Number 2467, Printer’s Number 3519	58
House Bill Number 2865, Printer’s Number 4416, as amended by Amendment Number 4064	63
 CITY OF PHILADELPHIA RETIREMENT SYSTEMS	
<u>Optional Membership in SERS for Employees of the Philadelphia Parking Authority</u>	
Amendment Number 4991 to House Bill Number 2109, Printer’s Number 3111	54
 <u>Survivor Benefits</u>	
House Bill Number 798, Printer’s Number 930	19
 CLASS OF SERVICE	
<u>Conversion of Previous State Service Credit</u>	
Amendment Number 3535 to House Bill Number 2109, Printer’s Number 3111	44
Amendment Number 4807 to House Bill Number 2109, Printer’s Number 3111	47
Amendment Number 4808 to House Bill Number 2109, Printer’s Number 3111	50

CONCISE INDEX TO ACTUARIAL NOTES (Cont'd)

	Page
CLASS OF SERVICE (Cont'd)	
<u>Conversion of Municipal Service to State Service</u>	
Amendment Number 0112 to House Bill Number 2109, Printer's Number 3111	32
<u>Employees of the Philadelphia Parking Authority</u>	
Amendment Number 4991 to House Bill Number 2109, Printer's Number 3111	54
COST-OF-LIVING ADJUSTMENTS (COLAS)	
- SEE POSTRETIREMENT ADJUSTMENTS	124
JUDICIAL BENEFITS	
<u>SERS – Benefit Enhancement for Philadelphia Municipal Court Bail Commissioners</u>	
Amendment Number 3535 to House Bill Number 2109, Printer's Number 3111	44
<u>SERS – Benefit Enhancement for District Justices and Philadelphia Municipal Court Bail Commissioners</u>	
Amendment Number 4807 to House Bill Number 2109, Printer's Number 3111	47
Amendment Number 4808 to House Bill Number 2109, Printer's Number 3111	50
MEMBERSHIP PROVISIONS	
<u>Optional Membership in SERS for Employees of the Philadelphia Parking Authority</u>	
Amendment Number 4991 to House Bill Number 2109, Printer's Number 3111	54
<u>SERS – Conversion of Previous State Service Credit</u>	
Amendment Number 3535 to House Bill Number 2109, Printer's Number 3111	44
Amendment Number 4807 to House Bill Number 2109, Printer's Number 3111	47
Amendment Number 4808 to House Bill Number 2109, Printer's Number 3111	50

	Page
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEMS	
<u>Act 205 – Alternative Amortization Schedules</u>	
House Bill Number 2467, Printer’s Number 3519	58
House Bill Number 2865, Printer’s Number 4416, as amended by Amendment Number 4064	63
<u>Act 600 – Normal Retirement Eligibility</u>	
Senate Bill Number 732, Printer’s Number 850	15
<u>Act 600 – Reimbursement of Member Contributions</u>	
House Bill Number 1413, Printer’s Number 1747	22
<u>Act 600 – Increasing Maximum Permissible Service Increments</u>	
Senate Bill Number 528, Printer’s Number 576	11
Senate Bill Number 732, Printer’s Number 850	15
<u>City of Philadelphia Retirement Systems – Optional Membership in SERS for Employees of the Philadelphia Parking Authority</u>	
Amendment Number 4991 to House Bill Number 2109, Printer’s Number 3111	54
<u>City of Philadelphia Retirement Systems – Survivor Benefits</u>	
House Bill Number 798, Printer’s Number 930	19
<u>PMRS – Administrative Expenses</u>	
House Bill Number 2773, Printer’s Number 4212	61
<u>PMRS – Purchase of Service Credit for Military Service</u>	
House Bill Number 1951, Printer’s Number 2545, as amended by Amendment Number 2944	25
MUNICIPAL PENSION PLAN FUNDING STANDARD AND RECOVERY ACT (Act 205 of 1984)	
<u>Alternative Amortization Schedules</u>	
House Bill Number 2467, Printer’s Number 3519	58
House Bill Number 2865, Printer’s Number 4416, as amended by Amendment Number 4064	63

CONCISE INDEX TO ACTUARIAL NOTES (Cont'd)

	Page
MUNICIPAL POLICE PENSION LAW (Act 600 of 1955)	
<u>Normal Retirement Eligibility</u>	
Senate Bill Number 732, Printer's Number 850	15
<u>Reimbursement of Member Contributions</u>	
House Bill Number 1413, Printer's Number 1747	22
<u>Increasing Maximum Permissible Service Increments</u>	
Senate Bill Number 528, Printer's Number 576	11
Senate Bill Number 732, Printer's Number 850	15
PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM (PMRS)	
<u>Administrative Expenses</u>	
House Bill Number 2773, Printer's Number 4212	61
<u>Purchase of Service Credit for Military Service</u>	
House Bill Number 1951, Printer's Number 2545, as amended by Amendment Number 2944	25
POSTRETIREMENT ADJUSTMENTS	
<u>Public School Employees' Retirement System and State Employees' Retirement System</u>	
Amendment Number 2171 to House Bill Number 2109, Printer's Number 3111	39
PSERS – SEE PUBLIC SCHOOL EMPLOYEES' RETIREMENT CODE	125
PUBLIC SAFETY EMPLOYEE BENEFITS	
<u>Act 600 – Normal Retirement Eligibility</u>	
Senate Bill Number 732, Printer's Number 850	15
<u>Act 600 – Reimbursement of Member Contributions</u>	
House Bill Number 1413, Printer's Number 1747	22

CONCISE INDEX TO ACTUARIAL NOTES (Cont'd)

Page

PUBLIC SAFETY EMPLOYEE BENEFITS (Cont'd)

Act 600 – Increasing Maximum Permissible Service Increments

Senate Bill Number 528, Printer’s Number 576 11

Senate Bill Number 732, Printer’s Number 850 15

PUBLIC SCHOOL EMPLOYEES' RETIREMENT CODE

Cost-of-Living Adjustments

Amendment Number 2171 to
House Bill Number 2109, Printer’s Number 3111 39

Service Credit Purchase – For Service with Certain Non-Public Schools

Senate Bill Number 388, Printer’s Number 399 6

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (PSERS)

– SEE PUBLIC SCHOOL EMPLOYEES' RETIREMENT CODE 125

STATE EMPLOYEES' RETIREMENT SYSTEM

– SEE STATE EMPLOYEES' RETIREMENT CODE 126

SERVICE CREDIT CONVERSION

SERS – Conversion of Municipal Service to State Service

Amendment Number 0112 to
House Bill Number 2109, Printer’s Number 3111 32

SERS – Conversion of Previous State Service Credit

Amendment Number 3535 to
House Bill Number 2109, Printer’s Number 3111 44

Amendment Number 4807 to
House Bill Number 2109, Printer’s Number 3111 47

Amendment Number 4808 to
House Bill Number 2109, Printer’s Number 3111 50

CONCISE INDEX TO ACTUARIAL NOTES (Cont'd)

	Page
SERVICE CREDIT PURCHASE	
<u>PMRS – For Purchase of Military Service</u>	
House Bill Number 1951, Printer’s Number 2545, as amended by Amendment Number 2944	25
<u>PSERS – For Service with Certain Non-Public Schools</u>	
Senate Bill Number 388, Printer’s Number 399	6
<u>SERS – For Purchase of Municipal and Federal Service</u>	
Amendment Number 0112 to House Bill Number 2109, Printer’s Number 3111	32
<u>SERS – For Purchase of Service by Surviving Spouses</u>	
Amendment Number 0113 to House Bill Number 2109, Printer’s Number 3111	35
STATE EMPLOYEES' RETIREMENT CODE	
<u>Cost-of-Living Adjustment</u>	
Amendment Number 2171 to House Bill Number 2109, Printer’s Number 3111	39
<u>Membership and Service Credit Provisions – Conversion of Municipal Service to State Service</u>	
Amendment Number 0112 to House Bill Number 2109, Printer’s Number 3111	32
<u>Membership and Service Credit Provisions – District Justices and Philadelphia Municipal Court Bail Commissioners</u>	
Amendment Number 4807 to House Bill Number 2109, Printer’s Number 3111	47
Amendment Number 4808 to House Bill Number 2109, Printer’s Number 3111	50
<u>Membership and Service Credit Provisions – Philadelphia Municipal Court Bail Commissioners</u>	
Amendment Number 3535 to House Bill Number 2109, Printer’s Number 3111	44

CONCISE INDEX TO ACTUARIAL NOTES (Cont'd)

	Page
STATE EMPLOYEES' RETIREMENT CODE (Cont'd)	
<u>Membership and Service Credit Provisions – Philadelphia Parking Authority Employees</u>	
Amendment Number 4991 to House Bill Number 2109, Printer's Number 3111	54
<u>Service Credit Purchase – Survivor Spouse</u>	
Amendment Number 0113 to House Bill Number 2109, Printer's Number 3111	35
<u>Service Credit Purchase – Municipal and Federal Service</u>	
Amendment Number 0017 to House Bill Number 2109, Printer's Number 3111	28
STATE EMPLOYEES' RETIREMENT SYSTEM (SERS)	
– SEE STATE EMPLOYEES' RETIREMENT CODE	126

