# PUBLIC EMPLOYEE RETIREMENT COMMISSION

## 2005 ANNUAL REPORT

**Commonwealth of Pennsylvania**

# 2005

# Annual Report

# of the

# Public Employee Retirement Commission

Public Employee Retirement Commission
Commonwealth of Pennsylvania
March 2006

## PUBLIC EMPLOYEE RETIREMENT COMMISSION

***Gubernatorial Appointees***

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*District 43*
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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
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*March 2006*

*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 2005.*

*During 2005, the Commission authorized the attachment of twenty-two actuarial notes to twenty bills, one bill as amended, and one amendment at the request of the various committees of the General Assembly. This report contains a synopsis of each of these notes and contains a summary of the Commission's review of the State Employees' Retirement System and the Public School Employees' Retirement System. This report also describes research conducted during 2005 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-third 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 2005.*

*Sincerely,*

Paul D. Halliwell

*Paul D. Halliwell*
*Chairman*

## *Introduction*

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

*Under the Public Employee Retirement Commission Act, the Commission has two main responsibilities. One is to issue the required actuarial notes for proposed legislation affecting public employee retirement systems. The other is to study, on a continuing basis, public employee retirement system policy 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 2005.*

*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 twentieth 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 2005.*

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# 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 2005 ACTIVITY.

During 2005, the Commission authorized the attachment of twenty-two actuarial notes to twenty bills, one bill as amended, and one amendment. In addition, the Commission's staff provided the General Assembly with two advisory notes.

## C. SYNOPSES OF ADVISORY NOTES.

- <u>House Bill Number 786, Printer's Number 948, as amended by Amendment Number 01116</u>. At the request of Representative Brett Feese, Majority Chairman, House Appropriations Committee, on November 8, 2005, the Commission staff provided an advisory note on House Bill Number 786, Printer's Number 948, as amended by Amendment Number 01116. House Bill Number 786, Printer's Number 948, as amended by Amendment Number 01116, would amend the Public School Employees' Retirement Code, beginning June 30, 2007, to provide for the crediting of "actual interest" instead of the currently mandated valuation interest (5.5%) to the annuity reserve account, which would presumably then be used to provide future cost-of-living adjustments (referred to as "supplemental annuities" in the PSERS Code) to annuitants of the Public School Employees' Retirement System. In practice, "actual interest" would be equivalent to any investment earnings in excess of the System's actuarial assumed rate of return (so-called "excess interest"). Though not specifically stated in the language of the bill, the proposal appears to be premised on the assumption that the actuarial assumed rate of return (currently 8.5%) set by the Board is overly conservative and, therefore, future investment return experience will consistently outperform expectations. Amendment Number 01116 would amend the bill by requiring

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

that valuation interest (5.5%) be credited instead of "actual interest" in cases where valuation interest would be greater than actual interest.

- House Bill Number 1302, Printer's Number 1546. At the request of Representative Lynn B. Herman, Majority Chairman, House Local Government Committee, on May 19, 2005, the Commission staff provided an advisory note on House Bill Number 1302, Printer's Number 1546. House Bill Number 1302, Printer's Number 1546, would amend Title 53 (Municipalities Generally) of the Pennsylvania Consolidated Statutes by permitting the establishment of a statewide, tax qualified, defined contribution retirement plan for elected tax collectors in the Commonwealth. The Pennsylvania Municipal Retirement System (PMRS) would serve as administrator of the plan.

## D. SYNOPSES OF ACTUARIAL NOTES.

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

**Bill ID:** Senate Bill Number 56, Printer's Number 49

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

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

## SYNOPSIS

Senate Bill Number 56, Printer's Number 49, would amend the Public School Employees' Retirement Code to permit an active member or active multiple service member of the Public School Employees' Retirement System (PSERS) to purchase school service credit for unused sick leave accumulated prior to the member's effective date of retirement. Under the bill, a member would be permitted to purchase the service credit at the time of filing an application for retirement and would receive school service credited as Class T-C. The bill mandates that the contributions required to purchase the Class T-C service credit for creditable sick leave will be the sum of the member's basic contribution rate and the employer normal contribution rate at the time the creditable sick leave is purchased based on the member's per diem salary for the year in which the service is purchased.

## DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer retirement plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. Membership in PSERS is mandatory for most public school employees. Certain other employees are given the option to participate. As of June 30, 2004, there were 247,901 active members and 151,552 annuitant members of PSERS.

Under the Public School Employees' Retirement Code (Code), members are eligible for a superannuation annuity at age 62 with one year of service credit, age 60 with 30 years of service credit, or at any age with 35 years of service credit. Generally, the retirement benefit is the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service have a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit members to receive additional service credit without actually rendering service to the public employer are of value to the members because they enhance the retirement benefit and also may accelerate eligibility for retirement and certain ancillary benefits related to retirement (such as eligibility for postretirement health care benefits).

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

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

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

Due in part to the decentralized nature of public school employment in the Commonwealth, the nature of the collective bargaining process and the resulting wide variation in contractual agreements among the more than 500 public school districts and nearly 200 other school employers that participate in PSERS, the Commission staff was unable to obtain reliable data on the sick leave accumulation rates and leave payout policies of school employers. The Commission staff was able to obtain a 1991 study by the Pennsylvania School Boards Association (PSBA), entitled "Teacher Absenteeism: Professional Staff Absence Study - School Year 1990-91." According to the research staff of the PSBA, the 1991 study is the only study of its kind and no more recent data is available. A review of the 1991 study and related materials revealed that: 1) the public School Code of 1949 mandates that public school employees be permitted a minimum of 10 days of sick leave per year, although school employers may, and generally do, provide for more liberal sick leave allocations; and 2) on average, teachers used 5.5 days of sick leave per year, including sick family days. These data would suggest that public school employees will on average accrue a minimum of 4.5 days of unused sick leave per year over the course of their careers. Based upon a 180-day year, and an average career length of 23.88 years, members would be eligible to purchase service credit for at least an additional 0.60 years of school service.

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

## SUMMARY OF ACTUARIAL COST IMPACT

Based upon information received from the Public School Employees' Retirement System, the Pennsylvania School Boards Association and other sources, the Commission requested its consulting actuary to assume that each member would accumulate a minimum of 4.5 days of unused sick leave per year over an average career length of 23.88 years. The Commission's consulting actuary also assumed that 11,600 members would retire each year, an average member salary of $60,000, an employer normal contribution rate of 7.61%, and that all eligible members would elect to purchase the school service credit for their unused sick leave.

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

| | Amount | |
|---|---|---|
| Annual Increase in Unfunded Actuarial Accrued Liability [1] | $40,000,000 | |

| | Amount | As a % of Payroll |
|---|---|---|
| Increase in Employer Annual Costs [3] | | |
| First Year Increase in Amortization Payment [1] | $ 6,600,000 | .06% |
| Projected Increase in Amortization Payment [2] | $82,000,000 | .46% |

[1] The unfunded actuarial liability will increase annually by $40,000,000. For each day that the per member average accumulated sick leave is increased, $10 million is added to the estimated annual increase in the unfunded actuarial accrued liability.

[2] Approximate increase in amortization payment after ten years.

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

## POLICY CONSIDERATIONS

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

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

*Appropriateness of Service Credit for Unused Sick Leave.* The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. Currently, as a matter of collective bargaining, school employees may be permitted to receive cash payouts at retirement for periods of unused sick leave and for other types of accumulated, unused leave, but no provisions are made in the PSERS Code to permit school service credit for such periods of unused sick leave. The bill would expand the service credit provisions of the Code to include periods of unused sick leave, a type of service credit not among those recommended by the Commission.

*Adequacy of Purchase Payments.* The method for calculating the member contributions to purchase service credit for school service proposed in the bill will result in the member paying less than the full actuarial cost of the increased benefit acquired through the service credit purchase. This service credit purchase price will result in an increase in the unfunded actuarial accrued liability of PSERS and in increased amortization payments.

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

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

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

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

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

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

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

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

## COMMISSION RECOMMENDATION

On March 9, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

Senate Bill Number 56, Printer's Number 49, was introduced and referred to the Senate Finance Committee on January 24, 2005.

**Bill ID:** Senate Bill Number 118, Printer's Number 101

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

**Subject:** Granting Public Safety Employee Retirement Benefits to County Detectives

## SYNOPSIS

Senate Bill Number 118, Printer's Number 101, would amend the Second Class County Code to permit a county detective of Allegheny County to retire voluntarily and receive a full normal retirement benefit at age 50 or older with 20 or more years of service. Currently, a county detective is eligible for a normal retirement benefit upon attaining age 60 with at least 20 years of service.

## DISCUSSION

In public employee retirement plans, it is common practice to provide special retirement coverage for various types of public safety employees. The special treatment for public safety employees is premised on the need to maintain an exceptionally vigorous and able public safety employee workforce. The special treatment often includes provisions that provide retirement benefits for public safety employees that are more generous than those normally provided to general employees. The enhanced benefits may include significantly reduced normal retirement age and service requirements, greater annual retirement benefit accrual rates leading to a greater replacement of average salary with shorter service, or enhanced disability and survivor benefits.

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

In Allegheny County, the Office of the District Attorney serves as the chief law enforcement office of the county. Under the Second Class County Code (Section 1440), the District Attorney may appoint "one chief county detective, an assistant chief county detective, and as many county detectives, sergeants, special county detectives and junior county detectives as the salary board shall fix." The District Attorney's Office has sole discretion in the selection, employment, evaluation, discipline and discharge of county detectives. Currently 24 county detectives are employed by Allegheny County.

One of the primary duties of county detectives involves conducting investigations in order to provide evidence for use by the District Attorney in prosecuting criminal cases. The District Attorney may direct the county detectives to perform a variety of other duties of an investigative nature. County detectives are recognized as general police officers. As police officers, county detectives possess law enforcement powers and are subject to training requirements similar or identical to those of other law enforcement professionals employed in the County and throughout the Commonwealth. As police officers, county detectives also may collectively bargain under Act 111 (Act of June 24, 1968, P. L. 237, 43 P.S. §§ 217.1-217.10).

Under Article 17 of the Second Class County Code, county detectives are considered to be general employees who are eligible for normal retirement benefits upon attaining age 60 with 20 years of service. The bill provides for an expansion of the group of Allegheny County employees entitled to the special retirement benefit currently provided to firefighters and police officers to include county detectives. The special coverage to be provided would permit a county detective to retire voluntarily and receive a normal retirement benefit after attaining age 50 with at least 20 years of service, which is 10 years earlier than under the current provisions that specify a normal retirement age of 60 with 20 years of service.

In 1999, the Allegheny County District Attorney Detectives Retirement Fund was established to provide a supplemental retirement benefit for county detectives. The supplemental benefit plan provides for a monthly benefit equal to $30 multiplied by the member's years of credited service and is payable for life. Under this plan, a county detective retiring with 20 years of service would receive a supplemental benefit of $600 monthly, in addition to any retirement benefit provided under the Second Class County Code.

## SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and determined costs on the basis of the entry age normal cost method using amortization of the increase in the unfunded actuarial accrued liability over a 15-year period by use of level dollar contributions. The Commission's consulting actuary employed actuarial assumptions that are consistent with the actuarial assumptions used by the consulting actuary of the Allegheny County Retirement System in preparation of the System's January 1, 2004, actuarial valuation. Based on these assumptions, the Commission's consulting actuary estimates that the bill will have the actuarial cost impact shown in the following table.

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $237,000 |

| | Amount | As a % of Affected Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $14,000 | 0.99% |
| Amortization Payment [1] | 25,600 | 1.81% |
| Total Increase in Employer Annual Costs | $39,600 | 2.80% |

[1] Amortization payments are the same amount each year for 15 years.

## POLICY CONSIDERATIONS

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

Appropriateness of Special Benefit Coverage. Special public safety employee retirement benefit coverage typically is provided to employees who work in areas in which it is necessary to maintain an exceptionally able and vigorous workforce. The bill would extend this public safety employee retirement benefit coverage to the county detectives of Allegheny County. The General Assembly must determine whether the benefit enhancement provided by the bill is warranted for this group of employees.

Precedent for Similar Requests. Enactment of the bill may serve as a precedent for other members of the Allegheny County Retirement System with various employment classifications related to public safety work to also seek the special public safety employee benefit coverage currently provided only to members of the police force and firefighters.

## COMMISSION RECOMMENDATION

On April 27, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

Senate Bill Number 118, Printer's Number 101, was introduced and referred to the Senate Finance Committee on February 1, 2005.

**Bill ID:** Senate Bill Number 328, Printer's Number 340

**System:** State Employees' Retirement System

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

## SYNOPSIS

Senate Bill Number 328, Printer's Number 340, would amend sections 5304 and 5505 of the State Employees' Retirement Code (Code) to permit an active member or an active multiple service member to purchase service credit in the State Employees' Retirement System (SERS) for previous nonstate service as an employee or officer of a Pennsylvania municipality or as an employee or officer of the federal government, provided that:

> the election is made from April 1, 2005, through March 31, 2007;
>
> the member was an employee or officer of any municipality in the Commonwealth, to include any county, city, borough, incorporated town or township, or the member was an employee or officer of the federal government;
>
> the member could not, upon leaving municipal or federal service, have drawn any type of retirement benefit, excluding the return of employee contributions and interest;
>
> the nonstate service credit purchased does not exceed the lesser of five years or one-half of the member's state service at the time of application for service credit; and
>
> the member's purchase contribution for the service credit is determined in the same manner as nonintervening military service under section 5505(b).

## DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory, defined benefit pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. 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, 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 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 credit for service with another employer are of value to the member because they enhance the retirement benefit and also may accelerate retirement eligibility.

The bill would expand the list of purchasable nonstate service to include service as an employee of a Pennsylvania municipality or employee of the federal government, subject to certain restrictions. A member could not purchase more nonstate service than one-half of the credited state service that the member has at the time of purchase, and in no event could the member purchase more than five years. Because the service being purchased would be credited as Class A (nonstate) service, not Class AA service, the effect of the additional service credit would be to increase the member's SERS annuity by an amount equal to 2.0 percent of the member's final average salary for every year of service credit purchased.

Under section 5304 of the Code, a member cannot purchase credit for nonstate service for which the member is entitled to receive, eligible to receive now or in the future, or is receiving retirement benefits under a retirement system administered and wholly or partially paid for by any other governmental agency. In order to be eligible to purchase credit for nonstate service under the bill, a member would have already surrendered, or would be required to surrender, retirement system rights in a municipal or federal retirement system.

The bill limits the exercise of the proposed purchase option to the two-year period from April 1, 2005, through March 31, 2007. The bill also proposes to use the section 5505(b) method to compute the member's purchase contribution, which means that in order to exercise the proposed purchase option, a member would have to have been a member of SERS before April 1, 2004, because the purchase contribution must be based on the member's average annual rate of compensation over the first three years of state service subsequent to the service purchase. In public employee retirement systems, purchase of service credit options normally are available to any member who joins the system with the permitted prior service regardless of the date of entering the system. The public policy rationale for limiting the purchase option to individuals who became members prior to April 1, 2004, is not evident.

The bill would limit the time during which the proposed purchase option could be exercised to the two-year period from April 1, 2005, through March 31, 2007. Limiting the time during which a purchase of service credit option may be exercised in a public employee retirement system is not uncommon because it reduces the actuarial loss to the system caused by the purchases. However, the most appropriate means of specifying a time limit for a purchase of nonstate service credit is to require that the purchase option be exercised within a period of time after the member first becomes eligible to purchase the service credit. Unless the service for which credit is to be purchased was rendered previously during a finite period of time, the time limit usually is not implemented through specification of a termination date for the purchase option. Specification of a termination date where the type of service to be purchased is ongoing, as proposed in the bill, serves to restrict the purchasable service to service rendered prior to the specified termination date. Although this approach to a time limit for the service credit purchases reduces the costs of the proposal, there is a high probability that increased costs will be incurred through future extensions of the specified termination date.

Under section 5505(b) of the Code, the statutory method for calculating the member contributions to purchase service credit for prior nonstate service will be to apply the member's basic contribution rate, plus the Commonwealth's normal contribution rate for active members at the time of entry of the member into state service, to the member's average annual rate of compensation over the first three years of subsequent state service and multiplying the result by the years of service being purchased plus interest at the statutory interest rate of four percent during all periods of subsequent state and school service up to the actual date of purchase.

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

Under certain current Executive Board actions and collective bargaining agreements, service credit in SERS is 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 premiums.

## SUMMARY OF ACTUARIAL COST IMPACT

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

| Estimated Percentage of Total Cost Paid by the Member | | | | |
|---|---|---|---|---|
| Current Age | Current Service with SERS | Normal Contribution Rate = 3.60% | Normal Contribution Rate = 7.00% | Normal Contribution Rate = 10.73% |
| 30 | 5 | 38% | 53% | 70% |
| 40 | 10 | 76 | 105 | 138 |
| 50 | 20 | 49 | 69 | 90 |
| 60 | 30 | 32 | 45 | 59 |

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

| Estimated Percentage of Total Cost Paid by the Member | | | | |
|---|---|---|---|---|
| Current Age | Current Service with SERS | Average Salary Increase of 4% | Average Salary Increase of 6% | Average Salary Increase of 8% |
| 30 | 5 | 57% | 53% | 49% |
| 40 | 10 | 125 | 105 | 89 |
| 50 | 20 | 99 | 69 | 48 |
| 60 | 30 | 78 | 45 | 26 |

The consulting actuary of the Commission has estimated the increase in the unfunded actuarial accrued liability due to these possible service purchases based on an average current annual salary of $46,000, average past salary growth of 6.0%, and a Commonwealth normal contribution rate of 7.0% at time of entry. The consulting actuary also assumed that, on average, members would purchase 2.5 years of service and that the members who purchase service would be those who advance their superannuation age. The consulting actuary has estimated the first year amortization payment attributable to the service purchase authorization both as a dollar amount and as a percentage of total payroll. These estimates are summarized in the following table.

| Estimated Actuarial Cost to the Commonwealth | | | |
|---|---|---|---|
| Number of Eligible Members who Purchase Service | Estimated Increase in Unfunded Actuarial Accrued Liability | First Year Amortization Payment | |
| | | Amount | % of Payroll |
| 200 | $ 4,000,000 | $ 600,000 | 0.01% |
| 600 | 12,000,000 | 1,800,000 | 0.03 |
| 1,000 | 20,000,000 | 3,000,000 | 0.06 |
| 2,000 | 40,000,000 | 6,000,000 | 0.11 |

## POLICY CONSIDERATIONS

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

Departure from Policy Guidelines. In March of 1997, the Public Employee Retirement Commission published *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems*, a report recommending policy guidelines for authorizing, funding, and structuring service purchases. The bill fails to conform to some of the recommendations in the report.

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

*Appropriateness of Credit for Municipal/Federal Service.* The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The service for which credit is to be made purchasable under the bill does not occur under any of these situations.

For the Commonwealth, the service credit authorization would represent permission to purchase credit for service with another government, a government that enjoyed an actuarial gain when the member terminated service or will enjoy an actuarial gain when the employee surrenders retirement system rights in order to purchase this service credit in SERS. The SERS fund will suffer an actuarial loss in permitting these purchases unless the bill is amended to require an employee to pay the full actuarial cost.

*Adequacy of Purchase Payments.* The statutory method for calculating the member contributions to purchase service credit for nonstate service proposed in the bill may result in a member paying less than the full actuarial cost of the increased benefit acquired through the service credit purchase. This service credit purchase price will result in an increase in the unfunded actuarial accrued liability of SERS and increased amortization payments by the Commonwealth. A service purchase transaction that favors a member at the expense of the retirement system is viewed by the Commission as being appropriate only where necessary for the purpose of equity.

*Cost Effective Technical Provisions.* For service purchase authorizations of this type, the Commission recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The bill proposes a specific two-year period during which the purchase option may be exercised. Unless the service credit to be purchased was rendered during a previous, finite period of time, the time limit is not usually implemented through specification of a termination date for the purchase option. Specification of a termination date where the type of service for which credit is to be purchased is ongoing, as proposed in the bill, serves to restrict the purchasable service to only service rendered prior to the specified termination date.

Need for Precise Definitions. Because the bill does not clearly define the terms “employee” or “officer,” the bill could be loosely interpreted to grant full-year service credit for all types of federal service, including military service, part-time service as an employee, or as an elected or appointed official who rendered service on a part-time, per diem, contract or unpaid basis. The bill should be amended by providing more precise definitions for the types of service that may, and may not, be purchased.

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 service was rendered.

## COMMISSION RECOMMENDATION

On June 22, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

Senate Bill Number 328, Printer's Number 340, was introduced and referred to the Senate Finance Committee on February 18, 2005.

**Bill ID:** Senate Bill Number 403, Printer's Number 430

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

**Subject:** Benefit Enhancement for Allegheny County Deputy Sheriffs

## SYNOPSIS

Senate Bill Number 403, Printer's Number 430, would amend the Second Class County Code to permit a deputy sheriff of Allegheny County the option of retiring voluntarily and receiving an unreduced normal retirement benefit upon attaining age 50 with 25 or more years of service. Currently, a deputy sheriff is eligible for a normal retirement benefit upon attaining age 55 with at least 20 years of service.

## DISCUSSION

In public employee retirement plans, it is common practice to provide special retirement coverage for various types of public safety employees. The special treatment for public safety employees is premised on the need to maintain an exceptionally vigorous and able public safety employee workforce. The special treatment often includes provisions that provide retirement benefits for public safety employees that are more generous than those normally provided to general employees. The enhanced benefits may include significantly reduced normal retirement age and service requirements, greater annual retirement benefit accrual rates leading to a greater replacement of average salary with shorter service, or enhanced disability and survivor benefits.

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

As employees of the Allegheny County Sheriff's Office, the primary duties of deputy sheriffs involve service to the courts. These duties include the responsibility to "escort prisoners, keep order, protect judges, serve notice on litigants, provide security in the courthouse, carry out orders and warrants issued by the judges, enforce injunctions, and perform other duties as may be assigned by the court." (Venneri v. County of Allegheny, 12 Pa. Cmwlth 517, 524; 316, A.2d 120, 124 (1974)). However, the duties of deputy sheriffs in Allegheny County are not limited to the courts and include the power to investigate or aid in the investigation of crimes, and to directly enforce or aid in the enforcement of the Crimes Code and the Motor Vehicle Code. Therefore, deputy sheriffs are recognized as peace officers with law enforcement powers and training requirements similar or identical to those of other peace officers employed in the County and throughout the Commonwealth. There are currently 152 deputy sheriffs employed by Allegheny County.

Under Article 17 of the Second Class County Code, deputy sheriffs are public safety employees who are eligible for special retirement benefit coverage. Currently, the special benefit coverage is the eligibility for normal retirement benefits upon attaining age 55 with 20 years of service. The bill provides for an enhancement of this special retirement benefit by permitting a deputy sheriff to become eligible for a normal retirement benefit at age 50 if the deputy sheriff has accumulated at least 25 years of service.

In addition to retirement benefits provided under the Second Class County Code, deputy sheriffs of Allegheny County are also entitled to certain supplemental retirement benefits. In 1996, the Allegheny County Deputy Sheriffs' Pension Plan was established to provide a supplemental retirement benefit for deputy sheriffs. The supplemental benefit plan provides for a monthly benefit equal to $50 multiplied by the member's years of credited service as a deputy sheriff. Eligibility for the supplemental benefit begins at age 55 with 20 years of service. Under this plan, a deputy sheriff retiring with 20 years of service would receive a supplemental benefit of $1,000 monthly, in addition to any retirement benefit provided under the Second Class County Code.

## SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and determined costs on the basis of the entry age normal cost method using amortization of the increase in the unfunded actuarial accrued liability over a 15-year period by use of level dollar contributions. The Commission's consulting actuary employed actuarial assumptions that are consistent with the actuarial assumptions used by the consulting actuary of the Allegheny County Retirement System in preparation of the System's January 1, 2004, actuarial valuation. Based on these assumptions, the Commission's consulting actuary estimates that the bill will have the actuarial cost impact shown in the following table.

| | **Amount** |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $1,248,000 |

| | **Amount** | **As a % of Affected Payroll** |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $ 31,000 | 0.39% |
| Amortization Payment [1] | 135,000 | 1.68% |
| Total Increase in Employer Annual Costs | $166,000 | 2.07% |

[1] Amortization payments are the same amount each year for 15 years.

## POLICY CONSIDERATIONS

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

Appropriateness of Benefit Enhancement. Special public safety employee retirement benefit coverage typically is provided to employees who work in areas in which it is necessary to maintain an exceptionally able and vigorous workforce. The bill would enhance the currently provided public safety employee retirement benefit coverage by permitting a deputy sheriff of Allegheny County to retire and receive an unreduced normal retirement benefit at age 50 instead of age 55 if the employee has accumulated 25 years of service credit. The General Assembly must determine whether the benefit enhancement provided by the bill is warranted for this group of employees.

Precedent for Similar Requests. Enactment of the bill may serve as a precedent for other members of the Allegheny County Retirement System with various employment classifications related to public safety work to seek additional or enhanced special public safety employee benefit coverage.

## COMMISSION RECOMMENDATION

On June 22, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

Senate Bill Number 403, Printer's Number 430, was introduced and referred to the Senate Finance Committee on March 21, 2005.

**Bill ID:** Senate Bill Number 404, Printer's Number 431

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

**Subject:** Additional Early Retirement Option

## SYNOPSIS

Senate Bill Number 404, Printer's Number 431, would amend section 1710 of the Second Class County Code (Code) by adding an early retirement provision that would permit any member of the Allegheny County Retirement System who has completed at least 20 years of service and who is at least age 54, but less than age 60, to retire and immediately begin receiving an early retirement benefit subject to an actuarial reduction equal to one-half of one percent for each month the member is under age 60.

## DISCUSSION

Article 17 of the Second Class County Code provides the pension plan for employees of Allegheny County. For most members, the normal retirement benefit is equal to 50 percent of the member's final average salary, plus one percent of final average salary for each year of service between 20 and 40 years. Normal retirement benefits are available to general, nonuniformed county employees upon accumulating at least 20 years of service credit and attaining age 60. Under the Code (section 1712 and section 1713, Options I and II), any county employee who terminates employment with at least eight years of service is eligible to receive an unreduced deferred vested benefit beginning at age 60, or an actuarially reduced benefit (reduced by one-half of one percent for each month the member is under age 60) beginning at age 55. For the various types of public safety employees who are employed by Allegheny County, special retirement coverage is provided through the county employees' pension plan. The special coverage provided to firefighters and police officers is to retire voluntarily and receive a normal retirement benefit if the employee has attained age 50 and has at least 20 years of service. The special coverage provided to the county sheriff, deputy sheriffs, prison guards and probation officers is to retire voluntarily and receive a normal retirement benefit if the employee has attained age 55 and has at least 20 years of service.

Certain early retirement benefit options are also available to employees of Allegheny County. Under early retirement "Option 1" (section 1710(h)(1)), any county employee who has completed at least eight, but less than 20, years of service may retire voluntarily and receive a deferred benefit commencing at age 60. Alternatively, under "Option II" (section 1710(h)(2)), an employee who has accumulated at least eight, but less than 20, years of service and is at least age 55, but less than age 60, may elect to receive an early retirement benefit that is actuarially reduced by one-half of one percent for each month the employee is under age 60.

The bill would provide for an additional early retirement option, "Option III," which would permit any member of the Allegheny County Retirement System who has completed at least 20 years of service and who is at least age 54, but less than age 60, to retire and immediately begin receiving an early retirement benefit subject to an actuarial reduction equal to one-half of one percent for each month the member is under age 60.

## SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and determined costs on the basis of the entry age normal cost method using amortization of the increase in the unfunded actuarial accrued liability over a 15-year period by use of level dollar contributions. The Commission's consulting actuary employed actuarial assumptions that are consistent with the actuarial assumptions used by the consulting actuary of the Allegheny County Retirement System in preparation of the System's January 1, 2004, actuarial valuation. Based on these assumptions, the Commission's consulting actuary estimates that the bill would have the actuarial cost impact shown in the following table.

| | **Amount** |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $443,000 |

| | **Amount** | **As a % of Affected Payroll** |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $21,000 | 0.01% |
| Amortization Payment [1] | 48,000 | 0.02% |
| Total Increase in Employer Annual Costs | $69,000 | 0.03% |

[1] Amortization payments are the same amount each year for 15 years.

## POLICY CONSIDERATIONS

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

Appropriateness of Additional Early Retirement Option. Under standard Code provisions, deferred vested benefits are currently available to all members of the Allegheny County Retirement System who terminate employment with at least eight years of service, and reduced benefits are immediately available to all members who have at least eight years of service credit and who have attained age 55. The bill would provide for an additional early retirement option that would have the effect of advancing eligibility for reduced retirement benefits by one year from age 55 to age 54. The General Assembly must determine the appropriateness of providing the additional early retirement option.

Unfunded Commonwealth Mandate. The bill mandates a retirement benefit change applicable to all members of the Allegheny County Retirement System that will have a definite actuarial cost impact upon the retirement fund.

## COMMISSION RECOMMENDATION

On June 22, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

Senate Bill Number 404, Printer's Number 431, was introduced and referred to the Senate Finance Committee on March 21, 2005.

**Bill ID:** Senate Bill Number 588, Printer's Number 612

**System:** Pennsylvania Municipal Retirement System

**Subject:** Liberalization of Disability Retirement Provisions

## SYNOPSIS

Senate Bill Number 588, Printer's Number 612, would amend Section 212 of the Pennsylvania Municipal Retirement Law (Law) to change the disability retirement provisions for police officers from being "unable to engage in any gainful employment" to being "unable to perform the regular and routine duties of that office."

## DISCUSSION

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

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

In the unfortunate event of a disabling accident or illness that could end an employee's working career, employers provide a long-term disability benefit, which provides a continuing source of income for the remainder of the disabled employee's life. In the private sector, it is fairly unusual to have a disability benefit as part of a retirement plan. Most private sector employers who provide long-term disability benefits provide them through either health care coverage or long-term disability insurance policies. For a variety of reasons, in the public sector, it is common practice to provide the benefit under the retirement plan. PMRS writes retirement plans without a disability benefit, but the majority of the plans it administers provide some type of continuing income for disabled employees.

If the disability results from a work-related injury, there typically is no service requirement and the benefit is designed to provide a larger portion of the disabled employee's needed income, typically 50 percent of the employee's final average salary. Such a benefit by itself is not a guarantee of an adequate source of income to the employee. In the case of work-related disability, however, there also usually is a worker's compensation benefit under which the employee can receive up to two-thirds of the employee's final average salary for the remainder of the employee's life and there also may be a Social Security disability benefit. To prevent the total of these benefits from being "over adequate" and, thus, encouraging employees to take disability retirements, retirement plans usually include a worker's compensation benefit offset and may include a Social Security benefit offset.

Some plans include a non-service connected disability benefit. These benefits usually have a service requirement and are not as generous in providing for the employee's continuing income. The typical PMRS benefit provides for a guarantee of 30 percent of the disabled employee's final average salary for the remainder of the employee's life if the employee had at least ten years of credited service.

In addition to determining whether a disability is service-related or non-service related, the employer must determine whether the disability is a permanent disability and to what degree the disability exists. One of the most restrictive provisions of the Law is the requirement that all plans written by PMRS must have a disability qualification of "unable to perform gainful employment." In general, "gainful employment" has been interpreted to mean providing income consistent with the individual's educational background and previous working experience.

The bill would substitute a less restrictive definition of disability, with disability being "unable to perform the regular and routine duties of that office," meaning the regular and routine duties of a police officer. This more liberal definition would apply to police officers only, however, and not to other municipal employees such as firefighters and nonuniformed employees. The public policy rationale for this limited liberalization in benefits is not apparent.

If the bill is adopted, the PMRS Board will need to formally establish, by regulation, a uniform, state-wide interpretation of "unable to perform the regular and routine duties of that office," in order to prevent the interpretation from becoming variable. A variable definition that is different for each employee would cause increased administrative costs for medical examinations and administrative deliberations and appeals and would tend to impair severely the pooling of disability experience among municipalities.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission indicated that the bill will have an actuarial cost. The actuarial cost will be a function of the number of individuals who suffer a disability that renders them unable to perform the regular and routine duties of a police officer but are still able to engage in other "gainful employment," which would make them ineligible to receive a disability retirement under the current law. However, because the instances of this occurrence would appear to be rare based on the recent experience of PMRS, the actuary estimates that the actuarial cost of the bill will not be meaningful. Moreover, the Commission's consulting actuary has indicated that the actuarial cost of extending the more liberal definition of disability to firefighters and nonuniformed employees would also not be meaningful.

## POLICY CONSIDERATIONS

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

> <u>Limited Application</u>. The more liberal definition of disability applies only to police officers. The public pension policy rationale for excluding firefighters and nonuniformed employees is not apparent.
>
> <u>Conformity with Act 600 Plan Disability Standards</u>. The liberalized definition of disability provided by the bill is similar to the interpretation of the disability retirement provisions applicable to members of police pension plans subject to the Municipal Police Pension Law (Act 600).

Drafting Error. The Pennsylvania Municipal Retirement Law is composed of several articles that separately provide retirement benefit provisions for different categories of employees. Although the language of the bill specifies its application to police officers, the bill amends Article II, Section 212(a), which provides for the disability retirement benefits of nonuniformed employees. If it is the intent of the bill sponsors to apply the more liberal definition of disability to police officers only, the bill should be amended to amend Article III and Article IV. If it is the intent of the bill sponsors to extend the bill's provisions to all classes of employees, each applicable section of the Law will need to be amended individually; for nonuniformed employees (Section 212a), police officers and firefighters (Section 313a), and for all members of optional retirement plans (Section 411a).

Need for Specification of Standard Definition. To prevent the new definition from becoming a variable definition, the bill should require the PMRS Board to establish a standard meaning of the new definition through the issuance of a regulation.

## COMMISSION RECOMMENDATION

On April 27, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

Senate Bill Number 588, Printer's Number 612, was introduced and referred to the Senate Finance Committee on April 1, 2005.

**Bill ID:** Senate Bill Number 606, Printer's Number 672

**System:** State Employees' Retirement System,
Public School Employees' Retirement System and
Municipal Police Pension Systems

**Subject:** Statewide Local Government Police Employee Retirement System

## SYNOPSIS

Senate Bill Number 606, Printer's Number 672, 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 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 assets, enhanced member services, and employee portability.

## DISCUSSION

Pennsylvania currently has approximately 970 pension plans for municipal police employees, representing one-third of all municipal pension plans in the Commonwealth. Based upon 2003 Act 205 reporting period data, including the City of Philadelphia, these plans had a total of 18,151 active members, with an average membership of 18.6 members per plan. Three hundred fifty-two (352) of the police plans, or 36%, had three or fewer active members; and 340 plans, or 35%, had from 4 to 10 members. In total, these 970 police pension plans were paying benefits to approximately 18,352 retired members and beneficiaries. It should be noted that the City of Philadelphia represents approximately 35% of the active membership and 56% of the retired members and beneficiaries.

The transition to a statewide system will occur gradually through the mandatory participation of police employees hired after the later of January 1, 2006, or the expiration of a current collective bargaining agreement. Under the bill, a local government police pension plan established prior to January 1, 2006, may continue to operate until either all of the plan's current members and beneficiaries are voluntarily transferred to the new statewide system, or until the local police pension plan no longer has members or beneficiaries representing actual or potential liabilities. The bill permits the continuance of existing, self-administered local government retirement systems, but it prohibits the establishment of any new police retirement systems by local governments except through participation in the Government Employees' Retirement System. Provisions are also included in the bill for the optional participation by current employees, provided that both the affected municipality and the employees agree on the terms of participation and that all existing pension liabilities are fully-funded prior to participation.

For the purposes of this analysis, the Commission staff and the Commission's consulting actuary have assumed that no existing police pension plans will voluntarily transfer current members into the statewide plan. Instead, the Commission's consulting actuary has assumed that only police employees hired after December 31, 2005, will become members of the statewide plan, as mandated by the bill. The actuary's assumption results in the gradual recognition of the aggregate effects of full implementation of the statewide plan over the course of 20 years, after which time all local government police officers will be members of the statewide system.

### *Organization and Administration*

Under the bill, the new statewide retirement system for police employees will be administered under the auspices of an existing state agency – the State Employees' Retirement System (SERS). The State Employees' Retirement System possesses both the necessary staff and expertise to effectively administer such a large retirement plan. Under the bill, SERS will be administratively combined with the statewide local government police employees' retirement system to form a consolidated entity that will be known as the Government Employees' Retirement System (GERS).

To permit local governments to retain control of pension fund assets and to ensure there is no potential for the transference of State costs to local governments, the bill provides for asset management and funding determination functions to be segregated and controlled by a Local Government Employees' Retirement Board that is separate and distinct from the State Employees' Retirement Board. The Board's membership will consist of six members (three local government officials or employees, and three active or retired local government police employees) appointed by the Governor with the advice and consent of the Senate. The Local Government Police Employees' Retirement Board will administer the Local Government Employees' Retirement Fund and will have powers and duties essentially identical to those of the State Employees' Retirement Board.

### *Administrative Expenses*

Municipal governments are increasingly required to react to multiple levels of state and federal legislation concerning tax and other employment related issues. Within Pennsylvania's decentralized system, the availability and accuracy of reliable data are accordingly becoming more critical. Plan documents, including demographics, earnings, and payment records, must be maintained over the active and retired life of employees, which often exceeds fifty years. Small municipalities very often lack the administrative continuity to perform these functions on a long-term basis.

Additionally, the high per-member costs associated with administering so many small municipal plans has long been a concern of the Commission. These administrative costs are significantly greater for most local government police plans than for either large municipal plans, such as the City of Philadelphia, or for statewide plans such as the State Employees' Retirement System (SERS). A review of the Commission's 2003 Act 205 reporting data revealed that the average per-member administrative cost for the Commonwealth's approximately 970 local government police pension plans (including Philadelphia) was $865.

The Commission's consulting actuary estimated the administrative cost savings associated with the consolidation of administrative functions through the proposed statewide retirement system. Based upon the average per-member administrative costs under SERS of $175, the reduction in annual administrative expenses in year 20 would be approximately $22.6 million, or 1.26% of total projected payroll. Clearly, the relative administrative efficiency and effectiveness of a single, consolidated statewide retirement system over the administration of large numbers of very small municipal plans is evident.

### *Actuarial Cost Methodology*

Actuarial cost methodology is used in the administration of a retirement system to determine a total cost that is systematically funded in advance of the actual pension benefit payments. Actuarial cost methodology is used to assure the predictability of the ongoing funding requirements of the retirement system. The broad base of demographic experience afforded by a pension plan with a large membership allows greater accuracy in the choice of actuarial assumptions and consequently improves the reliability of the actuarial cost determinations. However, when actuarial cost calculations are performed for a pension plan with a small membership, there is a limited base of demographic experience upon which to base the choice of actuarial assumptions. Because actuarial assumptions are largely based on statistical averages, the size of the plan directly affects the probability of the predicted events being realized. In the absence of an adequate experience base, the selection of accurate actuarial assumptions is difficult, and the reliability of the actuarial cost determinations is reduced. As stated previously, a review of the Commission's 2003 Act 205 reporting data reveals that the average membership of police pension plans in the Commonwealth is approximately 18.6 members per plan. No accepted actuarial cost method can be reliably applied to these small pension funds.

### *Investment of Plan Assets*

Investment management is another function that demonstrates the relative inefficiency of the current decentralized structure of local government police employee retirement systems. In addition to compounding the direct costs attributable to the investment function, the dispersed investment activity limits access to certain investments that require minimum threshold deposits and impedes the level of diversification that would be available to a larger fund. To the extent that the lack of investment diversification or the limited access to investment vehicles diminishes earnings, the current decentralized structure of local government retirement systems increases the pension costs that must be financed with tax revenues.

Comparing the investment performance of local government police employee retirement systems to that of SERS further illustrates the negative impact that the current system of decentralized investment management has on local governments. In making this comparison, the Commission was confined to comparing reported rates of return in the even-numbered calendar years from 1996 through 2002, even though these were years of low return for SERS. The use of these time periods is compelled by the alternate year reporting established by Act 205 and the lack of data concerning unrealized capital gains and losses in municipal plans other than Philadelphia prior to the 1997 Act 205 filing period. This analysis evinced a non-Philadelphia municipal rate of return of 3.9%, while SERS achieved a return of 5.9% during the same time frame, for a difference of 2.0%. Comparing SERS to Philadelphia's fiscal data at the same time points[1] resulted in Philadelphia returns of 8.3% and SERS returns of 11.8%, for a difference of 3.5%. Weighting those results to conform to the fact that Philadelphia holds thirty percent (30%) and the remaining municipal police pension plans hold seventy percent (70%) of total police pension fund assets leads to a total difference between SERS and the aggregated municipal rate of return of 2.45%. If all assets, liabilities, and active and retired memberships were transferred to a single statewide system, an increase in investment returns would, therefore, be expected. As the data in the following table shows, even a one percent increase in future investment returns would yield an additional increase in revenues of approximately $34 million (after full implementation).

[1] The City of Philadelphia's pension plans report investment earnings on a fiscal year basis ending June 30, while the State Employees' Retirement System reports on a calendar year basis, ending December 31 of each year. The comparison was made between Philadelphia's fiscal results and SERS' mid-year investment returns.

The following table is intended to illustrate the potential annual increase in investment returns based upon four projected investment return scenarios.

**Potential for Increased Investment Earnings Resulting from Statewide Plan**

| Assumed Increase in Investment Return | Reduction in Employer Costs in Dollars [2] | Reduction in Employer Costs as a % of Projected Payroll [2] |
|---|---|---|
| 1% | $ 34,000,000 | 1.89% |
| 2% | $ 68,000,000 | 3.78% |
| **2.4% [3]** | **$ 82,000,000** | **4.56%** |
| 3% | $102,000,000 | 5.76% |

Even a conservative evaluation of the data demonstrates that a statewide retirement system for municipal police employees would reduce the government revenues needed to finance police pension benefits while effecting an improved benefit structure for most municipal police officers that is both equitable and uniform.

***Benefit Structure***

Much of the benefit disparity of municipal police pension plans results from the confusing and sometimes conflicting state laws governing police pension benefits. There are more than a dozen state laws, many of which have been amended repeatedly, that directly affect the benefits to be provided to municipal police officers. Most municipal police pension plans have a benefit structure with a basic benefit of 50 percent of final average salary, after meeting age and service requirements. Some plans, however, provide benefits as low as 20 percent of final salary and some are as high as 80 percent of final salary. The normal cost rates among municipal police plans also vary greatly and are another indicator of the disparity in benefits. Normal costs, when stated as a percentage of payroll, during the 2003 Act 205 reporting period were as low as 2.2 percent of payroll and as high as 35.3 percent of payroll.

Under the bill, benefits for police employees would be determined in accordance with the current accrual rate system used to calculate retirement benefits for SERS members. Under the SERS Code, the pension benefit is determined using a formula which is the product of a basic accrual rate multiplied by the member's years of credited service, multiplied by the member's final average salary (average of the highest three years of income) multiplied by the member's class of service multiplier. Under the bill, local governments will utilize four membership classifications to provide

[2] The Reduction in Employer Costs in Dollars is based upon the projected future payroll at a specific time that is twenty years after implementation of the bill. The percentage changes are not dependent upon that payroll projection and are ongoing into the future.

[3] As previously discussed, the Commission staff believes the 2.4% increase expectation to be the most reasonable, based upon a review of the most recent four Act 205 biennial reporting periods (8 years) of average investment returns of municipal police plans compared with the average investment returns of SERS over the same alternate year time period.

police employee pension benefits, and the new membership classifications will be integrated into the existing SERS membership and benefit structure. The following table illustrates the four police employee classifications and their corresponding benefit structures:

| Classification | Benefit Accrual Rate [4] | Superannuation Age | Member Contribution Rate |
|---|---|---|---|
| Class P1 | 2.5% for first 20 years; 2.0% for years over 20 | Age 50 or 20 years of service | 6.25% for first 20 years; 5.0% for years over 20 |
| Class P2 | 2.25% | Age 50 | 5.625% |
| Class P3 | 2.0% | Age 50 | 5.0% |
| Class P4 | 1.75% | Age 55 | 4.375% |

The bill provides for employee participation in the selection of the benefit classifications in instances where pension benefits are now being provided and it assures that the pension benefits of current employees are not reduced. Ancillary benefits, including vesting, disability and death benefits, are in accordance with the existing SERS benefit structure.

Additionally, the bill requires the Local Government Police Employees' Retirement Board to establish a supplemental local government retirement benefit accumulation plan, which is a voluntary program to be funded through matching employer and employee contributions accumulated in individual employee accounts that may be used to provide supplemental benefits in retirement.

The bill also authorizes the provision of retirement benefits for part-time local government employees and specifies the use of simplified individual retirement accounts under section 408 of the IRS Code, and requires that the variable annual contributions be specified as a uniform percentage of compensation.

In making his cost projections, the Commission's consulting actuary assumed that the collective bargaining process would ultimately result in all municipal pension plans providing one of the highest two levels of plan benefits, either P1 or P2. He then estimated the aggregate effect of the change in benefit structure proposed in the bill assuming full implementation after 20 years, based upon a future total active membership of approximately 18,000 police employees with a projected payroll of $1.8 billion, an interest rate assumption of 8.5%, assumed salary increases of 5.5% per year, and utilizing the mortality assumptions currently applied to SERS active members. The actuary estimated that the aggregate normal costs in year 20 for the 18,000 active members would be approximately $243 million, or 13.5% of total projected payroll, representing an aggregate increase in normal cost of approximately $75 million, or 4.17% of projected payroll.

[4] This Benefit Accrual Rate represents the basic accrual rate multiplied by the appropriate class of service multiplier.

### *Employee Contributions*

The bill requires all active members of the statewide plan to make employee contributions to the plan that correlate to the member's class of service. The employee contribution requirements are displayed in the following table.

| Classification | Member Contribution Rate |
|---|---|
| Class P1 | 6.25% for first 20 years; 5.0% for years over 20 |
| Class P2 | 5.625% |
| Class P3 | 5.0% |
| Class P4 | 4.375% |

Under the existing system, the Commission's consulting actuary estimated employee contributions in year 20 of approximately $68 million, or 3.78% of total projected payroll. Under the proposed statewide plan, the actuary estimated that projected annual employee contributions to the statewide system would be approximately $107 million, or 5.94% of total projected payroll. Upon full implementation of the statewide plan after 20 years of transition, the result would be a net increase in employee contributions to the statewide plan of approximately $39 million, or 2.17% of total projected payroll.

### *Portability*

The current lack of portability among police pension plans prevents an employee from transferring pension rights and benefits from one municipal employer to another in conjunction with job changes. Accordingly, many police employees are restricted in their ability to achieve their full career potential. Employers also lose significant flexibility because of the impediment lack of portability imposes on the selection of employees from other municipalities. Under the current decentralized system, it is impracticable to establish an equitable method to value and transfer assets and service credits among municipalities with varying benefit structures, funding mechanisms and funded conditions.

The single, statewide system provided for under the bill provides complete portability for municipal police employees and provides professional police employees the retirement advantages of a single statewide employer.

### *Effects on Pension Funding*

As local police pension plan membership and associated costs are gradually transitioned to the statewide system, more of the cost of funding police pension benefits will shift to the police members, to the same extent as now required of State employees. This will alleviate some of the burden currently imposed upon local taxpayers. To the extent that the need for State aid to municipalities declines, the bill provides a mechanism for handling residual funds by requiring that any unallocated funds in a given year be held in reserve for allocation in the subsequent year. In the event that the unallocated moneys in any year exceed 10% of the total moneys available for allocation in that year, the excess funds will be paid into the Commonwealth General Fund.

## SUMMARY OF ACTUARIAL COST IMPACT

The following table depicts the projected aggregate impact of the proposed statewide plan, with an estimated future payroll of $1.8 billion, and with full implementation in 20 years.

| | As a Dollar Amount | As a % of Projected Payroll |
|---|---|---|
| **Increase in Employer Cost** | | |
| Projected Increase in Aggregate Normal Costs | $ 75,000,000 | 4.17% |
| **Offset to Employer Cost** | | |
| Projected Increase in Employee Contributions [5] | 39,000,000 | 2.17% |
| Projected Reduction in Administrative Expenses | 22,600,000 | 1.26% |
| Projected Increase in Return on Investments [6] | 82,000,000 | 4.56% |
| **Total Projected Employer Annual Cost Savings** | **$ 68,600,000** | **3.82%** |

## POLICY CONSIDERATIONS

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

Statewide Plan. The establishment of a statewide municipal police pension plan would remedy the problems of ineffective and inefficient administration, lack of portability, and disparity in benefit structure. Additionally, a statewide system would, when fully implemented, significantly reduce employers' municipal police pension costs, provide for reliable actuarial funding, enhance membership services, and provide equitable retirement benefits to the Commonwealth's municipal police officers.

Gradual Implementation. The extended transition period for implementation of the statewide local government police employees' retirement system is provided to prevent the disruptive effects that would most likely occur with immediate implementation. The long transition period will also facilitate the administrative changes needed to accommodate implementation of the new system.

Administrative Efficiency. Implementation of a statewide retirement system for local government police employees will enable the consolidation of administrative functions, increasing efficiency and significantly reducing costs associated with providing employee retirement benefits.

[5] The projected increase in employee contributions over projected local police pension plan contribution levels results in a corresponding decrease in future employer contribution requirements.

[6] Based on an estimated average 2.4% increase in investment return over municipal return rates resulting, in part, from the consolidation of assets made possible in a statewide plan.

Determination of Actuarial Funding Requirements. The bill resolves the present difficulties in the application of actuarial cost methods in numerous small plans by consolidating the membership of the approximately 970 police pension plans into a single retirement system.

Centralized Investment Management. The consolidation of assets and centralization of investment management functions provided for in the bill will serve to maximize potential investment earnings and reduce the risks of adverse investment experience.

Benefit Portability. A statewide retirement system for local government police employees will ensure pension benefit portability for police employees. The transfer of retirement service credits between local governments will eliminate a substantial impediment to police employee mobility, facilitating recruitment, and providing more equitable retirement benefits when a public safety career involves service with more than one government entity.

Benefit Uniformity. Because local governments will provide more uniform benefits within the parameters provided by a statewide system, the competitive pressure on police employees to achieve higher benefits will diminish, and the benefit provisions will be more widely understood and accessible.

Enhanced Member Services. The statewide system provided for in the bill will ensure an adequate and consistent level of retirement-related services to police employees.

Provision for Cost Sharing. The provision in the bill requiring increased member contribution rates consistent with the enhanced benefit structure appears to be a reasonable public pension policy approach.

## COMMISSION RECOMMENDATION

On October 6, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal and favorably consider enactment of the bill.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

Senate Bill Number 606, Printer's Number 672, was introduced and referred to the Senate Finance Committee on April 6, 2005.

**Bill ID:** Senate Bill Number 811, Printer's Number 1022,
as amended by Amendment Number 03092

**System:** Act 96 County Pension Plans

**Subject:** Optional Benefit Provisions

## SYNOPSIS

Senate Bill Number 811, Printer's Number 1022, as amended by Amendment Number 03092 would amend the County Pension Law (Act 96 of 1971) by extending to December 31, 2006, the previous one-year window created by Act 43 of 2003. Act 43 established a twelve-month period, or "window," following enactment of the legislation during which a county retirement board subject to the provisions of the County Pension Law was permitted to provide enhanced benefits through adopting, by rule, a 1/40th or 1/50th membership class. Act 43 also permitted the county retirement boards to authorize, by rule, the retroactive application of the enhanced membership class to the prior service credit of members. The original one-year window expired December 16, 2004. Amendment Number 03092 would amend the bill to permit a county retirement board to authorize, by rule, the retroactive application of enhanced benefits for current active members of a county retirement plan who were members of a county retirement plan during the period beginning after December 31, 1971, and ending before January 1, 1997, and who transferred from the 1/80th class to the 1/60th class on January 1, 1997. An affected member's county annuity would then be calculated at the more generous 1/60th class for all periods of county service.

## DISCUSSION

The County Pension Law (Law) applies to all counties of the Second Class-A through Eighth Class. Under the Law, a county retirement system is established by a resolution of the county commissioners and is administered by a county retirement board, which has full power to invest and manage the assets of the retirement system. As of January 1, 2004, there were 68 county pension plans operating under the Law with a total payroll of approximately $1.7 billion. Combined, these county pension plans had 52,059 active members. Members are vested upon attaining five years of credited service. The normal retirement age is age 60, or age 55 if a member has completed 20 years of service. Membership is mandatory for all employees who work or are expected to work 1,000 hours or more per year, and elected county officials have the option to participate.

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

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

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

Act 43 of 2003 amended the County Pension Law by opening a one-year window, beginning December 16, 2003, and ending December 16, 2004, during which any county pension board administering a pension plan under the provisions of Act 96 was permitted to establish a 1/50th or 1/40th membership class with an employee contribution rate of 9% of pay for both membership classes. Act 43 also permitted a retirement board to apply the higher membership class to all prior credited service with the county. The Commission staff has determined that only the counties of Armstrong, Butler and York appear to have acted within the one-year window created by Act 43 and actually established one of the additional membership classes. The bill would have the effect of re-opening and extending to December 31, 2006, the previous one-year window created by Act 43.

Amendment Number 03092 would amend the bill to permit a county retirement board to authorize, by rule, the retroactive application of enhanced benefits for current active members of a county retirement plan who were members of a county retirement plan during the period beginning after December 31, 1971, and ending before January 1, 1997, and who transferred from the 1/80th class to the 1/60th class on January 1, 1997. An affected member's county annuity would then be calculated at the more generous 1/60th class for all periods of county service. A review of the most recent actuarial valuation reports filed with the Commission pursuant to the reporting requirements of Act 293 revealed that only active members of pension plans in the counties of Erie and Jefferson appear to be affected by Amendment Number 03092.

## SUMMARY OF ACTUARIAL COST IMPACT

### 1/40th and 1/50th Membership Class Provisions

The establishment of the new membership classes and the retroactive application of the enhanced membership class to include all credited service are both optional benefit provisions under the bill. For this reason, the Commission's consulting actuary prepared cost estimates based upon both a 20% and 40% projected utilization rate for the active members covered by the 65 affected county plans. The Commission's consulting actuary provided cost estimates for the proposed 1/40th and 1/50th membership classes, assuming both prospective only and retroactive application of the benefit liberalization for both member classes. These estimates are summarized in the following tables.

**Prospective Application of 1/40th and 1/50th Membership Classes**

| | 20% Utilization Rate | | 40% Utilization Rate | |
|---|---|---|---|---|
| | Range of Costs [1] | | Range of Costs [1] | |
| | 1/50th Class | 1/40th Class | 1/50th Class | 1/40th Class |
| Increase in Present Value of Future Benefits | $45,000,000 – | $114,000,000 | $90,000,000 – | $228,000,000 |
| Increase in Aggregate Normal Cost [2] | $ 6,000,000 – (0.38% of pay) – | $ 14,000,000 (0.88% of pay) | $12,000,000 – (0.75% of pay) – | $ 28,000,000 (1.75% of pay) |

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

[2] Calculated using the aggregate actuarial cost method.

**Retroactive Application of 1/40th and 1/50th Membership Classes**

| | 20% Utilization Rate | | 40% Utilization Rate | |
|---|---|---|---|---|
| | Range of Costs [1] | | Range of Costs [1] | |
| | 1/50th Class | 1/40th Class | 1/50th Class | 1/40th Class |
| Increase in Present Value of Future Benefits | $111,000,000 – | $262,000,000 | $222,000,000 – | $524,000,000 |
| Increase in Aggregate Normal Cost [2] | $13,000,000 – (0.81% of pay) – | $31,000,000 (1.94% of pay) | $ 26,000,000 – (1.63% of pay) – | $ 62,000,000 (3.88% of pay) |

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

[2] Calculated using the aggregate actuarial cost method.

It should be emphasized that the cost to any county plan not adopting one of the optional benefit provisions under the bill would, of course, be zero, and that the cost to any individual county expressed as a percentage of projected payroll could be significantly greater than the projected aggregate costs.

### Retroactive Application of 1/60th Class

Amendment Number 03092 would permit a county retirement board operating a plan subject to the County Pension Law to authorize the retroactive application of the 1/60th class to member benefits if a member was employed by the county during the period beginning after December 31, 1971, and ending before January 1, 1997, and transferred from the 1/80th Class to the 1/60th Class on January 1, 1997. A review of the actuarial valuation reports filed with the Commission in accordance with the reporting requirements of Act 293 revealed that only active members in the counties of Erie and Jefferson appear to meet the eligibility requirements set forth in Amendment Number 03092. As of January 1, 2004, the retirement plans for the counties of Erie and Jefferson covered 1,281 active members with a total annual payroll of $41,699,314. For the purpose of this analysis, the Commission's consulting actuary assumed that both Erie and Jefferson counties would authorize the retroactive application of the 1/60th Class for all service of active members. The estimated actuarial cost impact is summarized in the following table.

| | Retroactive Application of 1/60th Class |
|---|---|
| Increase in Present Value of Future Benefits | $8,100,000 |
| Increase in Aggregate Normal Cost [1] | $1,050,000<br>(2.52% of pay) |

[1] Based on the total annual payroll for active members of retirement plans in the counties of Erie and Jefferson.

## POLICY CONSIDERATIONS

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

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

Significant Benefit Liberalizations. The creation of a 1/40th class in a county pension plan would provide members with a county annuity that, in effect, is equal to a 2.5% accrual rate with respect to the employer-provided defined benefit component. Since these county plans also include a member-provided defined contribution component, the total retirement benefit would exceed that provided to current members of the State Employees' Retirement System and the Public School Employees' Retirement System.

Restricted Implementation Period. The bill as amended provides authorization for affected county retirement boards to provide enhanced retirement benefits but restricts the authorization to a specific time period ending December 31, 2006. If there is merit to providing these options, restricting implementation to a finite period is questionable from a public pension policy perspective.

## COMMISSION RECOMMENDATION

On November 17, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

A later version of Senate Bill Number 811 (Printer's Number 1234) passed the Senate on December 12, 2005, and was referred to the House State Government Committee on December 14, 2005.

**Bill ID:** Senate Bill Number 888, Printer's Number 1171

**System:** Cities of the Second Class A (Scranton) Employees' Retirement System (Nonuniformed Employees)

**Subject:** Eligibility for Purchase of Nonintervening Military Service

## SYNOPSIS

Senate Bill Number 888, Printer's Number 1171, would amend the Second Class A City Employe Pension Law by removing the statutory three-year time limit within which a member must commence employment with the City of Scranton following military service in order to be eligible to purchase credit for nonintervening military service, and by mandating that affected members be entitled to purchase the nonintervening military service credit. Senate Bill Number 888, Printer's Number 1171, is a companion bill to Senate Bill Number 889, Printer's Number 1172, which would similarly amend the pension statute affecting uniformed (police and fire) employees.

## DISCUSSION

The Second Class A City Employe Pension Law (Act of September 23, 1959, P. L. 970, No. 400) establishes the pension plan for nonuniformed employees in the City of Scranton. The City of Scranton Nonuniformed Pension Plan is a contributory, defined benefit pension plan. Normal retirement age is age 55 with at least 15 years of service. The normal retirement benefit for employees hired prior to July 1, 1987, is equal to 75% of the member's average monthly salary based upon the final five years of employment, up to a maximum monthly benefit of $700. For employees hired on or after July 1, 1987, the normal retirement benefit is 70% of the member's average monthly salary, based on the final five years of employment up to a maximum monthly benefit of $650. As of January 1, 2003, there were 182 active members of the plan.

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. 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.

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 interrupts 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 (USERRA does not address the issue of *nonintervening* military service.). Specifically, 38 U. S. C. § 4318(a)(2)(A) provides that the employee "shall be treated as not having incurred a break in service . . . by reason of such person's period or periods of service." Further, § 4318(b)(1) provides that "[a]n employer . . . shall . . . be liable to an employee pension benefit plan for funding any obligation of the plan to provide the benefits described in subsection (a)(2) . . . ," and that "[n]o such payment may exceed the amount the person would have been permitted or required to contribute had the person remained continuously employed by the employer" (§ 4318(b)(2)).

## DISCUSSION (CONT'D)

In addition to service credit for intervening military service (covered by USERRA), the Second Class A City Employe Pension Law permits an active member of the pension plan to purchase up to five years of nonintervening military service (military service performed prior to commencement of employment) if the member entered employment with the City of Scranton within three years of the date of the member's release from active military service. The bill would amend the Second Class A City Employe Pension Law by removing the statutory three-year time limit within which a member must commence employment with the City following military service in order to be eligible to purchase credit for nonintervening military service, and by mandating that affected members be entitled to purchase the nonintervening military service credit.

Permitting a member to receive retirement service credit for nonintervening military service has been a longstanding policy among the major public employee retirement systems of the Commonwealth. The currently mandated three-year time limit appears outdated and arbitrary. There is no reasonable public pension policy rationale for making eligibility for the purchase of nonintervening military service contingent upon the expanse of time between when an individual left the military and became a public employee of the City. If the purchase of nonintervening military service is to be permitted, all such service should be treated equally. The bill, therefore, seeks to remove an inequity in the crediting of nonintervening military service that currently exists in the Second Class City A Employee Pension Law.

## SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary reviewed the bill and determined that because an eligible member would be required to purchase nonintervening military service by making a payment to the pension fund that is equal to the amount the member would have contributed had the member been a member of the pension fund during the period of nonintervening military service, plus the equivalent of the City's contributions on account of such service, there should be no actuarial cost to the City resulting from enactment of the bill.

## POLICY CONSIDERATIONS

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

> Equity in the 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. The bill removes language in the Second Class City A Employe Pension Law that currently treats nonintervening military service inequitably for retirement credit purposes.

## COMMISSION RECOMMENDATION

On November 17, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issue identified in the actuarial note transmittal.

Senate Bill Number 888, Printer's Number 1171, was referred to the Senate Finance Committee on September 29, 2005.

**Bill ID:** Senate Bill Number 889, Printer's Number 1172

**System:** Cities of the Second Class A (Scranton) Employees' Retirement Systems (Uniformed Employees)

**Subject:** Eligibility for Purchase of Nonintervening Military Service

## SYNOPSIS

Senate Bill Number 889, Printer's Number 1172, would amend the act of July 3, 1947 (P. L. 1242, No. 507) which is the statute establishing the pension plans for police officers and firefighters in the City of Scranton. The act permits a uniformed employee of either the police or fireman's pension plans to purchase up to five years of nonintervening military service if the member enters employment with the City of Scranton within three years of the date of the member's release from active military service. The bill would amend the Act by removing the statutory three-year time limit within which a member must commence employment with the City following military service in order to be eligible to purchase credit for nonintervening military service, and by mandating that moneys be appropriated by the City to the pension plans to enable the purchase of military service credit. Senate Bill Number 889, Printer's Number 1172, is a companion bill to Senate Bill Number 888, Printer's Number 1171, which would similarly amend the pension statute affecting nonuniformed employees of the City of Scranton.

## DISCUSSION

The act of July 3, 1947 (P. L. 1242, No. 507) establishes the pension plan for uniformed (police and fire) employees in the City of Scranton. The City of Scranton Police Pension Plan is a contributory, defined benefit pension plan. For police officers hired prior to July 1, 1987, the normal retirement age is age 65 or any age upon the completion of 25 years of service. The normal retirement benefit for members who have attained age 65 is equal to 2% for each year of service based upon the salary being received at retirement, up to a maximum 50% of salary. The normal retirement benefit for members who have not attained age 65 is 50% of the salary paid to the member at the highest grade held by the member at retirement. For police officers hired on or after July 1, 1987, normal retirement age is age 55 and 25 years of service. The normal retirement benefit is 50% of the member's average monthly salary based upon the final 36 months of employment. As of January 1, 2003, there were 135 active members of the plan.

The City of Scranton Firemen Pension Plan is a contributory, defined benefit pension plan. For firemen hired prior to July 1, 1987, the normal retirement age is any age upon the completion of 25 years of service. The normal retirement benefit is equal to 50% of the member's salary at retirement, plus a service increment of 0.5% per year, payable in five-year increments, for service in excess of 25 years. For firemen hired on or after July 1, 1987, normal retirement age is age 55 with 25 years of service, and the normal retirement benefit is equal to 50% of the member's average monthly salary based upon the final 36 months of employment. As of January 1, 2003, there were 119 active members of the plan.

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. 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.

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 interrupts 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 (USERRA does not address the issue of *nonintervening* military service.). Specifically, 38 U. S. C. § 4318(a)(2)(A) provides that the employee "shall be treated as not having incurred a break in service . . . by reason of such person's period or periods of service." Further, § 4318(b)(1) provides that "[a]n employer . . . shall . . . be liable to an employee pension benefit plan for funding any obligation of the plan to provide the benefits described in subsection (a)(2) . . . ," and that "[n]o such payment may exceed the amount the person would have been permitted or required to contribute had the person remained continuously employed by the employer" (§ 4318(b)(2)).

In addition to service credit for intervening military service (covered by USERRA), the statute governing the pension plans for uniformed employees in the City of Scranton permits an active member of the pension plan to purchase up to five years of nonintervening military service (military service performed prior to commencement of employment) if the member entered employment with the City within three years of the date of the member's release from active military service. The bill would amend the statute by removing the three-year time limit within which a member must commence employment with the City following military service in order to be eligible to purchase credit for nonintervening military service, and by mandating that affected members be entitled to purchase the nonintervening military service credit.

Permitting a member to receive retirement service credit for nonintervening military service has been a longstanding policy among the major public employee retirement systems of the Commonwealth. The currently mandated three-year time limit appears outdated and arbitrary. There is no reasonable public pension policy rationale for making eligibility for the purchase of nonintervening military service contingent upon the expanse of time between when an individual left the military and became a public employee of the City. If the purchase of nonintervening military service is to be permitted, all such service should be treated equally. The bill, therefore, seeks to remove an inequity in the crediting of nonintervening military service that currently exists in the statute governing police and firemen retirement systems of the City.

## SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary reviewed the bill and determined that because an eligible member would be required to purchase nonintervening military service by making a payment to the pension fund that is equal to the amount the member would have contributed had the member been a member of the pension fund during the period of nonintervening military service, plus the equivalent of the City's contributions on account of such service, there should be no actuarial cost to the City resulting from enactment of the bill.

## POLICY CONSIDERATIONS

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

Equity in the 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. The bill removes statutory language that currently treats nonintervening military service inequitably for retirement credit purposes.

## COMMISSION RECOMMENDATION

On November 17, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issue identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

Senate Bill Number 889, Printer's Number 1172, was referred to the Senate Finance Committee on September 29, 2005.

**Bill ID:** House Bill Number 83, Printer's Number 77

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

**Subject:** Reduced Superannuation Age

## SYNOPSIS

House Bill Number 83, Printer's Number 77, would amend the Public School Employees' Retirement Code by reducing the normal (superannuation) retirement age for active members from age 62 to age 60.

## DISCUSSION

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, defined benefit retirement plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. Membership in PSERS is mandatory for most public school employees. Certain other employees are given the option to participate. As of June 30, 2004, there were 247,901 active and 151,552 annuitant members of PSERS. Generally, the annual retirement benefit is the product of 2.5 percent multiplied by the member's years of accumulated service credit ("eligibility points") multiplied by a member's final average (highest three years) salary.

Under the Code, superannuation or normal retirement age is that date on which a member may terminate employment and receive a full retirement benefit without actuarial reduction because of age or service. The Code also contains a special provision for an early retirement annuity available to members who do not meet the superannuation requirements, but who have attained at least age 55 and accumulated 25 years of credited service. The early retirement annuity is equal to a member's accrued benefit at the time of retirement, reduced by 1/4% for each month (or 3% per year) under superannuation. For an eligible member, this special provision results in a benefit calculation that is significantly more generous than what the member would receive with the application of full actuarial reduction for retirement prior to superannuation (roughly 6% per year).

The exact superannuation age and service requirements vary depending upon the member's class of service. The following table displays each class of service and its corresponding superannuation requirements:

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

Currently, the majority of PSERS members are members of Class T-D. Anyone enrolled as a new member of PSERS after July 1, 2001, is automatically a member of Class T-D. Most members of PSERS who joined prior to July 1, 2001, have converted to Class T-D membership.

As the table shows, most members of PSERS currently are eligible for a superannuation annuity at age 62 regardless of service, age 60 with 30 years of service credit, or at any age with 35 years of service credit. In comparison, a member of the State Employees' Retirement System (SERS) would become eligible for a superannuation annuity at age 60 or at any age upon accruing 35 years of service. Therefore the bill would amend the superannuation requirements for PSERS members to equal those applicable to members of SERS (age 60 or any age with 35 years service).

Although on its face, the bill appears to provide parity in superannuation requirements between members of the Commonwealth's two major statewide systems (PSERS and SERS), the bill actually represents a benefit enhancement for PSERS members due to the presence in the PSERS Code of a permanent early retirement annuity provision (age 55 with 25 years of service). No early retirement annuity provision of this type is currently available to members of SERS.

Reducing the superannuation retirement age would have the effect of reducing the normal retirement benefit that a member may receive because of the correspondingly fewer years of service credit (eligibility points) upon which to calculate the member's benefit. Conversely, reducing the superannuation retirement age also means that a member who terminates service with a vested benefit prior to attaining superannuation retirement age will be entitled to a larger early retirement benefit than would otherwise be the case because of the fewer years of actuarial reduction that would be applied to a member's early retirement. This is because, in calculating the actuarial reduction, the system assumes that such a retiree would have continued employment until superannuation retirement age. With both superannuation and early retirement, reducing the superannuation retirement age also means that the system must change its actuarial assumptions to assume fewer years during which to accumulate the necessary assets from employer contributions, employee contributions, and investment earnings to pay the anticipated retirement benefits, and more years over which the anticipated benefits will have to be paid.

## SUMMARY OF ACTUARIAL COST IMPACT

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $526,221,000 |

| | Amount | As a % of Payroll |
|---|---|---|
| Increase in Employer Annual Costs [1] | | |
| Normal Cost | $ 45,138,000 | 0.45% |
| Amortization Payment [2] | 80,200,000 | 0.80% |
| Total Increase in Employer Annual Costs [3] | $125,338,000 | 1.25% |

[1] Paid in part by the Commonwealth and in part by the school districts and other educational employers.
[2] 10 year level dollar amortization period. Payments cease after 10 years.
[3] First year's cost only.

## POLICY CONSIDERATIONS

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

Benefit Enhancement. The proposed reduction in the superannuation retirement age is a significant benefit enhancement applicable to active members of PSERS that will necessitate a change in the system's actuarial assumptions and result in a substantial increase in unfunded liability.

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

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

Effectiveness of Future Early Retirement Incentive Programs. If enacted, the bill would tend to diminish the effectiveness of any future, temporary early retirement incentive program. In order to be effective in encouraging early retirements in the future, early retirement incentives based on service credits accumulated (such as the now expired "30 and Out" early retirement incentives) would need to be enhanced by offering unreduced retirement benefits earlier than previous early retirement windows.

Compatibility with Workforce Requirements. Members of the General Assembly must determine whether the encouragement of earlier retirement is consistent with the staffing needs of the Commonwealth's public school employers.

Potential for Cost Sharing. The bill provides a benefit enhancement applicable to active members of PSERS. It may be appropriate, therefore, for a portion of the cost resulting from the benefit enhancement to be allocated to active members through increased member contributions.

Cross System Superannuation Parity. Although on its face, the bill appears to provide parity in superannuation requirements between members of the Commonwealth's two major statewide systems (PSERS and SERS), the bill actually represents a benefit enhancement for PSERS members due to the presence in the PSERS Code of a permanent early retirement annuity provision (age 55 with 25 years of service). No early retirement annuity provision of this type is currently available to members of SERS.

## COMMISSION RECOMMENDATION

On March 9, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

House Bill Number 83, Printer's Number 77, was introduced and referred to the House Education Committee on January 25, 2005.

**Bill ID:** House Bill Number 279, Printer's Number 302

**System:** Pennsylvania Municipal Retirement System

**Subject:** Administrative Expenses

## SYNOPSIS

House Bill Number 279, Printer's Number 302, would amend Section 112 of the Pennsylvania Municipal Retirement Law (Law), to extend through calendar year 2005 the authority of the Pennsylvania Municipal Retirement System (PMRS) to use interest earnings in excess of 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 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 by 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, 2003, PMRS covered 656 defined benefit and 163 defined contribution retirement 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 Pennsylvania Municipal Retirement 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 set by the Board annually, with the advice of its consulting actuary, and currently is 6.0 percent.

The two sources for the payment of the administrative expenses of PMRS 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.

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

## DISCUSSION (CONT'D)

the annual per member assessment is insufficient to cover the total amount of PMRS administrative expenses. The experience of PMRS demonstrates that the annual per member assessment normally is insufficient to pay the total administrative expenses.

## 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 are required in order to prevent expiration of the authority to use a portion of the Pennsylvania Municipal Retirement Fund's income to pay the administrative expenses of PMRS. Development of a viable, stable, and appropriate long-term financing procedure for meeting the administrative expenses of PMRS would be desirable. Under such a procedure, the administrative expenses simply would be a component of the annual costs determined for each of the participating municipalities.

## COMMISSION RECOMMENDATION

On March 9, 2005, 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.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

A later version of House Bill Number 279 (Printer's Number 2430) was signed into law by the Governor as Act 16 of 2005, on July 5, 2005.

**Bill ID:** House Bill Number 395, Printer's Number 422

**System:** Philadelphia City Firefighters

**Subject:** Continuation of Surviving Spouse's Benefit for Life Regardless of Remarriage

## SYNOPSIS

House Bill Number 395, Printer's Number 422, 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 firefighter or fire department employee, including a pensioner and employee of the fire department, 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 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, 2003, there were 1,953 firefighters who were active members of the City of Philadelphia Municipal Retirement System and 10 members who had terminated service with vested or deferred benefits. The system was paying benefits to 2,134 retired members (including Deferred Retirement Option Plan (DROP) participants), 493 disabled members, 897 surviving spouses, and 72 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 is essentially identical to Act 184 of 2004, which removed the "remarriage penalty" provision for spouse beneficiaries of Philadelphia police officers and police employees.

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 firefighters and fire department employees. The spouse beneficiaries of 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.

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 firefighters is not valued by the actuary in preparing the actuarial valuations of the firefighters' 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:

> <u>Removal of Outdated Provisions</u>. The bill removes provisions in Act 242 that are based upon an orientation toward survivor benefits that is no longer appropriate.
>
> <u>Outdated Provisions Retained</u>. 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.
>
> <u>Uniformity and Equity of Pension Benefits</u>. The same Act 242 provisions for termination of surviving spouses' benefits upon remarriage apply to the surviving spouses of nonuniformed employees of the City of Philadelphia as well as to firefighters and fire department 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.

## COMMISSION RECOMMENDATION

On March 9, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

House Bill Number 395, Printer's Number 422, passed the House on April 12, 2005, and was referred to the Senate Urban Affairs and Housing Committee on May 23, 2005.

**Bill ID:** House Bill Number 546, Printer's Number 594

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

**Subject:** Purchase of Service Credit for County Service

## SYNOPSIS

House Bill Number 546, Printer's Number 594, would amend the Public School Employees' Retirement Code to permit an active member of the Public School Employees' Retirement System (PSERS) to purchase nonschool service credit in PSERS for previous service as a county employee, other than service as a county nurse, at the rate of one year of service credit for every three years of county service, up to a maximum of five years of service credit in PSERS, provided that:

1) the member was a full-time employee of a county of the Commonwealth, excluding employment as a county nurse, as an independent contractor, or as an employee compensated on a fee basis;

2) during employment with a county, the member was an active member of the county retirement system or, in the event that no county retirement system existed during the applicable period of employment, the member would have been eligible to become an active member of the current county retirement system; and

3) an eligible member makes contributions for the county service credit equal to the present value of the full actuarial cost of the increase in the member's projected superannuation annuity caused by the additional service credited on account of the service purchase.

## DISCUSSION

The Public School Employees' Retirement System (PSERS) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of PSERS is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. 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, 2004, there were 247,901 active members and 151,552 annuitant members of PSERS.

Under the PSERS Code, a member attains superannuation benefit eligibility 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 basic pension benefit is equivalent to 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 have 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 for previous service with another employer are of value to the member because they enhance the retirement benefit and also may accelerate retirement eligibility.

Active members and active multiple service members of PSERS 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 of service credit for every three years of previous service as a full-time county employee.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has reviewed the bill and determined that because of the method utilized by the consulting actuary of PSERS to determine the full actuarial cost paid by the member, the bill would have a de minimis actuarial cost impact.

Although there would be, at most, a de minimis actuarial cost impact attributable to the bill, there may be other benefit costs incurred by the employers. By purchasing service credit in PSERS for nonschool service, a member either may become eligible for certain postretirement benefits sooner than otherwise or may achieve eligibility for those benefits when the member could not otherwise do so. Such benefits may include payments for accumulated annual or sick leave by the employer at retirement, or employer-subsidized postretirement medical insurance.

## POLICY CONSIDERATIONS

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

> <u>Departure From and Conformance with Policy Guidelines</u>. In March 1997, the Public Employee Retirement Commission published *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems*, a report recommending policy guidelines for authorizing, funding, and structuring purchases of credit for service. The bill fails to conform 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 a situation that is not among the situations which the Commission views as warranting a service credit purchase authorization.

*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 credited in PSERS.

*Adequacy of Purchase Payments*. The bill requires payment by a member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase thus preventing all but a de minimis actuarial cost attributable to the bill.

Documentation Problems. In the case of a member applying to purchase credit for county service that occurred many years prior to the purchase, the county employer and PSERS may encounter difficulty in documenting the previous county service. Additionally, after the fact determinations of county retirement system membership eligibility may also prove to be administratively arduous and costly.

## COMMISSION RECOMMENDATION

On June 22, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

A later version of House Bill Number 546 (Printer's Number 2367) passed the House on June 28, 2005, and was referred to the Senate Finance Committee on June 29, 2005.

**Bill ID:** House Bill Number 603, Printer's Number 676

**System:** State Employees' Retirement System

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

## SYNOPSIS

House Bill Number 603, Printer's Number 676, would amend the State Employees' Retirement Code to expand the definition of enforcement officer to include full-time Pennsylvania Game Commission Officers and other employees who are graduates of the Game Commission's Ross Leffler School of Conservation and serve or previously served as wildlife conservation officers empowered to enforce or investigate alleged violations of the Pennsylvania Crimes Code and the Game and Wildlife Code. Deputy Game Commission officers are excluded from eligibility for the enhanced retirement benefits.

## 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, 2003, there were 109,018 active members of SERS.

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

Under the Code, the employees currently eligible for the special benefit coverage as public safety employees include the following: Liquor Control Board enforcement officers and investigators; Office of Attorney General special agents, narcotics agents, asset forfeiture agents, medicaid fraud agents, and senior investigators of the hazardous prosecutions unit; Pennsylvania Board of Probation and Parole parole agents; Department of Corrections corrections officers; Department of Public Welfare psychiatric security aides; Delaware River Port Authority police officers; Department of General Services capitol police officers; Department of Conservation and Natural Resources park rangers; waterways conservation officers of the Pennsylvania Fish and Boat Commission; and Pennsylvania State Police officers. The bill would amend the Code to include certain employees of the Game Commission in the definition of "enforcement officers."

Under the Game and Wildlife Code, Wildlife Conservation Officers (WCOs), also known as Game Commission Officers, are empowered to enforce all laws of the Commonwealth relating to game and wildlife, the Fish and Boat Code, Forestry Laws, and the Pennsylvania Crimes Code. All full-time

WCOs are graduates of the Game Commission's Ross Leffler School of Conservation. WCOs are uniformed and receive extensive law enforcement and wildlife management training.

Game Commission personnel records reveal that a number of full-time Game Commission employees who formerly served in the field as WCOs are now employed as managers and administrators. Although these employees are primarily engaged in managerial or administrative work, the Game Commission continues to classify these employees as WCOs. The employees are required to attend Game Commission continuing education programs in order to maintain their WCO certification status and may exercise the same powers as WCOs employed in the field. The language of the bill appears to include these employees in the definition of "enforcement officer," and they would be eligible to receive the special retirement benefit.

The Game Commission also utilizes the services of nearly 700 deputy wildlife conservation officers. Deputy wildlife conservation officers may be appointed with Game Code enforcement powers, but they cannot enforce the Crimes Code, and generally are not entitled to compensation for either time or expenses. (Under certain circumstances, deputy WCOs may receive per diem pay of up to $65 daily.) The language of the bill specifically excludes deputy wildlife conservation officers from being defined as "enforcement officers."

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has prepared two estimates of the actuarial cost impact of the bill utilizing two sets of actuarial assumptions. These estimates are labeled "Scenario I" and "Scenario II" in the tables below. In the State Employees' Retirement System, the hazardous duty employee pre-retirement turnover and retirement assumptions are typically lower than those for general employees. Because the affected Game Commission employees are currently treated as general employees, the actuarial assumptions for general employees are applied to these members. However, if the bill is enacted, the actuarial assumptions applied to the affected Game Commission employees would change from those assumptions used for general employees to those used for hazardous duty employees. The Scenario I estimate reflects this transition, and the Commission's consulting actuary has indicated that, although reasonable, the Scenario I estimate may somewhat understate the true costs of the benefit enhancement provided by the bill. Because the duties and regular working conditions of the affected Game Commission employees would not change due to the enactment of the bill, the actuary believes that the employee pre-retirement turnover patterns are unlikely to be altered to the extent that the change from general employee to hazardous duty assumptions would otherwise suggest. For this reason, the actuary has also prepared Scenario II, which applies the hazardous duty assumptions both before and after the potential enactment of the bill, and which the actuary believes provides a more reasonable estimate of the bill's full actuarial cost impact.

### Scenario I

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $1,200,000 |

| | Amount | As a % of Affected Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $275,000 | 2.8% |
| Amortization Payment [1] | 180,000 | 1.9% |
| Total Increase in Employer Annual Costs [2] | $455,000 | 4.7% |

[1] Amortization calculated as level dollar payments over 10 years.

[2] Amortization payments cease after 10 years.

### Scenario II

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $2,250,000 |

| | Amount | As a % of Affected Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $260,000 | 2.7% |
| Amortization Payment [1] | 340,000 | 3.5% |
| Total Increase in Employer Annual Costs [2] | $600,000 | 6.2% |

[1] Amortization calculated as level dollar payments over 10 years.

[2] Amortization payments cease after 10 years.

## POLICY CONSIDERATIONS

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

Appropriateness of Benefit Coverage. Traditionally, special public safety employee retirement coverage is deemed appropriate for a group of employees if the nature of the duties of the employees is sufficiently hazardous and the need for an exceptionally able and vigorous workforce is sufficiently great. The positions in the Pennsylvania Game

Commission proposed to be included under the special benefit coverage are employees who are empowered to enforce or investigate alleged violations of the Crimes Code as well as the Game and Wildlife Code. In considering the proposed legislation, the General Assembly must determine whether the special benefit coverage is warranted for this group of employees based on the degree of hazard encountered by these individuals in the performance of their duties and the need for an exceptionally vigorous workforce in this area.

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

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

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

## COMMISSION RECOMMENDATION

On June 22, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

House Bill Number 603, Printer's Number 676, was vetoed by the Governor (Veto No. 2) on December 23, 2005.

**Bill ID:** House Bill Number 740, Printer's Number 831

**System:** Pennsylvania Municipal Retirement System

**Subject:** Service Credit for Intervening and Nonintervening Military Service

## SYNOPSIS

House Bill Number 740, Printer's Number 831, would amend the Pennsylvania Municipal Retirement Law (Law) to liberalize current provisions pertaining to the types of military service for which members may receive service credit. The bill 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.

## DISCUSSION

The Pennsylvania Municipal Retirement System (PMRS) is a governmental, multiple-employer retirement system created by the Commonwealth under the Pennsylvania Municipal Retirement Law (Act 15 of 1974) 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, 2003, PMRS covered 656 defined benefit and 163 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. 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.

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 interrupts 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 (USERRA does not address the issue of *nonintervening* military service.). Specifically, 38 U.S.C. § 4318(a)(2)(A) provides that the employee "shall be treated as not having incurred a break in service … by reason of such person's period or periods of service." Further, § 4318(b)(1) provides that "[a]n employer … shall … be liable to an employee pension benefit plan for funding any obligation of the plan to provide the benefits described in subsection (a)(2) …," and that "[n]o such payment may exceed the amount the person would have been permitted or required to contribute had the person remained continuously employed by the employer" (§ 4318(b)(2)). While USERRA only requires the shifting of the interest cost to the employer, in practice, PMRS has interpreted this language to prohibit the assessment of interest on employee contributions made in connection with the purchase of intervening military service.

The Pennsylvania General Assembly has also 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.

Under the Pennsylvania Municipal Retirement Law, active members of PMRS are entitled to receive 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. However, because USERRA had the effect of superceding the Pennsylvania Municipal Retirement Law with respect to the rights of members purchasing intervening military service, PMRS advises that it 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 Pennsylvania Municipal Retirement 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 individuals currently excluded from purchasing nonintervening military service are those members of PMRS who served in the U. S. armed forces during the 15-year period from roughly 1975 to 1990. The bill would have the effect of liberalizing the service purchase eligibility criteria for nonintervening military service and would bring the Pennsylvania Municipal Retirement Law into compliance with USERRA with respect to the purchase of intervening military service.

Under the Pennsylvania Municipal Retirement 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. Although the Pennsylvania Municipal Retirement Law requires the assessment of interest on purchases of intervening military service, PMRS staff has informed the staff of the Commission that, in practice, no interest is charged in connection with intervening military service purchases due to the system's interpretation of USERRA.

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 (due to the very limited number of individuals currently excluded from purchasing nonintervening military service), and the minimal additional costs associated with granting such service purchases due to the fact that the member will bear a majority of the cost associated with the service purchase, the actuarial cost of the bill will not be meaningful.

## POLICY CONSIDERATIONS

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

> <u>Equity in the Treatment and Crediting of Military Service</u>. 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 removes language in the Law that currently treats military service inequitably for retirement credit purposes.
>
> <u>Substantial Compliance with Federal Law</u>. The bill attempts to bring the Pennsylvania Municipal Retirement Law into conformance 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. Although it is clear that one objective of the bill is to bring the Pennsylvania Municipal Retirement Law into compliance with USERRA, the PMRS staff has informed the staff of the Commission that additional technical amendments to the bill would be necessary to ensure full compliance. While PMRS may consider such technical amendments to be desirable, conforming amendments are not required by USERRA because federal law already supercedes the intervening military service purchase provisions of the Pennsylvania Municipal Retirement Law that are contrary to USERRA.

## COMMISSION RECOMMENDATION

On April 27, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## FINAL LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

A later version of House Bill Number 740 (Printer's Number 2111) passed the House on June 27, 2005, and was referred to the Senate Finance Committee on June 28, 2005.

**Bill ID:** House Bill Number 1030, Printer's Number 1186

**System:** State Employees' Retirement System

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

## SYNOPSIS

House Bill Number 1030, Printer's Number 1186, would amend the State Employees' Retirement Code (Code) to create a new class of service within the State Employees' Retirement System (System), to be known as Class C-1, which shall have a class of service multiplier of 1.25, and to permit certain current and former Class C members of the System to elect membership in Class C-1 and receive Class C-1 service credit for all periods of Class C service, except for Class C service performed as a Pennsylvania State Police Officer, provided the member files a written election notice with the State Employees' Retirement Board prior to July 1, 2005, or prior to termination of state service, or in the case of a member of the Public School Employees' Retirement System (PSERS), prior to termination of school service, whichever first occurs.

Under the provisions of the bill, an eligible member would be:

1) A state employee who on January 1, 2005, is an active or inactive Class C member of the State Employees' Retirement System;

2) A former state employee who was formerly a member of Class C, and on January 1, 2005, is a multiple service member, a school employee and a member of the Public School Employees' Retirement System; or

3) A former state employee who was formerly a member of Class C, who is a school employee and who after January 1, 2005, becomes a multiple service member.

## DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits to state employees. Membership in SERS is mandatory for most state employees. Certain other employees are not required to become members but are given the option to participate. As of December 31, 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. Generally, the pension benefit is equivalent to the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary.

Since the passage of Act 9 of 2001, most active members of SERS have become members of Class AA, which has a class of service multiplier of 1.25. Class AA members include most regular state employees, and employees of certain Commonwealth commissions and authorities. Under the Code, the class of service multiplier has an effect both on the calculation of the regular member contributions and on the member's annuity.

The regular member contribution is the product of the basic contribution rate of five percent of compensation multiplied by the class of service multiplier; and

the maximum single life annuity of a member is the product of two percent multiplied by the member's years of credited service multiplied by the member's final average (highest three years) salary multiplied by the member's class of service multiplier.

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

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

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

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

## SUMMARY OF ACTUARIAL COST IMPACT

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

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

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $110,000 |

| | Amount | As a % of Affected Payroll |
|---|---|---|
| Increase in Employer Annual Cost | | |
| Normal Cost | $ 2,000 | 0.4% |
| Amortization Payment[1] | 17,000 | 3.1% |
| Total Increase in Employer Annual Costs | $19,000 | 3.5% |

[1] Ten-year level dollar amortization. Payments cease after 10 years.

## POLICY CONSIDERATIONS

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

Benefit Enhancement. Providing a class of service multiplier of 1.25 for Class C-1 will, in effect, enhance normal retirement benefits (and pre-retirement death benefits) for members electing Class C-1 service by 25 percent over the current maximum single life annuity calculation used for members of Class C. However, because Class C members who elect Class C-1 membership under the bill would forgo entitlement to the additional "member's annuity" currently provided to Class C members in addition to the normal retirement benefit, some Class C members may not benefit from electing Class C-1 membership.

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

Elimination of Potential Benefit Inequity. Among its various other provisions, Act 9 of 2001 requires that all employees who become members of SERS on or after July 1, 2001, become members of Class AA, which has a class of service multiplier of 1.25. Therefore, a newly hired Class AA enforcement officer would be provided with a retirement benefit formula that is more lucrative than that for a Class C enforcement officer, creating a retirement benefit disparity between similarly situated employees. However, it should be noted that due to the effects of the additional benefit component provided to Class C members under Section

5702(a)(3), it is possible, though unlikely, that some Class C members may not benefit from electing Class C-1 membership.

Drafting Ambiguities. In reviewing the bill, the Commission staff noted the following technical drafting issues that, if left uncorrected, may have unintended consequences on implementation of the bill's provisions.

*Effective Date of Increased Member Contributions.* Under the bill as written, the member contribution rate for Class C-1 members would increase effective July 1, 2004. It is unclear if the language in the bill mandating retroactive payment of member contributions was the intent of the bill sponsors or merely a drafting oversight. If the intent of the bill sponsors is to require increased employer contributions on a prospective basis only, the bill should be amended to require increased member contributions beginning July 1, 2006 (see bill page 2, line 26, and bill page 3, line 3).

*Potential for Retroactive Application of Benefit Enhancement.* Under the bill as written, affected members would be eligible to elect Class C-1 service beginning January 1, 2005. Although the bill is clear that to be eligible a member must file an application with the Board *prior to termination of service* (see bill page 8, lines 1-3), staff of the State Employees' Retirement System have expressed concern that the bill could be misinterpreted to be applicable to members who have already retired. To prevent this possible misinterpretation, which could lead to unnecessary litigation, the effective date of January 1, 2005, should be amended to January 1, 2006 (see bill page 6, line 20; page 7, lines 7, 14, and 26; and page 8, line 5).

*Time for Making Election.* Under the bill as written, an eligible member must file a written election notice with the Board prior to July 1, 2005 (bill page 8, line 1). The staff of the Commission believes that the date should be changed to July 1, 2006.

## COMMISSION RECOMMENDATION

On April 27, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

House Bill Number 1030, Printer's Number 1186, was introduced and referred to the House State Government Committee on March 21, 2005.

**Bill ID:** Amendment Number 02843 to
House Bill Number 1030, Printer's Number 1186

**System:** State Employees' Retirement System

**Subject:** Age 50 Superannuation Retirement Benefits for Campus Police Officers

## SYNOPSIS

Amendment Number 02843 to House Bill Number 1030, Printer's Number 1186, would amend Section 5102 of the State Employees' Retirement Code (Code) to expand the definition of enforcement officer to include an employee of a university within the Pennsylvania State System of Higher Education who is commissioned and trained as a "campus police officer," as that term is defined in section 2416 of the act of April 9, 1929 (P. L. 177, No. 175), known as the Administrative Code of 1929.

## 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, 2004, there were 108,405 active members of SERS.

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

Under the Code, the employees currently eligible for the special benefit coverage as public safety employees include the following: Liquor Control enforcement officers and investigators; Office of Attorney General special agents, narcotics agents, asset forfeiture agents, medicaid fraud agents, and senior investigators of the hazardous prosecutions unit; Pennsylvania Board of Probation and Parole parole agents; Department of Corrections corrections officers; Department of Public Welfare psychiatric security aides; Delaware River Port Authority police officers; Department of General Services capitol police officers; Department of Conservation and Natural Resources park rangers; waterways conservation officers of the Pennsylvania Fish and Boat Commission; and Pennsylvania State police officers.

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

In addition to campus police officers, there are also various classifications of campus security officers and community service officers who are not commissioned under Section 2416 of the Administrative Code of 1929 but who are responsible for the routine security work of patrolling the buildings and grounds of educational institutions to protect and guard property or individuals from fire, theft, trespass, or other hazards. Their work may involve regulating the activities of individuals and may include performing limited police duties. Community service officers at The Pennsylvania State University may or may not have arrest authority.

The amendment would expand the definition of enforcement officer to include only those employees of a university within the Pennsylvania State System of Higher Education who are commissioned and trained as "campus police officers," as that term is defined in section 2416 of the act of April 9, 1929 (P. L. 177, No. 175), known as the Administrative Code of 1929. Because of the amendment's restrictive definition of campus police officer, additional, non-commissioned security personnel classifications would not be eligible for the proposed reduced normal retirement age, nor would campus police officers of State-related institutions.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has prepared two estimates of the actuarial cost impact of the amendment utilizing two sets of actuarial assumptions. These estimates are labeled "Scenario I" and "Scenario II" in the tables below. In the State Employees' Retirement System, the hazardous duty employee pre-retirement turnover and retirement assumptions are typically lower than those for general employees. Because the affected employees are currently treated as general employees, the actuarial assumptions for general employees are applied to these members. However, if the amendment is enacted, the actuarial assumptions applied to the affected employees would change from those assumptions used for general employees to those used for hazardous duty employees. The Scenario I estimate reflects this transition, and the Commission's consulting actuary has indicated that, although reasonable, the Scenario I estimate may somewhat understate the true costs of the benefit enhancement provided by the amendment. Because the duties and regular working conditions of the affected employees would not change due to the enactment of the amendment, the actuary believes that the employee pre-retirement turnover patterns are unlikely to be altered to the extent that the change from general employee to hazardous duty assumptions would otherwise suggest. For this reason, the actuary has also prepared Scenario II, which applies the hazardous duty assumptions both before and after the potential enactment of the amendment, and which the actuary believes provides a more reasonable estimate of the amendment's full actuarial cost impact.

**Scenario 1**

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $670,000 |

| | Amount | As a % of Affected Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $185,000 | 2.7% |
| Amortization Payment [1] | 100,000 | 1.5% |
| Total Increase in Employer Annual Costs [2] | $285,000 | 4.2% |

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

[2] Amortization payments cease after 10 years.

**Scenario 2**

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $1,350,000 |

| | Amount | As a % of Affected Payroll |
|---|---|---|
| Increase in Employer Annual Costs | | |
| Normal Cost | $175,000 | 2.6% |
| Amortization Payment [1] | 205,000 | 3.1% |
| Total Increase in Employer Annual Costs [2] | $380,000 | 5.7% |

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

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

## COMMISSION RECOMMENDATION

On November 17, 2005, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

House Bill Number 1030, Printer's Number 1186, was introduced and referred to the House State Government Committee on March 21, 2005.

**Bill ID:** House Bill Number 1048, Printer's Number 1204

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

**Subject:** Length-of-Service Increments and Excess Benefits

## SYNOPSIS

House Bill Number 1048, Printer's Number 1204, would amend the Municipal Police Pension Law (Act 600 of 1955) to: 1) increase the permissible length-of-service increment that may be paid to a member in addition to the normal retirement benefit from the current maximum of $100 per month for members who have completed in excess of 25 years of service, to $100 per month for each completed year of service in excess of 25 years, up to a maximum service increment of $500 per month for members who have completed 30 or more years of service; 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, 2003, there were at least 634 municipal police officer retirement systems with three or more members operating under the Municipal Police Pension Law, covering 7,840 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 current service increment limit from $100 per month to $100 per month for each completed year of service in excess of 25 years up to a maximum of $500 per month for members who have completed 30 or more years of service. The following may serve to better explain how the service increments would change if the bill is enacted: 1) a member would be eligible to receive a service increment of up to $100 for 26 completed years of service; 2) up to $200 for 27 years of service; 3) up to $300 for 28 years of service; 4) up to $400 for 29 years of service; and 5) up to a maximum of $500 per month for 30 or more years of service.

## 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 home rule 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 cost to fund those benefits is incurred by the municipality but not subject to reimbursement from General Municipal Pension System State Aid. The bill would sanction all benefits provided by the affected home rule 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.

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liabilities | $13,000,000 — $13,500,000 |

| | Amount | As a % of Payroll |
|---|---|---|
| Increases in Employers' Annual Costs | | |
| Normal Costs | $ 230,000 — $ 280,000 | 0.06% — 0.07% |
| Amortization Payments [1] | 1,379,000 — 1,432,000 | 0.35% — 0.37% |
| 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.

The Commission's consulting actuary also reviewed section 2 of the bill which would have the effect of sanctioning the provision of pension benefits by certain home rule municipalities that may currently be in excess of the benefit limits set forth in Act 600. If enacted, the bill would permit the affected municipalities to receive additional State aid allocations for which they are not now eligible. Although the Commission's consulting actuary believes that there would be an actuarial cost impact resulting from the passage of section 2 of the bill, due to the absence of information on which of the forty-six home rule municipalities otherwise subject to Act 600 would be affected by the legislation, a meaningful estimate of the actuarial cost could not be determined.

## 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.

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

Impact on MMO and State Aid. Providing pension benefits beyond those currently authorized by Act 600 increases an affected municipality's pension costs, however, an affected municipality is currently not eligible for a corresponding increase in State aid. Under the bill, an affected municipality would become eligible for a corresponding increase in its allocation of State aid to defray the increased pension costs resulting from the provision of unauthorized or excess benefits.

## COMMISSION RECOMMENDATION

On June 22, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

A later version of House Bill Number 1048 (Printer's Number 2387) passed in the House on October 19, 2005, and was referred to the Senate Finance Committee on October 24, 2005.

**Bill ID:** House Bill Number 1300, Printer's Number 1544

**System:** All Municipal Pension Systems

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

SYNOPSIS

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

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

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

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

Provide for IROP election forms;

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

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

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

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

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

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

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

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

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

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

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

Provide for rectifying future noncompliance with the IROP provisions; and

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

The technical amendment contained in the bill would:

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

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

### Deferred Retirement Option Plans

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

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

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

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

### The Current Situation

During 2005, the Commission staff attempted to ascertain the current status of DROPs operating at the municipal level in the Commonwealth by informally surveying all actuarial firms that certified municipal pension plan costs to the Commission under Act 205 for the 2003 filing period. All complied except one actuarial firm representing 374 of the 2,114 plans reported (approximately 18% of the statewide total). The following summarizes the results of the staff's informal survey.

> <u>Number of DROPs</u>: The Commission staff has identified a total of 28 DROPs that have been established and are currently operating in 25 municipalities in the Commonwealth.
>
> <u>Length of DROP Period</u>: Of the 28 DROPs identified by the staff, 23 plans limited the participation period to no more than five years, but five DROPs do not specify a maximum period in the plan document. Six plans provided for a minimum participation period of one year.
>
> <u>Guaranteed Interest Rate</u>: The amount of interest credited to a DROP participant's account varied considerably, with guaranteed earnings ranging from lows of less than 1% to a high of 6% annually. Those plans without guaranteed rates would provide credit for actual earnings.
>
> <u>Death Benefits</u>: In the event of the death of a DROP participant, nineteen plans provide for payment of a regular survivor benefit based upon the date of retirement plus distribution of the DROP account balance. Nine plans provide the normal retirement benefit only, without DROP eligibility. Two of these nine plans deny the payment of any killed-in-service benefit for DROP participants, with one specifically denying the death benefit otherwise mandated by Act 30 of 2002.
>
> <u>Disability Benefits</u>: Eight plans deny any eligibility for disability retirement benefits. Six plans terminate all participation in the DROP program. Five provide for service connected disability benefits without DROP eligibility, or if the disability is not work-related, separation from service under normal retirement and payment of the DROP account balance. Three plans freeze DROP participation during any period of temporary disability, when the participant would presumably receive Workers' Compensation and/or Heart and Lung Act benefits. Two plans continue DROP participation until attainment of the specified resignation date. And four plans simply do not address the issue.

Back-Drop: Two plans have established so-called "back-DROPs," whereby DROP participation is elected at normal retirement age but is applied retroactively from the date of actual retirement. In both plans, the election to participate in the DROP can be rescinded by the participant. During the period of anticipated DROP participation, the member continues to be treated as an active member of the pension plan for all purposes, including for the purpose of allocating General Municipal Pension System State Aid.

Because of the current actual, and potential future diversity of DROP provisions, it is unlikely that, in the absence of controlling legislation, DROPs created in Pennsylvania would conform to existing Commonwealth statutes. Non-conformance with Pennsylvania's Municipal Pension Plan Funding Standard and Recovery Act (Act 205) would have the potential to cause inequitable allocations in the annual distribution of General Municipal Pension System State Aid through the manipulation of employee eligibility criteria. Pennsylvania currently has no enabling legislation or guidelines for the implementation of DROPs administered by local governments. The bill would amend Act 205 by adding a chapter specifically addressing this issue by implementing a uniform Pennsylvania local government DROP structure known as the In-service Retirement Option Plan (IROP).

## SUMMARY OF ACTUARIAL COST IMPACT

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

1) the extent to which members would elect an IROP in the future relative to the extent to which members currently defer their retirement past first eligibility for normal retirement;

2) the rate of interest credited on IROP accounts;

3) anticipated (or already negotiated) salary increases; and

4) the level of continued benefit accruals under the plan after normal retirement for members who do not participate in the IROP.

## POLICY CONSIDERATIONS

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

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

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

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

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

Recommended Clarifying Amendments. In reviewing the bill, the Commission staff noted certain language in the bill that, in the absence of clarification, could be subject to misinterpretation should the bill become law. Specifically, the staff was concerned about potential ambiguities in language dealing with the calculation and payment of survivor benefits upon the death of an IROP participant. The staff's recommended clarifying amendments are attached.

## COMMISSION RECOMMENDATION

On June 22, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the Commission's actuarial note transmittal and favorably consider enactment of the bill.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

House Bill Number 1300, Printer's Number 1544, was introduced and referred to the House Local Government Committee on April 6, 2005.

**Bill ID:** House Bill Number 1777, Printer's Number 2291

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

**Subject:** Increasing the Benefits of Surviving Spouses

## SYNOPSIS

House Bill Number 1777, Printer's Number 2291, is a joint resolution that would amend Section 26 of Article 3 of the Constitution of Pennsylvania to permit the General Assembly to increase the retirement benefits or pensions payable to beneficiaries who are spouses of members of a public employee retirement system if the increases are certified to be "actuarially sound."

## DISCUSSION

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

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

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

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

The bill makes the granting of increased benefits to surviving spouses contingent upon a retirement system being "certified to be actuarially sound." An actuarially sound public employee retirement system can generally be defined as any system that is being funded using an appropriate actuarial cost method, without regard to the time period over which unfunded actuarial accrued liabilities are to be amortized. Because essentially all public employee retirement systems in the Commonwealth use one of several generally accepted actuarial cost methods, the inclusion of such a provision is essentially meaningless. However, an "actuarially sound" plan may also be defined more stringently as one in which combined employee and employer contributions are sufficiently large to fully fund the normal cost and amortize any unfunded actuarial accrued liabilities over some specified time period. Therefore, because the meaning of the phrase, "Provided, that such increases are certified to be actuarially sound," as used in the bill is ambiguous, it should be either deleted from the bill or be more specifically defined to avoid confusion.

## SUMMARY OF ACTUARIAL COST IMPACT

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

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

| | **Postretirement Adjustment Design Format** | | | |
|---|---|---|---|---|
| **Retirement System** | **Fixed % Increase** | **% per Year Retired** | **$ per Year Retired [1]** | **$ per Year of Service [1]** |
| PSERS | 1% — 3% | 2% — 4% | 5% — 10% | 4% — 6% |
| SERS | 4% — 6% | 5% — 10% | 10% — 20% | 8% — 12% |
| County | 2% — 6% | 3% — 10% | 5% — 15% | 5% — 10% |
| Municipal | 5% — 15% | 10% — 25% | 30% — 60% | 20% — 40% |

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

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

## POLICY CONSIDERATIONS

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

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

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

Increased Cost of Postretirement Adjustments. Liabilities associated with the provision of postretirement adjustments will increase if extended to surviving spouses.

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

Drafting Ambiguity. The phrase “Provided, that such increases are certified to be actuarially sound” is ambiguous and should be either deleted from the bill or clearly defined to avoid confusion.

## COMMISSION RECOMMENDATION

On October 6, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## FINAL LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

House Bill Number 1777, Printer's Number 2291, was introduced and referred to the House State Government Committee on June 22, 2005.

**Bill ID:** House Bill Number 1849, Printer’s Number 2485

**System:** State Employees’ Retirement System

**Subject:** Optional State Employees' Retirement System Membership for Employees of the Philadelphia Parking Authority

## SYNOPSIS

House Bill Number 1849, Printer’s Number 2485, 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 the State Employees' Retirement System (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 service credited with the City of Philadelphia’s retirement system 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, 2004, there were 108,405 active members and 98,727 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 more than 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.

According to the most recent data supplied to the Commission staff by the Philadelphia Parking Authority, the Authority employs a staff of 821 active employees (excluding Deferred Retirement Option Plan (DROP) participants). 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 bill 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 January 1, 2006, 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 January 1, 2006. If SERS membership is not elected prior to January 1, 2006, then membership in SERS is prohibited. For current Authority employees who elect membership in SERS, all service previously credited with Philadelphia's retirement system would count as eligibility points (as opposed to credited service) on a year-for-year basis for vesting and benefit eligibility purposes in SERS.

A current employee of the Authority who elects SERS membership may choose to either keep all previous service credit 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 previously credited service with the Authority or other service credited in the City's pension plan. 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 bill 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 bill, contributions for the purchase of nonstate service credit for all previous service with the Authority shall be the greater of: 1) the amount of employee contributions made by the employee to the Philadelphia pension plan for such service, plus applicable interest, if any, and any amount owed by the employee to the pension plan for previous service credit or service purchases in the pension plan or for the repayment of amounts received from the pension plan; or 2) 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. 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.

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

On November 15, 2004, the consulting actuary of the State Employees' Retirement System provided the Commission staff with an actuarial note for a legislative proposal very similar to the current bill, which in-turn was reviewed and found to be reasonable by the Commission's consulting actuary. Since that time, the Commission staff has been able to provide the Commission's consulting actuary with updated demographic and payroll information on the employees of the Philadelphia Parking Authority. However, it was determined that the new information was not sufficient for the Commission's actuary to estimate which employees of the Authority would benefit from transferring to SERS. For this reason, the Commission's consulting actuary continues to view as reasonable the original estimate provided by the SERS consulting actuary, which indicated an increase in unfunded actuarial accrued liability attributable to the proposal in the bill of approximately $4 million. Further, it is the consensus of both the SERS 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 it is possible that reinstated state service credits and the purchase of nonstate 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 most individuals would view such a decision as advantageous. Based upon these assumptions, the estimated actuarial cost impact of the bill is summarized in the following table.

| | Amount |
|---|---|
| Increase in Unfunded Actuarial Accrued Liability | $4,000,000 |

| | Amount | As a % of Total Payroll | As a % of Affected Payroll |
|---|---|---|---|
| Increase in Employer Annual Costs | | | |
| Normal Cost | $230,000 | 0.004% | 8.25% |
| Amortization Payment [1] | $610,000 | 0.012% | 22.00% |
| Total Increase in Employer Annual Costs [2] | $840,000 | 0.016% | 30.25% |

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

[2] Amortization payments cease after 10 years.

## POLICY CONSIDERATIONS

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

Appropriateness of 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.

Potential for Accelerated Benefit Eligibility. The bill creates the potential for accelerated benefit eligibility (and, thus, additional benefit costs) in SERS for certain Authority employees who would otherwise be unable to acquire such benefit eligibility, through a combination of reinstated state service credits (in the case of a member who has significant prior state service), the acquisition of additional eligibility points, and the purchase of nonstate service credit.

Appropriateness of Credit for Previous 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 there was a transfer of 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.

Absence of Limit on Purchasable Nonstate Service Credit. Unlike other service purchase authorizations provided for in the Code, the service purchase authorization in the bill sets no limit on the amount of nonstate service credit that may be purchased by the member.

Adequacy of Service Purchase Payments. Contributions for the purchase of nonstate service credit for Parking Authority service will be determined based upon the greater of the member's accumulated member contributions, plus interest, in the City of Philadelphia retirement plan or 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. If it is determined that the transfer of control of the Philadelphia Parking Authority constitutes a bona fide transfer of governmental function, then the service purchase authorization contained in the bill would seem to be appropriate.

Status of DROP Participants. The City's pension plan, of which Authority employees are members, includes an optional Deferred Retirement Option Plan (DROP) provision. For reporting purposes under the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), Philadelphia DROP participants are considered retired members. However, under the bill, a DROP participant would appear to be eligible to elect prospective membership in SERS. This has the potential to create a situation in which a DROP participant could continue to have benefit payments credited to a DROP account while accruing service credit and future benefit eligibility in SERS.

Effective Date. The bill's effective date of the *later* of January 1, 2006, or immediately, appears to conflict with the bill's requirement that current Authority employees who wish to become members of SERS elect to do so *prior* to January 1, 2006. The bill should be amended to provide affected employees a more reasonable time period within which to carefully consider the implications of electing prospective membership in SERS.

Drafting Ambiguity. The bill appears to amend an existing service purchase authorization in the SERS Code for service as a temporary Federal employee assigned to an air quality control complement for the former Pennsylvania Department of Environmental Resources at any time during the period of 1970 through 1975 (see bill page 8, lines 24 - 30 and page 9, lines 1-5). Although the amendatory language appears to have no impact upon the operation of the current service purchase authorization, the intent of the amendment is unclear.

## COMMISSION RECOMMENDATION

On October 6, 2005, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

## LEGISLATIVE STATUS AS OF DECEMBER 31, 2005

House Bill Number 1849, Printer's Number 2485, was introduced and referred to the House Urban Affairs Committee on July 2, 2005.

# PART II

## PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

### A. ACT 205 OF 1984.

- **2005 Filing Period**

In August of 2005, the Commission transmitted filing notices to the 4,500 local governments required to file employee pension plan reports pursuant to Act 205. Several follow-up notices were sent to local governments that failed to respond to the filing notice in the fall of 2005. The filing deadline for the 2005 Act 205 reports will be March 31, 2006.

- **Municipal Pension Cost Certification**

In the summer of 2005, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2005 allocation of General Municipal Pension System State Aid. In 2005, the State aid provided to municipalities to offset their employee pension costs totaled $190.5 million. More than 1,400 individual allocations of General Municipal Pension System State Aid were determined by the cost data certified by the Commission.

### B. ACT 293 OF 1972.

- **2004 Filing Period**

Since the passage of the Municipal Pension Plan Funding Standard and Recovery Act, the actuarial reporting program under Act 293 has only been applicable to county employee retirement systems. The 2004 actuarial reports on these systems were filed in 2005. The financial, demographic, and actuarial data contained in the reports has been reviewed and will be summarized in the *Status Report on Local Government Pension Plans* to be published by the Commission early in 2007.

# 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.

- **Issues Associated with Extending Commonwealth-Subsidized Healthcare Coverage to the Surviving Spouses of Certain Retired Commonwealth Employees**

On September 27, 2005, the Pennsylvania House of Representatives adopted House Resolution Number 161 (later amended by House Resolution Number 516). The resolution directed the

## B. RESEARCH. (Cont'd)

Public Employee Retirement Commission to undertake a study of issues related to the provision of Commonwealth-subsidized retiree healthcare benefits to the spouses of deceased, retired Commonwealth employees who were members of the State Employees' Retirement System and who had participated in the Commonwealth's Retired Employee Health Program through the Pennsylvania Employees Benefit Trust Fund.

Work on the study was completed in January 2006, and the final report was released in March 2006.

## C. STATEWIDE PUBLIC EMPLOYEE RETIREMENT SYSTEM REVIEWS.

Under the Public Employee Retirement Commission Act, the Commission conducts periodic reviews of the actuarial and financial reports of the various public employees' retirement systems. The Commission conducted its review of the Public School Employees' Retirement System in March 2005 and the State Employees' Retirement System in November 2005.

## Commission's Review of the
## Public School Employees' Retirement System Actuarial Valuation Report

At the March 9, 2005, meeting of the Commission, the staff presented a summary of the June 30, 2004, Actuarial Valuation Report of the Public School Employees' Retirement System (PSERS) issued January 28, 2005, and reviewed some significant facts concerning the condition of the System since the prior valuation.

### General Funding Information

- Increase in employer contributions of .46%, all due to change in health insurance contribution rate.
- The 4.00% minimum employer contribution rate in effect from the second year.
- Decrease in the funded ratio from 97.2% to 91.2%.
- Unfunded accrued liability of $5,028,521,000.
- Increase in the total normal cost rate to 14.77% from 14.60%.
- Employer contribution rate without minimum employer contribution — 3.33%

### Changes in Contribution Rate

| Fiscal Year | Member Contributions | Employer Contributions | | | |
|---|---|---|---|---|---|
| | | Normal Cost | Unfunded Accrued Liability | Health Care | Total |
| 2005/2006 | 7.16% | 7.61% | (4.28)% | .69% | 4.69% |
| 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% |

### Reasons for Change in the Rate

The employer contribution rate increased from 4.23% for fiscal year 2004/2005 to 4.69% for fiscal year 2005/2006. The increase of 0.46% is due to the following reasons:

| | |
|---|---|
| • Increase Due to Change in Normal Rate | 0.13 |
| • Increase Due to Payroll Growth | 0.27 |
| • Increase Due to Actuarial Loss on Assets | 2.67 |
| • Decrease Due to Actuarial Gain on Liabilities | (0.12) |
| • Increase Due to Change in Health Insurance Contribution Rate | 0.46 |
| • Impact of the 4% Floor on Employer Contribution Rate Under Act 40 | (2.95) |
| Total | 0.46% |

**Reasons for Increase in Unfunded Accrued Liability**

- Experience (Gains) Losses

| | |
|---|---|
| — Loss from Investment Return on Actuarial Value of Assets | $3,046,356,000 |
| — Gain from Salary Increases Less than Expected | (140,675,000) |
| — Gain from Retirement and Other Separation Experience | (131,003,000) |
| — Loss from Annuitants' Mortality Experience | 128,415,000 |
| Total | $2,903,093,000 |

* * * * * * * * * *

The Commission reviewed this report with Mr. Jeffrey B. Clay, Executive Director, Mr. Alan Van Noord, Chief Investment Officer, and Ms. Kim M. Nicholl, Consulting Actuary, of the Public School Employees' Retirement System.

### Summary of Actuarial Valuation
### Public School Employees' Retirement System as of June 30, 2004

The following is a summary of the June 30, 2004, Actuarial Valuation of the Public School Employees' Retirement System and a comparison of the 2004 results with those of 2003.

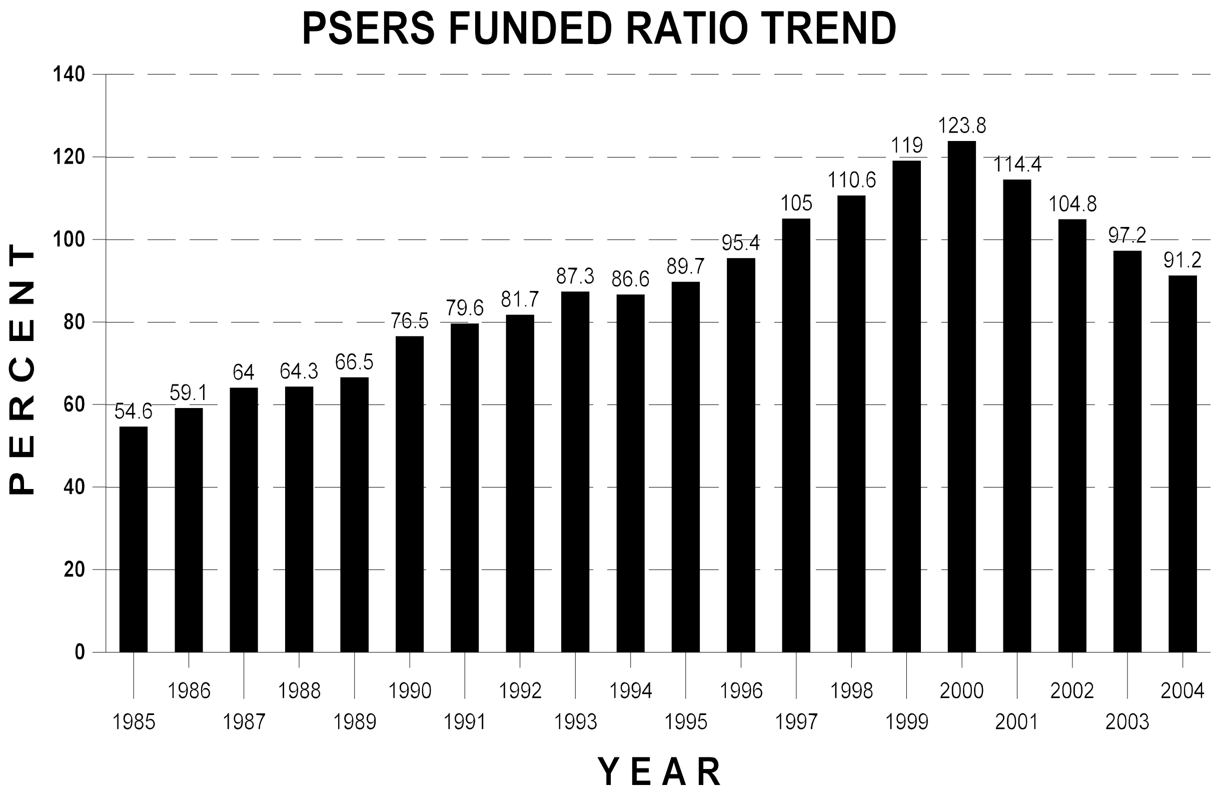
| | 6/30/03 | | 6/30/04 | |
|---|---|---|---|---|
| **Membership** | | | | |
| Active Members | 246,700 | | 247,901 | |
| Inactive and Vested Members | 65,453 | | 72,014 | |
| Retired Members | 132,005 | | 137,301 | |
| Disabled Members | 6,378 | | 6,696 | |
| Survivors and Beneficiaries | 7,310 | | 7,555 | |
| **Payroll and Annuities Payable** | | | | |
| Total Annual Payroll | $9,652,881,000 | | $10,030,705,000 | |
| Annual Annuities and Benefits | $2,545,135,000 | | $ 2,798,211,000 | |
| **Valuation Data** | | | | |
| Accrued Liability [1] | $54,443,775,000 | | $57,123,000,000 | |
| Assets | 52,900,465,000 | | 52,094,479,000 | |
| Unfunded Accrued Liability [1] | $ 1,543,310,000 | | $ 5,028,521,000 | |
| Fund Ratio | 97.2% | | 91.2% | |
| **Funding Costs** | | | | |
| Normal Cost | $1,409,320,626 | 14.60 % | $1,481,535,128.5 | 14.77 % |
| Amortization [2] | (685,354,551) | (7.10)% | (429,314,174) | (4.28)% |
| Full Actuarial Funding | $ 723,966,075 | 7.50 % | $1,052,220,954.5 | 10.49 % |
| **Support - Minimum** [3] | | | | |
| Member | $ 687,285,127.2 | 7.12% | $ 718,198,478 | 7.16% |
| School District | 193,057,620 | 2.00% | 200,614,100 | 2.00% |
| Commonwealth | 193,057,620 | 2.00% | 200,614,100 | 2.00% |
| Total Support [4] | $1,073,400,367.2 | 11.12% | $1,119,426,678 | 11.16% |
| **Support - No Minimum** [3] | | | | |
| Member | $687,285,127.2 | 7.12% | $ 718,198,478 | 7.16 % |
| School District | 18,340,473.9 | .19% | 167,011,238.25 | 1.665% |
| Commonwealth | 18,340,473.9 | .19% | 167,011,238.25 | 1.665% |
| Total Support | $723,966,075 | 7.50% | $1,052,220,954.5 | 10.49 % |

[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
PERCENT
140
120
100
80
60
40
20
0
54.6
59.1
64
64.3
66.5
76.5
79.6
81.7
87.3
86.6
89.7
95.4
105
110.6
119
123.8
114.4
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91.2
1985
1986
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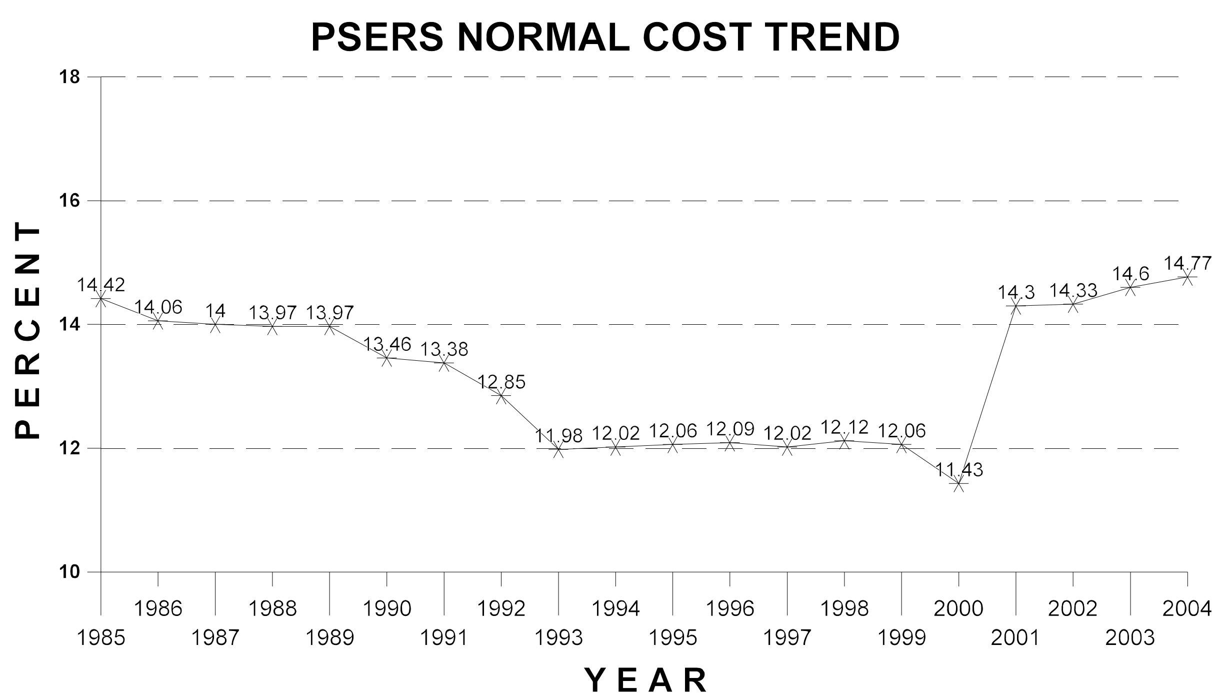
PSERS NORMAL COST TREND
PERCENT
18
16
14
12
10
14.42
14.06
14
13.97
13.97
13.46
13.38
12.85
11.98
12.02
12.06
12.09
12.02
12.12
12.06
11.43
14.3
14.33
14.6
14.77
1985
1986
1987
1988
1989
1990
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1997
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2002
2003
2004
YEAR

## Commission's Review of the State Employees' Retirement System Actuarial Valuation Report

At the November 17, 2005, meeting of the Commission, the staff presented a summary of the December 31, 2004, Actuarial Valuation Report of the State Employees' Retirement System (SERS) issued April 27, 2005, 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.

- Funding Changes
  - The funding of the System (because of Act 40) is 3.00 percent. The December 31, 2004, contribution before Act 40 of 2003 would have been .96 percent.
- Minimum Contribution
  - The minimum contribution for fiscal year 2006 will be 4.00 percent of payroll.

### Summary of Changes

The following elements affected the employer contribution rate:

| | Normal Cost | Unfunded Liabilities | Total |
|---|---|---|---|
| • Loss from investment earnings | | 2.51% | 2.51% |
| • Change in actuarial methods and assumptions | - 0.10% | 0.46% | 0.36% |
| • Pay increase different than assumptions | | 0.29% | 0.29% |
| • Change in amortization due to change in payroll | | 0.28% | 0.28% |
| • Other differences between actual experience and actuarial assumptions | | 0.32% | 0.32% |
| • Change in demographics of new entrants | 0.03% | - 0.03% | 0.00% |
| • Total Change | - 0.07% | 3.83% | 3.76% |

The following elements affected the amount of the unfunded liability:

| | |
|---|---|
| • Loss from investment earnings | $1,372,929,794 |
| • Change in actuarial methods and assumptions | 249,607,457 |
| • Pay increase different than assumptions | 156,132,530 |
| • Other differences between actual experience and actuarial assumptions | 179,410,154 |
| • Change in demographics of new entrants | (15,538,919) |
| • Total Change | $1,942,541,016 |
| December 31, 2004, Unfunded Liability | $1,098,999,510 |

## Employer Normal Cost Rate

Normal Cost Rate for New Active Members:

| | |
|---|---|
| • Superannuation and Withdrawal | 12.48% |
| • Disability | 0.97% |
| • Death | 0.74% |
| • Refunds | 0.39% |
| – Total | 14.50% |
| – Member Contributions | 6.25% |
| – Employer Normal Cost | 8.25% |

* * * * * * * * * *

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

### Summary of Actuarial Valuation
### State Employees' Retirement System as of December 31, 2004

The following is a summary of the December 31, 2004, actuarial valuation of the State Employees' Retirement System and a comparison of the 2004 results with those of 2003.

| | 12/31/03 | | 12/31/04 | |
|---|---|---|---|---|
| **Membership** | | | | |
| Active | 109,018 | | 108,405 | |
| Inactive | 5,741 | | 5,608 | |
| Retired | 79,322 | | 83,016 | |
| Disabled | 6,486 | | 6,853 | |
| Survivors and Beneficiaries | 8,604 | | 8,858 | |
| **Payroll and Annuities Payable** | | | | |
| Total Annual Payroll | $4,853,372,000 | | $4,919,636,000 | |
| Annual Annuities and Benefits | $1,337,439,856 | | $1,496,476,405 | |
| **Valuation Data** | | | | |
| Accrued Liability | $26,179,760,863 | | $27,999,026,328 | |
| Assets [1] | 27,465,614,945 | | 26,900,026,818 | |
| Unfunded Accrued Liability | $ (1,285,854,082) | | $ 1,098,999,510 | |
| Funded Ratio | 104.9% | | 96.1% | |
| **Funding Costs** | | | | |
| Normal Cost [2] | $707,136,300.4 | 14.57% | $ 713,347,220.0 | 14.50% |
| Amortization [3] | $(539,694,966.4) | (11.12)% | $ (358,641,464.4) | (7.29)% |
| Full Actuarial Funding | $167,441,334.0 | 3.45% | $ 354,705,755.6 | 7.21% |
| **Support** | | | | |
| Member | $ 303,335,750 | 6.25 % | $ 307,477,250.0 | 6.25% |
| Commonwealth | $ (135,894,416) | (2.80)% | $ 47,228,505.6 | 0.96% |
| Total Support | $ 167,441,334 | 3.45 % | $ 354,705,755.6 | 7.21% |
| Mandated Commonwealth Contribution [4] | $ 97,067,440 | 2.00% | $ 147,589,080.0 | 3.00% |

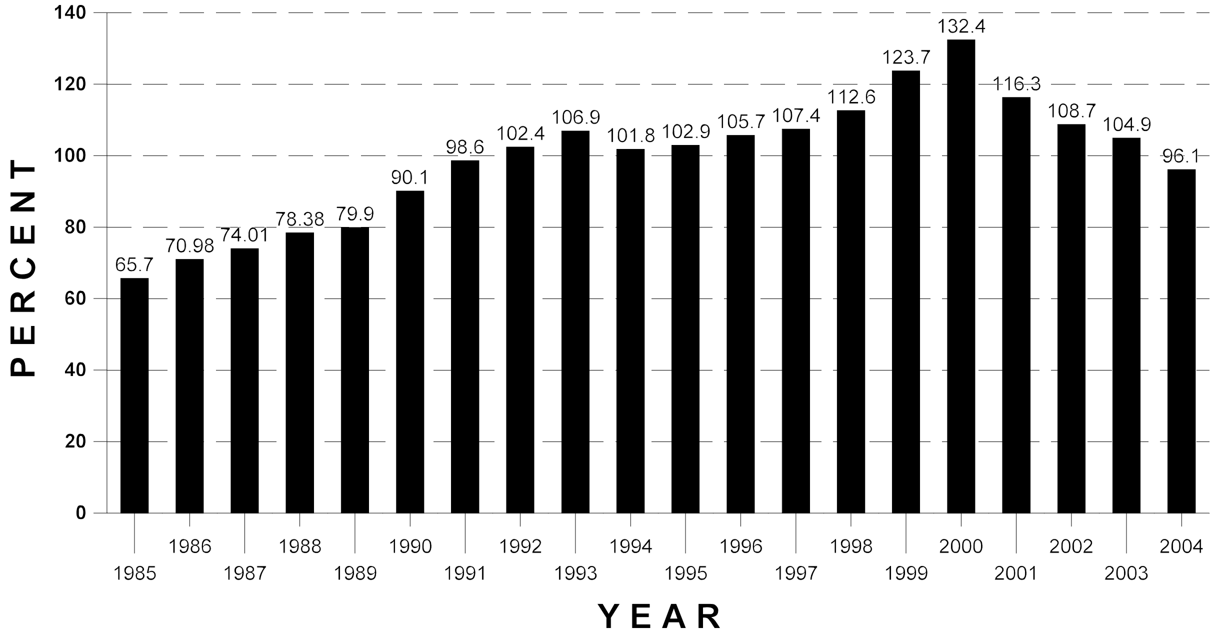
[1] The Assets figure is the actuarial value not the market value.

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

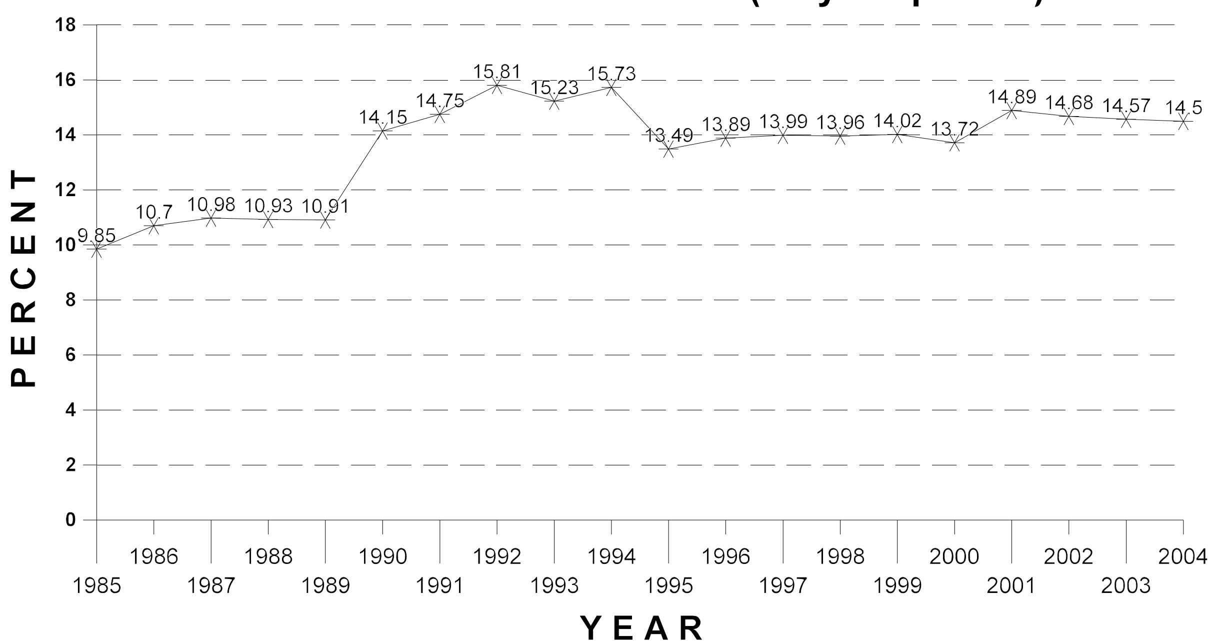
[3] Act 40 of 2003 changed the amortization period for Act 9 benefits and funding experience gains and losses to 30 years. The Act 38 COLA is amortized over a ten-year period.

[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 3.00% rather than .96%. The total Commonwealth support contribution for the SERS plan includes a .02% contribution for the Benefits Completion Plan.

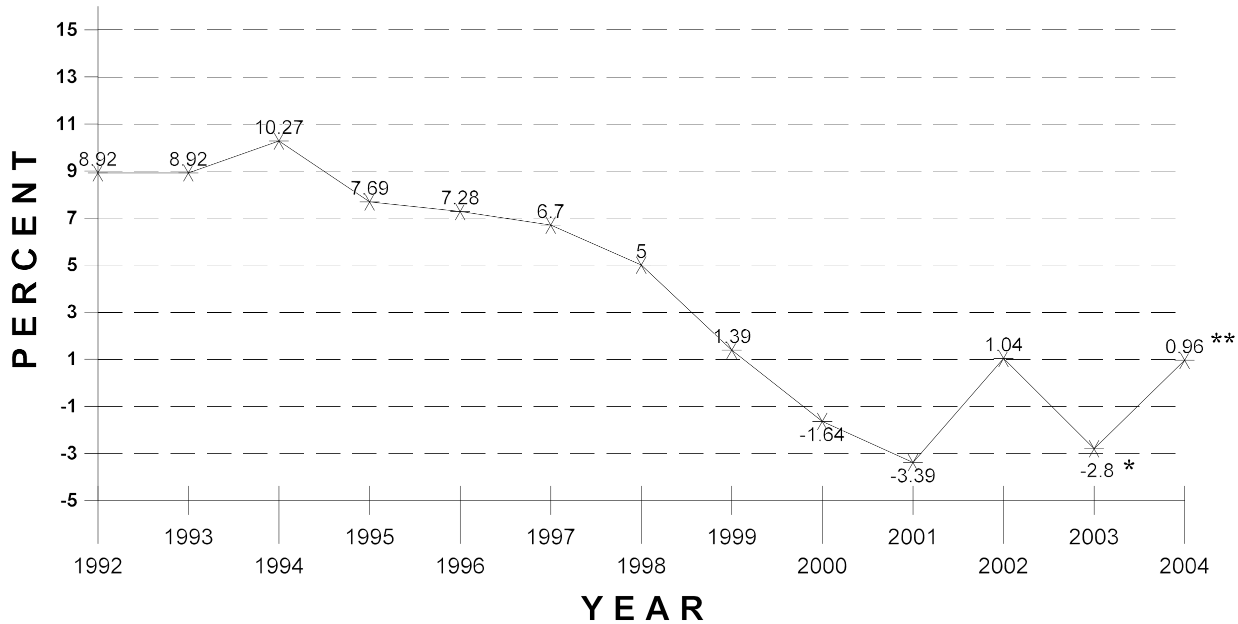
## SERS FUNDED RATIO TREND (20 year period)




## SERS NORMAL COST TREND (20 year period)



## SERS EMPLOYER CONTRIBUTION RATE




* 2.00 percent mandated contribution per Act 40 of 2003.

** 3.00 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 2005 and their sponsoring organizations were as follows:

**MUNICIPAL PENSION ADVISORY COMMITTEE**

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

Mr. A. Christopher Cap
PENNSYLVANIA STATE ASSOCIATION OF BOROUGHS

Ms. Amy C. Sturges
PENNSYLVANIA LEAGUE OF CITIES AND MUNICIPALITIES

Mr. Lester O. Houck
PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP SUPERVISORS

Ms. Olivia M. Lazor
COUNTY COMMISSIONERS ASSOCIATION OF PENNSYLVANIA

Mr. Douglas E. Bilheimer
PENNSYLVANIA MUNICIPAL AUTHORITIES ASSOCIATION

**MUNICIPAL EMPLOYEE PENSION ADVISORY COMMITTEE**

Mr. David N. Eckman
PENNSYLVANIA PROFESSIONAL FIRE FIGHTERS' ASSOCIATION

Mr. Joseph Fitzgerald
PENNSYLVANIA FRATERNAL ORDER OF POLICE

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

Mr. Ronald Fonock
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 2005 were:

*Conrad Siegel Actuaries*
Mr. David H. Killick

*Milliman, Inc.*
Mr. William A. Reimert
Ms. Katherine A. Warren

*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 committee, the Commission shall formally authorize preparation of the actuarial note, as opposed to an advisory note, and transmit the actuarial note to the requesting committee as expeditiously as possible.

## II. Response by the Commission.

A. The Commission acknowledges receipt of requests for the preparation of actuarial notes for committee approved bills and floor amended bills to the presiding officer of the requesting chamber of the General Assembly within 48 hours.

B. The Commission transmits the requested actuarial notes to the presiding officer of each chamber of the General Assembly as promptly as possible, recognizing that the 20 legislative days permitted for the preparation of actuarial notes is a maximum rather than a norm. Where there are no substantive actuarial or policy implications, the Commission will communicate that fact as the requested actuarial note.

C. The Commission provides copies of the transmittals of the requested actuarial notes to the following:

1. the chairman and minority chairman of the requesting committee;
2. the majority and minority leaders;
3. the majority and minority whips;
4. the majority and minority caucus chairmen;
5. the majority and minority appropriation committee chairmen;
6. the prime sponsor of the bill;
7. the Secretary of the Senate;
8. the Chief Clerk of the House; and
9. the Director of the Legislative Reference Bureau.

D. Upon the request of the committee chairman, the Commission staff may whenever possible provide supplemental reviews for bills prior to consideration by a committee. The information is transmitted to the committee chairman and minority chairman. Such assistance may contain actuarial data, but is considered to be an "advisory note" not constituting or substituting for the required actuarial note.

E. The Commission staff provides advice and counsel to members of the General Assembly on relevant matters pertaining to retirement plan design, financing, and administration.

F. The Commission provides actuarial notes or advisory notes only to appropriate officials of the legislative and executive branches.

G. The Commission transmits notice of its meetings to the Secretary of the Senate and Chief Clerk of the House for publication on the Senate and House daily meeting calendars.

Adopted April 10, 1985.

# APPENDIX C

## BY-LAWS OF THE
## PUBLIC EMPLOYEE RETIREMENT COMMISSION

Title 4. Administration

Part XII. Public Employee Retirement Commission

Section 401.1. Definitions.

The following words and terms, when used in this part shall have the following meanings, unless the context clearly indicates otherwise:

Act - the act of July 9, 1981 (P. L. 208, No. 66), known as the "Public Employee Retirement Commission Act."

Advisory Committee - a municipal pension advisory committee established under the provisions of Section 8 of the Act.

Commission - the Public Employee Retirement Commission created under the Act.

Member - a member of the Commission.

Chapter 402. By-Laws

Section 402.1. Meetings

Meetings of the Commission shall be held as necessary at the call of the chairman, but in no case less than six times per year. Meetings shall be held on the dates and at the times and locations specified by the chairman in the notice of the meeting. Notices of meetings shall contain an itemized agenda in reasonable detail. Notice of meetings shall be given to all members in writing at least seven days prior thereto; provided that such notice may be given at least twenty-four hours prior to such meeting where deemed necessary by the chairman under the circumstances. The chairman shall call a meeting upon the request in writing of five or more members.

Section 402.2. Quorum and Voting.

Five members shall constitute a quorum for meetings. The majority vote of the members present at a meeting or otherwise entitled to vote pursuant to these By-Laws shall constitute official action of the Commission. In the event that one or more vacancy or long-term disability exists four members shall constitute a quorum. A Commission member who is a member of the Senate or House of Representatives of the Commonwealth of Pennsylvania may, from time to time, appoint a designee in writing. A designee may cast a vote for a member on any matter pending before the Commission relating to an agenda item; provided that the member has set forth in writing with reasonable particularity the position of the member on the agenda item and the vote of the designee is not inconsistent therewith. Otherwise, a member may only vote in person. The Commission may take official action on any matter properly before a meeting whether or not mentioned in the notice of the meeting.

Section 402.3. Open Meetings.

Meetings of the Commission shall be held and notice thereof shall be given in accordance to Act No. 1986-84 relating to public meetings, as applicable.

Section 402.4. Minutes.

Minutes shall be kept of all meetings of the Commission and shall be filed in the office of the Commission, subject to the Act of June 21, 1957 (P. L. 390) §§ 1-4, as amended, (65 P. S. §§ 66.1-66.4) relating to the inspection and copying of public records, as applicable.

Section 402.5. Officers.

The Commission shall annually elect a chairman, a vice-chairman and such other officers as it finds necessary or desirable at the first meeting of the Commission occurring in each calendar year. All such officers shall be members and shall serve until the election of a successor. Election shall also occur in the event of a vacancy in any office. The chairman shall preside over all meetings of the Commission at which he is present, or in his absence the vice-chairman, or in both of their absence a member chosen by the Commission. In the event that the Chairman is unable to act hereunder for any reason, the vice-chairman may do so.

Section 402.6. Office.

The Commission may establish an office for the use of the Commission in the conduct of its official business.

Section 402.7. Committees.

The Commission may, from time to time, establish such committees as it deems necessary or desirable in the conduct of its official business. Appointments to committees shall be made by the chairman. The term of each committee shall be coterminous with that of the chairman. For the purposes of this section, any liaison shall be deemed to be a committee.

Section 402.8. Advisory Committees.

The Commission shall appoint each advisory committee pursuant to the applicable law no later than the third meeting of the Commission occurring in each calendar year. The term of each advisory committee shall be for one calendar year or until the appointment of a successor, whichever occurs later.

Section 402.9. Budget.

The executive director of the Commission shall annually submit a proposed budget to the Commission for approval prior to the submission date under budget guidelines applicable to Commonwealth agencies.

Section 402.10. Miscellaneous.

The Commission may, from time to time, do such other things and take such other actions as it deems necessary or desirable in the conduct of its official business.

Section 402.11. Amendment.

The Commission may, from time to time, amend these By-Laws by majority vote of the members present at a meeting or otherwise entitled to vote pursuant to these By-Laws; provided that notice of the meeting shall have set forth at least the general nature of the amendment.

Revised November 17, 1987

# APPENDIX D

## PUBLIC EMPLOYEE RETIREMENT COMMISSION

### COMPREHENSIVE LIST OF 2005 – 2006 SESSIONS LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES DECEMBER 31, 2005

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| H. B. 29<br>P. N. 32<br>(Lederer) | SERS, permitting active members who are members of the judiciary to purchase up to 10 years of nonstate service credit for previous service as a county officer or employee of any county. | Referred to House Finance Committee | 01/25/05 |
| H. B. 83<br>P. N. 77<br>(Hanna) | PSERS, amending the definition of superannuation age, reducing superannuation age for all service classes from age 62 to age 60, or any age upon accrual of 35 eligibility points. | Referred to House Education Committee<br>**Actuarial Note (P. N. 77)** | 01/25/05<br>03/09/05 |
| H. B. 126<br>P. N. 613<br>(Godshall) | SERS, exempting certain investment information from disclosure under the Pennsylvania Right-to-Know Law. | Referred to House Finance Committee<br>First Consideration<br>Laid on the Table<br>**Commission Letter (P. N. 613)**<br>Second Consideration<br>Third Consideration<br>Final Passage (195-1) | 02/01/05<br>02/15/05<br>02/15/05<br>03/10/05<br>03/14/05<br>03/15/05<br>03/15/05 |
| H. B. 130<br>P. N. 631<br>(Daley) | PSERS and SERS, permits active members or active multiple service members of PSERS or SERS to retire during various periods of time upon attaining 30 eligibility points, or upon attaining any combination of age and eligibility points totaling 80, without the member's annuity being reduced on account of a retirement age that is under superannuation age. Under the bill, an eligible member would be: 1) a member of PSERS who during the period from March 1, 2006, through June 1, 2006, has attained at least 30 eligibility points, or a combination of age and eligibility points that totals 80, terminates service and files an application for an annuity with an effective date of retirement not later than July 1, 2006; 2) a member of PSERS who during the period from March 1, 2007, through June 1, 2007, has attained at least 30 eligibility points, or a combination of age and eligibility points that totals 80, terminates service and files an application for an annuity with an effective date of retirement not later than July 1, 2007; or 3) a member of SERS who, during the period from July 1, 2006, through June 30, 2008, | Referred to House Finance Committee<br>Re-referred to House State Government Committee | 02/16/05<br>03/15/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| | has attained at least 30 eligibility points, or a combination of age and eligibility points that totals 80, terminates service and files an application for an annuity with an effective date of retirement not later than July 1, 2008. | | |
| H. B. 131<br>P. N. 632<br>(Daley) | PSERS and SERS, providing for an annual cost-of-living adjustment to all annuitants of both systems. | Referred to House Finance Committee<br>Re-referred to House State Government Committee | 02/16/05<br>03/15/05 |
| H. B. 208<br>P. N. 210<br>(Readshaw) | Second Class County Code (Act 230 of 1953), permitting an employee of the county who is a coroner or deputy coroner to retire upon attaining 20 years of service and age 55. | Referred to House Finance Committee | 02/02/05 |
| H. B. 223<br>P. N. 249<br>(Dally) | PSERS, permitting an active member of the system to purchase 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, provided the member was entitled to a provisional or professional certificate to teach in the public schools of the Commonwealth at the time the nonschool service was rendered. | Referred to House Education Committee | 02/08/05 |
| H. B. 279<br>P. N. 2430<br>(Herman) | PMRS, amending section 112 of the Law to extend through calendar year 2005 the authority of the Board to use excess investment earnings to pay administrative expenses. | Referred to House Local Government Committee<br>First Consideration<br>Second Consideration<br>Re-referred to House Appropriations Committee<br>**Actuarial Note (P. N. 302)**<br>Third Consideration<br>Final Passage (194-0)<br>Referred to Senate Finance Committee<br>Reported as committed<br>First Consideration<br>Re-referred to Senate Appropriations Committee<br>Re-reported as amended<br>Second Consideration<br>Third Consideration and Final Passage (50-0)<br>House concurred in Senate Amendments<br>To Governor for Signature<br>Signed by Governor (Act 16 of 2005) | 02/08/05<br>02/09/05<br>02/15/05<br>02/15/05<br>03/09/05<br>03/14/05<br>03/14/05<br>04/04/05<br>06/22/05<br>06/22/05<br>06/28/05<br>06/30/05<br>07/01/05<br>07/02/05<br>07/03/05<br>07/04/05<br>07/05/05 |
| H. B. 283<br>P. N. 306<br>(Bebko-Jones) | County Pension Law (Act 96 of 1971), reducing service and age requirements for normal retirement eligibility from 20 years of service and age 55 to 15 years of service and age 50; and reducing the age requirement for special early retirement eligibility from age 55 and 10 years of service to age 50 and 10 years of service. | Referred to House Finance Committee | 02/08/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| H. B. 306<br>P. N. 327<br>(Bebko-Jones) | Third Class Cities, mandating payment of certain postretirement adjustments to retired members of an optional retirement system established under the act of May 23, 1945 (P. L. 903, No. 362). | Referred to House Finance Committee | 02/08/05 |
| H. B. 339<br>P. N. 360<br>(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 State Government Committee | 02/08/05 |
| H. B. 359<br>P. N. 380<br>(Dally) | Municipal Police Pension Law (Act 600 of 1955), mandating that full-time police officers receive up to five years of service credit for prior part-time service. | Referred to House Finance Committee | 02/08/05 |
| H. B. 385<br>P. N. 412<br>(Godshall) | PSERS, changing the mandatory minimum contribution rate from 4% beginning July 1, 2004, to 3.75% beginning July 1, 2004. | Referred to House Education Committee | 02/09/05 |
| H. B. 395<br>P. N. 422<br>(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 firefighters or fire department employees if the surviving spouse remarries. | Referred to House Judiciary Committee<br>First Consideration<br>Laid on the Table<br>**Actuarial Note (P. N. 422)**<br>Second Consideration<br>Re-referred to House Appropriations Committee<br>Reported as committed<br>Third Consideration and Final Passage (198-0)<br>Referred to Senate Urban Affairs and Housing Committee | 02/09/05<br>02/15/05<br>02/15/05<br>03/09/05<br>03/16/05<br>03/16/05<br>04/11/05<br>04/12/05<br>05/23/05 |
| H. B. 441<br>P. N. 480<br>(Cappelli) | An Act establishing the Annual Municipal Employee Postretirement Adjustment Act, mandating the payment of annual cost-of-living adjustments to all retired municipal employees of any borough, city, incorporated town or township by municipal retirement systems in amounts equal to the change in the CPI up to a maximum of 5% annually; mandating actuarial funding and reporting pursuant to Act 205; establishing a separate postretirement adjustment ledger account; providing for funding of the postretirement adjustments by deducting the required sums from funds available for General Municipal Pension System State Aid; and making repeals. | Referred to House Finance Committee | 02/14/05 |
| H. B. 444<br>P. N. 483<br>(Nickol) | SERS, removing the authority of the Juvenile Court Judges' Commission to establish an independent retirement plan for employees transferred from Shippensburg University. | Referred to House Finance Committee<br>**Commission Letter (P. N. 483)**<br>First Consideration<br>Second Consideration<br>Third Consideration | 02/14/05<br>02/14/05<br>03/15/05<br>03/21/05<br>03/29/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| | | Final Passage (196-0)<br>Referred to Senate Finance Committee | 03/29/05<br>04/06/05 |
| H. B. 533<br>P. N. 581<br>(Baker) | PSERS and SERS, providing for the purchase of up to five years of nonschool or nonstate service credit for previous service as a crewleader with the Pennsylvania Conservation Corps rendered prior to January 1, 2006, providing the member elects to purchase the service within three years of becoming eligible to do so, that the member pays the full actuarial cost of the benefit enhancement, and that the member is prohibited from withdrawing contributions for the service purchase under Option 4. | Referred to House Education Committee | 02/16/05 |
| H. B. 534<br>P. N. 582<br>(Baker) | Pennsylvania Conservation Corps Act (Act 112 of 1984), beginning January 1, 2006, mandating membership in SERS for Pennsylvania Conservation Corps "crewleaders," and authorizing the provision of state healthcare benefits for crewleaders; and mandating that service as a crewleader rendered prior to January 1, 2006, will be treated as nonshcool service under the PSERS Code and nonstate service under the SERS Code. | Referred to House Committee on Veteran's Affairs and Emergency Preparedness | 02/15/05 |
| H. B. 546<br>P. N. 2367<br>(Hutchinson) | PSERS, permitting the purchase of up to five years of nonschool service credit for previous service as a county employee other than service as a county nurse. | Referred to House Education Committee<br>First Consideration<br>Second Consideration<br>**Commission Letter (A. 1651)**<br>**Actuarial Note (P. N. 594)**<br>Third Consideration with Amendments<br>Final Passage (194-0)<br>Referred to Senate Finance Committee | 02/15/05<br>05/11/05<br>06/08/05<br>06/21/05<br>06/22/05<br>06/28/05<br>06/28/05<br>06/29/05 |
| H. B. 581<br>P. N. 654<br>(Nickol) | Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), formalizing the Public Employee Retirement Commission's current procedure for the certification of municipal pension cost to the Auditor General for the purpose of distributing General Municipal Pension System State Aid. | Referred to House Finance Committee | 02/16/05 |
| H. B. 603<br>P. N. 676<br>(B. Smith) | SERS, amending the definition of "enforcement officer" to include officers of the Pennsylvania Game Commission. | Referred to House Game and Fisheries Committee<br>First Consideration<br>Second Consideration<br>**Actuarial Note (P. N. 676)**<br>Third Consideration and Final Passage (186-8)<br>Referred to Senate Finance Committee<br>First Consideration<br>Second Consideration | 02/16/05<br>04/16/05<br>06/20/05<br>06/22/05<br>06/28/05<br>06/29/05<br>10/18/05<br>11/01/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| | | Re-referred to Senate Appropriations Committee | 11/02/05 |
| | | Third Consideration and Final Passage (45-5) | 12/13/05 |
| | | To Governor for Signature | 12/15/05 |
| | | Vetoed by the Governor | 12/23/05 |
| H. B. 614<br>P. N. 687<br>(Curry) | Municipal Police Pension Law (Act 600), providing for optional forms of retirement benefit payments and for late retirement benefits. | Referred to House Finance Committee | 02/16/05 |
| H. B. 712<br>P. N. 803<br>(T. Stevenson) | SERS, amending section 5301 of the Code to permit an annuitant of the system to return to state service as a certified instructor in the municipal police officers' education and training program for an indefinite period without the annuitant being subject to the cessation of annuity provisions of the Code. | Referred to House State Government Committee | 03/01/05 |
| H. B. 740<br>P. N. 2111<br>(Dally) | PMRS, liberalizing the service purchase eligibility criteria for intervening military service by removing language in 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 | 03/01/05 |
| | | **Actuarial Note (P. N. 831)** | 04/27/05 |
| | | **Commission Letter (A. 1278)** | 06/03/05 |
| | | Reported from House Local Government Committee as Amended | 06/07/05 |
| | | First Consideration | 06/07/05 |
| | | Second Consideration | 06/21/05 |
| | | Third Consideration and Final Passage (194-0) | 06/27/05 |
| | | Referred to Senate Finance Committee | 06/28/05 |
| H. B. 786<br>P. N. 948<br>(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' 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 House Education Committee | 03/14/05 |
| | | **Advisory Note (P. N. 948 as amended by A. 01116)** | 11/08/05 |
| H. B. 819<br>P. N. 852<br>(Feese) | SERS, making an appropriation from the State Employees' Retirement Fund to the State Employees' Retirement Board in the amount of $24,187,000 for the fiscal year beginning July 1, 2005. | Referred to House Appropriations Committee | 03/14/05 |
| | | First Consideration | 03/15/05 |
| | | Second Consideration | 03/16/05 |
| | | Third Consideration and Final Passage (198-0) | 06/29/05 |
| | | Referred to Senate Appropriations Committee | 06/29/05 |
| | | Reported as committed | 06/30/05 |
| | | First Consideration | 06/30/05 |
| | | Second Consideration | 07/01/05 |
| | | Laid on the Table | 07/05/05 |

| BILL NUMBER<br>PRINTER'S NUMBER<br>(PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| H. B. 820<br>P. N. 853<br>(Feese) | PSERS, making an appropriation from the Public School Employees' Retirement Fund to the Public School Employees' Retirement Board in the amount of $39,539,000 for the fiscal year beginning July 1, 2005. | Referred to House Appropriations Committee<br>First Consideration<br>Second Consideration<br>Third Consideration and Final Passage (198-0)<br>Referred to Senate Appropriations Committee<br>Reported as committed<br>First Consideration<br>Second Consideration<br>Laid on the Table | 03/14/05<br>03/15/05<br>03/16/05<br>06/29/05<br>06/29/05<br>06/30/05<br>06/30/05<br>07/01/05<br>07/05/05 |
| H. B. 870<br>P. N. 993<br>(Herman) | SERS, amending the Code to permit certain employees who are members of an independent retirement program to elect 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. | Referred to House State Government Committee | 03/14/05 |
| H. B. 919<br>P. N. 1040<br>(Markosek) | PSERS, implementing a new "30 and Out" early retirement incentive applicable to active members of PSERS for the following periods beginning with the effective date of the bill to July 1, 2005; April 1, 2006 through July 31, 2006; April 1, 2007 through June 30, 2007; April 1, 2008 through June 30, 2008; and April 1, 2009 through June 30, 2009. | Referred to House Education Committee | 03/14/05 |
| H. B. 921<br>P. N. 1042<br>(Casorio) | Municipal Police Pension Law (Act 600), increasing the survivor benefit payable to the surviving spouse or child of a member from an amount calculated at no less than 50% to an amount no less than 60% of the pension the member was receiving or would have been receiving at the time of death; changing the normal retirement benefit calculation from an amount equal to one-half of the member's monthly average salary during no more than the last 60 nor less than the last 36 months to no more than the last 60 nor less than the last 24 months; increasing the maximum permissible service increment from an amount not to exceed $100 monthly to an amount not to exceed $600 monthly; and increasing the maximum benefit limit resulting from post-retirement cost-of-living adjustments from 75% to 80% of a member's salary. | Referred to House Finance Committee | 03/14/05 |
| H. B. 922<br>P. N. 1043<br>(Casorio) | Municipal Police Pension Law (Act 600), amending section 3 of the Act by reducing the minimum service re- | Referred to House Finance Committee | 03/14/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| | quirement for normal retirement eligibility from 25 to 20 years, and eliminating the age requirement for normal retirement eligibility. | | |
| H. B. 1030<br>P. N. 1186<br>(Good) | SERS, the bill would create a new class of service within SERS, to be known as Class C-1, which shall have a class of service multiplier of 1.25, and to permit certain current and former Class C members of SERS to elect membership in Class C-1 and receive Class C-1 service credit for all periods of Class C service, except for Class C service performed as a Pennsylvania State Police Officer, provided the member files a written election notice with the SERS Board prior to July 1, 2005, or prior to termination of state service, or in the case of a member of PSERS, prior to termination of school service, whichever first occurs. | Referred to House State Government Committee<br>**Actuarial Note (P. N. 1186)**<br>**Actuarial Note (A. 02843)** | 03/21/05<br>04/27/05<br>11/17/05 |
| H. B. 1036<br>P. N. 1192<br>(T. Stevenson) | PSERS, amending the Code by providing "enhanced year service credit" or additional service credit to be used in the calculation of a member's retirement benefit for certain members who work in excess of 180 days per year. | Referred to House Education Committee | 03/21/05 |
| H. B. 1044<br>P. N. 1200<br>(O'Neill) | 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, 2005, and annually thereafter, provide an automatic COLA to all annuitants of the System who retired on or before July 1, 2005, and equal to the lesser of 3% or the increase in CPI during the previous year. | Referred to House Education Committee | 03/21/05 |
| H. B. 1048<br>P. N. 2387<br>(O'Neill) | Municipal Police Pension Law (Act 600), increasing the maximum service increment from $100 to $500, and limiting the provision of pension benefits by affected municipalities that are in excess of Act 600 benefit limits to municipalities that had such benefits in place prior to January 24, 2001. | Referred to House State Government Committee<br>**Actuarial Note (P. N. 1204)**<br>**Commission Letter (A. 2155)**<br>Reported as amended<br>First Consideration<br>Second Consideration | 03/21/05<br>06/22/05<br>06/27/05<br>06/29/05<br>06/29/05<br>09/28/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| | | Re-referred to House Appropriations Committee | 09/28/05 |
| | | Third Consideration and Final Passage | 10/19/05 |
| | | Referred to Senate Finance Committee | 10/24/05 |
| H. B. 1156 P. N. 1362 (J. Taylor) | An Act, repealing Act 258 of 1965, which requires cities of the second class to establish a pension fund for employees of the city. | Referred to House Urban Affairs Committee | 03/29/05 |
| H. B. 1186 P. N. 1392 (Goodman) | PSERS, modifying the membership of the Board of Trustees and providing for the qualifications and status of designees appointed by Board members. | Referred to House Education Committee | 03/29/05 |
| H. B. 1220 P. N. 1433 (Herman) | PSERS and SERS, beginning July 1, 2006, and annually thereafter, mandating annual COLAs for all superannuation and disability annuitants in amounts determined by the Boards of the respective systems. | Referred to House State Government Committee | 03/30/05 |
| H. B. 1246 P. N. 1473 (Clymer) | Public Employee Retirement Commission Act (Act 66 of 1981), amending Section 7(d), pertaining to the content of actuarial notes. | Referred to House State Government Committee | 03/31/05 |
| H. B. 1300 P. N. 1544 (Nickol) | Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), amending the act to provide for the Commission to certify pension cost data based on the latest report required to be filed and authorize the establishment and administration of In-Service Retirement Option Plans (IROPs) by local governments in the Commonwealth. | Referred to House Local Government Committee | 04/06/05 |
| | | **Actuarial Note (P. N. 1544)** | 06/22/05 |
| H. B. 1302 P. N. 1546 (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 | 04/06/05 |
| | | **Advisory Note (P. N. 1546)** | 05/19/05 |
| H. B. 1359 P. N. 1634 (W. 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 State Government Committee | 04/13/05 |
| H. B. 1411 P. N. 1876 (Cawley) | Cities of the Second Class A (Scranton), changing certain eligibility requirements for the purchase of nonintervening military service credit by members who are policemen or firemen by removing the requirement that the member must have become a city employee within three years of release | Referred to House Finance Committee | 05/04/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| | of active duty and inserting language empowering the city to establish a new standard through ordinance or resolution. | | |
| H. B. 1599<br>P. N. 2147<br>(Grell) | 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 State Government Committee<br>Re-referred to House Local Government Committee<br>**Commission Letter (P. N. 2147)** | 06/13/05<br>10/19/05<br>11/14/05 |
| H. B. 1625<br>P. N. 2060<br>(M. Keller) | PMRS, amending the Law by liberalizing the disability retirement eligibility standard from "unable to engage in any gainful employment" to "unable to return to or perform the duties" of the member's current position for medical reasons. | Referred to House State Government Committee | 06/03/05 |
| H. B. 1645<br>P. N. 2030<br>(Wojnaroski) | SERS, beginning July 1, 2006, and annually thereafter, mandating payment of an annual cost-of-living adjustment to annuitants who are retired state police officers. | Referred to House State Government Committee | 06/06/05 |
| H. B. 1701<br>P. N. 2163<br>(Wojnaroski) | SERS, beginning July 1, 2006, and annually thereafter, providing for automatic cost-of-living increases for annuitants who are retired state police officers. | Referred to House State Government Committee | 06/13/05 |
| H. B. 1702<br>P. N. 2164<br>(E. Z. Taylor) | SERS, permitting the purchase of up to five years of nonstate service credit for service as an employee of the American Red Cross. | Referred to House State Government Committee | 06/13/05 |
| H. B. 1710<br>P. N. 2170<br>(Dally) | PSERS, amends section 8302 of the Code to permit an eligible member to receive more than one year of credited service for any consecutive 12-month period if the member is contributing to the fund as both a full-time and part-time salaried employee. | Referred to House State Government Committee | 06/13/05 |
| H. B. 1777<br>P. N. 2291<br>(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<br>**Actuarial Note (P. N. 2291)** | 06/22/05<br>10/06/05 |
| H. B. 1849<br>P. N. 2485<br>(J. Taylor) | SERS, permitting employees of the Philadelphia Parking Authority to become members of SERS and permitting the purchase of previous parking authority service as nonstate service. | Referred to House Urban Affairs Committee<br>**Actuarial Note (P. N. 2485)** | 07/02/05<br>10/06/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| H. B. 1916 P. N. 2621 (Fleagle) | Volunteer Firefighters' Relief Association Act, permitting firefighter relief association funds to be used to fund retirement plans for volunteer firefighters. | Referred to House Committee on Veteran's Affairs and Emergency Preparedness | 08/18/05 |
| H. B. 1924 P. N. 2628 (McGeehan) | Public Employees Pension Forfeiture Act (Act 140 of 1978), expanding the list of offenses warranting pension forfeiture. | Referred to House State Government Committee | 08/18/05 |
| H. B. 2011 P. N. 2759 (Kauffman) | SERS, age 50 retirement benefits for campus police officers employed by the Pennsylvania State System of Higher Education and commissioned as police officers under section 2416 of the Administrative Code of 1929. | Referred to House State Government Committee | 09/28/05 |
| H. B. 2035 P. N. 2812 (J. Evans) | PSERS, providing for CPI-based automatic cost-of-living adjustments for annuitants of the System beginning July 1, 2006. | Referred to House Education Committee | 10/17/05 |
| H. B. 2144 P. N. 2967 (Wilt) | PSERS, permitting the purchase of up to three years of nonschool service credit for previous work experience used by the member to obtain certification as a vocational teacher. | Referred to House Education Committee | 10/31/05 |
| H. B. 2219 P. N. 3093 (Frankel) | PSERS, mandating the crediting of "enhanced year service credit" or service credit in excess of the current annual maximum amount for certain members who work more than the standard 180-day school year. | Referred to House Education Committee | 11/14/05 |
| H. B. 2220 P. N. 3094 (Frankel) | Public Employee Pension Forfeiture Act (Act 140 of 1978), adding felony narcotics offenses to the list of offenses for which a public employee is subject to the pension forfeiture provisions of the act. | Referred to House Judiciary Committee | 11/14/05 |
| H. B. 2242 P. N. 3129 (Godshall) | SERS, amending the Code by adding a new retirement option, known as Option 5, which guarantees the member periodic COLAs in return for the member leaving all accumulated deductions (member contributions) plus interest with the Fund upon retirement. | Referred to House State Government Committee | 11/16/05 |
| H. B. 2257 P. N. 3145 (Haluska) | SERS, permitting the purchase of nonstate service for certain periods of previous service as a mine worker. | Referred to House State Government Committee | 11/21/05 |
| H. B. 2267 P. N. 3177 (Hess) | PSERS, amending the Code to increase monthly health insurance premium assistance payments to eligible annuitants from a maximum of $100 to the lesser of $150 or the amount of the premium. | Referred to House Education Committee | 11/28/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| H. B. 2268<br>P. N. 3178<br>(Hess) | PSERS, providing a COLA beginning July 1, 2006, to eligible annuitants, the amount of which is dependent upon the affected annuitant's date of retirement. | Referred to House Education Committee | 11/28/05 |
| H. B. 2293<br>P. N. 3208<br>(Diven) | Second Class City (Pittsburgh) Policemen Relief Law, removing current language requiring the cessation of pension benefit payments to a surviving spouse upon remarriage. | Referred to House State Government Committee<br>First Consideration | 12/05/05<br>12/14/05 |
| H. R. 161<br>P. N. 2744<br>(Wansacz) | A resolution directing the Public Employee Retirement Commission to study the feasibility of providing state premium assistance to surviving spouses of SERS members who were participants in the Retired Employee Health Program (REHP). | Referred to House Finance Committee<br>Reported as Committed<br>Laid on the Table<br>Amended and Adopted (200-0) | 03/21/05<br>05/11/05<br>07/02/05<br>09/27/05 |
| H. R. 299<br>P. N. 1893<br>(Daley) | A resolution directing the Legislative Budget and Finance Committee to perform a study of certain early retirement proposals and to report the Committee's findings and recommendations to the General Assembly by January 2006. | Referred to House Finance Committee<br>Reported as Committed<br>Adopted (198-0) | 05/09/05<br>06/14/05<br>06/29/05 |
| H. R. 516<br>P. N. 3121<br>(Reed) | A resolution extending the deadline under HR 161 for reporting by the Public Employee Retirement Commission to March 15, 2006. | Introduced as Noncontroversial Resolution under Rule 35<br>Adopted (192-0) | 11/16/05<br>11/21/05 |
| S. B. 56<br>P. N. 49<br>(Rhoades) | PSERS, permitting active members to purchase Class T-C service credit for unused sick leave. | Referred to Senate Finance Committee<br>**Actuarial Note (P. N. 49)** | 01/24/05<br>03/09/05 |
| S. B. 118<br>P. N. 101<br>(Logan) | Second Class County Code (Act 230 of 1953), expanding special public safety benefit coverage to include county detectives, reducing the age and service requirement for normal retirement eligibility for county detectives from age 60 with 20 years of service to age 50 with 20 years of service. | Referred to Senate Finance Committee<br>**Actuarial Note (P. N. 101)** | 02/01/05<br>04/27/05 |
| S. B. 130<br>P. N. 114<br>(Mellow) | PSERS and SERS, providing for a new "30 and Out" early retirement incentive. | Referred to Senate Finance Committee | 02/01/05 |
| S. B. 205<br>P. N. 197<br>(Greenleaf) | SERS, defining "active duty for training" and permitting the purchase of nonstate service credit for active duty for training; expanding the definition of "community college service" for the purpose of purchasing nonstate service credit. | Referred to Senate Finance Committee | 02/08/05 |
| S. B. 221<br>P. N. 213<br>(Greenleaf) | PSERS and SERS, granting a new "30 and Out" early retirement incentive for eligible active PSERS members for the April 1 through June 30 quarters of 2005 and 2006; and for eligible active | Referred to Senate Finance Committee | 02/08/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
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| | members of SERS for the period from July 1, 1999, through June 30, 2006. | | |
| S. B. 240<br>P. N. 242<br>(Conti) | Volunteer Firefighters' Relief Association Act (Act 84 of 1968), permitting a portion of relief association funds to be used to provide for a qualified retirement plan as defined in section 4974(c) of the IRC. | Referred to Senate Finance Committee | 02/11/05 |
| S. B. 245<br>P. N. 257<br>(Boscola) | Title 53 (Municipalities Generally), amending the definition of "police officer" in section 2162 to include a special investigator of a third class city housing authority. | Referred to Law and Justice Committee | 02/11/05 |
| S. B. 312<br>P. N. 324<br>(Stack) | PSERS and SERS, beginning July 1, 2006, and annually thereafter, providing an annual cost-of-living adjustment to all annuitants of both systems equal to the increase in the CPI. | Referred to Senate Finance Committee | 02/16/05 |
| S. B. 328<br>P. N. 340<br>(Stout) | SERS, permitting the purchase of up to five years of nonstate service credit for previous service as a municipal or federal employee. | Referred to Senate Finance Committee<br>**Actuarial Note (P. N. 340)** | 02/18/05<br>06/22/05 |
| S. B. 347<br>P. N. 354<br>(Greenleaf) | Constitution of Pennsylvania, amending Section 26 of Article III, 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 | 03/03/05 |
| S. B. 376<br>P. N. 377<br>(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, 2005, and annually thereafter, provide an automatic COLA to all annuitants of the System who retired on or before July 1, 2005, and equal to the lesser of 3% or the increase in CPI during the previous year. | Referred to Senate Finance Committee | 03/10/05 |
| S. B. 377<br>P. N. 379<br>(D. White) | PSERS, permitting the purchase of up to four years of nonschool service credit for previous service as an | Referred to Senate Finance Committee | 03/14/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
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| | elected county official pursuant to a valid leave of absence as provided for in section 1182 of the Public School Code of 1949. | | |
| S. B. 381<br>P. N. 383<br>(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 | 03/14/05 |
| S. B. 384<br>P. N. 1412<br>(Piccola) | PSERS, authorizing certain annuitant associations to obtain annuitant data from the system for the purpose of promoting membership in the annuitant associations. | Referred to Senate Finance Committee<br>First Consideration<br>**Commission Letter (P. N. 386)**<br>Second Consideration<br>Amended on Third Consideration<br>Final Passage (50-0)<br>Referred to House Education Committee<br>First Consideration<br>Second Consideration<br>Re-referred to House Appropriations Committee | 03/14/05<br>06/15/05<br>06/23/05<br>09/27/05<br>11/02/05<br>11/02/05<br>11/04/05<br>12/07/05<br>12/14/05<br>12/14/05 |
| S. B. 394<br>P. N. 1400<br>(Corman) | Municipal Police Pension Law (Act 600), increasing the maximum service increment from $100 to $500, and limiting the provision of pension benefits by affected municipalities that are in excess of Act 600 benefit limits to municipalities that had such benefits in place prior to January 24, 2001. | Referred to Senate Finance Committee<br>**Commission Letter (P. N. 401)**<br>First consideration<br>Second Consideration<br>Amended on Third Consideration<br>Final passage (49-1)<br>Referred to House State Government Committee<br>First Consideration<br>**Commission Letter (P. N. 1400)**<br>Second Consideration<br>Third Consideration and Final Passage (194-0)<br>To Governor for Signature<br>Signed by the Governor (Act 89 of 2005) | 03/14/05<br>10/18/05<br>10/18/05<br>11/16/05<br>12/05/05<br>12/06/05<br>12/07/05<br>12/12/05<br>12/13/05<br>12/13/05<br>12/15/05<br>12/21/05<br>12/22/05 |
| S. B. 403<br>P. N. 430<br>(Costa) | Second Class County Code, reducing age and service requirements for normal retirement benefit eligibility applicable to deputy sheriffs. | Referred to Senate Finance Committee<br>**Actuarial Note (P. N. 430)** | 03/21/05<br>06/22/05 |
| S. B. 404<br>P. N. 431<br>(Costa) | Second Class County Code, amending the Code by adding a retirement option (Option III) providing for a permanent early retirement benefit applicable to a member who is between age 54 and 60, with the retirement benefit payable to an early retiree actuarially reduced by 1/2% per month for each month the member is under normal retirement age (age 60). | Referred to Senate Finance Committee<br>**Actuarial Note (P. N. 431)** | 03/21/05<br>06/22/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| S. B. 457<br>P. N. 900<br>(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 | 03/28/05 |
| | | First Consideration | 04/20/05 |
| | | **Commission Letter (P. N. 490)** | 06/03/05 |
| | | Reported as amended to Senate Appropriations Committee | 06/13/05 |
| | | Second Consideration | 06/15/05 |
| | | Third Consideration and Final Passage (50-0) | 06/21/05 |
| | | Referred to House Urban Affairs Committee | 06/22/05 |
| | | **Commission Letter (P. N. 900)** | 06/23/05 |
| | | Reported as Committed | 06/28/05 |
| | | First Consideration | 06/28/05 |
| | | Second Consideration | 06/29/05 |
| | | Third Consideration and Final Passage (197-0) | 06/30/05 |
| | | To Governor for Signature | 07/02/05 |
| | | Signed by the Governor (Act 28 of 2005) | 07/05/05 |
| S. B. 459<br>P. N. 492<br>(M. White) | County Pension Law (Act 96 of 1971), empowering the board of a county pension plan subject to the Act to provide for the payment of certain health care costs incurred by retired employees, provided the funded ratio of the pension plan is at least 100% and that the fund is "actuarially sound" as certified by the consulting actuary. | Referred to Senate Finance Committee | 03/28/05 |
| S. B. 512<br>P. N. 544<br>(Gordner) | PSERS, modifying the membership of the Board of Trustees and providing for the qualifications and status of designees appointed by Board members. | Referred to Senate Finance Committee | 03/29/05 |
| S. B. 522<br>P. N. 554<br>(Wonderling) | PSERS, 1) beginning January 1, 2006, extending eligibility for participation in the health insurance premium assistance program to annuitants who retired prior to normal retirement age with 15 years of 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 | 03/29/05 |
| S. B. 530<br>P. N. 562<br>(C. Williams) | PSERS, permitting the purchase of up to five years of nonschool service credit for time spent teaching in any nonpublic school as a result of an employer mandated maternity leave of absence from the public school system that occurred prior to May 17, 1975, where the public school employer failed to rehire an affected member due to a hiring freeze. | Referred to Senate Finance Committee | 03/29/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
|---|---|---|---|
| S. B. 588<br>P. N. 612<br>(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<br>**Actuarial Note (P. N. 612)** | 04/01/05<br>04/27/05 |
| S. B. 592<br>P. N. 1418<br>(Armstrong) | PSERS and SERS, excluding certain investment information from public disclosure under the Pennsylvania Right-to-Know Law. | Referred to Senate Finance Committee<br>Reported as amended from Senate Finance Committee<br>First Consideration<br>Re-referred to Senate Appropriations Committee | 04/04/05<br>12/13/05<br>12/13/05<br>12/14/05 |
| S. B. 606<br>P. N. 672<br>(Orie) | 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 Senate Finance Committee<br>**Actuarial Note (P. N. 672)** | 04/06/05<br>10/06/05 |
| S. B. 608<br>P. N. 640<br>(Thompson) | SERS, making an appropriation in the amount of $24,187,000 to the SERS Board for the fiscal year beginning July 1, 2005. | Referred to Senate Appropriations Committee<br>First Consideration<br>Second Consideration<br>Third Consideration and Final Passage (46-0)<br>Referred to House Appropriations Committee<br>Reported as committed<br>First Consideration<br>Second Consideration<br>Third Consideration and Final Passage (198-0)<br>To Governor for Signature<br>Signed by the Governor (Act 2A of 2005) | 04/04/05<br>04/12/05<br>04/13/05<br>04/18/05<br>04/26/05<br>06/29/05<br>06/29/05<br>07/01/05<br>07/04/05<br>07/06/05<br>07/07/05 |
| S. B. 609<br>P. N. 641<br>(Thompson) | PSERS, making an appropriation in the amount of $39,539,000 to the PSERS Board for the fiscal year beginning July 1, 2005. | Referred to Senate Appropriations Committee<br>First Consideration<br>Second Consideration<br>Third Consideration and Final Passage (46-0)<br>Referred to House Appropriations Committee<br>Reported as Committed<br>First Consideration<br>Second Consideration<br>Third Consideration and Final Passage (198-0)<br>To Governor for Signature<br>Signed by the Governor (Act 3A of 2005) | 04/04/05<br>04/12/05<br>04/13/05<br>04/18/05<br>04/26/05<br>06/29/05<br>06/29/05<br>07/01/05<br>07/04/05<br>07/06/05<br>07/07/05 |
| S. B. 615<br>P. N. 647<br>(Kasunic) | PSERS and SERS, beginning July 1, 2005, mandating payment of annual COLAs to all eligible annuitants of both systems equal to the increase in the CPI and requiring amortization of the additional liabilities resulting from the COLAs over a period of 20 years increasing 5% per year. | Referred to Senate Finance Committee | 04/04/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
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| S. B. 720<br>P. N. 864<br>(Lavalle) | Municipal Police Pension Law (Act 600), providing for the payment of a deferred vested benefit to a member upon attaining age 62 or normal retirement age, whichever occurs sooner. | Referred to Senate Finance Committee | 06/03/05 |
| S. B. 728<br>P. N. 869<br>(Robbins) | PSERS, amending the Code to permit the payment of postretirement adjustments from excess investment earnings of the fund. | Referred to Senate Finance Committee | 06/03/05 |
| S. B. 729<br>P. N. 929<br>(Piccola) | PSERS, permitting the purchase of up to five years of nonschool service credit for previous service in a nonpublic school. | Referred to Senate Finance Committee | 06/09/05 |
| S. B. 759<br>P. N. 1266<br>(Armstrong) | Title 23 (Domestic Relations), providing for the disposition and payment of death benefit payments by the Public School Employees' Retirement System and the State Employees' Retirement System for members of the systems in connection with domestic relations orders. | Referred to Senate Judiciary Committee<br>Reported as Amended from Senate Judiciary Committee<br>First Consideration<br>Second Consideration<br>Third Consideration and Final Passage (50-0)<br>Referred to House Judiciary Committee | 06/13/05<br>10/25/05<br>10/25/05<br>10/31/05<br>11/01/05<br>11/02/05 |
| S. B. 811<br>P. N. 1234<br>(Thompson) | County Code (Act 96 of 1971), extending until December 31, 2006, the period within which a county pension board may elect to provide additional class options to members of a county pension plan; and permitting a county retirement board to authorize, by rule, the retroactive application of enhanced benefits for current active members of a county retirement plan who were members of a county retirement plan during the period beginning after December 31, 1971, and ending before January 1, 1997, and who transferred from the 1/80th class to the 1/60th class on January 1, 1997. | Referred to Senate Finance Committee<br>Reported as Amended<br>First Consideration<br>Re-referred to House Appropriations Committee<br>**Actuarial Note (A. 03092)** | 06/28/05<br>10/18/05<br>10/18/05<br>10/24/05<br>11/17/05 |
| S. B. 888<br>P. N. 1171<br>(Mellow) | City of Scranton, amending the Second Class A City Employe Pension Law by removing the statutory three-year time limit within which a member must commence employment with the City of Scranton following military service in order to be eligible to purchase credit for nonintervening military service, and by mandating that affected members be entitled to purchase the nonintervening military service credit. | Referred to Senate Finance Committee<br>**Actuarial Note (P. N. 1171)** | 09/29/05<br>11/17/05 |
| S. B. 889<br>P. N. 1172<br>(Mellow) | City of Scranton, amending the act of July 3, 1947 (P. L. 1242, No. 507) which is the statute establishing the pension plans for police officers and firefighters in the City of Scranton. The bill permits a uniformed employee of | Referred to Senate Finance Committee<br>**Actuarial Note (P. N. 1172)** | 09/29/05<br>11/17/05 |

| BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR) | SYNOPSIS | CONCISE STATUS AND HISTORY | DATE |
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| | either the police or fireman's pension plans to purchase up to five years of nonintervening military service if the member enters employment with the City of Scranton within three years of the date of the member's release from active military service. The bill would amend the Act by removing the statutory three-year time limit within which a member must commence employment with the City following military service in order to be eligible to purchase credit for nonintervening military service, and by mandating that moneys be appropriated by the City to the pension plans to enable the purchase of military service credit. | | |
| S. B. 989 P. N. 1326 (Gordner) | SERS, permitting a "School Employee" who is a member of an independent retirement program (TIAA-CREF) to terminate membership with the independent retirement program, elect Class AA membership in SERS, and service credit in SERS for certain prior service. | Referred to Senate Finance Committee | 11/14/05 |
| S. B. 1030 P. N. 1392 (Costa) | Second Class City (Pittsburgh) Policemen Relief Law, amending the law by removing current language requiring the cessation of pension payments to surviving spouses upon remarriage. | Referred to Senate Finance Committee | 11/22/05 |

# APPENDIX E

## CONCISE INDEX TO ACTUARIAL NOTES