

# PUBLIC EMPLOYEE RETIREMENT COMMISSION



2006 ANNUAL REPORT

**Commonwealth of Pennsylvania**



2006  
Annual Report  
of the  
Public Employee Retirement Commission



Public Employee Retirement Commission  
Commonwealth of Pennsylvania  
February 2007

# PUBLIC EMPLOYEE RETIREMENT COMMISSION

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## ***Gubernatorial Appointees***

Mr. Paul D. Halliwell  
Chairman  
*Consulting Actuary*

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

Dr. J. Richard Aronson  
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*Allegheny County*

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COMMONWEALTH OF PENNSYLVANIA  
PUBLIC EMPLOYEE RETIREMENT COMMISSION  
HARRISBURG  
17120

*February 2007*

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 2006.*

*During 2006, the Commission authorized the attachment of seventeen actuarial notes to eleven bills, one bill as amended, and five amendments at the request of the various committees of the General Assembly. This report contains a synopsis of each of these notes and contains a summary of the Commission's review of the State Employees' Retirement System and the Public School Employees' Retirement System. This report also describes research conducted during 2006 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-fourth 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 2006.*

*Sincerely,*

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

*Paul D. Halliwell  
Chairman*



## *Introduction*

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

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

*Under the Municipal Pension Plan Funding Standard and Recovery Act, adopted in 1984, the Commission has two additional responsibilities. The first is to administer the actuarial valuation reporting program for municipal retirement systems, which entails monitoring and enforcing compliance with the statutorily mandated actuarial funding standard. The second is to certify annually municipal pension cost data used in allocating General Municipal Pension System State Aid, an amount that exceeded \$198 million in 2006.*

*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 twenty-first 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 2006.*



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**DUTIES AND RESPONSIBILITIES  
OF THE COMMISSION**



**PART I**

**PREPARATION OF ACTUARIAL NOTES  
AND ADVISORY NOTES**

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**A. STATUTORY PROVISIONS.**

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

*Section 6. Powers and duties.*

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

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

*Section 7. Actuarial notes.*

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

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

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

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

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

## **A. STATUTORY PROVISIONS. (Cont'd)**

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

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

## **B. SUMMARY OF 2006 ACTIVITY.**

During 2006, the Commission authorized the attachment of seventeen actuarial notes to eleven bills, one bill as amended, and five amendments. In addition, the Commission's staff provided the General Assembly with three advisory notes.

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

- House Bill Number 130, Printer's Number 631. At the request of Representative Brett Feese, Majority Chairman, House Appropriations Committee, on September 26, 2006, the Commission staff provided an advisory note on House Bill Number 130, Printer's Number 631. House Bill Number 130, Printer's Number 631, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to permit active members or active multiple service members of the Public School Employees' Retirement System or the State Employees' Retirement System to retire during various periods of time with 30 years of service, or with a combination of years of service and age that when added together total 80, without the member's annuity being reduced on account of a retirement age that is under superannuation age. The bill would also entitle an eligible member to any insurance coverage under any contract of insurance affecting the member that is in effect on the member's effective date of retirement.

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

- House Bill Number 2257, Printer's Number 3145. At the request of Representative Paul I. Clymer, Majority Chairman, House State Government Committee, on August 10, 2006, the Commission staff provided an advisory note on House Bill Number 2257, Printer's Number 3145. House Bill Number 2257, Printer's Number 3145, would amend the State Employees' Retirement Code to permit certain active members of the State Employees' Retirement System who are employed by the Department of Environmental Protection to purchase up to ten years of State service credit for previous private sector employment in mining.
- House Bill Number 2897, Printer's Number 4543. At the request of Representative Paul I. Clymer, Majority Chairman, House State Government Committee, on September 25, 2006, the Commission staff provided an advisory note on House Bill Number 2897, Printer's Number 4543. House Bill Number 2897, Printer's Number 4543, would amend Section 5302(b)(2) of the State Employees' Retirement Code to permit an active member of the State Employees' Retirement System to continue to receive State service credit while on a paid leave of absence for purposes of serving as an appointed or elected full-time official of a statewide employee organization under the Public Employee Relations Act or the Policemen and Firemen Collective Bargaining Act. The bill would also remove the current limit, which is three consecutive terms of the same office, on the amount of service credit available to a member who is on such a paid leave of absence.

### **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.

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**Bill ID:** Amendment No. 05771 to  
Senate Bill Number 384, Printer's Number 1412

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

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

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SYNOPSIS

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Amendment Number 05771 to Senate Bill Number 384, Printer's Number 1412, would amend the Public School Employees' Retirement Code to permit an active member or active multiple service member to purchase up to three years of service credit at the rate of one year for every two years of work experience used by the member to obtain certification as a vocational teacher under a nonbaccalaureate program excluding time served in an apprenticeship if: 1) the member contributes a sum equivalent to the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credit due to the purchase; and 2) the member is prohibited from withdrawing the contribution made for the service purchase as a lump sum under the Public School Employees' Retirement System (PSERS) Retirement Option 4.

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DISCUSSION

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The Public School Employees' Retirement (Code) 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, 2005, PSERS had 255,465 active members and 156,519 annuitants and beneficiaries.

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

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

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DISCUSSION (CONT'D)

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

There is no work experience required for a Vocational Instructional II Certificate, which is a permanent teaching certificate. One of the requirements to obtain a Vocational Instructional II Certificate, however, is three years of satisfactory teaching on a Vocational Instructional I Certificate, which is a temporary teaching certificate. The requirements to obtain a Vocational Instructional I Certificate in vocational instructional programs vary. In the absence of an appropriate degree, an alternative certification process is available in some vocational instruction programs and is the only process for certification in certain other programs. According to the Department of Education, as of 2004, there were 7,448 certified vocational instructors teaching in the public schools of the Commonwealth.

The amendment would expand the list of purchasable nonschool service to include up to three years of service credit at the rate of one year of service credit for every two years of work experience used by the member to obtain certification as a vocational teacher under a nonbaccalaureate program excluding time served in an apprenticeship.

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

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SUMMARY OF ACTUARIAL COST IMPACT

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The consulting actuary of the Commission has reviewed the amendment and determined that the proposal will not increase the normal cost of PSERS, and that, due to the method used by PSERS for determining full actuarial cost, any increase in liability resulting from enactment of the service purchase authorization would be de minimus.

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POLICY CONSIDERATIONS

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

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

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

*Appropriateness of Credit for Vocational Teacher Experience.* The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The type of service to be made purchasable under the amendment is not among these types of service.

*Time Limit for Exercising Service Purchase Option.* For service purchases involving situations other than governmental transfers, the Commission recommended that employees be required to exercise the service purchase option within three years of becoming eligible to do so (i.e., within three years of employment where the service purchase option is already contained in the pension plan or within three years of the effective date of the benefit modification to the pension plan authorizing the service purchase). The amendment does not contain such a time limit.

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

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

Potential for Ancillary Retirement Benefit Costs. Although there will be no direct actuarial cost to PSERS due to enactment of the service purchase authorization, there may be other retirement benefit costs incurred by the employers. By purchasing service credit in PSERS for nonschool service, a member either may become eligible for other retirement-related benefits sooner than otherwise or may achieve eligibility for such benefits when the member could not otherwise do so. Such benefits may include payment for accrued leave, special early retirement eligibility, or eligibility for employer-subsidized postretirement healthcare benefits.

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

Determination of Eligibility. Considerable administrative difficulty and expense will be caused for both members and the Department of Education in ascertaining eligibility for the service purchase authorization.

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COMMISSION RECOMMENDATION

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On April 6, 2006, 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.

Senate Bill Number 384, Printer's Number 1412, was re-referred to the House Appropriations Committee on December 14, 2005.

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**Bill ID:** Senate Bill Number 1030, Printer's Number 1392

**System:** City of Pittsburgh Police Officer Pension Plan

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

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SYNOPSIS

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The bill would amend the act of May 22, 1935, (P. L. 233, No. 99), known as the Second Class City Policemen Relief Law by removing the current requirement in the Law that the pension payments to a surviving spouse of a police officer cease upon remarriage. The bill would also remove language in the Law requiring termination of a surviving child's benefit in the case of the surviving child's marriage and would mandate, rather than permit, the payment of a surviving child benefit in the case of a police officer who died on retirement.

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DISCUSSION

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The Second Class City Policemen Relief Law (Law) is one of the statutes governing the City of Pittsburgh Policemen's Relief and Pension Plan. The statute provides for the establishment of a defined benefit pension plan for police officers.

Established September 1, 1935, the City of Pittsburgh Policemen's Relief and Pension Plan is a contributory, defined benefit pension plan established for employees of the City's Bureau of Police. Under the plan, the normal retirement age is age 50, with 20 completed years of service, and the basic pension benefit is equal to 50% of the member's average compensation. As of January 1, 2003, there were 1,070 active members of the plan, and 1,545 retired members and survivors receiving benefits. This number includes 318 disability retirees, 504 surviving spouses and four surviving children receiving benefits. The current survivor benefit provisions of the Law are summarized below.

Service Connected Death. Under current law, if a police officer dies as a result of injuries received in the performance of the officer's duties; and

- 1) is survived by a spouse (termed "widow" in the current Law), the surviving spouse shall receive a survivor spouse pension of 50 percent of the officer's salary for the period of 500 weeks, less Workers' Compensation benefits, or until the surviving spouse remarries or dies, whichever first occurs; or
- 2) if there is no surviving spouse, or the survivor spouse pension is terminated due to the expiration of 500 weeks or the remarriage or death of the surviving spouse, and there is a surviving child, the surviving child shall receive a survivor child pension of 25 percent of the survivor spouse pension until the child reaches age 18, marries, or dies, whichever first occurs, or if the surviving child is a dependent, incompetent individual, the survivor child pension may be paid indefinitely.

Death of Retiree. Under the Law, if a retired police officer dies; and

- 1) is survived by a spouse to whom the retiree had been married at least two years and who was dependent upon the retiree, the surviving spouse receives a spouse pension of 50 percent of the retired officer's pension that continues for life unless the surviving spouse remarries; or
- 2) if there is no surviving spouse or the survivor spouse pension is terminated due to remarriage or death and there is a surviving child, the surviving child may receive a survivor child pension of 25 percent of the retiree's pension until the child reaches age 18, marries, or dies, whichever first occurs, or if the surviving child is a dependent, or incompetent individual, the survivor child pension may be paid indefinitely.

Because survivor beneficiaries are generally made aware of the benefit cessation provisions of the plan, in practice, the instances in which benefits to survivors (spouses or children) are terminated because of remarriage are quite rare.

The bill would amend the Law by removing the current provisions requiring that the pension payments to a surviving spouse of a police officer cease upon remarriage. The bill would also remove language in the Law requiring termination of a surviving child's benefit in the case of the surviving child's marriage and would mandate, rather than permit, the payment of a surviving child benefit in the case of a police officer who died on retirement.

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.

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SUMMARY OF ACTUARIAL COST IMPACT

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The consulting actuary of the City of Pittsburgh has informed the Commission staff that the probability of remarriage for surviving spouses of deceased police officers is not valued by the actuary in preparing the actuarial valuations of the police pension system. Likewise, this assumption extends to a surviving child who marries and is receiving benefits under the plan, and the plan currently provides benefits to a surviving child of a retired police officer who dies on retirement. Accordingly, there will be no change in the funding requirements of the plan 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 Pittsburgh Policemen's Relief and Pension Plan resulting from passage of the bill.

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POLICY CONSIDERATIONS

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

Removal of Outdated Provisions. The bill removes provisions in the Second Class City Policemen Relief Law that are based upon an orientation toward survivor benefits that is no longer appropriate.

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

Uniformity and Equity of Pension Benefits. Similar provisions for termination of surviving spouses’ benefits upon remarriage currently apply to the surviving spouses of nonuniformed employees of the City of Pittsburgh as well as to firefighters. 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. (Separate legislation amending the applicable statutes would be required.)

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COMMISSION RECOMMENDATION

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On March 1, 2006, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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Senate Bill Number 1030, Printer's Number 1392, was introduced and referred to the Senate Finance Committee on November 22, 2005.

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**Bill ID:** Amendment Number 10405 to  
Senate Bill Number 1285, Printer's Number 2202

**System:** State Employees' Retirement System

**Subject:** Service Credit Conversion for Philadelphia Municipal Court Bail Commissioners

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SYNOPSIS

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Amendment Number 10405 to Senate Bill Number 1285, Printer's Number 2202, would amend Sections 5306 and 5504 of the State Employees' Retirement Code to permit an active member who is a bail commissioner of the Philadelphia Municipal Court and a Class E-2 member of the State Employees' Retirement System (SERS) to elect to convert from Class AA to Class E-2 all bail commissioner service performed prior to January 26, 2004, provided the affected member contributes to SERS an amount equal to the employee contributions, plus statutory interest, that would have been made to SERS had member contributions been made at the rate of contribution applicable to a Class E-2 member for the bail commissioner service previously credited as Class AA.

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DISCUSSION

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The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. 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, 2005, SERS membership consisted of 109,981 active members and 101,179 retirees and beneficiaries currently receiving benefits.

Under the Code, superannuation or normal retirement age for most members is age 60 with three or more years of service credit or at any age with 35 years of service credit. For most members, the pension benefit is equivalent to the product of a 2.5 percent benefit accrual rate multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement.

The position of bail commissioner with the Philadelphia Municipal Court was created in 1984, through the amendment of Section 1123(a)(5) of the Judicial Code. The Judicial Code was amended to permit the judges of the Philadelphia Municipal Court to appoint up to six bail commissioners for four-year terms who become employees of the Commonwealth. The duties of the bail commissioners as specified in Section 1123(a)(5) of the Judicial Code are similar to those of magisterial district judges (formerly known as district justices) as specified in Section 1414(a)(4) of the Judicial Code.

Under the SERS Code, a member's class of service and the corresponding "class of service multiplier" has an effect both on the calculation of the regular member contributions and on the member's annuity. In determining the member contribution rate, the regular member contribution is the product of the basic contribution rate of 5.0% of compensation, multiplied by the class of service multiplier. The calculation of a member's retirement benefit is the product of 2.0% multiplied by the member's years of credited service, multiplied by the member's final average

salary (highest three years), multiplied by the member's class of service multiplier. Prior to the passage of Act 9 of 2001, most members of SERS, including bail commissioners, were members of Class A, which had a class of service multiplier of 1.0. Therefore, the annuities of Class A members were calculated based upon a 2.0% annual accrual rate (2.0% accrual x 1.0 class of service multiplier = 2.0%) and the member contributions of Class A members were 5.0% of pay (basic member contribution rate of 5% x 1.0 = 5.0%).

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

Act 40 of 2003 provided a further enhancement to the pension benefits of bail commissioners by permitting these members to elect Class E-2 membership prospectively for all periods of employment as a bail commissioner performed following the effective date of the Act. Prior to the passage of Act 40, bail commissioners were members of Class AA. Under the Act, currently employed bail commissioners had 30 days from the effective date of the Act to elect Class E-2, and new employees have 30 days from the date of hire. The benefit staff of SERS has informed the Commission staff that all bail commissioners have elected Class E-2 membership and are currently members of that membership class. As is the case with all other classes of service, the annuity for Class E-2 members is obtained by multiplying the standard single-life annuity by a class of service multiplier. The class of service multiplier for Class E-2 is 1.5, and the employee contribution rate for Class E-2 is a correspondingly higher 7.5 percent. The benefit enhancement provided by Act 40 had the effect of increasing the affected member's annual pension benefit accrual rate from 2.5% (as Class AA members) to 3.0% (as Class E-2 members) for all future service performed as a bail commissioner. The bail commissioner (Class E-2) component of the member's final pension benefit will be added to any prior or future service credit earned by the member through another type of State or school service and any service credit accruing to the member through purchases of nonstate service in determining the member's final pension benefit.

The amendment would provide an additional benefit enhancement beyond that already provided by Act 40 by permitting an active member who is a bail commissioner to elect to convert from Class AA to Class E-2 all bail commissioner service performed prior to January 26, 2004, provided that: 1) an eligible member makes the election to convert bail commissioner service rendered prior to January 26, 2004, within the later of 30 days of the effective date of the amendment or within 30 days of appointment as a bail commissioner; and 2) a member who elects to convert such credited service agrees to contribute to SERS a sum equal to the total accumulated deductions (employee contributions), plus statutory interest (4%), that would have been made to SERS had employee contributions been made at the rate of contribution applicable to a Class E-2 member for the previous bail commissioner service. The amendment would increase an affected member's annual benefit accrual rate from 2.5% to 3.0% for each year of bail commissioner service rendered prior to January 26, 2004.

Under the amendment, the amount required to be paid on account of the service credit conversion may be paid into the SERS fund by the member either in a lump-sum within 30 days of the conversion election or the required contributions may be amortized, with statutory interest, through salary deductions in amounts agreed upon by the member and the SERS board, but in no case may the amortization period exceed six years from the date of the conversion election. In the event an affected member should terminate service prior to completing the agreed upon

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DISCUSSION (CONT'D)

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payments, the member will have 30 days from the date of termination to contribute the outstanding balance, otherwise the present value of the member's retirement benefit will be reduced by the balance due, plus applicable interest, pursuant to Section 5506 (Incomplete Payments).

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SUMMARY OF ACTUARIAL COST IMPACT

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

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$41,000	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Costs		
Normal Cost	\$ 0	0%
Amortization Payment <sup>1</sup>	<u>6,300</u>	<u>1.42%</u>
Total Increase in Employer Annual Costs	\$6,300	1.42%

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

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POLICY CONSIDERATIONS

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

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

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COMMISSION RECOMMENDATION

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On November 16, 2006, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issue identified in the actuarial note transmittal.

A later version of Senate Bill Number 1285 (Printer's Number 2251) was signed into law by the Governor as Act 188 of 2006 on November 29, 2006.

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**Bill ID:** Amendment Number 09858 to  
House Bill Number 126, Printer's Number 4579

**System:** State Employees' Retirement System

**Subject:** Benefit Enhancement for Philadelphia Municipal Court Bail Commissioners

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SYNOPSIS

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Amendment Number 09858 to House Bill Number 126, Printer's Number 4579, would amend the State Employees' Retirement Code to permit an active member who is a bail commissioner of the Philadelphia Municipal Court to elect Class E-2 membership for all periods of previous bail commissioner service.

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DISCUSSION

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The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. 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, 2005, SERS membership consisted of 109,981 active members and 101,179 retirees and beneficiaries currently receiving benefits.

Under the Code, superannuation or normal retirement age for most members is age 60 with three or more years of service credit or at any age with 35 years of service credit. For most members, the pension benefit is equivalent to the product of a 2.5 percent benefit accrual rate multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement.

The position of bail commissioner with the Philadelphia Municipal Court was created in 1984, through the amendment of Section 1123(a)(5) of the Judicial Code. The Judicial Code was amended to permit the judges of the Philadelphia Municipal Court to appoint up to six bail commissioners for four-year terms who become employees of the Commonwealth. The duties of the bail commissioners as specified in Section 1123(a)(5) of the Judicial Code are similar to those of magisterial district judges (formerly known as district justices) as specified in Section 1414(a)(4) of the Judicial Code.

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

service multiplier = 2.0%) and the member contributions of Class A members were 5.0% of pay (basic member contribution rate of 5% x 1.0 = 5.0%).

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

Act 40 of 2003 provided a further enhancement to the pension benefits of bail commissioners by permitting these members to elect Class E-2 membership prospectively for all periods of employment as a bail commissioner performed following the effective date of the Act. Prior to the passage of Act 40, bail commissioners were members of Class AA. Under the Act, currently employed bail commissioners had 30 days from the effective date of the Act to elect Class E-2, and new employees would have 30 days from the date of hire. The benefit staff of SERS has informed the Commission staff that all bail commissioners have elected Class E-2 membership and are currently members of that membership class. As is the case with all other classes of service, the annuity for Class E-2 members is obtained by multiplying the standard single-life annuity by a class of service multiplier. The class of service multiplier for Class E-2 is 1.5, and the employee contribution rate for Class E-2 is a correspondingly higher 7.50 percent. The benefit enhancement provided by Act 40 had the effect of increasing the affected member's annual pension benefit accrual rate from 2.5% (as Class AA members) to 3.0% (as Class E-2 members) for all future service performed as a bail commissioner. The bail commissioner (Class E-2) component of the member's final pension benefit will be added to any prior or future service credit earned by the member through another type of State or school service and any service credit accruing to the member through purchases of nonstate service in determining the member's final pension benefit.

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

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SUMMARY OF ACTUARIAL COST IMPACT

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

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SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

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	<u>Amount</u>	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Unfunded Actuarial Accrued Liability	\$145,000	
Increase in Employer Annual Costs		
Normal Cost	\$ 0	0%
Amortization Payment <sup>1</sup>	<u>22,000</u>	<u>4.99%</u>
Total Increase in Employer Annual Costs	\$22,000	4.99%

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

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POLICY CONSIDERATIONS

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

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

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

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COMMISSION RECOMMENDATION

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On October 19, 2006, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 126, Printer's Number 4579, was signed into law by the Governor as Act 120 of 2006 on October 27, 2006.

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**Bill ID:** House Bill Number 533, Printer's Number 581

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

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

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SYNOPSIS

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House Bill Number 533, Printer's Number 581, would amend the Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) to permit an active member or active multiple service member of either the Public School Employees' Retirement System (PSERS) or the State Employees' Retirement System (SERS) to purchase up to five years of nonschool or nonstate service credit for service as a crewleader with the Pennsylvania Conservation Corps rendered prior to January 1, 2006. Under the bill, members would be required to exercise the service purchase option within three years of becoming eligible to do so, would be required to pay the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credit, and would be precluded from withdrawing the amount paid for the service purchase upon retirement under Retirement Option 4. House Bill Number 533, Printer's Number 581, is a companion bill to House Bill Number 534, Printer's Number 582. House Bill Number 534 addresses the issue of prospective membership in the State Employees' Retirement System for crewleaders. (Refer to the Commission's actuarial note transmittal on House Bill Number 534, dated October 19, 2006, for details on that issue.)

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DISCUSSION

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The Public School Employees' Retirement Code and the State Employees' Retirement Code are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of PSERS and SERS (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and State employees. Membership in the Systems is mandatory for most school and State employees. Certain other employees are not required but are given the option to participate. As of June 30, 2005, PSERS had 255,465 active members and 156,519 annuitants and beneficiaries. As of December 31, 2005, SERS had 109,981 active members and 101,179 annuitants and beneficiaries.

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

The number of years of credited service 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 credit for service with another employer are of value to the member because

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

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

Active members and active multiple service members of SERS currently are permitted to purchase service credit for the following types of service: approved leaves of absence without pay, intervening or nonintervening military service, service as a public educator in another state or with the federal government, service as a temporary federal employee assigned to a Commonwealth agency, service in a community college under the Community College Act, service in the Cadet Nurse Corps in World War II, service as a justice of the peace prior to January 1970, and service with a governmental agency other than the Commonwealth where employment was terminated because of the transfer by law of the administration or the service of the entire agency to the Commonwealth.

The bill would expand the list of purchasable nonschool service (in the case of PSERS members) and nonstate service (in the case of SERS members) to include service credit for service as a crewleader with the Pennsylvania Conservation Corps rendered prior to January 1, 2006.

### **Pennsylvania Conservation Corps**

The Pennsylvania Conservation Corps (PCC) was created in July 1984 by the Pennsylvania Conservation Corps Act (Act 112 of 1984). Administered by the Department of Labor and Industry, the mission of the PCC is to develop the workplace skills, life skills and self-confidence of corps members, and to instill in corps members a sense of citizenship and community service through participation in conservation projects, historical work and various other projects of public benefit. Since 1984, the PCC has undertaken more than 1,000 projects in urban, suburban and rural areas statewide. Entities that are eligible to sponsor PCC projects include: local governments; community-based non-profit organizations; the Pennsylvania Emergency Management Agency; the Pennsylvania Game Commission; the Pennsylvania Fish and Boat Commission; the Historical and Museum Commission; and the Departments of Aging, Corrections, Education, Public Welfare, Military and Veterans Affairs, Community and Economic Development, and Conservation and Natural Resources.

Corps members are Pennsylvania residents, between the ages of 18 and 25 (16 and 17 year-olds may participate under special circumstances). Preference in enrollment is given to the economically disadvantaged. Corps members enroll for an initial one-year term of service, with the possibility of extending for an additional six to twelve months of service. Corps members receive a starting salary of \$6.25 per hour, with a 10 percent pay increase after six months on the job. Corps members who complete a year of service are eligible to receive a one-time cash bonus of \$1,000, and may also qualify for an education award of up to \$4,725. While enrolled, Corps members receive on-the-job vocational training, including carpentry, masonry, electrical work, landscaping and a variety of other trades. Corps members work in crews under the supervision of crewleaders who have experience in the building trades and are skilled in motivating and training young adults.

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

for employment, and be physically and mentally capable of performing labor intensive work and supervisory duties. Crewleader candidates are referred to the PCC by the Bureau of State Employment, and preference in hiring is given to honorably discharged military veterans. Crewleaders are full-time, temporary employees, and currently receive a starting wage of \$11.45 per hour. Examples of work performed by crewleaders include: interviewing and enrolling corps members, planning, organizing, scheduling and assigning work to corps members, directing crew activities, evaluating corps members' work performance, and compiling and submitting periodic reports. Crewleaders are initially employed for a one-year term of service, which may be extended, at the option of the Department of Labor and Industry, for an unlimited number of additional one-year terms. Despite their full-time status, however, crewleaders are not entitled to membership in SERS, nor any of the employee benefits normally provided to regular Commonwealth employees, except for paid Commonwealth holidays and workmen's compensation.

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SUMMARY OF ACTUARIAL COST IMPACT

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

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POLICY CONSIDERATIONS

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

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

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

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POLICY CONSIDERATIONS (CONT'D)

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*Cost Effective Technical Provisions.* For service purchase authorizations of this type, the Commission recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The bill contains such a time limit. The Commission also recommended that, in cases where the service purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service, the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement. The bill contains a provision prohibiting the withdrawal of service purchase amount at retirement under Retirement Option 4.

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

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

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COMMISSION RECOMMENDATION

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On October 19, 2006, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 533, Printer's Number 581, was introduced and referred to the House Education Committee on February 16, 2005.

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**Bill ID:** House Bill Number 534, Printer's Number 582

**System:** State Employees' Retirement System

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

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SYNOPSIS

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House Bill Number 534, Printer's Number 582, would amend the Pennsylvania Conservation Corps Act (Act of 1984, P. L. 561, No. 112) to, beginning January 1, 2006, provide for membership in the State Employees' Retirement System for employees classified as "crewleaders" of the Pennsylvania Conservation Corps pursuant to the Pennsylvania Conservation Corps Act, and requiring that service as a crewleader rendered prior to January 1, 2006, be considered purchasable as nonschool or nonstate service. House Bill Number 533, Printer's Number 581, which amends the Public School Employees' Retirement Code and the State Employees' Retirement Code, is intended to serve as a companion bill that specifically addresses the purchases of service for service as a crewleader rendered prior to January 1, 2006. (Refer to the Commission's actuarial note transmittal dated October 19, 2006, on House Bill Number 533, Printer's Number 581, for details on the service purchase issue). House Bill Number 534 also addresses the provision of Commonwealth-funded medical benefits to crewleaders.

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DISCUSSION

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The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits to State employees. Membership in SERS is mandatory for most full-time State employees. Certain other employees are not required but are given the option to participate. As of December 31, 2005, SERS had 109,981 active members and 101,179 annuitants and beneficiaries.

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

### **Pennsylvania Conservation Corps**

The Pennsylvania Conservation Corps (PCC) was created in July 1984 by the Pennsylvania Conservation Corps Act (Act 112 of 1984). Administered by the Department of Labor and Industry, the mission of the PCC is to develop the workplace skills, life skills and self-confidence of corps members, and to instill in corps members a sense of citizenship and community service through participation in conservation projects, historical work and various other projects of public benefit. Since 1984, the PCC has undertaken more than 1,000 projects in urban, suburban and rural areas statewide. Entities that are eligible to sponsor PCC projects include: local governments; community-based non-profit organizations; the Pennsylvania Emergency Management Agency; the Pennsylvania Game Commission; the Pennsylvania Fish and Boat Commission; the Historical and

Museum Commission; and the Departments of Aging, Corrections, Education, Public Welfare, Military and Veterans Affairs, Community and Economic Development, and Conservation and Natural Resources.

Corps members are Pennsylvania residents, between the ages of 18 and 25 (16 and 17 year-olds may participate under special circumstances). Preference in enrollment is given to the economically disadvantaged. Corps members enroll for an initial one-year term of service, with the possibility of extending for an additional six to twelve months of service. Corps members receive a starting salary of \$6.25 per hour, with a 10 percent pay increase after six months on the job. Corps members who complete a year of service are eligible to receive a one-time cash bonus of \$1,000, and may also qualify for an education award of up to \$4,725. While enrolled, Corps members receive on-the-job vocational training, including carpentry, masonry, electrical work, landscaping and a variety of other trades. Corps members work in crews under the supervision of crewleaders who have experience in the building trades and are skilled in motivating and training young adults.

Crewleaders are supervisory personnel employed by the Department of Labor and Industry pursuant to the Pennsylvania Conservation Corps Act. To be eligible for employment as a crewleader, an individual must be a Pennsylvania resident, be registered with the local Job Center for employment, and be physically and mentally capable of performing labor intensive work and supervisory duties. Crewleader candidates are referred to the PCC by the Bureau of State Employment, and preference in hiring is given to honorably discharged military veterans. Crewleaders are full-time, temporary employees, and currently receive a starting wage of \$11.45 per hour. Examples of work performed by crewleaders include: interviewing and enrolling corps members, planning, organizing, scheduling and assigning work to corps members, directing crew activities, evaluating corps members' work performance, and compiling and submitting periodic reports. Crewleaders are initially employed for a one-year term of service, which may be extended, at the option of the Department of Labor and Industry, for an unlimited number of additional one-year terms. Despite their full-time status, however, crewleaders are not entitled to membership in SERS, nor any of the employee benefits normally provided to regular Commonwealth employees, except for paid Commonwealth holidays and workmen's compensation.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary determined that there would be no increase in unfunded actuarial accrued liability due to the bill, but there will be an increase in the dollar amount of employer normal cost. The estimate of the normal cost increase is based upon the census data provided by the Department of Labor and Industry, which indicates there are currently 49 employees classified as crewleaders who would be affected by the bill, with a total reported payroll for these employees of \$1,142,432.

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SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

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	<u>Amount</u>	
Change in Unfunded Actuarial Accrued Liability	\$0	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Additional Employer Annual Costs		
Normal Cost	\$96,000	8.39%
Amortization Payment	<u>0</u>	<u>0.00%</u>
Total Additional Increase in Employer Annual Costs <sup>1</sup>	\$96,000	8.39%

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

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POLICY CONSIDERATIONS

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

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

Drafting Redundancy. The service purchase language in the bill has the effect of duplicating the service purchase authorization for service as a crewleader rendered prior to January 1, 2006, contained in the companion bill (House Bill Number 533, Printer's Number 581). The language should be deleted to avoid redundancy and to ensure that House Bill Number 534 is not enacted without the necessary specifications contained in the companion bill.

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

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COMMISSION RECOMMENDATION

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On October 19, 2006, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 534, Printer's Number 582, was referred to the Senate Labor and Industry Committee on October 26, 2006.

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**Bill ID:** House Bill Number 1220, Printer's Number 1433

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

**Subject:** Annual Cost-of-Living Adjustments

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SYNOPSIS

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House Bill Number 1220, Printer's Number 1433, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to permit annual cost-of-living adjustments (COLAs) (called supplemental annuities in the system Codes) beginning July 1, 2006, and payable to all annuitants of both the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS), who have attained superannuation age and who have been receiving retirement benefits for at least 24 consecutive months. The amount of the annual supplemental annuity, if any, will be left to the discretion of the boards of trustees of the respective systems following a determination of the fiscal impact of the supplemental annuity on the fund.

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DISCUSSION

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The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of PSERS and SERS (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. Membership in the Systems is mandatory for most school and state employees. Certain other employees are not required but are given the option to participate. As of June 30, 2005, PSERS had 255,465 active members and 156,519 annuitants and beneficiaries. As of December 31, 2004, SERS had 108,405 active members and 98,727 annuitants and beneficiaries.

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

**Cost-of-Living Adjustments (COLAs)**

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

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

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

If a COLA is automatic, it is provided on an ongoing basis, usually both to currently eligible retirees and to retirees who subsequently become eligible. An automatic COLA can take many forms – it may be one of a scheduled series of percentage or dollar increases, or it may be a percentage or dollar increase implemented due to the occurrence of a certain condition, such as a predefined increase in salaries or the Consumer Price Index. An automatic COLA is implemented in the normal course of the retirement system's operation because it is provided pursuant to the existing benefit provisions of the retirement system.

Where COLAs are provided on an automatic basis, the necessary funding typically is accumulated in advance of the actual benefit disbursement. Advance funding reduces the total amount of the contributions required to finance the COLAs, primarily because of interest earnings on the advance contributions, and results in more predictable costs. The advance funding is possible because the COLAs are scheduled and specified in advance, permitting the actuarial liabilities to be calculated and reflected in the ongoing contribution requirements of the system. However, because of the unspecified nature of the COLAs called for in the bill, the actuarial liabilities cannot be calculated in advance without making actuarial assumptions with respect to the amounts of future COLAs. Accordingly, the ongoing contribution requirements for the retirement systems attributable to COLAs may vary with the discretionary assumptions utilized by the actuaries of the retirement systems.

### **Frozen Annuities and COLAs**

For a variety of reasons, members of the Systems who are eligible for a normal or early retirement benefit may choose to retire from state or school service, begin receiving retirement benefits for a period of time, and later return to service. Under the Codes of both Systems, upon any annuitant's return to regular, full-time service, the annuity payments to which the member is entitled as an annuitant cease and the present value of the member's annuity is "frozen" as of that date. When the member again retires at some future date, this "frozen present value" annuity is added to the value of the new retirement benefit earned during the member's second period of service. Under current law, a former annuitant who returns to service is not entitled to any COLAs (other than the supplemental annuity enacted December 18, 1979) that may be enacted during the member's new period of active service. The bill would amend the Codes of both Systems to permit a member who has returned to service to receive any COLAs that are enacted during the member's return to service by having the applicable percentage increase of any such COLA or COLAs credited to the

member's frozen annuity (on or after the member attains superannuation age) as though the member had never returned to active service. Because of a lack of reliable data concerning members returning to service from annuity and due to ambiguities concerning interpretation of the frozen annuity provision of the bill, the Systems' consulting actuaries have not attempted to estimate the additional costs associated with this provision.

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SUMMARY OF ACTUARIAL COST IMPACT

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Because the amount of any future COLAs proposed in the bill was not readily determinable from the language of the bill, and because of the generally ambiguous nature of the proposal, the consulting actuaries for both PSERS and SERS were asked to provide the Commission with actuarial cost estimates for the bill based upon an assumed 3% automatic, annual COLA for both PSERS and SERS retirees. Given both Systems' most recent economic assumptions for inflation combined with the relatively low levels of inflation that have been experienced in recent years, a 3% annual COLA was viewed as a reasonable assumption for the upper limit of the average postretirement adjustments that may occur under the bill.

Each System's consulting actuary has provided separate cost estimates based upon two funding scenarios: 1) after-the-fact direct amortization or "Ad Hoc" funding of the COLA liabilities (as shown in Table 1 for each System); and 2) advance direct funding or "Pre-funding" of the COLA liabilities (as shown in Table 2 for each System).

The Table 1 estimates reflect current Commonwealth practice for the funding of the discretionary or ad hoc COLAs that have been periodically enacted by the General Assembly. In this case, the cost of each ad hoc COLA is added to the liabilities of the retirement system and funded prospectively by level-dollar amortization payments over a 10-year period. As the Table 1 estimates for both PSERS and SERS show, the provision of annual COLAs has a gradual, but compounding effect on future employer contribution requirements which continue to grow each year as subsequent COLAs are implemented.

The Table 2 estimates reflect the costs of advance funding or pre-funding the proposed annual COLAs for both PSERS and SERS. The advance funding method would be the most likely method used by the Systems' consulting actuaries for funding automatic COLAs. Advance funding is possible and recommended because the COLAs would be scheduled and specified in advance, permitting the additional actuarial liabilities to be calculated and reflected in the ongoing funding requirements of the respective Systems. As the Table 2 estimates for both PSERS and SERS show, this funding approach results in a significant increase in employer contributions for the first ten years. Furthermore, because the proposed annual COLAs represent a permanent benefit enhancement that would extend to active members of both Systems once those members retire and become eligible for future automatic COLAs, the resulting increase in employer normal cost is a permanent feature of this funding approach. However, once the initial increase in actuarial accrued liability resulting from the benefit provision is fully amortized after 10 years, the employer contribution requirements would decline to the new annual employer normal cost rate.

The Commission's consulting actuary has reviewed the work of the Systems' actuaries and has determined that the estimates are reasonable. The cost estimates for both PSERS and SERS are summarized in the following tables.

**Public School Employees' Retirement System (PSERS)**

**Table 1  
After the Fact or "Ad Hoc" Funding of 3% Annual COLA**

COLAs Effective July 1	Contribution Fiscal Year	Projected Fiscal Year Payroll	Increase in Employer Annual Contribution	
			As a Dollar Amount	As a % of Projected Payroll
2006	2007/2008	\$12,016,000,000	\$ 113,000,000	0.94%
2006 - 2007	2008/2009	12,273,000,000	239,000,000	1.95%
2006 - 2008	2009/2010	12,526,000,000	381,000,000	3.04%
2006 - 2009	2010/2011	12,779,000,000	538,000,000	4.21%
2006 - 2010	2011/2012	13,040,000,000	719,000,000	5.52%
2006 - 2011	2012/2013	13,316,000,000	927,000,000	6.96%
2006 - 2012	2013/2014	13,611,000,000	1,158,000,000	8.51%
2006 - 2013	2014/2015	13,929,000,000	1,410,000,000	10.13%
2006 - 2014	2015/2016	14,283,000,000	1,681,000,000	11.77%
2006 - 2015	2016/2017	14,676,000,000	1,967,000,000	13.40%
2007 - 2016	2017/2018	15,107,000,000	2,156,000,000	14.27%
2008 - 2017	2018/2019	15,579,000,000	2,348,000,000	15.07%
2009 - 2018	2019/2020	16,090,000,000	2,542,000,000	15.80%
2010 - 2019	2020/2021	16,637,000,000	2,737,000,000	16.45%
2011 - 2020	2021/2022	17,220,000,000	2,925,000,000	16.99%
2012 - 2021	2022/2023	17,836,000,000	3,106,000,000	17.41%
2013 - 2022	2023/2024	18,482,000,000	3,281,000,000	17.75%
2014 - 2023	2024/2025	19,155,000,000	3,453,000,000	18.03%
2015 - 2024	2025/2026	19,852,000,000	3,626,000,000	18.26%
2016 - 2025	2026/2027	20,570,000,000	3,802,000,000	18.49%

**Public School Employees' Retirement System (PSERS)**

**Table 2**  
**Advance Funding or "Pre-Funding" of 3% Annual COLA**

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability <sup>1</sup>	\$16,385,300,000	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Cost		
Normal Cost	\$ 283,600,000	2.36%
Amortization Payment <sup>2</sup>	<u>\$2,497,200,000</u>	<u>20.78%</u>
Total Increase in Employer Annual Cost	\$2,780,800,000	23.14%

<sup>1</sup> Based upon a funding start date of July 1, 2007.

<sup>2</sup> Amortization calculated as level-dollar payments over ten years. Amortization payments cease after 10 years.

**State Employees' Retirement System (SERS)**

**Table 1  
After the Fact or "Ad Hoc" Funding of 3% Annual COLA**

COLAs Effective July 1	Contribution Fiscal Year	Projected Fiscal Year Payroll	Increase in Employer Annual Contributions	
			As a Dollar Amount	As a % of Projected Payroll
2006	2007/2008	\$ 5,428,000,000	\$ 49,000,000	0.90%
2006 - 2007	2008/2009	5,608,000,000	102,000,000	1.82%
2006 - 2008	2009/2010	5,793,000,000	161,000,000	2.78%
2006 - 2009	2010/2011	5,984,000,000	214,000,000	3.58%
2006 - 2010	2011/2012	6,181,000,000	293,000,000	4.74%
2006 - 2011	2012/2013	6,385,000,000	384,000,000	6.01%
2006 - 2012	2013/2014	6,596,000,000	474,000,000	7.18%
2006 - 2013	2014/2015	6,814,000,000	571,000,000	8.37%
2006 - 2014	2015/2016	7,038,000,000	677,000,000	9.62%
2006 - 2015	2016/2017	7,271,000,000	794,000,000	10.92%
2007 - 2016	2017/2018	7,511,000,000	874,000,000	11.63%
2008 - 2017	2018/2019	7,759,000,000	961,000,000	12.38%
2009 - 2018	2019/2020	8,015,000,000	1,054,000,000	13.15%
2010 - 2019	2020/2021	8,279,000,000	1,154,000,000	13.94%
2011 - 2020	2021/2022	8,552,000,000	1,261,000,000	14.75%
2012 - 2021	2022/2023	8,834,000,000	1,375,000,000	15.57%
2013 - 2022	2023/2024	9,126,000,000	1,497,000,000	16.40%
2014 - 2023	2024/2025	9,427,000,000	1,627,000,000	17.26%
2015 - 2024	2025/2026	9,738,000,000	1,766,000,000	18.13%
2016 - 2025	2026/2027	10,060,000,000	1,914,000,000	19.03%

**State Employees' Retirement System (SERS)**

**Table 2  
Advance Funding or "Pre-Funding" of 3% Annual COLA**

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability <sup>1</sup>	\$6,597,500,000	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Cost		
Normal Cost	\$ 169,900,000	3.13%
Amortization Payment <sup>2</sup>	<u>\$1,005,500,000</u>	<u>18.52%</u>
Total Increase in Employer Annual Cost	\$1,175,400,000	21.65%

<sup>1</sup> Based upon a funding start date of July 1, 2007.

<sup>2</sup> Amortization calculated as level-dollar payments over ten years. Amortization payments cease after 10 years.

**POLICY CONSIDERATIONS**

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

Fundamental Policy Change. Historically, the General Assembly has chosen to retain authority in the timing and amount of COLAs provided to retirees of the two statewide retirement systems by granting periodic ad hoc COLAs. The bill proposes to implement automatic, annual COLAs and to transfer authority for determining the amount of these future COLAs from the General Assembly to the Boards of the respective retirement systems. The General Assembly must consider whether this policy change is an appropriate delegation of legislative authority.

Absence of Specific Design. The bill lacks critical elements of a specific COLA design, leaving decisions in such matters as: the amount of the COLA, the provision of proportional or non-proportional adjustments, and the provision of simple or compound adjustments to the discretion of the respective retirement boards. Specific design criteria are desirable because they avoid inequities, unnecessary costs, and implementation difficulties.

Funding Approach. In response to Senate Resolution Number 103, the Public Employee Retirement Commission released a report entitled *Funding Cost-of-Living Adjustments* in November 2000. In that report, the Commission indicated that advance direct funding for COLAs results in substantial reductions in the total contributions required to fund COLAs, and that true advance direct funding may only be implemented where COLAs are provided on an automatic basis. If the Boards of PSERS and SERS direct their actuaries to assume the provision of future COLAs at some level when they calculate the annual funding requirements, the bill would result in the Commonwealth making a transition from its previous practice of after-the-fact direct funding of COLAs to advance direct funding. However, the level of funding would be determined through actuarial assumptions, possibly

resulting in variations in the assumed COLA amounts and associated funding requirements, both within and between the retirement systems. Specifying that the provision of future COLAs be included in the actuarial assumptions made by both PSERS and SERS would eliminate the potential for differing funding approaches to be employed by PSERS and SERS.

Absence of Cost Sharing. The bill would provide a significant benefit enhancement in the form of an automatic, annual COLA that would benefit future annuitants who are currently active members. The cost of the benefit enhancement would be borne entirely by the employer, since the bill does not provide for an increase in employee contributions.

Potential for Benefit Disparity. Historically, the General Assembly has sought to provide identical or nearly identical benefits to members of the two state-wide retirement systems. By charging the Boards of the respective systems with the task of independently determining and providing automatic, annual COLAs to retirees, school and state retirees could receive COLAs that differ significantly in amount and design.

Basis for COLA Determination. The language in the bill requires that the annual cost-of-living increase mandated in the bill be made *as the board shall determine based on an actual determination of the fiscal impact of the cost-of-living adjustment on the fund.* The Commission staff believes that this may be a reference to the funded condition of the retirement systems. If so, this language is predicated on faulty assumptions concerning how COLAs may be funded. There is a prevalent misconception that the funded status of the pension plan affects the cost of a benefit change. Whether the pension plan is fully-funded, over-funded or under-funded, the cost of a pension benefit change remains the same, and the cost results in an increase in the required employer contributions to the pension plan. The funded status of the pension plan does affect the options available to the employer in making the contributions necessary to pay the cost of the benefit change. If the assets of the pension plan exceed the amount the actuary estimates should be in the pension fund at a given point in time, an actuarial surplus exists and functions to allow some or all of the required increase in employer contributions to be satisfied indirectly in future years rather than commencing at the time of the benefit improvement. If the Commonwealth is to initiate a policy whereby the funded condition of the retirement systems is to be a significant determining factor in the provision of COLAs, the bill should be amended to clearly specify both the actuarial indicators and the methodology for making those indicators available and to prescribe how those indicators impact the COLA amounts.

Absence of Need Determination Factor. Change in the Consumer Price Index (CPI) during an applicable period of retirement is the predominate basis for determining the amount of COLAs provided in public employee retirement plans. The absence of this measure of need from the factors specified in the bill for determining the annual COLA amount is questionable from a public pension policy perspective.

Drafting Ambiguities.

- 1) The bill would amend Section 8346(a) of the PSERS Code and Section 5706(a) of the SERS Code to permit a member who has returned to service to receive any COLAs that are enacted during the member's return to service by having the applicable percentage increase of any such COLA or COLAs credited to the member's frozen annuity (on or after the member attains superannuation age) as though the member had never returned to active service. The provision of the bill affecting the crediting of COLAs to the frozen annuities of members who have returned to active service from retirement could be interpreted to be applicable retroactively as well as prospectively. Retroactive applicability would likely have an undetermined additional actuarial cost and would require both SERS and PSERS to expend considerable effort and resources in

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POLICY CONSIDERATIONS (CONT'D)

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identifying all eligible individuals and adjusting their annuities accordingly. The bill should be amended to clarify the applicability of this provision.

- 2) The bill would repeal Sections 5708(b) and 5708.1 of the SERS Code. These sections relate to the provision of COLAs effective July 1, 1979, and July 1, 1984, respectively. Because nearly all annuitants affected by these COLA provisions would have already established eligibility for the COLAs, the rationale for repealing these provisions from the Code at this time is unclear.

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COMMISSION RECOMMENDATION

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On March 1, 2006, the Commission voted to attach the actuarial notes to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 1220, Printer's Number 1433, was introduced and referred to the House State Government Committee on March 30, 2005.

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**Bill ID:** House Bill Number 1702, Printer's Number 2164

**System:** State Employees' Retirement System

**Subject:** Purchase of Service Credit for Service with the American Red Cross

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SYNOPSIS

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House Bill Number 1702, Printer's Number 2164, would amend Section 5304 of the State Employees' Retirement Code to provide for the purchase of up to five years of nonstate service credit for service as an employee of the American Red Cross.

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DISCUSSION

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The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. 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, 2005, SERS had 109,981 active members and 101,179 annuitants and beneficiaries.

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 the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Permitting members to receive credit for service with another employer benefits the member because the retirement benefit is enhanced and, in some cases, retirement eligibility is accelerated.

Active members and active multiple service members of SERS currently are permitted to purchase service credit for the following types of service: approved leaves of absence without pay, intervening or nonintervening military service, service as a public educator in another state or with the federal government, service as a temporary federal employee assigned to a Commonwealth agency, service in a community college under the Community College Act, service in the Cadet Nurse Corps in World War II, service as a justice of the peace prior to January 1970, and service with a governmental agency other than the Commonwealth where employment was terminated because of the transfer by law of the administration or the service of the entire agency to the Commonwealth. The bill would amend the Code to provide for the purchase of up to five years of nonstate service as an employee of the American Red Cross.

Chartered by Congress in 1905, the American Red Cross (Red Cross) is a humanitarian organization dedicated to providing disaster relief and emergency services through a nationwide network of Red Cross chapters. Although not a part of the federal government, the Red Cross works closely with federal and state agencies in times of crisis. The Red Cross annually responds to approximately 70,000 disasters, including fires, hurricanes, floods, earthquakes, tornadoes, hazardous materials spills, transportation accidents, explosions and other natural and manmade calamities. Nearly half of the nation's total blood supply is collected annually by Red Cross

volunteers through local area chapters. The Red Cross employs approximately 35,000 professional and support staff, but the organization's more than one million volunteers comprise the bulk of its total workforce.

The bill would permit the purchase of service performed as an employee of the Red Cross pursuant to 10 U.S.C. Section 2602. The statute authorizes the President of the United States to accept the cooperation and assistance of the Red Cross to support the armed services when deemed necessary. To the extent Red Cross assistance and cooperation is accepted pursuant to 10 U.S.C. Section 2602, Red Cross personnel may be accorded certain privileges generally reserved for members of the military. Under these circumstances, Red Cross personnel may be subject to various military regulations and, in time of war, are bound by the Uniform Code of Military Justice (see also DoD Directive 1330.5, Section V C 3 and 4b). Both 10 U.S.C. Section 2602 and DoD Directive 1330.5 are clear that although Red Cross employees may be accorded certain military privileges and be subject to certain military restrictions, they are not employees of the federal government nor are they members of the U.S. Armed Forces, but remain civilian employees of the Red Cross.

The bill would amend Section 5304 of the Code to provide for the purchase of up to five years of nonstate service as an employee of the Red Cross. The bill specifies the use of the service purchase calculation contained in Section 5505(d) (relating to nonmilitary and nonmagisterial service) in determining the service purchase amount for the purchase of Red Cross service. Using the calculation contained in Section 5505(d), the amount due to purchase the service would be determined by applying the member's basic contribution rate plus the Commonwealth normal contribution rate for active members at the time of entry subsequent to such creditable nonstate service of the member into state service to his compensation at the time of entry into state service and multiplying the result by the number of years and fractional parts of a year of creditable nonstate service being purchased together with statutory interest during all periods of subsequent state and school service to the date of purchase. Under Section 5505(d), members may pay for service purchases through one of the following payment methods: 1) by making a lump-sum payment within 30 days; 2) through a salary deduction plan agreed to by the member and the Board, or 3) through a deferral of payments and interest until retirement, at which time the full service purchase amount, together with statutory interest, is deducted from the member's present value of future benefits. Because this method results in the member paying significantly less than the full actuarial cost of the increased benefit, the residual unfunded actuarial accrued liability would be funded by the Commonwealth through level-dollar amortization payments over a 10-year period.

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

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SUMMARY OF ACTUARIAL COST IMPACT

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Because no reliable data is available on the number of SERS members who would be eligible to purchase service credit under the bill, a precise estimate of the actuarial cost associated with the bill could not be made. The following cost estimates were prepared by the Commission's consulting actuary, based upon general data and assumptions. 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. The rates used range from a low of

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

3.60% to a high of 10.73%. As the Commonwealth normal contribution rate at time of entry increases, the percentage of the total cost paid by the member also increases.

<b>Estimated Percentage of Total Cost Paid by the Member</b>				
<b>Age at Entry Into Commonwealth Service</b>	<b>Age at Retirement</b>	<b>Normal Contribution Rate = 3.60%</b>	<b>Normal Contribution Rate = 7.00%</b>	<b>Normal Contribution Rate = 10.73%</b>
25	60	22%	29%	37 %
35	60	26	35	44
45	60	31	41	52
55	60	37	49	61

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

<b>Estimated Percentage of Total Cost Paid by the Member</b>				
<b>Age at Entry Into Commonwealth Service</b>	<b>Age at Retirement</b>	<b>Average Salary Increase of 4%</b>	<b>Average Salary Increase of 6%</b>	<b>Average Salary Increase of 8%</b>
25	60	52%	29%	16 %
35	60	52	35	23
45	60	53	41	32
55	60	53	49	45

Because no demographic data is available on the number of SERS members who would be eligible for the service purchase, the Commission's consulting actuary estimated the increase in unfunded actuarial accrued liability attributable to the service purchase authorization provided for in the bill for hypothetical groups of 250 and 500 eligible employees, based upon an average salary of \$43,000, average past salary growth of 6.0%, and a Commonwealth normal contribution rate of 7.0% at time of entry. It was also assumed that each member would purchase an average of three years of service credit.

<b><u>Number of Eligible Members</u></b>	<b><u>Estimated Increase in Unfunded Actuarial Accrued Liability (UAL)</u></b>
250	\$ 5,000,000
500	\$10,000,000

Any increase in the unfunded actuarial accrued liability will be amortized over 10 years through level-dollar amortization payments. The first year of amortization would range from \$0.8 million to \$1.5 million, or approximately 0.02% to 0.03% of total Commonwealth payroll.

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POLICY CONSIDERATIONS

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

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

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

*Appropriateness of Credit for American Red Cross 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 inequities 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. Furthermore, the service credit authorization proposed in the bill would represent permission to purchase credit for service with a non-governmental entity.

*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 imposes no limit on the time frame within which the purchase option may be exercised. The Commission also recommended that, in cases where the service purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service, the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement. Unless the bill is amended to exclude the employer portion of the purchase payment from Option 4 lump-sum withdrawal, it will enable an eligible member to receive the service credit and have the entire purchase amount returned upon retirement as part of the Option 4 withdrawal.

Drafting Ambiguities. The bill's definition of service as an employee of the American Red Cross is unclear in that such service could include part-time employment without specification of the minimum hours of service in a year necessary to receive service credit for that year, as provided in other instances of part-time service by members of SERS. Also, the bill does not preclude the service purchase in the event the member received or is receiving retirement benefits attributable to the American Red Cross service.

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COMMISSION RECOMMENDATION

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On June 28, 2006, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 1702, Printer's Number 2164, had second consideration in the House on May 2, 2006, and was re-referred to the House Appropriations Committee.

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**Bill ID:** House Bill Number 1710, Printer's Number 2170

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

**Subject:** Additional Service Credit for Part-Time Employment

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SYNOPSIS

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House Bill Number 1710, Printer's Number 2170, would amend the Public School Employees' Retirement Code to permit an active member of the Public School Employees' Retirement System who is a full-time salaried employee to receive additional service credit in excess of one year in any 12-consecutive-month period for salaried part-time employment with a school employer.

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DISCUSSION

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The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits to public school employees. Membership in PSERS is mandatory for most school employees. As of June 30, 2005, PSERS membership consisted of 255,465 active members and 156,519 annuitants and beneficiaries.

Under the Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. For most members, the retirement benefit is equivalent to 2.5% multiplied by the member's final average salary (average of the highest three years of compensation), multiplied by the total years of credited service.

Section 8302 of the Code governs the crediting of school service for the purpose of determining retirement benefits for PSERS members. Under current law, a full-time salaried school employee receives one year of service credit for each full school year for which retirement contributions have been made. For the purposes of crediting service, a school year is defined as at least 180 full-day sessions or 1,100 hours of employment. A per diem or hourly employee receives one year of service credit for each non-overlapping period of 12 consecutive months in which the member is employed and for which contributions have been made. In no case may a member receive more than one year of service credit for any 12-month period of employment. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement.

The bill would amend Section 8302 of the Code to permit the crediting of additional school service credit (more than the equivalent of one year in a 12-month period) to a full-time salaried member who is also employed in a part-time salaried position with a school employer and for which employee contributions are being made to the System on account of the part-time service. The bill would permit the member to: 1) receive additional service credit (presumably calculated to reflect the fractional part of a year attributable to the part-time service rendered to the school employer) on account of the part-time service in addition to the year of service credit attributable to the period of full-time school service; or 2) receive a return of accumulated deductions at the member's option. Under current Code provisions, the member's total compensation includes additional compensation from any part-time employment with a school employer and, therefore, is already included in the

calculation of the member's retirement benefit. Permitting a member to also receive additional increments of service credit due to such part-time service would be of benefit to the member because the extra service credit would have the effect of accelerating retirement eligibility.

SUMMARY OF ACTUARIAL COST IMPACT

Because no reliable data is available on the number of members who would be eligible for the benefit enhancement provided by the bill or the demographic characteristics of that population, the Commission's consulting actuary initially determined that a reasonable estimate of the actuarial cost resulting from enactment of the bill could not be made. In order to provide members of the General Assembly and the Governor with some information on the potential impact of the bill, the Commission's consulting actuary estimated the actuarial cost impact based upon two scenarios: Scenario I, assuming the crediting of an additional 1/8th year of service credit for all future years of employment; and Scenario II, assuming the crediting of an additional 1/4 year of service credit for all future years of employment. Both scenarios show estimates for hypothetical groups of 250, 500, 1,000, 5,000 and 10,000 eligible members. The Commission's consulting actuary also assumed that no eligible members would elect to receive a return of accumulated deductions in lieu of additional service credit. According to the Commission's consulting actuary, because the number of eligible members is estimated to represent only a small percentage of the total active member population, the potential impact on normal cost resulting from enactment of the bill is projected to be de minimus. In preparing the actuarial note, the Commission's consulting actuary utilized standard assumptions for PSERS as set forth in the System's June 30, 2005, Actuarial Valuation Report. The estimated actuarial cost impact of the bill is summarized in the following tables.

**Scenario I  
Assuming an Additional 1/8th Year of Service Credit  
for Each Future Year of Employment**

<b>Number of Eligible Members</b>	<b>Increase in Unfunded Actuarial Accrued Liability</b>	<b>Amortization Payment</b>	<b>Amortization Payment as Percent of Payroll</b>
250	\$3.0 million	\$0.5 million	0.004%
500	\$6.0 million	\$1.0 million	0.008%
1,000	\$12.0 million	\$2.0 million	0.017%
5,000	\$60.0 million	\$10.0 million	0.084%
10,000	\$120.0 million	\$20.0 million	0.167%

**Scenario II**  
**Assuming an Additional 1/4 Year of Service Credit**  
**for Each Future Year of Employment**

Number of Eligible Members	Increase in Unfunded Actuarial Accrued Liability	Amortization Payment	Amortization Payment as Percent of Payroll
250	\$6.0 million	\$1.0 million	0.008%
500	\$12.0 million	\$2.0 million	0.017%
1,000	\$24.0 million	\$4.0 million	0.033%
5,000	\$120.0 million	\$20.0 million	0.167%
10,000	\$240.0 million	\$40.0 million	0.334%

POLICY CONSIDERATIONS

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

Policy Change in Crediting of Service. The proposal in the bill represents a significant policy change in the crediting of school service by creating an exception to Section 8302(a) of the PSERS Code, which limits a member to no more than one year of service credit for any period of 12 consecutive months.

Inconsistency in Crediting of Service. The proposal in the bill to grant additional service credits to certain school employees is in conflict with the General Assembly’s long practice of providing substantially similar pension plans to the members of the two statewide retirement systems. The proposal represents a shift away from the current method of granting service credit, creating disparities between the PSERS and the State Employees’ Retirement System methods of crediting service.

Appropriateness of Refund of Accumulated Deductions. The bill would permit a member to elect to receive a return of accumulated deductions in lieu of part-time service credit (bill page 2, lines 28-29). The term “accumulated deductions” is a defined term in the PSERS Code, and includes all member contributions, plus interest at the statutory rate of 4%. Although the Commission staff believes that the intent of the bill is to permit the return of only member contributions attributable to the additional part-time service, the language in the bill does not accomplish that objective. As currently written, the bill would entitle an eligible member to a return of *any* or *all* accumulated deductions attributable to all components of the member’s service, not merely the member’s contributions attributable to part-time employment. The public policy rationale for permitting such a refund of accumulated deductions is not apparent.

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

*Determination of Additional Service Credit.* The bill lacks specificity in the determination and crediting of the additional service credit attributable to part-time service. Instead, the bill merely requires that the member "... be credited with the *appropriate* number of years of credited service ... even if the number of years of credited service may exceed one year for any 12 consecutive months." The bill should be amended to provide a clear formula for determining and crediting any additional service credit attributable to part-time employment. As written, the absence of specificity will necessitate interpretation by the PSERS Board or staff in the matter of what constitutes "appropriate" service credit and could result in an outcome not foreseen or intended by the bill's sponsor.

*Effect on Final Average Salary.* For members electing to receive a return of member contributions in lieu of service credit, the bill does not address whether the member's final average salary calculation would include or exclude the part-time salary upon which the returned member contributions were based. The bill should be amended to specifically address this issue.

*"Multiple Full-Time Service."* The phrase "multiple full-time service" (bill page 2, line 17) has no meaning or utility within the context of its intended use, and undermines the definition and application of the term "multiple service," which is a defined term in the PSERS Code.

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COMMISSION RECOMMENDATION

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On June 28, 2006, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 1710, Printer's Number 2170, was introduced and referred to the House State Government Committee on June 13, 2005.

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**Bill ID:** Amendment Number 05763 to  
House Bill Number 2064, Printer's Number 3481

**System:** Borough Employee Retirement Systems (Firefighters)

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

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SYNOPSIS

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Amendment Number 05763 to House Bill Number 2064, Printer's Number 3481, would amend the act of February 1, 1966, (1965 P. L. 1656, No. 581) known as the Borough Code (Code) by adding a new section (Section 1105.2). The amendment would amend the Code by mandating the crediting of service credit for all intervening military service performed by an eligible firefighter who is an employee of a municipality subject to the Code, and by permitting the purchase of up to five years of service credit for nonintervening military service performed by an eligible firefighter who is an employee of a municipality subject to the Code.

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DISCUSSION

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Public employee pension plans established pursuant to the Borough Code exemplify the highly decentralized nature of the Commonwealth's municipal pension structure. Plan types, benefit structures, contribution requirements, membership, benefit eligibility criteria, and other plan design elements are diverse, and a full description of these plans is beyond the scope of this discussion. As of January 1, 2003, there were 1,066 municipal pension plans subject to the Borough Code, of which 834 were defined benefit plans and 232 were defined contribution plans. Among these plans there were a total of 8,982 active members and 3,577 annuitants and beneficiaries receiving benefits. The total market value of the assets for all plans combined was approximately \$1.1 billion.

There are a total of seventeen (17) borough firefighter pension plans reported to the Commission. The staff of the Commission has identified twelve (12) boroughs with defined benefit pension plans for firefighters that have one or more active members and that would be affected by the amendment. Two additional municipalities were identified as having such plans but currently these plans have no active members. Three firefighter plans are maintained pursuant to the Pennsylvania Municipal Retirement Law and administered by the Pennsylvania Municipal Retirement System. In total, the affected municipalities currently employ 141 firefighters with a total annual payroll of \$6,041,905.

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)).

The amendment would amend the Code by mandating the crediting of service credit for all intervening military service performed by an eligible firefighter who is an employee of a municipality subject to the Code. Under USERRA and the Pennsylvania Military Code, a firefighter with intervening military service (military service that interrupts employment with the public employer) already is eligible to receive service credit for all intervening military service. While the amendment's sponsors may believe such a provision to be desirable in the State law, conforming amendments are not required by USERRA because the federal law would supercede any conflicting State statute or local ordinance.

The amendment would also amend the Code by permitting the purchase by the member of up to five years of service credit for nonintervening military service (military service that occurred prior to employment with the public employer) performed by an eligible firefighter. The formula for calculating the contributions required for the purchase of such service would be an amount equal to the average normal cost rate for firemen's pension plans not to exceed 10%, applied to the firefighter's average annual rate of compensation during the member's first three years of service with the borough, multiplied by the number of years and fractional parts of a year of nonintervening military service being purchased, with interest at the rate of 4.75%, compounded annually from the date of employment with the borough to the date the contribution is made to the pension plan.

Certain Borough Code pension plans currently provide for the purchase of nonintervening military service, while others do not. The amendment would impose some uniformity in the treatment of nonintervening military service credit by permitting (rather than mandating) pension plans subject to the Code to allow for the purchase of service credit by members who are firefighters. The amendment does not address nonintervening military service purchases by nonuniformed or police employees. The public policy rationale for excluding police and nonuniformed employees from eligibility for service purchases of this type is not apparent.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary has reviewed the amendment and has computed the costs on the basis of the entry age normal cost method with actuarial assumptions that include an interest rate of 7.0%, a salary scale of 5.0%, and mortality based upon the UP1984 mortality table. The Commission's consulting actuary also has assumed that 30% of eligible members would purchase an average of two years of service credit. The estimated aggregate actuarial cost impact of the amendment for the affected plans is summarized in the following table.

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SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

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	<u>Amount</u>	
Increase in Actuarial Accrued Liabilities	\$165,000 — \$185,000	
	<u>Amount</u>	<u>As a % of Payroll</u>
Increases in Employers' Annual Costs		
Normal Costs	\$25,000 — \$35,000	0.41% — 0.50%
Amortization Payments <sup>1</sup>	<u>\$17,000 — \$19,000</u>	<u>0.28% — 0.31%</u>
Total Increases in Employers' Annual Costs	\$42,000 — \$54,000	0.69% — 0.81%

<sup>1</sup> 15-year level-dollar amortization period. Payments cease after 15 years.

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POLICY CONSIDERATIONS

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

Service Credit for 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.

Inequity in the Treatment of Nonintervening Military Service. The amendment would provide for the purchase of nonintervening military service by firefighters in municipalities with pension plans subject to the Borough Code. The amendment does not address service purchase authorizations of this type for other employee groups (nonuniformed and police employees). There is no public pension policy rationale for enabling the purchase of nonintervening military service for one group of employees while excluding others. Therefore, the amendment treats nonintervening military service inequitably for retirement credit purposes.

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COMMISSION RECOMMENDATION

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On March 1, 2006, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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A later version of House Bill Number 2064 (Printer's Number 3963) had first consideration in the Senate on June 27, 2006, and was tabled on July 1, 2006.

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**Bill ID:** House Bill Number 2267, Printer's Number 3177

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

**Subject:** Increase in Health Insurance Premium Assistance

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SYNOPSIS

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House Bill Number 2267, Printer's Number 3177, would amend Section 8509(b) of the Public School Employees' Retirement Code, beginning July 1, 2006, and for each year thereafter, to increase the maximum monthly premium assistance benefit that may be paid to an eligible annuitant from the lesser of \$100 monthly or the amount of the actual monthly premium to the lesser of \$150 monthly or the amount of the actual monthly premium.

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DISCUSSION

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The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits to public school employees. Membership in PSERS is mandatory for most school employees. Certain other employees are not required but are given the option to participate. As of June 30, 2005, PSERS membership consisted of 255,465 active members and 156,519 annuitants and beneficiaries.

Under the Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. For most members, the retirement benefit is equivalent to 2.5% multiplied by the member's final average salary (average of the highest three years of compensation), multiplied by the total years of credited service.

Section 8509 of the Code governs administration of the Health Insurance Premium Assistance Program. Through the program, health insurance premium assistance payments are provided to a retired member who is receiving postretirement healthcare benefits through either the PSERS-sponsored Health Options Program (HOP) or through a healthcare provider approved by the retired member's former school employer. To be eligible for premium assistance payments from the Health Insurance Premium Assistance Program, a retired member must meet the length-of-service and age requirements set forth under the definition of "eligible annuitants" in Section 8102 of the Code. To be eligible for premium assistance, a member must have: 1) accumulated at least 24½ years of credited service; 2) be a disability annuitant; or 3) have at least 15 years of service and have both terminated school service and retired after attaining superannuation age.

Assets to pay premium assistance benefits from the Health Insurance Premium Assistance Program are held in the Health Insurance Account, which is a separate fund within the pension plan trust. The Health Insurance Account is credited with the contributions of the Commonwealth and school employers and is funded on a pay-as-you-go basis, with the required contributions calculated by the consulting actuary as part of the valuation process based upon expected annual disbursements and funded for one year in advance of the actual disbursements. A review of the most recent actuarial valuation report for the Public School Employees' Retirement System (June 30, 2005) reveals contributions to the program equal to 0.74% of total payroll.

Under current program provisions, participating eligible annuitants receive health insurance premium assistance payments from the Health Insurance Account equal to the lesser of \$100 a month or the amount of the actual monthly premium. Prior to January 1, 2002, the amount of premium assistance payable to eligible retirees was limited to the lesser of \$55 monthly or the actual monthly premium amount. Beginning January 1, 2002, the maximum monthly benefit payment was increased from \$55 to \$100. The bill would amend the Code to again increase the maximum premium assistance benefit from \$100 to \$150 monthly beginning July 1, 2006.

As of June 30, 2005, there were approximately 62,120 retirees receiving premium assistance benefits from the program. An additional 35,757 retirees were eligible to participate but were either enrolled in non-approved plans or did not purchase healthcare coverage, and so were not eligible to receive premium assistance payments.

SUMMARY OF ACTUARIAL COST IMPACT

Projecting the likely effect on retiree participation resulting from the benefit enhancement is one factor in estimating the cost of the bill. The Commission's consulting actuary reviewed Health Insurance Premium Assistance Program experience for the years 2000 to 2005, and examined the change in retiree participation following the previous premium assistance benefit increase from \$55 to \$100, which became effective January 1, 2002. As the following table shows, the total number of retirees participating in the program has risen by approximately 20% since 2001. However, the number of retirees eligible to participate in the program has also risen by approximately the same percentage. Therefore, the retiree participation rate as a percentage of total retirees eligible to participate has actually remained stable over time, and closely approximates the 65% participation assumption currently utilized by PSERS. Based on these data, the Commission's consulting actuary estimates that there will be no significant change in retiree participation resulting from the benefit enhancement proposed in the bill.

**PSERS Health Insurance Premium Assistance Program Participation  
(2000-2005)**

	2000	2001	2002	2003	2004	2005
Total Eligible for Premium Assistance	81,188	82,045	88,245	91,194	94,486	97,877
Total Receiving Premium Assistance	50,121	51,419	56,618	58,624	60,216	62,120
Percentage Receiving Premium Assistance	61.7%	62.7%	64.2%	64.3%	63.7%	63.5%

The Commission's consulting actuary estimated the increase in pay-as-you-go costs resulting from enactment of the bill. The estimate is based upon results of the June 30, 2005, actuarial valuation of PSERS and upon a review of Health Insurance Premium Assistance Program experience data provided to the Commission by the PSERS staff, and is summarized in the following table.

**PSERS Health Insurance Premium Assistance Program  
Estimated First-Year Increase in Pay-As-You-Go Costs  
(Based on an Assumed 65% Participation Rate)**

	<u>Increase in Employer Cost</u>	<u>As a % of Payroll</u>
Fiscal Year 2006-2007	\$44,000,000	0.37%

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POLICY CONSIDERATIONS

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

Costs of Postretirement Medical Benefits. The provision of postretirement medical insurance benefits for public employees should be approached with the knowledge that the costs are significant and likely to increase. Because it is difficult or impossible to accurately estimate the future cost of medical insurance coverage, there is considerable merit in providing a specified dollar value that currently would pay all or a portion of the cost of the coverage rather than providing the coverage. In this way, the employer is not automatically subjected to the unpredictable increases in medical insurance costs in the future.

Potential Understatement of Cost. The actuarial note assumes that, based upon plan experience, the current retiree participation pattern will continue if the bill is enacted. The availability of a more generous postretirement health insurance premium assistance benefit could result in an unanticipated increase in retiree participation. To the extent that such a change in the participation pattern occurs, the Commission's cost estimate understates the potential cost of the bill.

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COMMISSION RECOMMENDATION

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On June 28, 2006, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 2267, Printer's Number 3177, was introduced and referred to the House Education Committee on November 28, 2005.

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**Bill ID:** Amendment Number 09734 to  
House Bill Number 2273, Printer's Number 4188

**System:** All Municipal Pension Systems

**Subject:** Special Taxing Authority under the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) and Transfer to Consolidated Statutes

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SYNOPSIS

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Amendment Number 09734 to House Bill Number 2273, Printer's Number 4188, would: 1) amend the bill to repeal the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984); 2) add the Municipal Pension Plan Funding Standard and Recovery Act, in its entirety, as 53 Pa. C. S. Chapter 19; and 3) amend what is now Section 607(f) of the Municipal Pension Plan Funding Standard and Recovery Act (Section 1967(f) in the amendment) to authorize a municipality utilizing the special municipal taxing authority to direct revenue generated by the special tax to the funding of Other Post Employment Benefit (OPEB) obligations of the municipality which existed prior to December 31, 2006. The amendment would apply to the use of all special municipal tax proceeds generated on or after January 1, 2003.

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DISCUSSION

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

Chapter 5 of the Act establishes the procedure for determining financial distress in municipal retirement systems for municipalities considering participation in the Recovery Program for Financially Distressed Municipal Pension Systems. The distress determination is based upon a quantified evaluation of both the aggregate actuarial condition of a municipality's retirement systems and the general fiscal condition of the municipality. The distress determination under Act 205 is not to be confused with a determination of distress under Act 47 of 1987, known as the Municipalities Financial Recovery Act (53 P. S. §§ 11701.101-11701.501).

The Recovery Program for Financially Distressed Municipal Pension Systems is established by Chapter 6 of the Act. Under the Recovery Program, there are various remedies available to a municipality depending upon the extent of the financial distress of its retirement systems. Remedies applicable to municipal pension plans determined to be distressed include interim relaxation of the actuarial funding standard, expansion of municipal capacity to raise revenue to meet future retirement system obligations, revision of pension plans to reduce future municipal costs, and mandated administrative reform measures. The remedies available through the Recovery Program were originally intended for use on a temporary basis to assist municipalities experiencing a degree of financial distress at the time Act 205 was enacted into law. Among these remedies is the power to invoke special taxing authority, which permits a municipality to increase taxes on earned income or real property above the maximum rates otherwise provided by applicable law.

The special tax permitted by Section 607(f) can only be imposed by a municipality with an underfunded pension system, that has already reached its taxing authority limits. Act 205 restricts the use of the proceeds derived from such a special tax to purposes directly attributable to the funding of the municipal pension plans:

If the tax rates set by the municipality on earned income or on real property are at the maximum provided by applicable law, the municipality may increase its tax on either earned income or real property above those maximum rates. **The proceeds of this special municipal tax increase shall be used solely to defray the additional costs required to be paid pursuant to this act** which are directly related to the pension plans of the municipality. [Emphasis added].

The General Assembly has seen fit to limit municipal taxing authority through §§ 8 and 17 of The Local Tax Enabling Act, act of December 31, 1965 (P. L. 1257, No. 511), as amended, 53 P. S. §§ 6908 and 6917, which provide:

**§ 6908. Limitation on rates of specific taxes.**

No taxes levied under the provisions of this act shall be levied by any political subdivision on the following subjects exceeding the rates specified in this section:

(3) On wages, salaries, commissions and other earned income of individuals, one percent.

**§ 6917. Tax limitations.**

**(a) Over-all Limit of Tax Revenues.**-The aggregate amount of all taxes imposed by any political subdivision under this section and in effect during any fiscal year shall not exceed an amount equal to the product obtained by multiplying the latest total market valuation of real estate in such political subdivision, as determined by the board for the assessment and revision of taxes or any similar board established by the assessment laws which determines market values of real estate within the political subdivision, by twelve mills.

In financially troubled municipalities, however, special provisions of §§ 123 and 141 of the Municipalities Financial Recovery Act, act of July 10, 1987 (P. L. 246, No. 47), as amended, 53 P. S. §§ 11701.123 and 11701.141, allow a municipality to exceed those statutory limits with court approval.

**§ 123. Powers and duties of municipalities.**

**(c) Right to petition court for tax increase -**

(1) After a municipality has adopted a plan under Subchapter C of Chapter 2, it may petition the court of common pleas of the county in which the municipality is located to increase its rates of taxation of earned income, real property, or both, beyond maximum rates provided by law.

**§ 141. Jurisdiction of court of common pleas.**

**(a) Increase in tax rates** – The court of common pleas of each county shall have jurisdiction to hear a petition filed by a municipality which has adopted a final plan pursuant to Subchapter C of Chapter 2 to increase rates of taxation for earned income, real property, or both, beyond maximum rates provided by law.

Under the Third Class City Code (act of June 23, 193, P. L. 932, art. XXV, § 2551, as amended, 53 P. S. 37531) municipalities subject to the Code may also petition the courts for the power to increase taxes by 5 mills under certain conditions. Similar provisions exist in the Borough Code, act of February 1, 1966, P. L. 1656, No. 581, as amended, Section 1303, 53 P. S. Section 46303, the 1<sup>st</sup> Class Township Code, act of June 24, 1931, P. L. 1206, No. 331, as amended, Section 1709, 53 P. S. Section 56709, and the 2<sup>nd</sup> Class Township Code, act of May 1, 1933, P. L. 103, No. 69, as amended, Section 3205, 53 P. S. Section 68205. (According to officials of the City of Hazleton, the City has successfully petitioned the courts repeatedly for a five mill increase in taxes.)

Act 205 is exclusively limited in its operation and effect to public employee pension and retirement plans, whereas retiree health care is properly characterized as an Other Post Employment Benefit, or “OPEB.” Historically, postretirement medical insurance benefits have not been viewed as retirement allowances or pensions, but as contractual benefits, earned now but with a deferred receipt, and based upon entirely different statutory authorities: *In Re: Appeal of Upper Providence*, 93 Pa. Cmwlth. Ct. 272, 502 A.2d 263 (1985); *Tp. of Tinicum v. Fife*, 95 Pa. Cmwlth. Ct. 516, 505 A.2d 1116 (1986) appeals denied 518 Pa. 656 & 657, 544 A.2d 1343 & 1344; *Newport Tp. v. Margalis*, 110 Pa. Cmwlth. Ct. 611, 532 A.2d 1263 (1987); *Wilkes-Barre v. Firefighters Local 104*, 142 Pa. Cmwlth. Ct. 168, 596 A.2d 1271 (1991), affirmed 623 A.2d 814 (Pa., 1993); *City of Chester v. FOP*, 150 Pa. Cmwlth. Ct. 235, 615 A.2d 893 (1992); *Fairview Township v. Fairview Township Police Association*, 795 A.2d 463 (Pa. Cmwlth. 2002), affirmed 576 Pa. 226, 839 A.2d 183 (2003).

Likewise, the Government Accounting Standards Board (GASB) clearly recognizes the distinction between pension benefits and postretirement medical benefits. As stated in the Introduction to GASB Statement No. 45, issued June 2004:

In addition to pensions, many state and local governmental employers provide *other postemployment benefits* (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes *postemployment healthcare*, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The approach followed in this Statement generally is consistent with the approach adopted in Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses financial statement and disclosure requirements for reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.  
[Emphasis in original].

The City of Hazleton's public employee pension plans have been designated as distressed pursuant to the requirements of Act 205. As such, the City has been empowered to implement the special tax authorized under Section 607(f) of Act 205. According to a February 23, 2006, Compliance Audit Report, issued by the Department of the Auditor General, in 2003, 2004 and 2005, the City of Hazleton used funds generated by the special tax levied under Act 205 to fund postretirement medical benefits for retired employees of the city. According to the audit report, the total amount spent for this purpose was approximately \$1.4 million. The Auditor General made an Audit Finding that the postretirement medical benefit payments were improperly paid with proceeds generated by the special tax authorized by Act 205, and proposed that the City pay to the police and fire pension plans the sum of \$1.4 million, plus interest and to terminate use of revenue generated by the special tax for such purposes in the future.

It is not known if the City would be distressed under Act 47 of 1987, as the City has not sought that designation.

The amendment would: 1) amend the bill to repeal the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984); 2) add the Municipal Pension Plan Funding Standard and Recovery Act, in its entirety, as 53 Pa. C. S. Chapter 19; and 3) amend what is now Section 607(f) of the Municipal Pension Plan Funding Standard and Recovery Act (Section 1967(f) in the amendment) to authorize a municipality utilizing the special municipal taxing authority to direct revenue generated by the special tax to the funding of Other Post Employment Benefit (OPEB) obligations of the municipality which existed prior to December 31, 2006. The amendment would apply to the use of all special municipal tax proceeds generated on or after January 1, 2003.

Section 1967(f) of the amendment appears to have the intent of legitimizing the City of Hazleton's past unauthorized use of revenue generated through its special taxing authority under Act 205. Likewise, any other municipality designated as distressed that has invoked special taxing authority pursuant to the provisions of Act 205, or does so before December 31, 2006, would be empowered to use revenue generated by the special tax to fund OPEBs.

Act 205 currently precludes the use of special tax proceeds for postretirement medical benefits and other OPEB benefits, as they are not "costs required to be paid" under Act 205.

If the amendment is enacted, postretirement medical benefits could be treated as a form of retirement benefit payable from pension plan assets and subjected to the actuarial reporting and funding requirements of Act 205. The municipality could be required to recognize and fund any actuarial liability for future medical insurance benefits, rather than paying for these benefits on a pay-as-you-go basis.

Finally, the amendment appears to be fatally flawed. Although the intent of Section 1967(f) of the amendment seems clear, in practice, it fails to address the very provision of Act 205 that precludes the use of the special tax for non-pension purposes. The amendment provides:

**§1967. (f) Special municipal taxing authority.-**

(1) If the tax rates set by the municipality on earned income or on real property are at the maximum provided by applicable law, the municipality may increase its tax on either earned income or real property above those maximum rates. The proceeds of this special municipal tax increase shall be used solely to defray the additional costs required to be paid pursuant to this act which are directly related to the pension plans of the municipality.

(2) (i) Provided that a municipality satisfies the minimum obligation to each of its pension plans for the current year, then other post employment benefit obligations of the municipality, which existed prior to December 31, 2006, shall be deemed to be directly related to the pension plans of a municipality, solely for the purpose of using the proceeds of this special municipal tax increase.

(ii) This paragraph shall apply to the use of the special municipal tax proceeds occurring on or after January 1, 2003.

(3) The municipality utilizing this special municipal taxing authority shall not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. The average level of municipal contributions to the pension plans from all revenue sources for the three years immediately prior to the implementation of the special municipal taxing authority shall be expressed as a percentage of the average covered payroll for that same three-year period: Provided, however, That any supplemental contributions made to the plans pursuant to any pension recovery legislation enacted by the municipalities shall be excluded for purposes of determining the level of municipal contribution to the pension plans prior to the implementation of the special municipal taxing authority. In each year subsequent to the implementation of the special municipal taxing authority, the municipal contributions to the pension plan from all revenue sources existing prior to the implementation of the special existing municipal taxing authority, reduced by any supplemental pension recovery contributions, shall equal or exceed this average percentage of the current covered payroll. A municipality utilizing the provisions of section 404 may levy or continue to levy the special municipal tax increase under this subsection provided that the municipality does not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. In executing the procedure prescribed in this subsection to determine the level of municipal contributions, the debt service payments for bonds or notes issued under section 404 shall be considered municipal contributions.

[Emphasis added to denote the amendatory language.]

While Section 1967(f) of the amendment defines non-pension postretirement benefits as “directly related to the pension plans of a municipality, solely for the purpose of using the proceeds of this special municipal tax increase,” it ignores the restrictive condition that “*the proceeds of this special municipal tax increase shall be used solely to defray the additional costs required to be paid pursuant to this act.*” Since OPEBs are still not “costs required to be paid” by Act 205, they would continue to be an unauthorized expenditure of special tax revenues.

Of additional concern is the potential for the impairment of a pension fund’s tax qualified status under the Internal Revenue Code if non-pension benefits are payable from the fund. While government plans are rarely subjected to close scrutiny, the risk of losing a plan’s deferred tax status is substantial. It is necessary to maintain the clear distinction between retirement benefits that are payable from the qualified pension plan, and OPEB liabilities that should be funded from another source.

While it is not necessarily an issue of direct concern to the Commission, the subject of government transparency should also be considered. Generally, municipal taxing authority is limited by statute. A financially distressed municipality can currently go before the local court and request permission to exceed its statutory tax rates upon a showing of justification. That process was established by the General Assembly to assure the right of the taxpaying public to an open discussion and impartial determination of the need for such additional taxes. The special tax provisions of Act 205 circumvent those proceedings, but only under very limited circumstances and

for a specific purpose designed to address a compelling need created by Act 205's mandatory funding requirements. If OPEB liabilities are to be exempted from the normal process, a pension funding statute is not the appropriate vehicle. Further, if OPEBs are to be included in Act 205, the mandatory actuarial funding provisions should be applied as they are to normal retirement provisions.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary has reviewed the amendment and determined that the amendment will have no actuarial cost impact. However, the Commission staff believes that the amendment creates the potential for increased pension liabilities among affected municipalities because the amendment could be read to redefine OPEBs as pension benefits, therefore, making those benefits subject to the reporting and funding requirements of Act 205.

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POLICY CONSIDERATIONS

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

Major Departure from Current Policy. The remedies available through the Act 205 Recovery Program were originally intended for use on an emergency basis to assist municipalities experiencing a degree of financial distress in their pension plans at the time Act 205 was enacted into law. Among these remedies is the power to invoke special taxing authority, which permits a municipality to increase taxes on earned income or real property above the maximum rates otherwise provided by applicable law. Act 205 is exclusively limited in its operation and effect to public employee pension and retirement plans, whereas retiree health care is properly characterized as an Other Post Employment Benefit, or "OPEB." Historically, OPEBs have not been viewed as retirement allowances or pensions, but as contractual benefits. The amendment constitutes an attempt to include OPEBs, including postretirement medical benefits, as a form of retirement benefit payable from pension plan assets. The amendment represents a major departure from current public pension policy and serves to blur the line between pension and OPEB benefits.

OPEBs as Pension Benefits. Act 205 currently precludes the use of special tax revenue for postretirement medical benefits and other OPEB benefits, as they are not "costs required to be paid" under Act 205. If the amendment is enacted, however, postretirement medical benefits could be considered a form of retirement benefit payable from pension plan assets and, therefore, subject to the actuarial reporting and funding requirements of Act 205. An affected municipality would then be required to recognize and fund any actuarial liability for postretirement healthcare benefits as pension benefits, rather than paying for these benefits on a pay-as-you-go basis, as is current practice.

Alternative Remedies Available. Special provisions of Act 47 of 1987 permit financially distressed municipalities to exceed certain statutory taxation limits with court review and approval. Only the special tax under Act 205 permits the circumvention of that requirement. Therefore, it would appear that more appropriate alternative remedies are available to municipalities requiring additional revenues for the funding of OPEBs.

Impact on Tax Qualification. If enacted, the amendment could create the potential for the impairment of a pension plan's tax qualified status under the Internal Revenue Code if non-pension benefits are payable from the fund. While government plans are rarely subjected to such close scrutiny, the risk of losing a plan's deferred tax status is substantial. It is

necessary to maintain the clear distinction between retirement benefits that are payable from the qualified pension plan, and OPEB liabilities that should be funded from another source.

Governmental Transparency. Generally, municipal taxing authority is limited by statute. A municipality can petition the courts for permission to exceed its statutory tax rates upon a showing of justification. That process was established by the General Assembly to assure the right of the taxpaying public to an open discussion and impartial determination of the need for such additional taxes. The amendment would circumvent this process by authorizing a tax increase on income or property without prior public review.

Drafting Considerations. In reviewing the amendment, the Commission staff identified the following drafting considerations.

*Highly Irregular Drafting Approach.* In order to achieve its goal of amending a single section of Act 205, the amendment would repeal Act 205 in its entirety and reinsert Act 205 as a new chapter as 53 Pa. C. S. Chapter 19. While the codification of Pennsylvania laws as consolidated statutes is a valuable project, rarely has it been attempted without lengthy review of the existing statutes and considered determinations regarding the format to be implemented in achieving the consolidation. It is most unusual to consolidate existing laws on the spur of the moment. It is even more unusual to amend the substance of a statute under the auspices of a consolidation, and may run afoul of Article III, Section 3, of the Pennsylvania Constitution.

*Drafting Error.* While Section 1967(f) of the amendment defines non-pension postretirement benefits as “directly related to the pension plans of a municipality, solely for the purpose of using the proceeds of this special municipal tax increase,” it ignores the restrictive condition that “*the proceeds of this special municipal tax increase shall be used solely to defray the additional costs required to be paid pursuant to this act.*” Since OPEBs are still not “costs required to be paid” by Act 205, they would continue to be an unauthorized expenditure of special tax revenues. It would seem that the amendment is fatally flawed because it fails to achieve its apparent goal of permitting revenue generated by the special tax to be used for the funding of OPEBs.

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COMMISSION RECOMMENDATION

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On October 19, 2006, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 2273, Printer's Number 4188, was tabled on September 25, 2006.

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**Bill ID:** House Bill Number 2339, Printer's Number 3345

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

**Subject:** Ad Hoc Cost-of-Living Adjustments

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SYNOPSIS

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House Bill Number 2339, Printer's Number 3345, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to provide a two-part ad hoc postretirement cost-of-living adjustment (COLA) to annuitants of both Systems, with the first part commencing with the first monthly annuity payment after July 1, 2006, and the second part commencing with the first monthly annuity payment after July 1, 2007.

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DISCUSSION

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The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of the Public School Employees' Retirement System and the State Employees' Retirement System (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and State employees. Membership in the Systems is mandatory for most school and State employees. Certain other employees are not required but are given the option to participate. As of June 30, 2005, the Public School Employees' Retirement System (PSERS) had 255,465 active members and 156,519 annuitants and beneficiaries. As of December 31, 2004, the State Employees' Retirement System (SERS) had 108,405 active members and 98,727 annuitants and beneficiaries.

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

In the operation of a defined benefit retirement system, a formula determines the retirement benefit that is payable at the time of retirement. If the employer determines that a change in the retirement benefit is warranted after retirement occurs, the benefit augmentation is termed a postretirement adjustment.

Postretirement adjustments may be made for various reasons. In the Commission's November 2000 report entitled *Funding Cost-of-Living Adjustments*, three basic categories of postretirement adjustments were identified: remedial, welfare or cost-of-living. Remedial postretirement adjustments are used to correct an error in the retirement benefits provided to one group of retirees or to correct an inequity in the retirement benefits between two groups of retirees. Welfare postretirement adjustments are provided to remedy severe financial hardships experienced by long-term retirees or very short service retirees. Cost-of-living postretirement adjustments, or cost-of-

living increases, are utilized to address erosion in the purchasing power of retirement benefits caused by inflation.

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

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

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

The bill would amend the Codes of both Systems to provide a two-part ad hoc COLA to annuitants of both Systems, with the first part commencing with the first monthly annuity payment after July 1, 2006, and the second part commencing with the first monthly annuity payment after July 1, 2007. To be eligible for the first part of the COLA, superannuation and disability annuitants must be receiving an annuity on July 1, 2006, and have an effective date of retirement prior to July 2, 1992. Withdrawal annuitants will not be eligible to receive the COLA until the first day of July coincident with or following attainment of superannuation age. The unfunded actuarial accrued liability resulting from the benefit increase will be amortized through level dollar payments over a period of 10 years beginning July 1, 2006.

Under the bill, the amount of the COLA is based on the annuitant's most recent effective date of retirement and will be paid in accordance with the schedule contained in the following table.

<b>Most Recent Effective Date of Retirement</b>	<b>Percentage Increase</b>
July 2, 1990, through July 1, 1992	8.00%
July 2, 1988, through July 1, 1990	10.00%
July 2, 1985, through July 1, 1988	15.00%
Prior to July 2, 1985	25.00%

The second part of the COLA will commence with the first monthly annuity payment after July 1, 2007. To be eligible for the second part of the COLA, superannuation and disability annuitants must be receiving an annuity on July 1, 2007, and have an effective date of retirement prior to July 2, 2006. Withdrawal annuitants will not be eligible to receive the COLA until the first day of July coincident with or following attainment of superannuation age. The unfunded actuarial accrued liability resulting from the benefit increase will be amortized through level dollar payments over a period of 10 years beginning July 1, 2007.

The amount of the COLA is based on the annuitant's most recent effective date of retirement and will be paid in accordance with the schedule contained in the following table.

<b>Most Recent Effective Date of Retirement</b>	<b>Percentage Increase</b>
July 2, 2005, through July 1, 2006	2.27%
July 2, 2004, through July 1, 2005	3.08%
July 2, 2003, through July 1, 2004	4.87%
July 2, 2001, through July 1, 2003	6.35%
July 2, 1998, through July 1, 2001	7.50%
July 2, 1992, through July 1, 1998	9.00%
Prior to July 2, 1992	0.00%

Because cost-of-living postretirement adjustments are specifically utilized to address erosion in the purchasing power of retirement benefits caused by inflation, the determination of financial need is the central element in the design of a postretirement adjustment that is based upon changes in the cost of living. The potential measures of change in the cost of living include: the Consumer Price Index, the gross domestic product deflator, the employer cost index covering compensation rates in the civilian nonfarm economy, the average increase in compensation paid to all active employees of the applicable employer or the increase in compensation paid to a particular employment position.

The most widely used measure of the change in the cost of living for retirement benefit recipients is the Consumer Price Index (CPI), which is issued monthly by the Bureau of Labor Statistics of the United States Department of Labor. The CPI is a measure of the relative cost over time of a number of consumer goods and services and is the most widely accepted average measure of the effects of increases in the cost of living.

Recent COLAs granted by the General Assembly for PSERS and SERS annuitants have sought to replace approximately 50% of the cumulative change in the CPI over the applicable period of time, and in terms of the proposed percentage increases, the bill appears to closely model the two-step COLA provided by Act 38 of 2002. However, as the following table illustrates, the percentage increases proposed by the bill would provide cost-of-living increases for eligible annuitants that greatly exceed 50% of the CPI.

**Comparison of Cumulative Increase in CPI-U Since Retirement  
With Cumulative COLAs Granted  
to PSERS and SERS Annuitants Retired as of July 1 of the Year Indicated<sup>1</sup>**

Year of Retirement	Cumulative Increase in CPI-U to Feb. 2006	Cumulative COLAs prior to House Bill 2339			Cumulative COLAs with House Bill 2339		
		Actual COLA	% of CPI-U	Lost Purchasing Power	Actual COLA	% of CPI-U	Lost Purchasing Power
1985	84%	36%	43%	26%	70%	83%	8%
1986	81	36	44	25	56	69	14
1987	75	35	47	22	56	75	11
1988	68	31	45	22	50	74	10
1989	60	25	42	22	38	63	14
1990	52	22	42	20	34	66	12
1991	46	22	47	17	31	69	10
1992	41	18	43	17	27	65	10
1993	38	16	43	16	26	70	8
1994	34	14	42	15	25	73	7
1995	30	11	38	15	21	71	7
1996	27	10	36	13	19	73	6
1997	24	8	32	13	17	72	5
1998	22	8	34	12	17	79	4
1999	19	6	33	11	14	75	4
2000	15	5	32	9	13	85	2
2001	12	3	26	8	11	91	1
2002	10	2	22	7	9	85	1
2003	8	0	0	7	6	79	2
2004	5	0	0	5	5	99	0
2005	2	0	0	2	3	182	-1

<sup>1</sup> For the January 1, 1989, supplemental annuities, the retiree was assumed to have 30 years of service.

As discussed previously, the objective of a cost-of-living postretirement adjustment is to address the incremental erosion of the purchasing power of retirement benefits caused by inflation. However, as the table indicates, the bill does not appear to take into account an appropriate need factor based upon actual changes in the CPI. Furthermore, given the cumulative effects of previous COLAs combined with the low levels of inflation that have been experienced in recent years, the COLA proposal in the bill would provide a benefit enhancement for most retirees of a magnitude that represents a departure from past Commonwealth practice. The General Assembly must determine whether granting the COLA provided for in the bill is warranted and appropriate at this time.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary has reviewed the bill and actuarial cost estimates provided by the actuaries of the respective systems and determined that the bill will have the following actuarial cost impact.

**Public School Employees' Retirement System (PSERS)**

	<u>Amount</u>	
	<u>Amount</u>	<u>As a % of Payroll</u>
Increase in Unfunded Actuarial Accrued Liability	\$1,980,400,000	
Increase in Employer Annual Cost		
Amortization Payment <sup>1</sup>	\$319,600,000	2.66%
Total Increase in Employer Annual Cost	\$319,600,000	2.66%

<sup>1</sup> The amortization contribution shown is the aggregation of two ten-year level dollar amortization schedules commencing July 1, 2006, and July 1, 2007. Paid in part by the Commonwealth and in part by the school districts and other educational employers.

**State Employees' Retirement System (SERS)**

	<u>Amount</u>	
	<u>Amount</u>	<u>As a % of Payroll</u>
Increase in Unfunded Actuarial Accrued Liability	\$958,900,000	
Increase in Employer Annual Cost		
Amortization Payment <sup>1</sup>	\$153,800,000	2.83%
Total Increase in Employer Annual Cost	\$153,800,000	2.83%

<sup>1</sup> The amortization contribution shown is the aggregation of two ten-year level dollar amortization schedules commencing July 1, 2006, and July 1, 2007.

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

Appropriateness of Postretirement Adjustment. Generally, increasing the pension benefits of members during the course of retirement in order to offset the erosion of the pension benefit due to the effects of inflation is a common practice in the public sector. The General Assembly must determine whether the postretirement adjustment proposed in the bill is appropriate given the cumulative effect of previous COLAs combined with the relatively low levels of inflation that have been experienced in recent years.

Absence of Need Determination Factor. Change in the Consumer Price Index (CPI) during an applicable period of retirement is the predominate basis for determining the amount of COLAs provided in public employee retirement plans. The bill does not appear to take into account an appropriate need factor based upon change in the CPI.

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

Conformance with Policy Guidelines. In response to Senate Resolution 103 (1999 Session), the Public Employee Retirement Commission released a report entitled *Funding Cost-of-Living Adjustments* in November 2000. The bill conforms to some and does not conform to other of the Commission's recommendations in the report with respect to the funding of ad hoc cost-of-living adjustments.

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

*Amortization Period.* The use of a shorter amortization period reduces the interval between the point in time when the liability is incurred and the point in time when the liability is funded and thereby reduces the degree of inter-generational cost transfer. The use of a shorter amortization period reduces the total amount of the amortization payments required to fund the liability, and limits the potential for compounded amortization payments attributable to multiple cost-of-living adjustments. The bill retains the 10-year level dollar amortization approach currently utilized for COLA liabilities.

*Partial Pre-funding of COLA Liabilities.* Senate Resolution Number 103 (1999 Session) declared that the General Assembly is concerned with funding cost-of-living adjustments in the most economical manner, and efficiency in governmental operations is viewed as an appropriate objective by the citizens of the Commonwealth. In its report, the Commission recommended that the SERS and PSERS Codes be amended to provide a specified percentage of payroll contribution to be included in the annual determinations of the employer contribution rates as a means to provide advance direct funding for future COLAs and that the resulting contributions be placed in restricted accounts and used to partially pre-fund the

liabilities of future cost-of-living adjustments. The systematic accumulation of monies within SERS and PSERS dedicated to reduce the unfunded liabilities incurred in the provision of future cost-of-living adjustments is a reasonable mechanism to achieve modified advance direct funding. The bill contains no provision for the partial pre-funding of future COLA liabilities.

*Dissimilar Policy Objectives.* The objective of a welfare postretirement adjustment is to address inadequacies in subsistence level retirement benefits caused by changes in compensation and other standard-of-living factors over an extended period of retirement. The objective of a cost-of-living postretirement adjustment is to address the incremental erosion of the purchasing power of retirement benefits caused by inflation. Although the Commonwealth has not provided specific welfare postretirement adjustments, the last four cost-of-living postretirement adjustments (2002, 1998, 1994, 1989) that it has implemented have included provisions to provide long-term retirees significantly larger increases than short-term retirees. These provisions were initiated as a means of assisting long-term retirees receiving very low retirement benefits. Although targeting long-term retirees for higher benefits within a cost-of-living adjustment is one way to address the diminishment of the relative value of retirement benefits caused by changes in compensation and other standard-of-living factors over time, the practice may not be the most appropriate method within the context of a cost-of-living postretirement adjustment due to the dissimilar dual policy objectives involved.

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COMMISSION RECOMMENDATION

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On April 6, 2006, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 2339, Printer's Number 3345, was introduced and referred to the House State Government Committee on January 3, 2006.

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**Bill ID:** House Bill Number 2464, Printer's Number 3597

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

**Subject:** Reduced Benefit Accrual Rates

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SYNOPSIS

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House Bill Number 2464, Printer's Number 3597, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code by mandating establishment of a reduced benefit tier applicable to new members of both the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) effective July 1, 2006.

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DISCUSSION

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The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of the Public School Employees' Retirement System and the State Employees' Retirement System (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and State employees. Membership in the Systems is mandatory for most school and State employees. Certain other employees are not required but are given the option to participate. As of June 30, 2005, the Public School Employees' Retirement System (PSERS) had 255,465 active members and 156,519 annuitants and beneficiaries. As of December 31, 2004, the State Employees' Retirement System (SERS) had 108,405 active members and 98,727 annuitants and beneficiaries.

For most members of both Systems, the basic benefit formula used to determine the annual retirement benefit is equivalent to the product of 2.5% multiplied by the member's years of accumulated service credit ("eligibility points") multiplied by the member's final average (highest three years) salary. Since the passage of Act 9 of 2001 (which increased the accrual rate for most members from 2.0% to 2.5%), most members of PSERS are Class T-D members and contribute 7.5% of pay to the System, while most members of SERS are Class AA members and contribute 6.25% of pay to the System. Within both Systems, there are a number of additional or special membership classes with corresponding benefit accrual and employee contribution rates that differ from the majority of school and State employees.<sup>1</sup>

Under the Codes of both Systems, superannuation or normal retirement age is that date on which a member may terminate service with the public employer and receive a full retirement benefit without reduction because of age or service. Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service, and under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age

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<sup>1</sup> Both PSERS and SERS utilize a number of "membership classes," each with its corresponding "class of service multiplier" that is multiplied by a base accrual rate to determine the member's benefit, rather than a simple accrual rate applied to all members. The exception is PSERS membership Class T-D, for which the accrual rate is specified as 2.5% annually. (See PSERS Code Section 8102, definition of "Standard Single Life Annuity" and "Class of Service Multiplier." See SERS Code Section 5102, definition of "Class of Service Multiplier.")

60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees. Temporary provisions of the Codes also have permitted members with 30 or more years of service to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to the superannuation or normal retirement age. The last such special early retirement provision expired June 30, 1999.

The bill would mandate the establishment of a reduced benefit tier applicable to new members of both Systems effective July 1, 2006, through the creation of new membership classes with correspondingly reduced accrual rates. The bill would amend each retirement Code in the following manner:

- 1) The bill would amend the Public School Employees' Retirement Code, effective July 1, 2006, to create a new class of membership for school employees, known as "Class T-E," and would require all new members of the system to become members of Class T-E beginning July 1, 2006. Class T-E members would be eligible for an annuity based upon an annual benefit accrual rate of 2% and would have a corresponding employee contribution requirement of 6.25% of compensation. Current members of the System who belong to a membership class other than Class T-E would retain membership in the applicable class of service until such service is discontinued. Former members returning to school service following a break in service would become members of Class T-E.
- 2) The bill would amend the State Employees' Retirement Code, effective July 1, 2006, to create a new class of membership for State employees, known as "Class AAA," and would require all new members of the System, other than a State Police officer or a member employed in a position for which a class of service other than Class A or Class AA is credited or could be elected, to become a member of Class AAA beginning July 1, 2006, including an employee who is not an active member of the system (because membership is optional or prohibited), but who becomes a member of the system on or after July 1, 2006. Class AAA members would be eligible for an annuity based upon an annual benefit accrual rate of 2% and would have a corresponding employee contribution requirement of 5.0% of compensation. Current members of the system who belong to a membership class other than Class AAA would retain membership in the applicable class of service until such service is discontinued. Former members returning to State service following a break in service would become members of Class AAA.
- 3) The bill would amend the State Employees' Retirement Code to require a person who becomes a member of the General Assembly and an active member of the system effective July 1, 2006, other than a member who was a State Police Officer on or after July 1, 1989, to become a member of Class AAA. Current members of the General Assembly who are members of the System and who belong to a membership class other than Class AAA would retain membership in the applicable class of service until such service is discontinued. Former members returning to service following a break in service would become members of Class AAA. A person who is a member of the General Assembly on July 1, 2006, but who is not an active member of the System because membership in the system is optional and who becomes a member of the System on or after July 1, 2006, shall become a member of Class AAA.

The bill does not reduce the retirement benefit accrual rates of current active members of the Systems. Instead, the bill seeks to create a reduced benefit tier within PSERS and SERS applicable only to new members hired beginning July 1, 2006. Under the bill, current members of both Systems are specifically exempted from the provisions of the new mandatory benefit tier, unless or until there is a break in service. Likewise, certain classes of active members, including State

Police officers and members of the judiciary are exempted from mandatory participation in the reduced benefit tier.

In Pennsylvania, public employee retirement benefits are recognized as deferred compensation for work already performed, which confers upon public employees certain contractual rights protected by both the United States Constitution (Article 1, section 10) and the Pennsylvania Constitution (Article I section 17).<sup>2</sup> *Police Officers of Hatboro v. Borough of Hatboro*, 559 A.2d 113 (Pa. Cmwlth 1989); *McKenna v. State Employees' Retirement Board*, 495 Pa. 324, 433 A.2d 871 (1981); *Catania v. State Employees' Retirement Board*, 498 Pa. 684, 450 A.2d (1982). These contractual pension rights become fixed upon the employee's entry into the retirement system and cannot be subsequently unilaterally diminished or adversely affected, regardless of whether (1) the member is vested; or (2) the devaluation is necessary for actuarial soundness. *Association of Pa. State College and University Faculties v. State System of Higher Education*, 505 Pa. 369, 479 A.2d 962 (1984). See also *Hughes v. Public School Employees' Retirement Board*, 662 A.2d 701 (Pa. Cmwlth. 1995), *alloc. denied*, 542 Pa. 678, 668 A.2d 1139 (1995) (member has property interest in pension benefit).

By creating a new, reduced benefit tier applicable only to State or school employees who become members of PSERS or SERS after July 1, 2006, the bill avoids impairing the contractual retirement benefit rights of current members of the Systems, while having the effect of creating a new contractual relationship between the public employer and new members of the Systems.

Prior to the passage of Act 9 of 2001, the annual benefit accrual rate applicable to most members of PSERS and SERS was 2.0%. Act 9, through the creation of several new classes of membership in the Systems (Class T-D in PSERS; Class AA and Class D-4 in SERS), effectively increased the benefit accrual rates for most PSERS and SERS members from 2.0% to 2.5% (For members of the General Assembly who elected membership in Class D-4, the annual benefit accrual rate increased to 3.0%). Because Act 9 was applicable to all periods of school and State service, both retrospective and prospective, the effect of the increased benefit accruals was to enhance the value of most members' retirement benefits by 25% (50% for D-4 members of the General Assembly).

In a defined benefit pension plan, the pension benefit payable to plan members at retirement is fixed or "defined," often by statute, while the contributions required to fund those benefits vary over time depending upon the experience of the plan. Most defined benefit pension plans are funded using one of several funding methods known as actuarial cost methods, which systematically assign anticipated benefit costs to the plan members' years of service. Each funding method produces what is referred to as a "normal cost," which can be thought of as the collective value or cost of the benefits that accrue for the plan in a given year. While each actuarial cost method produces a normal cost, the calculation and magnitude of the normal cost differs for each method.

Like most large defined benefit public employee retirement systems throughout the United States, PSERS and SERS both utilize a variation of the entry age normal cost method. The entry age normal cost method allocates the annual cost of all future benefits to be paid by the plan by spreading those costs over the entire period of a member's service from the date of entry (hence, "entry age") to the member's anticipated date of retirement (normal retirement age). These costs are expressed both as a dollar amount and as a percentage of actual or projected payroll. This method results in the calculation of two costs: 1) the annual contributions required to amass sufficient reserves to support future retirement benefits when made from entry age to normal retirement age is the normal cost; and 2) the aggregate normal cost of all members of the plan for prior years of service is called the actuarial accrued liability (AAL). If assets of the plan are less

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<sup>2</sup>The U. S. Constitution provides: "No state shall ... pass any ... Law impairing the Obligation of Contracts ... ." The Pa. Constitution provides: "No ex post facto law, nor any law impairing the obligations of contract, ... shall be passed."

than the accrued liability, then a deficit is created. In actuarial parlance, this deficit is known as an unfunded actuarial accrued liability (UAAL). Because this liability has not been accounted for or funded, it must be retired or amortized through annual payments over a specified number of years (10 years in the case of PSERS and SERS) and the required annual payments are reflected in the total determination of employer annual cost.

Section 8328 of the PSERS Code and Section 5508 of the SERS Code specify similar methods to be used by the actuaries of the respective systems to determine the "employer normal contribution rate" or employer normal cost and the total employer contribution rate, which consists of both the normal cost and the contributions required to fund the accrued liabilities of each plan, plus any amortization contribution requirement.

Both the PSERS and SERS Codes require the normal cost to be determined using "... a level percentage of the compensation of the average new active member..." The average new member, or entrant, to the Systems currently earns a benefit at the 2.5% annual accrual rate. However, if enacted, the bill would require new entrants to the Systems to earn benefits at a reduced 2.0% accrual rate. This would result in a diminished normal cost calculation that would tend to understate the true cost of the Systems, because in the early years of the reduced benefit tier, the majority of members would remain in a benefit class entitling them to an annual benefit accrual of 2.5%. In the short term, the understated normal cost would generate an unfunded actuarial accrued liability in each System. This would occur because reducing the benefit accrual rate for new members only would not affect the present value of benefits for current members, but would affect the normal cost calculation. Eventually, this normal cost imbalance would tend to correct itself as the proportion of members subject to the new, reduced 2.0% benefit accrual tier increases and members subject to the 2.5% benefit accrual tier retire or otherwise leave the Systems.

An alternative method would be to amend the Codes to develop the normal cost rate based upon current active members and the benefits to which each member is entitled. This method would be based upon a blending of accrual rates attributable to all active members, rather than new entrants only, and would result in a normal cost calculation that more closely approximates the normal costs of the Systems. The alternative method would also help to achieve the presumed cost reduction goals of the bill by both reducing the normal cost of the Systems and preventing the creation of the unfunded actuarial accrued liabilities that would otherwise result from enactment of the bill. According to the Commission's consulting actuary, PSERS is currently using the alternative normal cost method.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary has reviewed the bill and determined the actuarial cost impact based upon current statutory provisions of the PSERS and SERS Codes specifying the methods for calculating the employer normal contribution rate. Because the employer normal contribution calculation is based upon a level percentage of the compensation of the average new member, the resulting normal cost would tend to understate the true employer normal cost of the Systems should the bill be enacted. This is largely due to the fact that the majority of members in the early years would remain in the higher benefit accrual group (2.5%), while the normal cost calculation would be based upon the average new entrant who, under the bill, would receive a diminished annual benefit accrual (2.0%).

**Public School Employees' Retirement System**  
(Beginning Fiscal Year 2006/2007)

	<u>Amount</u>	
	<u>Amount</u>	<u>As a % of Payroll</u>
Change in Unfunded Actuarial Accrued Liability <sup>1</sup>	\$1,215,000,000	
Change in Employer Annual Cost		
Normal Cost	\$(128,000,000)	(1.08%)
Amortization Payment <sup>2</sup>	<u>\$ 185,000,000</u>	<u>1.56%</u>
Total Increase in Employer Annual Cost	\$ 57,000,000	0.48%

<sup>1</sup> The increase in UAAL shown occurs because reducing benefit accrual rates for new members does not affect the present value of benefits for current members.

<sup>2</sup> 10-year level dollar amortization. Payments cease after 10 years. Paid in part by the Commonwealth and in part by the school districts and other educational employers.

**State Employees' Retirement System**  
(Beginning Fiscal Year 2006/2007)

	<u>Amount</u>	
	<u>Amount</u>	<u>As a % of Payroll</u>
Change in Unfunded Actuarial Accrued Liability <sup>1</sup>	\$860,000,000	
Change in Employer Annual Cost		
Normal Cost	\$(84,000,000)	(1.61%)
Amortization Payment <sup>2</sup>	<u>\$131,000,000</u>	<u>2.52%</u>
Total Increase in Employer Annual Cost	\$ 47,000,000	0.91%

<sup>1</sup> The increase in UAAL shown occurs because reducing benefit accrual rates for new members does not affect the present value of benefits for current members.

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

As previously discussed, the Commission’s consulting actuary has proposed an alternative method that would develop a normal cost rate based upon current active members and the benefits to which each member is entitled. This method would be based upon a blending of accrual rates attributable to all active members, rather than new entrants only, in determination of normal cost. The alternative method would also help to achieve the presumed cost reduction goals of the bill by both reducing the normal cost of the Systems and preventing the creation of the unfunded actuarial accrued liability that would otherwise result from enactment of the bill.

The following table illustrates the estimated reduction in the employer normal cost rate that would result from employing the alternative blended method for the calculation of normal cost in connection with enactment of the bill. As the table shows, the alternative method results in a small but definite reduction in normal cost for both PSERS and SERS.

**Estimated Reduction in Normal Cost Resulting from Use of the Alternative Blended Method for Normal Cost Determination**

Years after Change	PSERS		SERS	
	Blended Employer Normal Cost Rate	Decrease in Rate from Initial Year	Blended Employer Normal Cost Rate	Decrease in Rate from Initial Year
0	6.62%	n/a	8.25%	n/a
5	6.39%	0.23%	7.91%	0.34%
10	6.20%	0.42%	7.61%	0.64%

The following table compares preliminary estimates of the effect on employer contribution rates of using the alternative blended normal cost calculation versus the current statutory method.

**Comparison of Employer Contribution Rates as a Percent of Payroll Under the Current Method and the Alternative Approach if House Bill No. 2464 Is Enacted**

Fiscal Year Ending	PSERS		SERS	
	Current Method	Alternative Approach	Current Method	Alternative Approach
2007	6.94%	6.46%	5.57%	4.66%
2008	7.61	7.15	6.19	5.33
2009	7.21	6.72	5.04	4.21
2010	6.23	5.7	4.76	3.94
2011	5.87	5.33	4.92	4.12
2012	5.8	5.23	5.11	4.32
2013	22.83	22.24	20.54	19.76
2014	21.85	21.24	20.36	19.59
2015	20.49	19.85	19.22	18.45
2016	20.1	19.46	18.92	18.16
2017	18.44	19.04	16.98	17.95

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SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

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As the table shows, the current statutory method for determining normal cost would result in higher employer contribution requirements for the first ten years following enactment of the bill with a gradual decrease in subsequent years (beginning Fiscal Year 2017). In contrast, under the alternative approach, employer contribution requirements would decline gradually in all years as new members with reduced benefit accruals replace current members.

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POLICY CONSIDERATIONS

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

Fundamental Benefit Reduction. The bill would have the effect of reducing the benefit accrual rate to 2.0% for new members of PSERS and most new members of SERS, essentially undoing the benefit enhancement provided by Act 9 of 2001, for new members beginning July 1, 2006. The reduction in the benefit accrual rate would reduce the value of retirement benefits for most new members of the Systems by 25% from current levels and by 50% for new members of the General Assembly.

Potential for Benefit Inequity. By creating an additional benefit tier, the bill creates the potential for pension benefit inequities in the treatment of similarly situated public school and State employees, and the potential for litigation brought by members over resulting pension benefit disparities.

Alternative Determination of Normal Cost. The bill fails to achieve the presumed goal of public school and State employee pension benefit cost containment. Instead, enactment of the bill without amending the normal cost calculation would cause a substantial increase in unfunded actuarial accrued liabilities in both PSERS and SERS, and would result in corresponding increases in employer contribution requirements in future years. The alternative normal cost determination method proposed by the Commission's consulting actuary is based upon a blending of accrual rates attributable to all active members, rather than on new entrants only. Adoption of the alternative method would help to achieve the presumed cost reduction goals of the bill by both reducing the normal cost of the Systems and avoiding creation of the substantial additional liabilities that would otherwise result from enactment of the bill. The bill should be amended to specifically authorize utilization of the alternative method proposed by the actuary.

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COMMISSION RECOMMENDATION

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On April 6, 2006, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 2464, Printer's Number 3597, was introduced and referred to the House State Government Committee on February 15, 2006.

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**Bill ID:** House Bill Number 2562, Printer's Number 3805

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

**Subject:** Mandated Minimum Employer Contribution Requirements

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SYNOPSIS

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House Bill Number 2562, Printer's Number 3805, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code by incrementally increasing and making permanent the mandated minimum employer contribution requirements present in the respective retirement Codes.

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DISCUSSION

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The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of the Public School Employees' Retirement System and the State Employees' Retirement System (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and State employees. Membership in the Systems is mandatory for most school and State employees. Certain other employees are not required but are given the option to participate. As of June 30, 2005, the Public School Employees' Retirement System (PSERS) had 255,465 active members and 156,519 annuitants and beneficiaries. As of December 31, 2004, the State Employees' Retirement System (SERS) had 108,405 active members and 98,727 annuitants and beneficiaries.

For most members of both Systems, the basic benefit formula used to determine the annual retirement benefit is equivalent to the product of 2.5% multiplied by the member's years of accumulated service credit ("eligibility points") multiplied by the member's final average (highest three years) salary.

Under the Codes of both Systems, superannuation or normal retirement age is that date on which a member may terminate service with the public employer and receive a full retirement benefit without reduction because of age or service. Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service, and under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees. Temporary provisions of the Codes also have permitted members with 30 or more years of service to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to the superannuation or normal retirement age. The last such special early retirement provision expired June 30, 1999.

Act 38 of 2002, first established a 1% minimum employer contribution rate for both PSERS and SERS.<sup>1</sup> In 2003, the mandated rate was increased through the enactment of Act 40 of 2003 for both Systems. For PSERS, the minimum employer contribution rate was increased effective July 1, 2004, from 1% to 4% plus the premium assistance contribution rate. For SERS, the rate was increased from 1% to: 1) 2% beginning July 1, 2004; 2) 3% beginning July 1, 2005; and 3) 4% beginning July 1, 2006. Although permanent for PSERS, the mandated minimum contribution rate for SERS expires July 1, 2007.

House Bill Number 2562, Printer's Number 3805, would again amend the Codes of both Systems by incrementally increasing and making permanent the mandated minimum employer contribution requirements present in the respective retirement Codes.

The bill would amend the Public School Employees' Retirement Code by increasing the currently mandated minimum employer contribution requirement of 4% plus the premium assistance contribution rate to: 1) 7% plus the premium assistance contribution rate for the fiscal year beginning July 1, 2007, and 2) an amount equal to the employer normal contribution rate plus the premium assistance contribution rate for the fiscal year beginning July 1, 2008, and for each fiscal year thereafter.

The bill would amend the State Employees' Retirement Code by increasing the currently mandated employer contribution requirement of 4% for the fiscal year beginning July 1, 2006, to: 1) 5% for the fiscal year beginning July 1, 2007, 2) 6% for the fiscal year beginning July 1, 2008, and 3) an amount equal to the employer normal contribution rate for the fiscal year beginning July 1, 2009, and for each fiscal year thereafter.

Like most large defined benefit public employee retirement systems throughout the United States, PSERS and SERS both utilize variations of the entry age normal cost method. The entry age normal cost method allocates the annual cost of all future benefits to be paid by the plan by spreading those costs over the entire period of a member's service from the date of entry to the member's anticipated date of retirement. These costs are expressed both as a dollar amount and as a percentage of actual or projected payroll. This method results in the calculation of two costs: 1) the annual contributions required to establish sufficient reserves to support future retirement benefits when made from entry age to normal retirement age is the normal cost; and 2) the aggregate normal cost of all members of the plan for prior years of service is the actuarial accrued liability (AAL). If assets of the plan are less than the accrued liability, then a deficit exists. This deficit is known as an unfunded actuarial accrued liability (UAAL). Because this liability has not been accounted for or funded, it must be amortized through annual payments over a specified number of years, and the required annual payments are reflected in the total determination of employer annual cost.

PSERS and SERS are funded through: 1) employer contributions, 2) employee contributions, and 3) returns on investments. The employer normal contribution rate represents the employer portion of the value or cost (normal cost) of the benefits earned during a given year, based upon the Systems' actuarial funding methods. By mandating payment of the employer normal contribution rate as the minimum or floor rate for all future years (beginning July 1, 2008, for PSERS and July 1, 2009, for SERS), the bill would ensure that the employer contributions for any given year will be adequate to fund the costs of benefits earned in that year. The bill will not impact the cost of benefits already earned (accrued liability), but will serve to mitigate against the continued growth of the current unfunded actuarial accrued liabilities of the Systems.

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<sup>1</sup> For PSERS, 1% plus the premium assistance contribution rate. For SERS, Act 38 delayed imposition of the 1% minimum until July 1, 2004.

Among its various provisions, Act 40 of 2003 altered the methods used by PSERS and SERS for the amortization of the costs of Act 9 of 2001 and actuarial gains and losses. The amortization changes of Act 40 combined with the extended period of strong investment returns that prevailed throughout most of the 1990s have resulted in very low employer contribution rates in recent years. This is attributable in part to the pre-Act 9 gains and losses being amortized over 10 years, while the post-Act 9 costs and future gains and losses are amortized over 30 years.

The contributions mandated by the bill will mitigate some of the increasing amortization costs. Beginning in 2012, higher levels of employer contributions would be required.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and has estimated the projected changes in future employer contribution rates that would result from enactment of the bill. The projections are based upon a review of projected rates supplied by the consulting actuaries of the respective Systems and are based upon the results of the June 30, 2005, valuation of PSERS and the December 31, 2004, valuation of SERS, adjusted to reflect the actual investment returns for SERS of 14.5% in 2005 and the impact of new assumptions adopted by the SERS Board.

**PROJECTED MANDATORY EMPLOYER CONTRIBUTION RATES**

**Public School Employees' Retirement System**

<b>Fiscal Year Ending June</b>	<b>Current Statute</b>	<b>Under House Bill 2562</b>	<b>Increase (Decrease)</b>
2008	7.15%	7.76%	0.61%
2009	6.78	7.35	0.57
2010	5.83	7.34	1.51
2011	5.50	7.32	1.82
2012	5.46	7.31	1.85
2013	22.52	22.06	(0.46)
2014	21.57	20.90	(0.67)
2015	20.24	19.59	(0.65)
2016	19.89	19.26	(0.63)
2017	19.52	18.90	(0.62)

**State Employees' Retirement System**

<b>Fiscal Year Ending June</b>	<b>Current Statute</b>	<b>Under House Bill 2562</b>	<b>Increase (Decrease)</b>
2008	2.06%	5.00%	2.94%
2009	0.25	6.00	5.75
2010	0.00	8.25	8.25
2011	0.00	8.25	8.25
2012	0.00	8.25	8.25
2013	14.83	12.06	(2.77)
2014	13.91	10.77	(3.14)
2015	12.82	9.78	(3.04)
2016	12.67	9.72	(2.95)
2017	12.52	9.67	(2.85)

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POLICY CONSIDERATIONS

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

Funding Adequacy and Budgetary Certainty. Normal cost equates to the value or “cost” of the benefits earned or accrued by active members in a given year. Therefore, requiring contributions equal to the employer normal cost (termed “employer normal contribution rate” in the System Codes) would provide an adequate level of future funding of member benefits in PSERS and SERS.

Future Employer Contribution Requirements. The bill reduces the increase of additional unfunded actuarial accrued liabilities between 2007 and 2012. To further reduce projected future employer contribution requirements, additional employer contributions in excess of normal cost will be required.

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COMMISSION RECOMMENDATION

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On April 6, 2006, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 2562, Printer's Number 3805, had first consideration in the Senate on October 4, 2006, and was re-referred to the Senate Appropriations Committee on October 16, 2006.

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**Bill ID:** House Bill Number 2894, Printer's Number 4540

**System:** All Public Safety Employees

**Subject:** Killed-in-Service Benefits

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SYNOPSIS

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House Bill Number 2894, Printer's Number 4540, would amend the act of June 24, 1976 (P. L. 424, No. 101), known as the Emergency and Law Enforcement Personnel Death Benefits Act, to: 1) mandate payment of a killed-in-service death benefit to the surviving spouse or, if there is no surviving spouse, the minor child, of a paid firefighter, ambulance service or rescue squad member, or law enforcement officer in an amount equal to the decedent's monthly salary (adjusted annually by an amount equal to the increase in the Consumer Price Index), less the amount of any workers' compensation or pension benefit payable to an eligible beneficiary; 2) repeal Section 5(e)(2) of the Municipal Police Pension Law (Act 600 of 1955) which currently provides the killed-in-service death benefit applicable only to members of Act 600 pension plans; and 3) repeal Sections 202(b)(3)(vi) and (4)(vi) of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) which provides for a special extended amortization period applicable to the funding of liabilities resulting from the payment of the Act 600 killed-in-service benefit.

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DISCUSSION

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Under the Emergency and Law Enforcement Personnel Death Benefits Act (Act 101 of 1976), the Commonwealth provides a \$100,000 lump-sum death benefit, adjusted annually for changes in the Consumer Price Index (CPI) since 1995 (for fiscal year 2006-2007, the actual benefit is \$103,400), to the surviving beneficiaries of public safety personnel who are killed in the course of performing their official duties. The program is administered by the Bureau of Risk Management of the Department of General Services, which pays the benefit to the employer who in turn pays the benefit to the survivor beneficiary or beneficiaries. The benefit is paid to the decedent's surviving spouse, or if no spouse survives, the benefit is divided equally among any surviving minor (under age 18) children. In the absence of a minor child or children, the benefit is paid to the decedent's parents. Under the Act, two causal elements must be proven for benefit eligibility to be established. First, the death must occur as a direct result of an injury, and second, the fatal injury must have occurred during the performance of official duties.

Among its other benefit provisions, Act 30 of 2002 amended the Municipal Police Pension Law (Act 600) to mandate a killed-in-service death benefit payable for life to a member's beneficiary that is equal to 100% of the member's salary at the time of the member's death. Although it is a rare occurrence, municipal police pension plans subject to Act 600 are faced with potentially large and generally unpredictable liabilities resulting from a member who is killed in service, a situation which could prove particularly difficult for smaller pension plans. The Municipal Pension Plan Funding Standard and Recovery Act (Act 205) normally requires that any increase in unfunded actuarial accrued liability attributable to an actuarial loss must be amortized over a period of no more than 15 years. However, in recognition of the potentially severe financial hardship that could result, Act 81 of 2004 amended Act 205 to permit a municipality to amortize the increment of unfunded actuarial accrued liability attributable to the provision of the Act 600 killed-in-service survivor benefit over a period of 40 years rather than the usual 15. In view of the potentially long remaining lifetime of a surviving beneficiary entitled to the killed-in-service benefit, the extended

amortization period was deemed appropriate because it more closely approximates the anticipated remaining period over which the survivor benefit is likely to be paid.

Since the enactment of the Emergency and Law Enforcement Personnel Death Benefits Act in 1976, benefits have been paid to the survivors of approximately 200 paid public safety personnel. Since the enactment of the Act 600 killed-in-service benefit in 2002, nineteen law enforcement officers have been killed in the performance of their duties. Of these officers, four were members of Act 600 pension plans providing the killed-in-service benefit. The survivor beneficiaries of the remaining fifteen law enforcement officers, and an additional twelve firefighters, were not eligible for the benefit because these public safety employees were not members of a pension plan subject to Act 600.

The bill would amend the Emergency and Law Enforcement Personnel Death Benefits Act to mandate payment of a killed-in-service death benefit to the surviving spouse or, if there is no surviving spouse, the minor child, of a paid firefighter, ambulance service or rescue squad member, or law enforcement officer in an amount equal to the decedent's monthly salary, less the amount of any workers' compensation or pension benefit payable to an eligible beneficiary. The benefit would be annually adjusted by an amount equal to the change in the CPI. The bill would have the effect of providing a killed-in-service benefit applicable to all paid public safety employees (police, fire and emergency services personnel) similar to that currently applicable only to members of municipal police pension plans subject to Act 600. The bill would repeal the killed-in-service benefit provisions in Act 600 (since they would no longer be required) and would repeal the special 40-year amortization period applicable to the benefit provision.

It would seem appropriate to provide the 100% of salary killed-in-service benefit through the Emergency and Law Enforcement Personnel Death Benefits Act. Instead of limiting availability of that benefit to Act 600 police pension plan members, and funding the benefit from the pension assets of the affected plans, the benefit would be uniformly applicable to all public safety employees, and would be funded by the Commonwealth directly, in an amount that would provide a full net pay benefit after workers' compensation and other pension offset payments, to a decedent's surviving beneficiaries. While that liability could prove particularly onerous to a small municipal police pension fund, the cost is insignificant within the context of the Commonwealth's annual budget.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary reviewed the bill and determined that the bill will be of benefit to municipal police pension plans subject to Act 600 because it removes the potential burden of funding the current killed-in-service death benefit and appropriately reallocates the future cost of providing those benefits from the affected pension plans to the Commonwealth. Considering the relatively small number of public safety employees involved, and the offsetting effects of workers' compensation and pension benefits, the Commission's consulting actuary estimates the cost to the Commonwealth for extending this benefit to all paid public safety employees represents a minuscule component of future Commonwealth General Fund budgets.

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POLICY CONSIDERATIONS

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

Equity in the Treatment of Public Safety Employees. A 100% killed-in-service benefit is currently available only to municipal police officers who are members of police pension plans subject to Act 600. The bill would amend the Emergency and Law Enforcement Personnel Death Benefits Act to make a similar benefit uniformly applicable to all paid public safety employees employed within the Commonwealth. The bill would serve to facilitate the equitable treatment of public safety employees with respect to the provision of this survivor benefit.

Appropriate Reallocation of Risk. The bill would reallocate the risk associated with providing the killed-in-service benefit currently provided by Act 600 from the affected municipal plans to the Commonwealth, which can more readily absorb the costs associated with providing such benefits to the survivors of public safety employees killed in the line of duty.

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COMMISSION RECOMMENDATION

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On October 19, 2006, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 2894, Printer's Number 4540, had second consideration in the House on October 4, 2006, was re-referred to the House Appropriations Committee and was reported as committed on October 23, 2006.

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**Bill ID:** House Bill Number 2894, Printer's Number 4540,  
as amended by Amendment Number 09560

**System:** All Public Safety Employees

**Subject:** Killed-in-Service Benefits

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SYNOPSIS

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House Bill Number 2894, Printer's Number 4540, would amend the act of June 24, 1976 (P. L. 424, No. 101), known as the Emergency and Law Enforcement Personnel Death Benefits Act, to: 1) mandate payment of a killed-in-service death benefit to the surviving spouse or, if there is no surviving spouse, the minor child, of a paid firefighter, ambulance service or rescue squad member, or law enforcement officer in an amount equal to the decedent's monthly salary (adjusted annually by an amount equal to the increase in the Consumer Price Index), less the amount of any Workers' Compensation or pension benefit payable to an eligible beneficiary; 2) repeal Section 5(e)(2) of the Municipal Police Pension Law (Act 600 of 1955) which currently provides the killed-in-service death benefit applicable only to members of Act 600 pension plans; and 3) repeal Sections 202(b)(3)(vi) and (4)(vi) of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) which provides for a special extended amortization period applicable to the funding of liabilities resulting from the payment of the Act 600 killed-in-service benefit.

Amendment Number 09560 would amend the bill to reimburse any municipal pension plan subject to the provisions of Act 600 for any killed-in-service death benefits paid to survivors under Section 5(e)(2) and to assume all financial obligations to continue the payment of such benefits.

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DISCUSSION

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Under the Emergency and Law Enforcement Personnel Death Benefits Act (Act 101 of 1976), the Commonwealth provides a \$100,000 lump-sum death benefit, adjusted annually for changes in the Consumer Price Index (CPI) since 1995 (for fiscal year 2006-2007, the actual benefit is \$103,400), to the surviving beneficiaries of public safety personnel who are killed in the course of performing their official duties. The program is administered by the Bureau of Risk Management of the Department of General Services, which pays the benefit to the employer who in turn pays the benefit to the survivor beneficiary or beneficiaries. The benefit is paid to the decedent's surviving spouse, or if no spouse survives, the benefit is divided equally among any surviving minor (under age 18) children. In the absence of a minor child or children, the benefit is paid to the decedent's parents. Under the Act, two causal elements must be proven for benefit eligibility to be established. First, the death must occur as a direct result of an injury, and second, the fatal injury must have occurred during the performance of official duties.

Among its other benefit provisions, Act 30 of 2002 amended the Municipal Police Pension Law (Act 600) to mandate a killed-in-service death benefit payable for life to a member's beneficiary that is equal to 100% of the member's salary at the time of the member's death. Although it is a rare occurrence, municipal police pension plans subject to Act 600 are faced with potentially large and generally unpredictable liabilities resulting from a member who is killed in service, a situation which could prove particularly difficult for smaller pension plans. The Municipal Pension Plan Funding Standard and Recovery Act (Act 205) normally requires that any increase in unfunded actuarial accrued liability attributable to an actuarial loss must be amortized over a period of no more than 15 years. However, in recognition of the potentially severe financial hardship that could

result, Act 81 of 2004 amended Act 205 to permit a municipality to amortize the increment of unfunded actuarial accrued liability attributable to the provision of the Act 600 killed-in-service survivor benefit over a period of 40 years rather than the usual 15.

Since the enactment of the Emergency and Law Enforcement Personnel Death Benefits Act in 1976, lump-sum benefits have been paid to the survivors of approximately 200 paid public safety personnel. Since the enactment of the Act 600 killed-in-service benefit in 2002, nineteen law enforcement officers have been killed in the performance of their duties. Of these officers, four were members of Act 600 pension plans providing the killed-in-service benefit. The survivor beneficiaries of the remaining fifteen law enforcement officers, and an additional twelve firefighters, were not eligible for the benefit because these public safety employees were not members of a pension plan subject to Act 600.

The bill would amend the Emergency and Law Enforcement Personnel Death Benefits Act to mandate payment of a killed-in-service death benefit to the surviving spouse or, if there is no surviving spouse, the minor child, of a paid firefighter, ambulance service or rescue squad member, or law enforcement officer in an amount equal to the decedent's monthly salary, less the amount of any Workers' Compensation or pension benefit payable to an eligible beneficiary. The benefit would be annually adjusted by an amount equal to the change in the CPI. The bill would have the effect of providing a killed-in-service benefit applicable to all paid public safety employees (police, fire and emergency services personnel) similar to that currently applicable only to members of municipal police pension plans subject to Act 600. The bill would repeal the killed-in-service benefit provisions in Act 600 (since they would no longer be required) and would repeal the special 40-year amortization period applicable to the benefit provision.

The killed-in-service death benefit provided by the bill is designed to be offset by Workers' Compensation and any pension death benefits paid to the survivors. Each year, the Pennsylvania Department of Labor and Industry calculates the statewide average weekly wage (AWW), against which the maximum Workers' Compensation payment is determined. The 2006 statewide average weekly wage is \$1,117.50, for a maximum Workers' Compensation rate of \$745 (two-thirds of the AWW). Persons who earn the average weekly wage or less will receive two-thirds of pay, but those who earn more can receive no more than \$745 per week.

Viewing this calculation on an annual basis, Workers' Compensation would pay the first \$38,740 on a wage loss of \$58,110 or more. Using a hypothetical salary of \$65,000 (the actual municipal average is \$57,500), the after-comp wage loss would be \$26,260 per year. That amount would be further subject to an offset for any pension death benefit, which usually equals 25% of pay (or \$16,250 in this example) or more, for a final payment figure of \$10,010 (subject to annual CPI adjustments). If that number could be applied to the twenty-seven decedents who were not covered by the Act 600 killed-in-service benefit, the Commonwealth would have an annual obligation of \$270,270. Assuming that the number of compensable deaths will continue at a rate similar to that which has occurred during the 30 years since enactment of the Emergency and Law Enforcement Personnel Death Benefits Act, an average of seven compensable deaths can be expected to occur each year, or \$70,070 per year payable for the expected remaining lifetimes of the surviving spouses.

Amendment Number 09560 would amend the bill to transfer the liability incurred by Act 600 pension plans that are currently paying killed-in-service benefits pursuant to Section 5(e)(2) from the affected municipalities to the Commonwealth. If the financial obligations of the four plans that have incurred Act 600 killed-in-service benefit liabilities are assumed by the Commonwealth, the lack of Workers' Compensation and pension offsets must be taken into consideration. Upper Dublin Township's liability was fully covered by insurance, so there is no obligation for the Commonwealth to assume. Newtown Borough provided for a 20 percent Workers' Compensation offset, while Lititz Borough and Lower Gwynedd Township had no such offsets. The resulting benefit payment obligations for the remaining three plans are set forth in the following table.

**Act 600 Killed-in-Service Benefits**  
(Paid From the Affected Pension Plans)

<u>Affected Municipality</u>	<u>Annual Benefit Paid From Pension Plan <sup>1</sup></u>	<u>Benefits Paid to 12/31/06 <sup>2</sup></u>	<u>Survivor Age</u>
Newtown Borough	\$22,605	\$ 28,260	51
Lititz Borough	60637	156645	53
Lower Gwynedd Twp.	<u>65277</u>	<u>223040</u>	38
Total	\$148,519	\$407,945	

<sup>1</sup> Reflects the estimated first-year obligation, increasing annually by an amount equal to the change in the Consumer Price Index and payable for the remaining lifetime of the survivor spouse. The benefit payment stream terminates upon the death of the survivor.

<sup>2</sup> Reflects the total of pension plan benefits paid or owed to the survivor beginning from the date of the member's death and projected to 12/31/06.

If enacted as amended, the first-year cost to the Commonwealth would be approximately \$407,945 for reimbursement of the benefit payments made through December 31, 2006. The Commonwealth's future annual obligation would be approximately \$148,519, plus an annual adjustment equal to the change in the Consumer Price Index, for the survivors currently receiving benefits.

It would seem appropriate to provide the 100% of salary killed-in-service benefit through the Emergency and Law Enforcement Personnel Death Benefits Act. Instead of limiting availability of that benefit to Act 600 police pension plan members, and funding the benefit from the pension assets of the affected plans, the benefit would be uniformly applicable to all public safety employees, and would be funded by the Commonwealth directly, in an amount that would provide a full net pay benefit after Workers' Compensation and other pension offset payments, to a decedent's surviving beneficiaries. While that liability could prove particularly onerous to a small municipal police pension fund, the cost is not significant within the context of the Commonwealth's annual budget.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary reviewed the bill as amended and determined that it will be of benefit to municipal police pension plans subject to Act 600 because it removes the potential burden of funding the current killed-in-service death benefit and appropriately reallocates the future cost of providing those benefits from the affected pension plans to the Commonwealth. Considering the relatively small number of public safety employees involved, and the offsetting effects of Workers' Compensation and pension benefits, the Commission's consulting actuary estimates the cost to the Commonwealth for extending this benefit to all paid public safety employees represents a negligible component of future Commonwealth General Fund budgets.

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POLICY CONSIDERATIONS

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

Equity in the Treatment of Public Safety Employees. A 100% killed-in-service benefit is currently available only to municipal police officers who are members of police pension plans subject to Act 600. The bill as amended would amend the Emergency and Law Enforcement Personnel Death Benefits Act to make a similar benefit uniformly applicable to all paid public safety employees employed within the Commonwealth. The bill as amended would serve to facilitate the equitable treatment of public safety employees with respect to the provision of this survivor benefit.

Appropriate Reallocation of Risk. The bill as amended would reallocate the risk associated with providing the killed-in-service benefit currently provided by Act 600 from the affected municipal plans to the Commonwealth, which can more readily absorb the costs associated with providing such benefits to the survivors of public safety employees killed in the line of duty.

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COMMISSION RECOMMENDATION

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On October 19, 2006, the Commission voted to attach the actuarial note to the bill as amended, recommending that the General Assembly and the Governor consider the policy issues identified in the Commission's actuarial note transmittal.

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FINAL LEGISLATIVE STATUS

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House Bill Number 2894, Printer's Number 4540, had second consideration in the House on October 4, 2006, was re-referred to the House Appropriations Committee and was reported as committed on October 23, 2006.



**PART II**

**PUBLIC EMPLOYEE RETIREMENT SYSTEM**

**ADMINISTRATION**

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**A. ACT 205 OF 1984.**

- **2005 Filing Period**

March 31, 2006, was the deadline for the 2005 municipal pension plan reports. Of the 4,558 local governments submitting questionnaire responses, 2,003 indicated that they had established one or more pension plans. About 136 of the local governments required to submit employee pension plan reports to be eligible for General Municipal Pension System State Aid failed to meet the statutory filing deadline. Through transmitting multiple delinquency notices, the Commission was able to significantly reduce the number of delinquent local governments that were not included in the initial State aid certification to the Department of the Auditor General on August 7, 2006. Only 24 municipalities remained delinquent as of the date of initial certification. As of December 31, 2006, three municipalities remained delinquent in submitting their 2005 municipal pension plan reports, and the Commission is actively engaged in enforcing the reporting requirements.

With 50% of the over 3,000 municipal pension plan actuarial valuation reports received near the filing deadline, the Commission utilized its computer assisted review procedures to expedite the review of the incoming reports. The data extracted from the reporting forms was verified using electronic data processing. The Commission issued its *Status Report on Local Government Pension Plans* based on the 2005 Act 205 data in November 2006.

- **Municipal Pension Cost Certification**

In the summer of 2006, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2006 allocation of General Municipal Pension System State Aid. In 2006, the State aid provided to municipalities to offset their employee pension costs totaled \$198.6 million. Calculation of the municipal pension cost data for the over 1,400 municipalities was accomplished through the municipal employee pension plan data base that is maintained by the Commission through the data extracted from the over 3,000 pension plan reports submitted by municipalities.

**B. ACT 293 OF 1972.**

- **2006 Filing Period**

The Commission transmitted filing notices and reporting forms to the 66 counties required to submit employee pension plan reports for 2006. The reports are due March 30, 2007.



**PART III**

**PUBLIC EMPLOYEE RETIREMENT SYSTEM**

**POLICY DEVELOPMENT AND COORDINATION**

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**A. STATUTORY PROVISIONS.**

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

*Section 6. Powers and Duties.*

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

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

**B. RESEARCH.**

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

During the second half of 2006, research began on the Commission's eleventh report on the status of the Commonwealth's local government retirement systems since the enactment of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) and in November

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

2006, the Commission issued its report. The report is a summary and analysis of municipal employee retirement system actuarial valuation reports as of January 1, 2005, submitted to the Commission under Act 205 and of county employee retirement system actuarial valuation reports as of January 1, 2004, submitted to the Commission under Act 293 of 1972. The data in the report were extracted from the individual pension plan reports containing actuarial, financial, and demographic information. The report clearly demonstrated that Act 205 had addressed and continues to address the funded condition of municipal pension plans, the maintenance of a municipal pension plan funding standard, and the equitable distribution of state government shared revenue. The report also indicated problems that evidence the need for reform outside the parameters of Act 205, particularly the proliferation of small plans, the lack of incentive to contain costs, the lack of fiduciary responsibility and liability standards and the transition to a statewide retirement system for municipal police officers.

**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 April 2006 and the State Employees' Retirement System in November 2006.

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

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At the April 6, 2006, meeting of the Commission, the Staff presented a summary of the June 30, 2005, Actuarial Valuation Report of the Public School Employees' Retirement System (PSERS) issued January 18, 2006, and reviewed some significant facts concerning the condition of the Public School Employees' Retirement System since the prior valuation.

**General Funding Information**

- Increase in employer contributions of 1.72% (.05 due to increase in health insurance contribution rate).
- Decrease in the funded ratio from 91.2% to 83.7%.
- Unfunded accrued liability of \$10,007,300,000.
- An increase in unfunded accrued liability of \$4,166,111,000.
- A decrease in total normal cost to 13.83% from 14.77%.
- Employer contributions above the 4.00% minimum employer contribution rate.

**Changes in Contribution Rate**

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
2006/2007	7.21%	6.62%	(0.95)%	.74%	6.46%
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%

**Reasons for Change in the Contribution Rate**

The employer contribution rate calculated by the actuary increased from 4.69% for Fiscal Year 2005/2006 to 6.41% for Fiscal Year 2006/2007. The increase of 1.72% is due to the following reasons:

- |  |               |
|--|---------------|
| • Decrease due to change in normal rate*                             | (0.38)%       |
| • Increase due to payroll growth*                                    | 0.11          |
| • Increase due to actuarial loss on assets*                          | 2.31          |
| • Increase due to actuarial loss on liabilities*                     | 0.66          |
| • Increase due to change in health insurance contribution rate*      | 0.04          |
| • Impact of the 4% floor on employer contribution rate under Act 40* | (0.67)        |
| • Decrease due to Fiscal Year 2005 over-contribution*                | (0.34)        |
| • Decrease due to assumption and method changes                      | <u>(0.01)</u> |

Total	1.72%
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\* Before assumption and method changes.

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

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**Reasons for Increase in Unfunded Accrued Liability**

▶ Experience (Gains) Losses	
– Loss from Investment Return on Actuarial Value of Assets	\$2,701,891,000
– Gain from Salary Increases Less than Expected	(118,605,000)
– Loss from Retirement and Other Separation Experience	766,982,000
– Loss from Annuitants' Mortality Experience	<u>122,856,000</u>
Subtotal	\$3,473,124,000
▶ Changes in Assumption and Funding Method	<u>\$ 692,987,000</u>
▶ Grand Total	\$4,166,111,000

\* \* \* \* \*

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

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

### Summary of Actuarial Valuation Public School Employees' Retirement System as of June 30, 2005

The following is a summary of the June 30, 2005, Actuarial Valuation of the Public School Employees' Retirement System and a comparison of the 2005 results with those of 2004.

	<u>6/30/04</u>		<u>6/30/05</u>	
<b>Membership</b>				
Active Members	247,901		255,465	
Inactive and Vested Members	72,014		58,720	
Retired Members	137,301		141,763	
Disabled Members	6,696		6,964	
Survivors and Beneficiaries	7,555		7,792	
<b>Payroll and Annuities Payable</b>				
Total Annual Payroll	\$10,030,705,000		\$10,527,668,000	
Annual Annuities and Benefits	\$ 2,798,211,000		\$ 3,027,550,000	
<b>Valuation Data</b>				
Accrued Liability <sup>1</sup>	\$57,123,000,000		\$61,226,581,000	
Assets	<u>52,094,479,000</u>		<u>51,219,293,000</u>	
Unfunded Accrued Liability <sup>1</sup>	\$ 5,028,521,000		\$10,007,288,000	
Fund Ratio	91.2%		83.7%	
<b>Funding Costs</b>				
Normal Cost	\$1,481,535,128.50	14.77 %	\$1,455,976,484.40	13.83 %
Amortization <sup>2</sup>	<u>(429,314,174)</u>	<u>(4.28)%</u>	<u>(100,012,846)</u>	<u>(0.95)%</u>
Full Actuarial Funding	\$1,052,220,954.50	10.49 %	\$1,355,963,638.40	12.88 %
<b>Support - Minimum <sup>3</sup></b>				
Member	\$ 718,198,478	7.16%	Employer Pension Contribution Rate is above the Minimum in Fiscal Year 2006-07	
School District	200,614,100	2.00%		
Commonwealth	<u>200,614,100</u>	<u>2.00%</u>		
Total Support <sup>4</sup>	\$1,119,426,678	11.16%		
<b>Support - No Minimum <sup>3</sup></b>				
Member	\$ 718,198,478	7.16 %	\$ 759,044,862.80	7.21 %
School District	167,011,238.25	1.665%	298,459,387.80	2.835%
Commonwealth	<u>167,011,238.25</u>	<u>1.665%</u>	<u>298,459,387.80</u>	<u>2.835%</u>
Total Support <sup>4</sup>	\$1,052,220,954.50	10.49 %	\$1,355,963,638.40	12.88 %

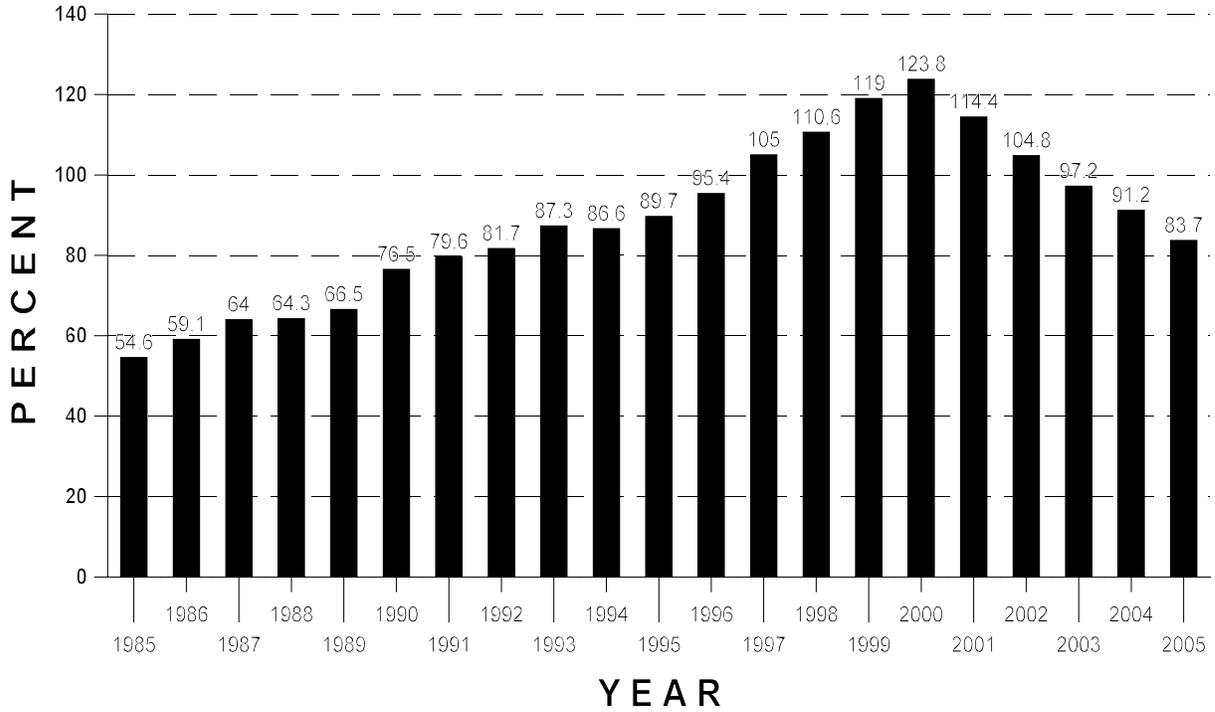
<sup>1</sup> Includes liability for health care payments.

<sup>2</sup> 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.

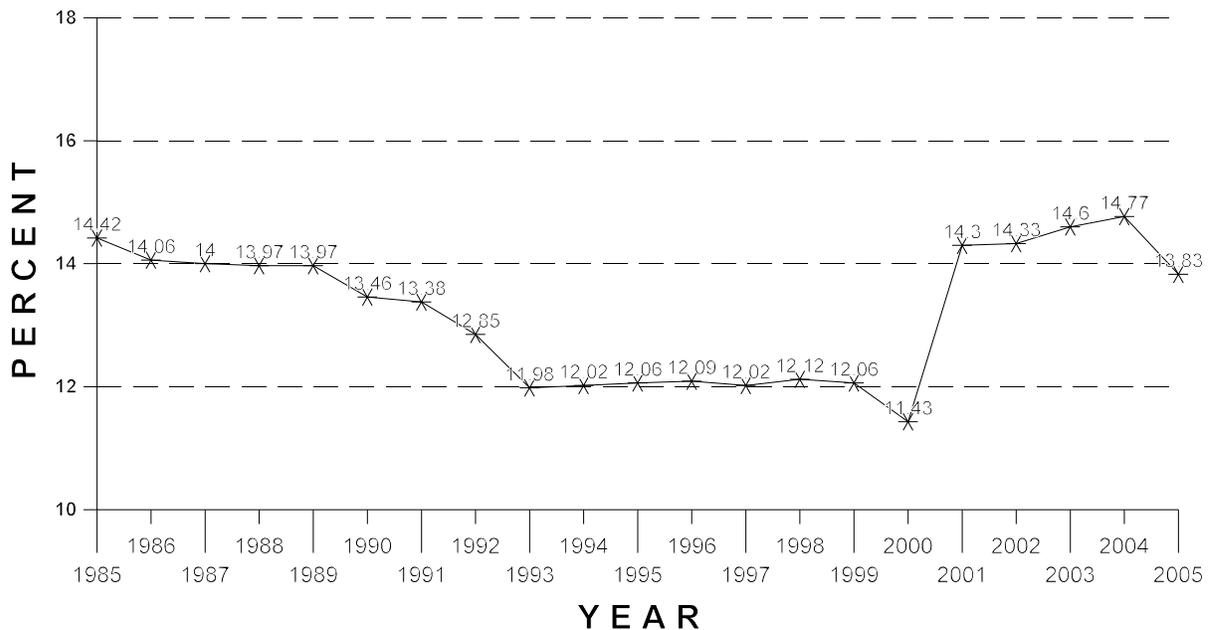
<sup>3</sup> Act 40 provides a 4.0% minimum employer pension rate. The employer pension contribution rate in fiscal year is 5.67%.

<sup>4</sup> The employer health-care contribution rate of 0.69% for Fiscal Year 2005/2006 is not included in the 6/30/04 totals. In addition, an employer health-care contribution rate of 0.74%, plus an additional 5 basis point contribution rate certified by the Board at its December 9, 2005, meeting, is not included in the 6/30/05 totals.

### PSERS FUNDED RATIO TREND



### PSERS NORMAL COST TREND (20 year period)



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

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At the November 16, 2006, meeting of the Commission, the staff presented a summary of the December 31, 2005, Actuarial Valuation Report of the State Employees' Retirement System (SERS) issued April 26, 2006, 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 4.00 percent. The December 31, 2005, contribution before Act 40 of 2003 would have been 2.07 percent.

**Summary of Changes**

Changes in the December 31, 2005, valuation:

	Normal Cost	Unfunded Liability	Total
• Change in salary increase assumptions	0.31%	- 1.58%	- 1.27%
• Loss from investment earnings		1.48%	1.48%
• Other assumption changes from the experience study	- 0.37%	0.97%	0.60%
• Change resulting from the actuarial audit	0.19%	0.16%	0.35%
• Other differences		- 0.07%	- 0.07%
• Pay increases different than assumptions		- 0.04%	- 0.04%
• Change in demographics of new entrants	0.01%	- 0.01%	0.00%
• Change in amortization due to change in payroll	0.00%	0.06%	0.06%
• Total Change	0.14%	0.97%	1.11%

The following elements affected the amount of the unfunded liability:

• Change in salary increase assumptions	\$ (874,325,526)
• Loss from investment earnings	815,132,880
• Other assumption changes resulting from the experience study	536,078,987
• Change resulting from the actuarial audit	89,373,590
• Other differences	(42,857,832)
• Pay increases different than assumptions	(23,806,196)
• Change in demographics of new entrants	(4,931,057)
• Total Change	\$ 494,664,846
December 31, 2005, Unfunded Liability	\$2,057,934,192

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

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**Employer Normal Cost Rate**

Normal Cost Rate for New Active Members:

• Superannuation and Withdrawal	12.47%
• Disability	1.22%
• Death	0.55%
• Refunds	<u>0.40%</u>
– Total	14.64%
– Member Contributions	6.25%
– Employer Normal Cost	8.39%

\* \* \* \* \*

The Commission reviewed this report with Mr. Eric Henry, Executive Director, Mr. John Winchester, Director of Public Markets, and Mr. Edwin Husted, Consulting Actuary, State Employees' Retirement System.

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

### Summary of Actuarial Valuation State Employees' Retirement System as of December 31, 2005

The following is a summary of the December 31, 2005, actuarial valuation of the State Employees' Retirement System and a comparison of the 2005 results with those of 2004.

	<u>12/31/04</u>		<u>12/31/05</u>	
<b><u>Membership</u></b>				
Active	108,405		109,981	
Inactive	5,608		5,461	
Retired	83,016		85,049	
Disabled	6,853		7,071	
Survivors and Beneficiaries	8,858		9,059	
<b><u>Payroll and Annuities Payable</u></b>				
Total Annual Payroll	\$4,919,636,000		\$4,928,799,000	
Annual Annuities and Benefits	\$1,496,476,405		\$1,603,630,204	
<b><u>Valuation Data</u></b>				
Accrued Liability	\$27,999,026,328		\$28,851,716,020	
Assets <sup>1</sup>	<u>26,900,026,818</u>		<u>26,793,781,828</u>	
Unfunded Accrued Liability	\$ 1,098,999,510		\$ 2,057,934,192	
Funded Ratio	96.1%		92.9%	
<b><u>Funding Costs</u></b>				
Normal Cost <sup>2</sup>	\$ 713,347,220.0	14.50 %	\$ 721,576,173.6	14.64 %
Amortization <sup>3</sup>	<u>\$(358,641,464.4)</u>	<u>(7.29)%</u>	<u>\$(311,500,096.8)</u>	<u>(6.32)%</u>
Full Actuarial Funding	\$ 354,705,755.6	7.21 %	\$ 410,076,076.8	8.32 %
<b><u>Support</u></b>				
Member	\$ 307,477,250.0	6.25%	\$308,049,937.5	6.25%
Commonwealth	\$ <u>47,228,505.6</u>	<u>0.96%</u>	<u>\$102,026,139.3</u>	<u>2.07%</u>
Total Support	\$ 354,705,755.6	7.21%	\$410,076,076.8	8.32%
Mandated Commonwealth Contribution <sup>4</sup>	\$147,589,080.0	3.00%	\$197,151,960.0	4.00%

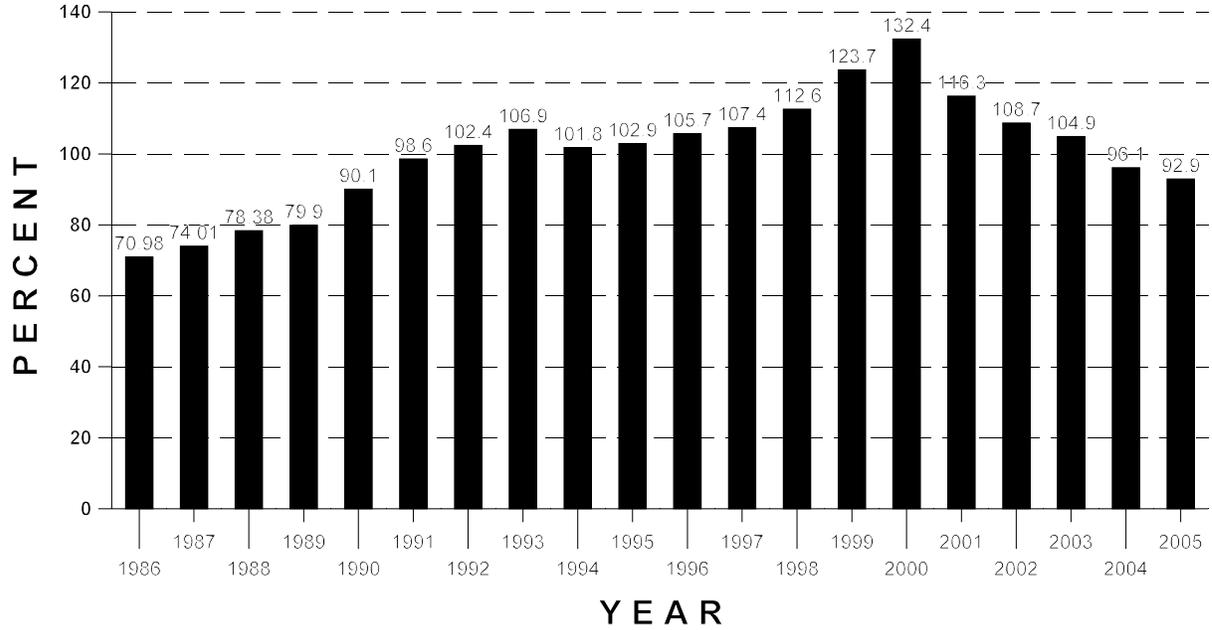
<sup>1</sup> The Assets figure is the actuarial value not the market value.

<sup>2</sup> 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 new members less the portion of the cost to be funded by member contributions.

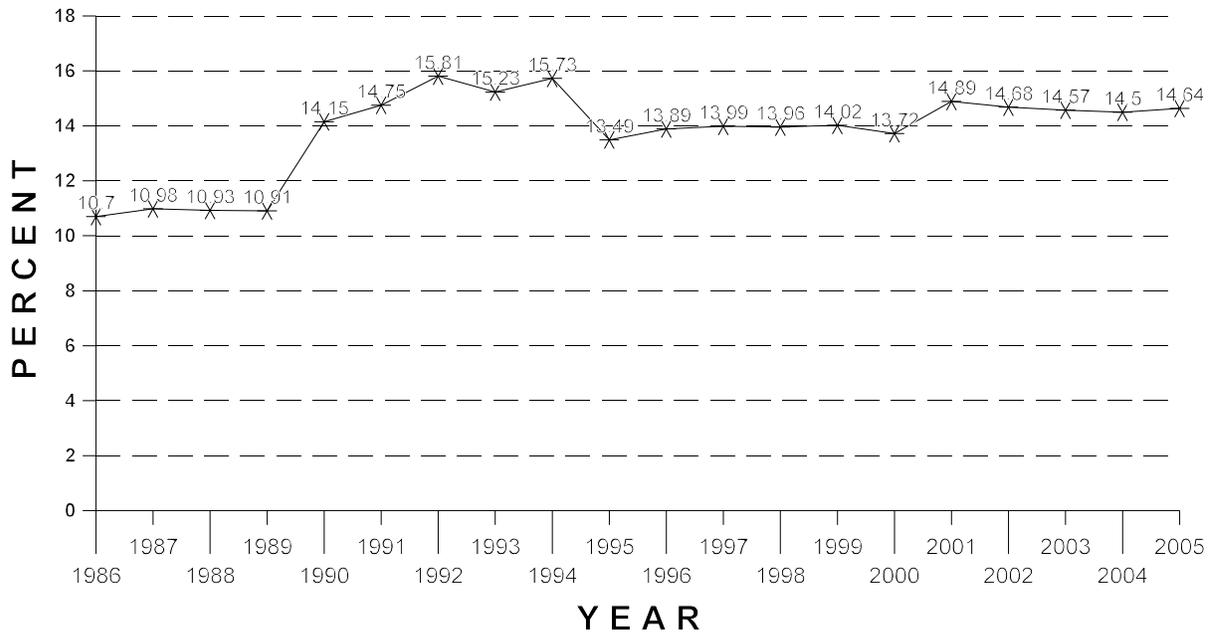
<sup>3</sup> The negative unfunded liability that existed before enactment of Act 9 is being recognized over a ten-year period beginning July 1, 2002. The liabilities for cost-of-living increases are being funded over ten-year periods from the July 1 following enactment of the increase. All other changes in liability are being funded over thirty-year periods from July 1 following the valuation that determined the change.

<sup>4</sup> 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. The Commonwealth's contribution will be 4.00% rather than 2.07%. The total Commonwealth support contribution for the SERS plan includes a .02% contribution for the Benefits Completion Plan.

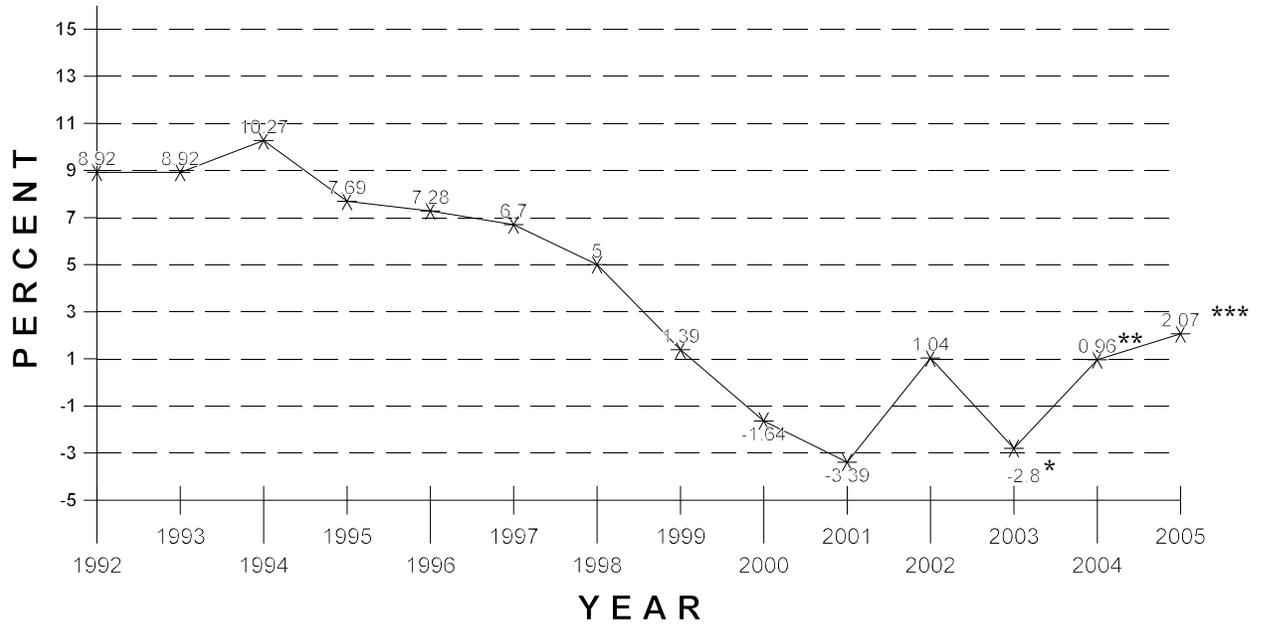
### SERS FUNDED RATIO TREND (20 year period)



### 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.
- \*\*\* 4.00 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 2006 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 BOROUGHES

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 2006 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

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

actuarial note, as opposed to an advisory note, and transmit the actuarial note to the requesting committee as expeditiously as possible.

**II. Response by the Commission.**

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

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

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

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

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

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

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

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

Adopted April 10, 1985.

**APPENDIX C**  
**BY-LAWS OF THE**  
**PUBLIC EMPLOYEE RETIREMENT COMMISSION**

Title 4. Administration

Part XII. Public Employee Retirement Commission

Section 401.1. Definitions.

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

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

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

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

Member - a member of the Commission.

Chapter 402. By-Laws

Section 402.1. Meetings

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

Section 402.2. Quorum and Voting.

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

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

Section 402.3. Open Meetings.

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

Section 402.4. Minutes.

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

Section 402.5. Officers.

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

Section 402.6. Office.

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

Section 402.7. Committees.

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

Section 402.8. Advisory Committees.

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

Section 402.9. Budget.

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

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

Section 402.10. Miscellaneous.

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

Section 402.11. Amendment.

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

Revised November 17, 1987



## APPENDIX D

### PUBLIC EMPLOYEE RETIREMENT COMMISSION

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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 29 P. N. 32 (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 P. N. 77 (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 <b>Actuarial Note (P. N. 77)</b>	01/25/05 03/09/05
H. B. 126 P. N. 4579 (Godshall)	SERS, exempting certain investment information from disclosure under the Pennsylvania Right-to-Know Law.	Referred to House Finance Committee First Consideration Laid on the Table <b>Commission Letter (P. N. 613)</b> Second Consideration Third Consideration Final Passage (195-1) Referred to Senate Finance Committee Reported as Amended First Consideration Re-referred to Senate Appropriations Committee <b>Commission Letter (P. N. 3762)</b> Re-reported as Amended Second Consideration Third Consideration and Final Passage (37-13) Referred to House Rules Committee House Concurred in Senate Amendments (193-3) <b>Actuarial Note (A. 09858)</b> To Governor Approved by the Governor (Act 120 of 2006)	02/01/05 02/15/05 02/15/05 03/10/05 03/14/05 03/15/05 03/15/05 04/04/05 03/28/06 03/28/06 04/03/06 04/10/06 09/19/06 09/26/06 10/17/06 10/17/06 10/18/06 10/19/06 10/24/06 10/27/06
H. B. 130 P. N. 631 (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	Referred to House Finance Committee Re-referred to House State Government Committee <b>Advisory Note (P. N. 631)</b>	02/16/05 03/15/05 09/27/06

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	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, 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 P. N. 632 (Daley)	PSERS and SERS, providing for an annual cost-of-living adjustment to all annuitants of both systems.	Referred to House Finance Committee Re-referred to House State Government Committee	02/16/05 03/15/05
H. B. 208 P. N. 210 (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 P. N. 249 (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 P. N. 2430 (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 First Consideration Second Consideration Re-referred to House Appropriations Committee <b>Actuarial Note (P. N. 302)</b> Third Consideration Final Passage (194-0) Referred to Senate Finance Committee Reported as Committed First Consideration Re-referred to Senate Appropriations Committee	02/08/05 02/09/05 02/15/05 02/15/05 03/09/05 03/14/05 03/14/05 04/04/05 06/22/05 06/22/05 06/28/05

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Re-reported as Amended	06/30/05
		Second Consideration	07/01/05
		Third Consideration and Final Passage (50-0)	07/02/05
		House concurred in Senate Amendments	07/03/05
		To Governor for signature	07/04/05
		Signed by the Governor (Act 16 of 2005)	07/05/05
H. B. 283 P. N. 306 (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 service and age 50; and reducing the age requirement for special early retirement eligibility from age 55 and 10 years service to age 50 and 10 years service.	Referred to House Finance Committee	02/08/05
H. B. 306 P. N. 327 (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 P. N. 360 (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 P. N. 380 (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 P. N. 412 (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 P. N. 422 (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 First Consideration Laid on the Table <b>Actuarial Note (P. N. 422)</b> Second Consideration Re-referred to House Appropriations Committee Reported as Committed Third Consideration and Final Passage (198-0) Referred to Senate Urban Affairs and Housing Committee First Consideration Re-referred to Senate Appropriations Committee Second Consideration	02/09/05 02/15/05 02/15/05 03/09/05 03/16/05 03/16/05 04/11/05 04/12/05 05/23/05 01/31/06 02/06/06 10/23/06

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 441 P. N. 480 (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 P. N. 483 (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 <b>Commission Letter (P. N. 483)</b> First Consideration Second Consideration Third Consideration Final Passage (196-0) Referred to Senate Finance Committee	02/14/05 02/14/05 03/15/05 03/21/05 03/29/05 03/29/05 04/06/05
H. B. 533 P. N. 581 (Baker)	PSERS and SERS, providing for the purchase of up to five years of non-school 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 <b>Actuarial Note (P. N. 581)</b>	02/16/05 10/19/06
H. B. 534 P. N. 582 (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 First Consideration Second Consideration Re-referred to House Appropriations Committee <b>Actuarial Note (P. N. 582)</b> Third Consideration and Final Passage (194-0) Referred to Senate Committee on Labor and Industry	02/15/05 06/26/06 06/27/06 06/27/06 10/19/06 10/23/06 10/26/06
H. B. 546 P. N. 2367 (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 First Consideration Second Consideration <b>Commission Letter (A. 1651)</b> <b>Actuarial Note (P. N. 594)</b>	02/15/05 05/11/05 06/08/05 06/21/05 06/22/05

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Third Consideration with Amendments	06/28/05
		Final Passage (194-0)	06/28/05
		Referred to Senate Finance Committee	06/29/05
H. B. 581 P. N. 654 (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 P. N. 676 (B. Smith)	SERS, amending the definition of "enforcement officer" to include officers of the Pennsylvania Game Commission.	Referred to House Game and Fisheries Committee First Consideration Second Consideration <b>Actuarial Note (P. N. 676)</b> Third Consideration and Final Passage (186-8) Referred to Senate Finance Committee First Consideration Second Consideration Re-referred to Senate Appropriations Committee Third Consideration and Final Passage (45-5) To Governor for Signature Vetoed by the Governor	02/16/05 04/16/05 06/20/05 06/22/05 06/28/05 06/29/05 10/18/05 11/01/05 11/02/05 12/13/05 12/15/05 12/23/05
H. B. 614 P. N. 687 (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 P. N. 803 (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 P. N. 2111 (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 <b>Actuarial Note (P. N. 831)</b> <b>Commission Letter (A. 1278)</b> Reported from House Local Government Committee as Amended First Consideration Second Consideration Third Consideration and Final Passage (194-0) Referred to Senate Finance Committee	03/01/05 04/27/05 06/03/05 06/07/05 06/07/05 06/21/05 06/27/05 06/28/05
H. B. 786 P. N. 948 (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 as-	Referred to House Education Committee <b>Advisory Note (P. N. 948 as Amended by A. 01116)</b>	03/14/05 11/08/05

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	sumed 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.		
H. B. 819 P. N. 852 (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 First Consideration Second Consideration Third Consideration and Final Passage (198-0) Referred to Senate Appropriations Committee Reported as Committed First Consideration Second Consideration Laid on the Table	03/14/05 03/15/05 03/16/05 06/29/05 06/29/05 06/30/05 06/30/05 07/01/05 07/05/05
H. B. 820 P. N. 853 (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 First Consideration Second Consideration Third Consideration and Final Passage (198-0) Referred to Senate Appropriations Committee Reported as Committed First Consideration Second Consideration Laid on the Table	03/14/05 03/15/05 03/16/05 06/29/05 06/29/05 06/30/05 06/30/05 07/01/05 07/05/05
H. B. 870 P. N. 993 (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 P. N. 1040 (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 P. N. 1042 (Casorio)	Municipal Police Pension Law (Act 600), increasing the survivor benefit payable to the surviving spouse or child of a member from an amount	Referred to House Finance Committee	03/14/05

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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.

<p>H. B. 922          P. N. 1043          (Casorio)</p>	<p>Municipal Police Pension Law (Act 600), amending section 3 of the Act by reducing the minimum service requirement for normal retirement eligibility from 25 to 20 years, and eliminating the age requirement for normal retirement eligibility.</p>	<p>Referred to House Finance Committee</p>	<p>03/14/05</p>
<p>H. B. 1030          P. N. 3857          (Good)</p>	<p>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 January 1, 2007, 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.</p>	<p>Referred to House State Government Committee  <b>Actuarial Note (P. N. 1186)</b>  <b>Actuarial Note (A. 02843)</b>          Reported as Amended          First Consideration          Second Consideration          Re-referred to House Appropriations Committee  <b>Commission Letter (A. 07398)</b></p>	<p>03/21/05          04/27/05          11/17/05          04/05/06          04/05/06          05/02/06          05/02/06          05/15/06</p>
<p>H. B. 1036          P. N. 1192          (T. Stevenson)</p>	<p>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.</p>	<p>Referred to House Education Committee</p>	<p>03/21/05</p>
<p>H. B. 1044          P. N. 1200          (O'Neill)</p>	<p>PSERS, amending the Code to: 1) credit the annuity reserve account with "actual interest," which the bill defines as the difference between the Fund's earnings and the actuarial assumed rate of return (currently 8.5%), instead of the currently mandated,</p>	<p>Referred to House Education Committee</p>	<p>03/21/05</p>

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	"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.		
H. B. 1048 P. N. 2387 (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 <b>Actuarial Note (P. N. 1204)</b> <b>Commission Letter (A. 2155)</b> Reported as Amended First Consideration Second Consideration Re-referred to House Appropriations Committee Third Consideration and Final Passage Referred to Senate Finance Committee	03/21/05 06/22/05 06/27/05 06/29/05 06/29/05 09/28/05 09/28/05 10/19/05 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 <b>Actuarial Note (P. N. 1433)</b>	03/30/05 03/01/06
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 <b>Actuarial Note (P. N. 1544)</b>	04/06/05 06/22/05

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
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 <b>Advisory Note (P. N. 1546)</b>	04/06/05 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 of active duty and inserting language empowering the city to establish a new standard through ordinance or resolution.	Referred to House Finance Committee	05/04/05
H. B. 1599 P. N. 2147 (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 Re-referred to House Local Government Committee <b>Commission Letter (P. N. 2147)</b>	06/13/05 10/19/05 11/14/05
H. B. 1625 P. N. 2060 (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 P. N. 2030 (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 P. N. 2163 (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 P. N. 2164 (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 First Consideration Second Consideration Re-referred to House Appropriations Committee <b>Actuarial Note (P. N. 2164)</b>	06/13/05 04/26/06 05/02/06 05/02/06 06/28/06

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 1710 P. N. 2170 (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 <b>Actuarial Note (P. N. 2170)</b>	06/13/05 06/28/06
H. B. 1777 P. N. 2291 (Herman)	Constitution of Pennsylvania, amending section 26 to permit the General Assembly to authorize increases in retirement benefits to beneficiaries who are spouses of members of public employee retirement systems, provided such increases are certified to be "actuarially sound."	Referred to House State Government Committee <b>Actuarial Note (P. N. 2291)</b>	06/22/05 10/06/05
H. B. 1849 P. N. 2485 (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 <b>Actuarial Note (P. N. 2485)</b>	07/02/05 10/06/05
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. 1958 P. N. 3265 (Reed)	PSERS and SERS, providing a COLA for the annuitants of both Systems equal to 5% of the member's annuity on the effective date of the bill and an additional 5% for each of the following four years for a total of 25% over a five year period, provided the actuaries of the respective Systems certify that sufficient reserves exist to permit the payment of the COLAs without requiring increases in employer contribution rates and without added cost to the taxpayers of the Commonwealth.	Referred to House State Government Committee	12/07/05
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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 2064 P. N. 3963 (Boyd)	Borough Code, further providing for intergovernmental cooperation, joint ownership and maintenance. Amendment Number 05763 would mandate the crediting of intervening military service for firefighters employed by a municipality subject to the Code and would permit the purchase of up to five years of nonintervening military service credit by firefighters.	Referred to House Intergovernmental Affairs Committee Reported with Request to Re-refer to House Local Government Committee Reported as Amended First Consideration Laid on the Table <b>Actuarial Note (A. 05763)</b> Second Consideration Third Consideration with Amendments Final Passage Referred to Senate Local Government Committee First Consideration Laid on Table	10/17/05  11/21/05 02/01/06 02/01/06 02/01/06 03/01/06 03/07/06 04/25/06 04/25/06  04/27/06 06/27/06 07/01/06
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 First Consideration <b>Commission Letter (P. N. 2967)</b>	10/31/05 01/25/06 05/15/06
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 <b>Advisory Note (P. N. 3145)</b>	11/21/05 08/10/06
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 <b>Actuarial Note (P. N. 3177)</b>	11/28/05 06/28/06
H. B. 2268 P. N. 3178 (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 2273 P. N. 4188 (Herman)	The bill would amend Title 53 (Municipalities Generally) of the Pennsylvania Consolidated Statutes, by consolidating and amending the Third Class County Assessment Board Law, The Fourth Class to Eighth Class County Assessment Law and provisions of the County Code relating to auxiliary board of assessment appeals; and making related repeals. Section 2 of the bill would preserve the retirement benefit rights of a Third Class City employee who was employed in the office of the city assessor, is a member of the city's pension plan and whose employment was transferred to the office of the county assessor, by permitting the employee to elect to retain membership in the city's pension plan.	Referred to House Local Government Committee <b>Commission Letter (P. N. 3183)</b> Reported as Amended First Consideration Re-committed to House Rules Committee Reported as Committed Laid on Table <b>Actuarial Note (A. 09734)</b>	11/28/05 03/03/06 06/12/06 06/12/06 06/12/06 09/25/06 09/25/06 10/19/06
H. B. 2293 P. N. 3208 (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 First Consideration Second Consideration Re-referred to House Appropriations Committee	12/05/05 12/14/05 01/31/06 01/31/06
H. B. 2339 P. N. 3345 (Herman)	PSERS and SERS, providing an ad hoc COLA for annuitants of PSERS beginning July 1, 2006, or July 1, 2007 (depending upon the annuitant's time on annuity), with the percentage increase based upon the annuitant's effective date of retirement, and providing an ad hoc COLA for annuitants of SERS beginning July 1, 2007, with the percentage increase based upon the annuitant's effective date of retirement.	Referred to House State Government Committee <b>Actuarial Note (P. N. 3345)</b>	01/03/06 04/06/06
H. B. 2353 P. N. 3360 (Wansacz)	PSERS and SERS, requiring the crediting of nonintervening military service as school or State service.	Referred to House State Government Committee	01/18/06
H. B. 2427 P. N. 3491 (Nickol)	Borough Code, permitting a firefighter employed by a municipality subject to the Code to purchase up to five years of nonintervening military service credit and mandating the crediting of intervening military service credit for firefighters.	Referred to House State Government Committee	02/02/06
H. B. 2434 P. N. 3788 (Cornell)	Third Class City Code, amending the definitions of salary, pay and compensation, to mean the amount actually paid to a service member for services rendered or benefits earned during the specified period.	Referred to House Local Government Committee	04/03/06

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 2464 P. N. 3597 (Gabig)	PSERS and SERS, effectively returning benefit accruals to pre-Act 9 levels by creating the membership classes of T-E and AAA with a corresponding benefit accrual rate of 2.0% and a class of service multiplier of 1.0, applicable to all new members of both systems beginning July 1, 2006.	Referred to House State Government Committee <b>Actuarial Note (P. N. 3597)</b>	02/15/06 04/06/06
H. B. 2534 P. N. 3714 (Wojnarowski)	Third Class City Code, changing the age and service eligibility requirements for normal retirement benefits for police officers from age 55 with a minimum of 20 years service to 20 years of service without regard to age.	Referred to House State Government Committee	03/14/06
H. B. 2544 P. N. 3750 (Diven)	Second Class County Code (Act 230 of 1953), expanding special public safety employee benefit coverage to include county detectives.	Referred to House State Government Committee First Consideration Re-referred to House Appropriations Committee <b>Commission Letter (P. N. 3750)</b> Second Consideration Third Consideration and Final Passage (165-25) Referred to Senate Finance Committee	03/17/06 06/14/06 06/14/06 06/19/06 07/01/06 10/04/06 10/16/06
H. B. 2562 P. N. 3805 (Nickol)	PSERS and SERS, increasing and extending the employer contribution floor rates provided for in the Codes of the Systems.	Referred to House State Government Committee <b>Actuarial Note (P. N. 3805)</b> First Consideration Second Consideration Third Consideration and Final Passage (195-0) First Consideration in the Senate Re-referred to Senate Appropriations Committee	04/03/06 04/06/06 06/05/06 06/07/06 06/21/06 10/04/06 10/16/06
H. B. 2615 P. N. 3930 (Godshall)	SERS, amending Section 5508 (Actuarial Cost Method) to, beginning July 1, 2006, and for every year thereafter, require the employer contribution rate on behalf of active members to be no less than the employer normal contribution rate.	Referred to House State Government Committee	04/24/06
H. B. 2677 P. N. 4073 (Beyer)	PSERS and SERS, amending the Codes of both Systems to require the crediting of nointervening military service as Class T-D or Class AA service.	Referred to House State Government Committee	05/15/06
H. B. 2681 P. N. 4077 (McIlhinney)	An Act, requiring municipal retirement systems to pay postretirement adjustments to certain retired municipal police officers, establishing the Municipal Police Officer Postretirement Adjustment Account and providing for the financing and administration of postretirement adjustments for retired municipal police officers.	Referred to House State Government Committee	05/15/06

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H. B. 2689 P. N. 4085 (Reed)	SERS, defining "campus police officer" and providing age 50 superannuation retirement benefits to certain campus police officers.	Referred to House State Government Committee	05/15/06
H. B. 2777 P. N. 4252 (Armstrong)	Third Class City Code, permitting cities subject to the act to provide annual cost-of-living adjustments to members that equal the annual cost-of-living adjustment provided to Social Security recipients.	Referred to House State Government Committee	06/19/06
H. B. 2778 P. N. 4253 (Armstrong)	Municipal Police Pension Law (Act 600 of 1955), permitting municipalities subject to the act to provide annual cost-of-living adjustments to members that equal the annual cost-of-living adjustment provided to Social Security recipients.	Referred to House State Government Committee	06/19/06
H. B. 2796 P. N. 4271 (Petri)	PSERS, amending the Code to establish an optional defined contribution plan to be known as the "Public School Employees' Optional Retirement Program effective January 1, 2007.	Referred to House Education Committee	06/19/06
H. B. 2804 P. N. 4583 (Hickernell)	First Class Township Code, amending Section 1705.1 of the Code, relating to authorized investments for the purpose of funding postretirement benefits, including, but not limited to, health insurance benefits.	Referred to House Local Government Committee <b>Commission Letter (P. N. 4292)</b> Reported as Amended First Consideration Second Consideration Re-referred to House Appropriations Committee	06/20/06 07/11/06 09/25/06 09/25/06 10/04/06 10/04/06
H. B. 2805 P. N. 4584 (Hickernell)	Second Class Township Code, amending Section 3204 of the Code, relating to authorized investments for the purpose of funding postretirement benefits, including, but not limited to, health insurance benefits.	Referred to House Local Government Committee <b>Commission Letter (P. N. 4293)</b> Reported as Amended First Consideration Second Consideration Re-referred to House Appropriations Committee	06/20/06 07/11/06 09/25/06 09/25/06 10/04/06 10/04/06
H. B. 2806 P. N. 4585 (Hickernell)	Incorporated Towns, amending Section 1 of Act 93 of 1980, relating to authorized investments for the purpose of funding postretirement benefits, including, but not limited to, health insurance benefits.	Referred to House Local Government Committee <b>Commission Letter (P. N. 4294)</b> Reported as Amended First Consideration Second Consideration	06/20/06 07/11/06 09/25/06 09/25/06 10/04/06
H. B. 2807 P. N. 4586 (Hickernell)	County Code (Act 130 of 1955), amending Section 1706 of the Code, relating to authorized investments for the purpose of funding postretirement benefits, including, but not limited to, health insurance benefits.	Referred to House Local Government Committee <b>Commission Letter (P. N. 4295)</b> Reported as Amended First Consideration Second Consideration Re-referred to House Appropriations Committee	06/20/06 07/11/06 09/25/06 09/25/06 10/04/06 10/04/06

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H. B. 2808 P. N. 4587 (Hickernell)	Third Class City Code (Act 317 of 1931), amending Section 1804.1 of the Code, relating to authorized investments for the purpose of funding postretirement benefits, including, but not limited to, health insurance benefits.	Referred to House Local Government Committee <b>Commission Letter (P. N. 4296)</b> Reported as Amended First Consideration Second Consideration Referred to House Appropriations Committee	06/20/06 07/11/06 09/25/06 09/25/06 10/04/06 10/04/06
H. B. 2809 P. N. 4588 (Hickernell)	Second Class County Code, amending Section 1964 of the Code, relating to authorized investments for the purpose of funding postretirement benefits, including, but not limited to, health insurance benefits.	Referred to House Local Government Committee <b>Commission Letter (P. N. 4297)</b> Reported as Amended First Consideration Second Consideration Re-referred to House Appropriations Committee	06/20/06 07/11/06 09/25/06 09/25/06 10/04/06 10/04/06
H. B. 2810 P. N. 4589 (Hickernell)	Borough Code, amending Section 1316 of the Code, relating to authorized investments for the purpose of funding postretirement benefits, including, but not limited to, health insurance benefits.	Referred to House Local Government Committee <b>Commission Letter (P. N. 4298)</b> Reported as Amended First Consideration Second Consideration Re-referred to House Appropriations Committee	06/20/06 07/11/06 09/25/06 09/25/06 10/04/06 10/04/06
H. B. 2894 P. N. 4540 (Wright)	Emergency and Law Enforcement Personnel Death Benefits Act, amends the act to 1) mandate payment of a killed-in-service death benefit to the surviving spouse or, if there is no surviving spouse, the minor child of a paid firefighter, ambulance service or rescue squad member, or law enforcement officer in an amount equal to the decedent's monthly salary (adjusted annually by an amount equal to the increase in the Consumer Price Index), less the amount of any workers' compensation or pension benefit payable to an eligible beneficiary; 2) repeal Section 5(e)(2) of the Municipal Police Pension Law (Act 600 of 1955) which currently provides the killed-in-service death benefit applicable only to members of Act 600 pension plans; and 3) repeal Sections 202(b)(3)(vi) and (4)(vi) of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) which provides for a special extended amortization period applicable to the funding of liabilities resulting from the payment of the Act 600 killed-in-service benefit.	Referred to House State Government Committee Reported as Committed First Consideration Second Consideration Re-referred to House Appropriations Committee <b>Actuarial Note (P. N. 4540)</b> <b>Actuarial Note (A. 09560)</b> Reported as Committed	08/16/06 09/27/06 09/27/06 10/04/06 10/04/06 10/19/06 10/19/06 10/23/06
H. B. 2897 P. N. 4883 (Benninghoff)	SERS, amends Section 5302(b)(2) of the Code to: 1) expand the number of affected employee organizations in which an active member may serve as a full-time elected officer or official and be eligible for the creditable leave	Referred to House State Government Committee <b>Advisory Note (P. N. 4543)</b> Reported as Amended (P. N. 4664) First Consideration Second Consideration	08/21/06 09/25/06 09/27/06 09/27/06 10/16/06

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	of absence to include a Statewide organization covered by the Policemen and Firemen Collective Bargaining Act (Act 111 of 1968); 2) retain the current limit of three consecutive terms of the same office applicable to elected and appointed officers and officials of the affected Statewide employee organizations; 3) beginning January 1, 2007, expand the number of active members eligible for the creditable leave of absence to include up to fourteen full-time business agents appointed by an employee organization that represents correction officers employed by State correctional institutions, and limiting the duration of the paid leave of absence applicable to the affected members to no more than three consecutive terms of the same office. The bill also amends Section 5306(b) to permit Bail Commissioners of the Philadelphia Municipal Court to elect Class E-2 service credit for all periods of previous service as a Bail Commissioner.	<b>Commission Letter (P. N. 4664)</b> <b>Commission Letter (A. 10096)</b> <b>Commission Letter (A. 10213)</b> <b>Commission Letter (A. 10124)</b> Third Consideration with Amendments Final Passage (183-4) Referred to Senate Finance Committee	10/18/06 10/20/06 10/23/06 10/23/06 10/23/06 10/23/06 10/26/06
H. B. 2901 P. N. 4552 (Cawley)	City of Scranton, amending the Second Class City A Employee Pension Law, removing the statutory three year limit within which a member must commence employment with the city following military service in order to be eligible to purchase service credit for nonintervening military service and instead permitting the city to determine the time limit to be imposed, if any, by ordinance or resolution.	Referred to House State Government Committee	09/14/06
H. B. 3043 P. N. 4830 (Petri)	SERS, beginning January 1, 2007, establishes an optional defined contribution retirement plan to be known as the State Employees' Optional Retirement Program.	Referred to House State Government Committee	10/18/06
H. R. 161 P. N. 2744 (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 Reported as Committed Laid on the Table Amended and adopted (200-0)	03/21/05 05/11/05 07/02/05 09/27/05
H. R. 299 P. N. 1893 (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 Reported as Committed Adopted (198-0)	05/09/05 06/14/05 06/29/05

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. R. 516 P. N. 3121 (Reed)	Extending the deadline under House Resolution Number 161, for reporting by the Public Employee Retirement Commission to March 15, 2006.	Introduced as Noncontroversial Resolution under Rule 35 Adopted (192-0)	11/16/05 11/21/05
H. R. 911 P. N. 4910 (Frankel)	A resolution directing PSERS to conduct a study of public school retirees' loss of purchasing power, and to file a report with the leadership of the House within four months of the adoption of the resolution.	Referred to House Education Committee	11/13/06
S. B. 56 P. N. 49 (Rhoades)	PSERS, permitting active members to purchase Class T-C service credit for unused sick leave.	Referred to Senate Finance Committee <b>Actuarial Note (P. N. 49)</b>	01/24/05 03/09/05
S. B. 118 P. N. 101 (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 service to age 50 with 20 years service.	Referred to Senate Finance Committee <b>Actuarial Note (P. N. 101)</b>	02/01/05 04/27/05
S. B. 130 P. N. 114 (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 P. N. 197 (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 P. N. 213 (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 members of SERS for the period from July 1, 1999, through June 30, 2006.	Referred to Senate Finance Committee	02/08/05
S. B. 240 P. N. 242 (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 P. N. 257 (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 P. N. 324 (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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
S. B. 328 P. N. 340 (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 <b>Actuarial Note (P. N. 340)</b>	02/18/05 06/22/05
S. B. 347 P. N. 354 (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 P. N. 377 (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 P. N. 379 (D. White)	PSERS, permitting the purchase of up to four years of nonschool service credit for previous service as an elected county official pursuant to a valid leave of absence as provided for in section 1182 of the Public School Code of 1949.	Referred to Senate Finance Committee	03/14/05
S. B. 381 P. N. 383 (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 P. N. 1412 (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 First Consideration <b>Commission Letter (P. N. 386)</b> Second Consideration Amended on Third Consideration	03/14/05 06/15/05 06/23/05 09/27/05 11/02/05

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DATE

		Final Passage (50-0)	11/02/05
		Referred to House Education Committee	11/04/05
		First Consideration	12/07/05
		Second Consideration	12/14/05
		Re-referred to House Appropriations Committee	12/14/05
		<b>Commission Letter (A. 05773)</b>	02/07/06
		<b>Actuarial Note (A. 05771)</b>	04/06/06
S. B. 394 P. N. 1400 (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	03/14/05
		<b>Commission Letter (P. N. 401)</b>	10/18/05
		First Consideration	10/18/05
		Second Consideration	11/16/05
		Amended on Third Consideration	12/05/05
		Final passage (49-1)	12/06/05
		Referred to House State Government Committee	12/07/05
		First Consideration	12/12/05
		<b>Commission Letter (P. N. 1400)</b>	12/13/05
		Second Consideration	12/13/05
		Third Consideration and Final Passage (194-0)	12/15/05
		To Governor for Signature	12/21/05
		Signed by the Governor (Act 89 of 2005)	12/22/05
S. B. 403 P. N. 430 (Costa)	Second Class County Code, reducing age and service requirements for normal retirement benefit eligibility applicable to deputy sheriffs.	Referred to Senate Finance Committee	03/21/05
		<b>Actuarial Note (P. N. 430)</b>	06/22/05
S. B. 404 P. N. 431 (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	03/21/05
		<b>Actuarial Note (P. N. 431)</b>	06/22/05
S. B. 457 P. N. 900 (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
		<b>Commission Letter (P. N. 490)</b>	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
		<b>Commission Letter (P. N. 900)</b>	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

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
S. B. 459 P. N. 492 (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 P. N. 544 (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 P. N. 554 (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 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 P. N. 562 (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
S. B. 588 P. N. 612 (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 <b>Actuarial Note (P. N. 612)</b>	04/01/05 04/27/05
S. B. 592 P. N. 2044 (Armstrong)	PSERS, excluding certain investment information from public disclosure under the Pennsylvania Right-to-Know Law.	Referred to Senate Finance Committee Reported as Amended from Senate Finance Committee First Consideration Re-referred to Senate Appropriations Committee <b>Commission Letter (P. N. 1418)</b> Reported from Senate Finance Committee as Amended Re-referred to Senate Appropriations Committee <b>Commission Letter (P. N. 1656)</b> Reported as Amended	04/04/05  12/13/05 12/13/05 12/14/05 03/17/06 03/28/06 04/03/06 04/10/06 09/19/06

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
		Second Consideration	09/26/06
		Third Consideration and Final Passage (38-12)	10/17/06
		Referred to House Rules Committee	10/18/06
		First Consideration	10/18/06
		<b>Commission Letter (A. 10176)</b>	10/23/06
		Second Consideration	10/23/06
		<b>Commission Letter (A. 10228)</b>	10/24/06
		Third Consideration and Final Passage (195-0)	10/24/06
		Approved by the Governor (Act 148 of 2006)	11/09/06
S. B. 606 P. N. 672 (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 <b>Actuarial Note (P. N. 672)</b>	04/06/05 10/06/05
S. B. 608 P. N. 640 (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	04/04/05
		First Consideration	04/12/05
		Second Consideration	04/13/05
		Third Consideration and Final Passage (46-0)	04/18/05
		Referred to House Appropriations Committee	04/26/05
		Reported as Committed	06/29/05
		First Consideration	06/29/05
		Second Consideration	07/01/05
		Third Consideration and Final Passage (198-0)	07/04/05
		To Governor for Signature	07/06/05
		Signed by the Governor (Act 2A of 2005)	07/07/05
S. B. 609 P. N. 641 (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	04/04/05
		First Consideration	04/12/05
		Second Consideration	04/13/05
		Third Consideration and Final Passage (46-0)	04/18/05
		Referred to House Appropriations Committee	04/26/05
		Reported as Committed	06/29/05
		First Consideration	06/29/05
		Second Consideration	07/01/05
		Third Consideration and Final Passage (198-0)	07/04/05
		To Governor for Signature	07/06/05
		Signed by the Governor (Act 3A of 2005)	07/07/05
S. B. 615 P. N. 647 (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
S. B. 720 P. N. 864 (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 P. N. 869 (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 P. N. 929 (Piccola)	PSERS, permitting the purchase of up to five years of nonschool service credit for previous service in a non-public school.	Referred to Senate Finance Committee	06/09/05
S. B. 759 P. N. 1266 (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 Reported as Amended from Senate Judiciary Committee First Consideration Second Consideration Third Consideration and Final Passage (50-0) Referred to House Judiciary Committee	06/13/05 10/25/05 10/25/05 10/31/05 11/01/05 11/02/05
S. B. 811 P. N. 1814 (Thompson)	County Code (Act 96 of 1971), extending until June 30, 2007, 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 Reported as Amended First Consideration <b>Actuarial Note (A. 03092)</b> Second Consideration Third Consideration and Final Passage (50-1) Referred to House State Government Committee Reported with Request to Re-refer to Local Government Committee <b>Commission Letter (A. 07786)</b> Reported as Amended First Consideration Second Consideration Re-referred to House Appropriations Committee <b>Commission Letter (P. N. 1814)</b> Third Consideration and Final Passage (185-9) Approved by the Governor (Act 174 Of 2006)	06/28/05 10/18/05 10/18/05 11/17/05 12/07/05 12/12/05 12/14/05 04/05/06 06/08/06 06/12/06 06/12/06 06/14/06 06/14/06 06/15/06 11/13/06 11/29/06
S. B. 888 P. N. 1171 (Mellow)	City of Scranton, amending the Second Class A City Employee 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 <b>Actuarial Note (P. N. 1171)</b>	09/29/05 11/17/05

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
S. B. 889 P. N. 1172 (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 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.	Referred to Senate Finance Committee <b>Actuarial Note (P. N. 1172)</b>	09/29/05 11/17/05
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 <b>Actuarial Note (P. N. 1392)</b>	11/22/05 03/01/06
S. B. 1079 P. N. 1481 (Costa)	Second Class County Code (Act 230 of 1953), permitting an employee of the County who is a corrections officer at a county juvenile detention facility to retire upon attaining age 55 with 20 years of service.	Referred to Senate Finance Committee	01/26/06
S. B. 1148 P. N. 1894 (Pippy)	Second Class City Policemen Relief Law, removing provisions of the law requiring the cessation of survivor pension benefits upon remarriage of the surviving spouse.	Referred to Senate Finance Committee Reported as Amended First Consideration Second Consideration <b>Commission Letter (P. N. 1894)</b> Third Consideration and Final Passage (49-0) Referred to House State Government Committee First Consideration Second Consideration <b>Commission Letter (P. N. 1894)</b>	03/20/06 06/20/06 06/20/06 06/27/06 06/28/06 06/30/06 07/01/06 10/04/06 10/16/06 10/18/06

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		Third Consideration and Final Passage (194-0)	10/23/06
		Approved by the Governor (Act 130 of 2006)	10/27/06
S. B. 1164 P. N. 1603 (Wenger)	PSERS, making an appropriation from the PSERS Fund to the PSERS Board for the fiscal year July 1, 2006, to June 1, 2007 in the amount of \$39,455,000.	Referred to Senate Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (48-0) Referred to House Appropriations Committee First Consideration Second Consideration Re-referred to House Appropriations Committee Third Consideration and Final Passage (198-0) Signed by the Governor (Act 8A of 2006)	03/17/06 03/20/06 03/21/06 03/22/06 04/03/06 06/20/06 06/21/06 06/21/06 07/01/06 07/02/06
S. B. 1165 P. N. 1604 (Wenger)	SERS, making an appropriation from the SERS Fund to the SERS Board for the fiscal year July 1, 2006, to June 1, 2007 in the amount of \$24,925,000.	Referred to Senate Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (48-0) Referred to House Appropriations Committee First Consideration Second Consideration Re-committed to House Appropriations Committee Third Consideration and Final Passage (198-0) Signed by the Governor (Act 9A of 2006)	03/17/06 03/20/06 03/21/06 03/22/06 04/03/06 06/20/06 06/21/06 06/21/06 07/01/06 07/02/06
S. B. 1167 P. N. 1638 (Rhoades)	SERS, permitting the purchase of service credit for certain types of previous employment as a mine worker.	Referred to Senate Finance Committee	03/22/06
S. B. 1285 P. N. 2251 (Wozniak)	SERS, amends the Code to: 1) expand the number of affected employee organizations in which an active member may serve as a full-time elected officer or official and be eligible for the creditable leave of absence to include a Statewide organization covered by the Policemen and Firemen Collective Bargaining Act (Act 111 of 1968); 2) retain the current limit of three consecutive terms of the same office applicable to elected and appointed officers and officials of the affected Statewide employee organizations; 3) beginning January 1, 2007, expand the number of active members eligible for the creditable leave of absence to include up to fourteen full-time business agents appointed by an employee	Referred to Senate Finance Committee <b>Commission Letter (A. 09645)</b> Reported as Amended First Consideration Second Consideration Third Consideration and Final Passage (48-0) <b>Commission Letter (A. 10143)</b> Referred to House State Government Committee First Consideration <b>Commission Letter (P. N. 2202)</b> Second Consideration  Third Consideration with Amendments and Final Passage (192-0) <b>Actuarial Note (A. 10405)</b> Referred to Senate Rules and Executive Nominations Committee	07/13/06 10/03/06 10/04/06 10/04/06 10/16/06 10/18/06 10/23/06 10/23/06 10/23/06 10/24/06 10/24/06  11/15/06 11/16/06 11/20/06

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**DATE**

organization that represents correction officers employed by State correctional institutions, and limiting the duration of the paid leave of absence applicable to the affected members to no more than three consecutive terms of the same office; and 4) permit an active member who is a bail commissioner of the Philadelphia Municipal Court to elect Class E-2 membership for all periods of previous bail commissioner service.

Re-reported on Concurrence as Amended

11/20/06

Senate Concurred in House Amendments as Amended by the Senate (48-0)

11/20/06

**Commission Letter (P. N. 2251)**

11/21/06

Approved by the Governor (Act 188 of 2006)

11/29/06



## APPENDIX E

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