PUBLIC EMPLOYEE RETIREMENT COMMISSION

2007 ANNUAL REPORT

Commonwealth of Pennsylvania

2007

Annual Report

of the

Public Employee Retirement Commission

Public Employee Retirement Commission
Commonwealth of Pennsylvania
February 2008

PUBLIC EMPLOYEE RETIREMENT COMMISSION

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
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February 2008

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 2007.

During 2007, the Commission authorized the attachment of sixteen actuarial notes to bills and 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 Public School Employees' Retirement System. This report also describes research conducted during 2007 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-fifth 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 2007.

Sincerely,

Paul D. Halliwell

Paul D. Halliwell
Chairman

Introduction

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

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

Under the Municipal Pension Plan Funding Standard and Recovery Act, adopted in 1984, the Commission has two additional responsibilities. The first is to administer the actuarial valuation reporting program for municipal retirement systems, which entails monitoring and enforcing compliance with the statutorily mandated actuarial funding standard. The second is to certify annually municipal pension cost data used in allocating General Municipal Pension System State Aid, an amount that exceeded $200 million in 2007.

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-second 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 2007.

The Commission specifically expresses its gratitude to Anthony W. Salomone, who retired in May after 21 years of service as the Executive Director.

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PART I

PREPARATION OF ACTUARIAL NOTES AND ADVISORY NOTES

A. STATUTORY PROVISIONS.

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

Section 6. Powers and duties.

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

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

Section 7. Actuarial notes.

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

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

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

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

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

A. STATUTORY PROVISIONS. (Cont'd)

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

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

B. SUMMARY OF 2007 ACTIVITY.

During 2007, the Commission authorized the attachment of sixteen actuarial notes to bills and amendments at the request of the General Assembly. In addition, the Commission's staff provided the General Assembly with two advisory notes.

C. SYNOPSES OF ADVISORY NOTES.

- House Bill Number 143, Printer's Number 169. At the request of Representative Matthew E. Baker, Republican Chairman, House State Government Committee, on February 15, 2007, the Commission staff provided an advisory note on House Bill Number 143, Printer's Number 169. House Bill Number 143, Printer's Number 169,would amend the Pennsylvania Conservation Corps Act (Act of 1984, P. L. 561, No. 112) to provide, beginning January 1, 2008, 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, 2008, be considered creditable as nonschool or nonstate service. House Bill Number 143 also addresses the provision of Commonwealth-funded medical benefits to crewleaders.

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

- House Bill Number 144, Printer's Number 170. At the request of Representative Matthew E. Baker, Republican Chairman, House State Government Committee, on February 15, 2007, the Commission staff provided an advisory note on House Bill Number 144, Printer's Number 170. House Bill Number 144, Printer's Number 170, would amend the Public School Employees' Retirement Code and the State Employees' Retirement Code to permit an active member or active multiple service member of either the Public School Employees' Retirement System or the State Employees' Retirement System 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, 2008. 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.

D. SYNOPSES OF ACTUARIAL NOTES.

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

Bill ID: Senate Bill Number 381, Printer's Number 429

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

Subject: Benefit Enhancement for Allegheny County Deputy Sheriffs

SYNOPSIS

Senate Bill Number 381, Printer's Number 429, would amend the Second Class County Code to permit a deputy sheriff of Allegheny County the option of retiring voluntarily and receiving an unreduced normal retirement benefit upon attaining age 50 with 25 or more years of service. Currently, a deputy sheriff is eligible for a normal retirement benefit upon attaining age 55 with at least 20 years of service.

DISCUSSION

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

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

As employees of the Allegheny County Sheriff's Office, the primary duties of deputy sheriffs involve service to the courts. These duties include the responsibility to "escort prisoners, keep order, protect judges, serve notice on litigants, provide security in the courthouse, carry out orders and warrants issued by the judges, enforce injunctions, and perform other duties as may be assigned by the court." (Venneri v. County of Allegheny, 12 Pa. Cmwlth 517, 524; 316, A.2d 120, 124 (1974)). However, the duties of deputy sheriffs in Allegheny County are not limited to the courts and include the power to investigate or aid in the investigation of crimes, and to directly enforce or aid in the enforcement of the Crimes Code and the Motor Vehicle Code. Therefore, deputy sheriffs are recognized as peace officers with law enforcement powers and training requirements similar or identical to those of other peace officers employed in the County and throughout the Commonwealth. There are currently 138 deputy sheriffs employed by Allegheny County.

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

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

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and determined costs on the basis of the entry age normal cost method using amortization of the increase in the unfunded actuarial accrued liability over a 15-year period by use of level dollar contributions. The Commission's consulting actuary employed actuarial assumptions that are consistent with the actuarial assumptions used by the consulting actuary of the Allegheny County Retirement System in preparation of the System's January 1, 2006, actuarial valuation. Based on these assumptions, the Commission's consulting actuary estimates that the bill will have the actuarial cost impact shown in the following table. [1]

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

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 36,000	0.46%
Amortization Payment [2]	108,000	1.37%
Total Increase in Employer Annual Costs	$144,000	1.83%

[1] The Commission staff has been advised that the Allegheny County Retirement System recently adopted revised actuarial assumptions. Although the full effects of the changes in actuarial assumptions will not be known until the System's January 1, 2007, actuarial valuation is released, the Commission staff believes that adoption of the revised assumptions may result in an actuarial cost that is different than the actuarial cost impact that was calculated by the Commission's consulting actuary based upon the System's January 1, 2006, valuation.

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

POLICY CONSIDERATIONS

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

> Appropriateness of Benefit Enhancement. Special public safety employee retirement benefit coverage typically is provided to employees who work in areas in which it is necessary to maintain an exceptionally able and vigorous workforce. The bill would enhance the currently provided public safety employee retirement benefit coverage by permitting a deputy sheriff of Allegheny County to retire and receive an unreduced normal retirement benefit at age 50 instead of age 55 if the employee has accumulated 25 years of service credit. The General Assembly and the Governor must determine whether the benefit enhancement provided by the bill is warranted for this group of employees.
>
> Precedent for Similar Requests. Enactment of the bill may serve as a precedent for other members of the Allegheny County Retirement System with various employment classifications related to public safety work to seek additional or enhanced special public safety employee benefit coverage.

COMMISSION RECOMMENDATION

On October 23, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

Senate Bill Number 381, Printer's Number 429, was introduced and referred to the Senate Finance Committee on March 13, 2007.

Bill ID: Senate Bill Number 647, Printer's Number 699

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

Subject: Granting Public Safety Employee Retirement Benefits to County Detectives

SYNOPSIS

Senate Bill Number 647, Printer's Number 699, would amend the Second Class County Code to permit a county detective of Allegheny County to retire voluntarily and receive a full normal retirement benefit at age 50 or older with 20 or more years of service. Currently, a county detective is eligible for a normal retirement benefit upon attaining age 60 with at least 20 years of service.

DISCUSSION

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

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

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

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

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

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

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and determined costs on the basis of the entry age normal cost method using amortization of the increase in the unfunded actuarial accrued liability over a 15-year period by use of level dollar contributions. The Commission's consulting actuary employed actuarial assumptions that are consistent with the actuarial assumptions used by the consulting actuary of the Allegheny County Retirement System in preparation of the System's January 1, 2006, actuarial valuation.[1] Based on these assumptions, the Commission's consulting actuary estimates that the bill will have the actuarial cost impact shown in the following table.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$236,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Normal Cost	$13,300	0.88%
Amortization Payment [2]	25,500	1.68%
Total Increase in Employer Annual Costs	$38,800	2.56%

[1] The Commission staff has been advised that the Allegheny County Retirement System recently adopted revised actuarial assumptions. Although the full effects of the changes in actuarial assumptions will not be known until the system's January 1, 2007, actuarial valuation is released, the Commission staff believes that adoption of the revised assumptions may result in an actuarial cost that is different than the actuarial cost impact that was calculated by the Commission's consulting actuary based upon the system's January 1, 2006, valuation.

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

POLICY CONSIDERATIONS

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

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

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

COMMISSION RECOMMENDATION

On August 22, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

Senate Bill Number 647, Printer's Number 699, had first consideration in the Senate on October 24, 2007, and was re-referred to the Senate Appropriations Committee on October 29, 2007.

Bill ID: Amendment Number 03780 to
Senate Bill Number 826, Printer's Number 1009

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

Subject: Mandated Minimum Employer Contribution Requirements

SYNOPSIS

Amendment Number 03780 to Senate Bill Number 826, Printer's Number 1009, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) by increasing the mandated minimum employer contribution requirements contained in the Codes of both the Public School Employees' Retirement System and the State Employees' Retirement System. Amendment Number 03780 would: 1) amend the Public School Employees' Retirement Code to, beginning July 1, 2008, increase the currently mandated minimum employer contribution rate from 4% plus the premium assistance contribution rate to 6.44% plus the premium assistance contribution rate; and 2) amend the State Employees' Retirement Code to, beginning July 1, 2008, increase the currently mandated minimum employer contribution rate from 4% to 5%.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of 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, 2006, the Public School Employees' Retirement System (PSERS) had 263,350 active members and 161,813 annuitants and beneficiaries. As of December 31, 2006, the State Employees' Retirement System (SERS) had 110,972 active members and 102,060 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.

Mandated Minimum Employer Contribution Rates

The contributions required to be made to a defined benefit retirement system by participating public employers are linked to a number of demographic and economic assumptions. Chief among these is the investment return assumption. If the return on investments is greater than anticipated, employer contribution requirements may be reduced. Conversely, if investment returns are lower than expected, the public employer must make up the difference by increasing contributions to the plan.

The employer normal contribution rate represents the employer portion of the collective value of the benefits earned by members during a given year, based upon the Systems' actuarial funding methods. A mandated minimum employer contribution rate or "floor" rate can function to level employer contribution requirements over time, with the leveling effect increasing as employer contributions approach the normal cost rates for PSERS and SERS.

Act 38 of 2002 first established a 1% minimum employer contribution rate for both PSERS and SERS. 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% for the fiscal year beginning July 1, 2006. Act 8 of 2007 extended and made permanent the 4% employer floor rate for SERS.

Amendment Number 03780 would again amend the Codes of both Systems by increasing the currently mandated minimum employer contribution requirements present in the respective retirement Codes.

The amendment 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 6.44% plus the premium assistance contribution rate for the fiscal year beginning July 1, 2008.

The amendment would amend the State Employees' Retirement Code by increasing the currently mandated minimum employer contribution requirement of 4% to 5% for the fiscal year beginning July 1, 2008 and for each fiscal year thereafter.

The projected increases in the employer contribution requirements for PSERS and SERS are attributable to five main factors: 1) beginning in the late-1990s, employer contribution rates that were significantly below employer normal cost rates; 2) a three-year period of unusually poor investment returns beginning in the wake of the events of September 11, 2001, from 2001-2003; 3) the benefit enhancements enacted by Act 9 of 2001, which significantly enhanced pension benefits for most State and school employees; 4) the supplemental annuities (COLAs) provided by Act 38 of 2002, and 5) the changes in funding and amortization methodologies mandated by Act 38 of 2002 and Act 40 of 2003, which together functioned to keep employer contribution rates artificially low. Combined, these factors ultimately resulted in the funding "spike" that is forecast for Fiscal Year 2012 – 2013. However, it is important to note that this funding spike has been steadily shrinking, largely on the strength of the outstanding and sustained investment performance of both PSERS and SERS over the last several years.

DISCUSSION (CONT'D)

The increased employer contribution floor rates mandated by the amendment will serve to offset the increases in employer contribution rates projected for Fiscal Year 2012 – 2013 and, over time, will function to moderate future fluctuations in employer contribution requirements for both PSERS and SERS. The amendment would not, however, guarantee a fully adequate level of funding for future benefit accruals, nor would it fully address current or future unfunded actuarial accrued liabilities.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed Amendment Number 03780 and has estimated the projected changes in future employer contribution rates that would result from enactment of the amendment.

Projected Employer Contribution Rates for PSERS

Fiscal Year ending June	Current Statute	Under Amendment Number 03780	Increase/ (Decrease)
2008	7.13%	n/a	n/a
2009	4.97	7.16%	2.19%
2010	4.73	7.17	2.44
2011	4.73	7.17	2.44
2012	4.73	7.17	2.44
2013	11.89	11.17	(0.72)
2014	10.26	9.27	(0.99)
2015	9.08	8.12	(0.96)
2016	8.90	7.96	(0.94)
2017	8.78	7.87	(0.91)
2018	8.68	7.80	(0.88)

Projected Employer Contribution Rates for SERS

Fiscal Year ending June	Current Statute	Under Amendment Number 03780	Increase/ (Decrease)
2008	4.00%	n/a	n/a
2009	4.00	5.00%	1.00%
2010	4.00	5.00	1.00
2011	4.00	5.00	1.00
2012	4.00	5.00	1.00
2013	9.09	8.76	(0.33)
2014	7.89	7.52	(0.37)
2015	6.97	6.61	(0.36)
2016	6.98	6.63	(0.35)
2017	7.00	6.66	(0.34)
2018	7.03	6.71	(0.32)

POLICY CONSIDERATIONS

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

> Increased Minimum Employer Contribution Floor Rates. The increased minimum employer floor rates required by the amendment will function to reduce the projected increased employer contribution requirements in Fiscal Year 2012 – 2013 and will tend to moderate fluctuations in future employer contribution requirements over time, with the moderating effect increasing as employer contributions approach the employer normal cost rates for PSERS and SERS. The amendment would not, however, guarantee a fully adequate level of funding for future benefit accruals, nor would it fully address current or future unfunded actuarial accrued liabilities.
>
> Re-certification of Employer Contribution Rate. For PSERS, the employer contribution rate for the fiscal year beginning July 1, 2008, will be certified by the Board in mid-December 2007. Under current law, the employer contribution rate is projected to fall from the current 7.13% to 4.97% for Fiscal Year 2008 – 2009. It may be desirable to include language in the amendment requiring the Board to re-certify the employer contribution rate for Fiscal Year 2008 – 2009 in the event the amendment is enacted.

COMMISSION RECOMMENDATION

On November 21, 2007, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

A later version of Senate Bill Number 826 (Printer's Number 1609) passed the Senate on December 4, 2007.

Bill ID: Senate Bill Number 1039, Printer's Number 1336

System: Pennsylvania Municipal Retirement System

Subject: Administrative Expenses

SYNOPSIS

Senate Bill Number 1039, Printer's Number 1336, would amend Section 112 of the Pennsylvania Municipal Retirement Law (Law) to: 1) retroactive to January 1, 2006, extend through calendar year 2010 the authority of the Pennsylvania Municipal Retirement System (PMRS) to use interest earnings in excess of regular interest to pay administrative expenses not covered by the $20 a member per year assessments; and 2) reduce the maximum permissible charge that may be levied against investment income in excess of the regular interest rate set annually by the Board from an amount not to exceed six-tenths of one percent to an amount not to exceed four-tenths of one percent of the total value of the fund's assets.

DISCUSSION

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

Participating municipalities are financially responsible only for their own plan obligations. PMRS is maintained by contributions from municipalities, payroll deductions and other contributions by employees, and by earnings from the investments of the System. While the monies of individual municipalities are accounted for separately, they are pooled for investment experience. PMRS also pools certain cost experiences, including the cost of administration, disability experience, and retired life experience. As of January 1, 2006, there were 8,374 active employees participating in 684 PMRS covered defined benefit plans and 896 active employees participating in 172 defined contribution plans covered by PMRS. As of January 1, 2006, there were 2,941 retirees and 436 beneficiaries receiving pension and survivor benefits through PMRS-covered plans.

In PMRS, "regular interest" means the rate fixed by the Board, from time to time, on the basis of earnings on investments. Under Section 110 of the Pennsylvania Municipal Retirement Law, the Board annually credits regular interest to each contributor's account, municipal account, retired member's reserve account, and total disability reserve account. The regular interest rate is set by the Board annually, with the advice of its consulting actuary, and as of January 1, 2006, the regular interest rate was 6.0 percent.

The two sources for the payment of the administrative expenses of PMRS are:

1) an annual assessment per member levied on participating municipal employing entities as set by the Board, which is not to exceed $20 per active member; and

2) a charge against the PMRS investment income in excess of the regular interest set by the Board, which is not to exceed six-tenths of one percent of the total value of the assets of PMRS.

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

The bill would serve to reauthorize the current practice for financing the System's administrative expenses, extending the authorization through calendar year 2010 and retroactively to January 1, 2006. The bill would also reduce the maximum permissible charge that may be levied against investment income in excess of the regular interest rate set annually by the PMRS Board from an amount not to exceed six-tenths of one percent to an amount not to exceed four-tenths of one percent of the total value of the fund's assets. The staff of PMRS provided the Commission staff with the most recent data available on the administrative expenses and assessment fees for PMRS. Based upon a review of this information, it appears that even after reducing the maximum permissible charge from six-tenths to four-tenths of one percent, the reduced maximum charge should continue to provide adequate funding for administrative expenses in future years.

The current procedure used by PMRS to fund administrative expenses is unique. Most public employee pension plans pay explicit administrative expenses that are included as a component of a plan's overall annual costs. The development and implementation of such a stable, transparent, long-term financing procedure for PMRS would be desirable.

SUMMARY OF ACTUARIAL COST IMPACT

The bill authorizes no modification in benefits provided by municipalities participating in PMRS and authorizes no increase in PMRS administrative expenses. The Commission's consulting actuary has reviewed the bill and determined that the bill represents a reauthorization of the current practice for financing the System's administrative expenses and would have no actuarial cost impact upon PMRS.

POLICY CONSIDERATIONS

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

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

COMMISSION RECOMMENDATION

On August 22, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issue identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

Senate Bill Number 1039, Printer's Number 1336, was introduced and referred to the Senate Finance Committee on July 24, 2007.

Bill ID: House Bill Number 126, Printer's Number 152

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

Subject: Mandated Minimum Employer Contribution Requirements

SYNOPSIS

House Bill Number 126, Printer's Number 152, 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.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of 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, 2006, the Public School Employees' Retirement System (PSERS) had 263,350 active members and 161,813 annuitants and beneficiaries. As of December 31, 2005, the State Employees' Retirement System (SERS) had 109,981 active members and 101,179 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.[1] In 2003, the mandated rate was increased through the enactment of Act 40 of 2003 for

[1] For PSERS, 1% plus the premium assistance contribution rate. For SERS, Act 38 delayed imposition of the 1% minimum until July 1, 2004.

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 126, Printer's Number 152, 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.

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, 2006, valuation of PSERS and the December 31, 2005, valuation of SERS.

Projected Mandatory Employer Contribution Rates

Public School Employees' Retirement System

Fiscal Year ending June	Current Statute	Under H. B. 126	Increase (Decrease)
2008	7.13%	7.69%	0.56%
2009	6.26	7.42	1.16
2010	4.90	7.43	2.53
2011	4.71	7.45	2.74
2012	4.71	7.47	2.76
2013	18.79	18.17	(0.62)
2014	17.77	16.88	(0.89)
2015	16.52	15.67	(0.85)
2016	16.17	15.35	(0.82)
2017	15.83	15.04	(0.79)

State Employees' Retirement System

Fiscal Year ending June	Current Statute	Under H. B. 126	Increase (Decrease)
2008	1.49%	5.00%	3.51%
2009	0.00	6.00	6.00
2010	0.00	8.39	8.39
2011	0.00	8.39	8.39
2012	0.00	8.39	8.39
2013	11.50	8.48	(3.02)
2014	11.36	8.39	(2.97)
2015	10.48	8.39	(2.09)
2016	10.48	8.39	(2.09)
2017	10.55	8.39	(2.16)

POLICY CONSIDERATIONS

In reviewing the bill, the Commission 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.

Expiration of Minimum Contribution Rate for SERS. It is important to note that although permanent for PSERS, the currently mandated minimum 4% contribution rate for SERS expires July 1, 2007. In the absence of legislation to extend or make permanent the minimum rate, the employer contribution rate is projected to drop to zero by 2009. Permitting the expiration of the minimum rate will result in sudden and substantially increased employer contribution requirements beginning 2013.

Re-certification of Employer Contribution Rate. For PSERS, the employer contribution rate for the fiscal year beginning July 1, 2007, has already been certified by the Board. It may be desirable to include language in the bill requiring re-certification of the employer contribution rate for fiscal year 2007.

COMMISSION RECOMMENDATION

On March 22, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 126, Printer's Number 152, was introduced and referred to the House State Government Committee on January 31, 2007.

Bill ID: Amendment Number 00174 to
House Bill Number 126, Printer's Number 152

System: State Employees' Retirement System

Subject: Mandated Minimum Employer Contribution Requirements

SYNOPSIS

Amendment Number 00174 to House Bill Number 126, Printer's Number 152, would amend Section 5508 of the State Employees' Retirement Code by extending and making permanent the currently mandated minimum employer contribution floor rate of 4%.

DISCUSSION

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 the System is mandatory for most State employees. Certain other employees are not required but are given the option to participate. As of December 31, 2005, there were 109,981 active members and 101,179 annuitants and beneficiaries in SERS.

For most members of SERS, 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, multiplied by the member's final average (highest three years) salary.

Under the Code, superannuation or normal retirement age is that date on which a member may terminate service and receive a full retirement benefit without reduction because of age or service. Superannuation 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 to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to the superannuation 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 SERS and the Public School Employees' Retirement System (PSERS).[2] In 2003, the mandated rate was increased through the enactment of Act 40 of 2003 for both SERS and PSERS. 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 4% mandated minimum contribution rate for SERS expires July 1, 2007.

[2] For PSERS, 1% plus the premium assistance contribution rate. For SERS, Act 38 delayed imposition of the 1% minimum until July 1, 2004.

Amendment Number 00174 to House Bill Number 126, Printer's Number 152, would again amend the SERS Code by extending and making permanent the current statutory minimum employer contribution rate of 4%.

Like most large defined benefit public employee retirement systems throughout the United States, SERS utilizes a variation of the entry age normal actuarial 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.

SERS is 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 System's actuarial funding method.

Among its various provisions, Act 40 of 2003 altered the methods used by 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. However, beginning in fiscal year 2013, employer contribution rates are forecast to spike sharply.

By establishing the 4% employer contribution rate as the floor rate for all future years beginning July 1, 2007, the amendment will function to level employer contributions over time, easing the abrupt changes in future employer contribution requirements that are expected to occur based on current projections. The amendment 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.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the amendment and has estimated the projected changes in future employer contribution rates that would result from enactment of the amendment. The estimates are based upon the results of the December 31, 2005, actuarial valuation of SERS.

Projected Employer Contribution Rates for SERS

Fiscal Year ending June	Current Statute	Under Amend. 00174	Increase (Decrease)
2008	1.49%	4.00%	2.51%
2009	0.00	4.00	4.00
2010	0.00	4.00	4.00
2011	0.00	4.00	4.00
2012	0.00	4.00	4.00
2013	11.50	9.85	(1.65)
2014	11.36	9.52	(1.84)
2015	10.48	8.70	(1.78)
2016	10.48	8.78	(1.70)
2017	10.55	8.91	(1.64)

POLICY CONSIDERATIONS

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

Extension of Employer Contribution Floor Rate. The amendment will extend and make permanent the statutory 4% employer contribution floor rate, which would otherwise expire July 1, 2007. Extending the minimum employer contribution rate to all future years is desirable because it will serve to reduce the growth of the System's unfunded actuarial accrued liabilities and will function to level employer contribution requirements over time. This leveling effect becomes more pronounced as employer contribution rates approach the employer normal rate (now 8.39%). To further reduce projected future employer contribution requirements, additional employer contributions in excess of the 4% floor rate will be required.

Expiration of Minimum Contribution Rate for SERS. It is important to note that the currently mandated minimum 4% contribution rate for SERS is a temporary statutory provision that will expire July 1, 2007, in the absence of legislation to extend or make permanent the minimum rate. Permitting the expiration of the minimum rate will result in increased employer contribution requirements beginning 2013.

COMMISSION RECOMMENDATION

On March 22, 2007, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 126, Printer's Number 152, was introduced and referred to the House State Government Committee on January 31, 2007.

Bill ID: House Bill Number 143, Printer's Number 2017

System: State Employees' Retirement System

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

SYNOPSIS

House Bill Number 143, Printer's Number 2017, would amend the Pennsylvania Conservation Corps Act (Act of 1984, P. L. 561, No. 112) to, beginning January 1, 2008, entitle "crewleaders" of the Pennsylvania Conservation Corps to membership in the State Employees' Retirement System.

DISCUSSION

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, 2006, SERS had 110,972 active members and 102,060 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 most other employee benefits normally provided to regular Commonwealth employees, except for paid Commonwealth holidays and workmen's compensation.

SUMMARY OF ACTUARIAL COST IMPACT

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 estimated change in normal cost is shown in the following table.

	Amount
Change in Unfunded Actuarial Accrued Liability	$0

	Amount	As a % of Affected Payroll
Additional Employer Annual Costs		
Normal Cost	$100,000	8.21%
Amortization Payment	0	0.00%
Total Additional Increase in Employer Annual Costs [1]	$100,000	8.21%

[1] 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.

POLICY CONSIDERATIONS

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

Drafting Irregularity. The bill amends the Pennsylvania Conservation Corps Act to provide for membership in SERS without amending the applicable retirement statute. It is unusual and irregular to provide for retirement benefits by amending a statute other than the applicable retirement Code. The bill would entitle crewleaders to membership in SERS beginning January 1, 2008. However, the bill is silent on the precise nature of that membership. The bill does not specify whether membership in SERS would be mandatory (as is the case for most Commonwealth employees) or if membership would be optional. House Bill Number 144, Printer's Number 996, which the Commission staff believes is intended to be a companion bill to House Bill Number 143, Printer's Number 2017, would amend the SERS Code to provide for optional membership in SERS for crewleaders beginning January 1, 2008. House Bill Number 143 should be amended to make the entitlement to SERS membership contingent upon a corresponding amendment to the SERS Code which would specify the nature of SERS membership. Such an amendment would alleviate the Commission's concern about creating a pension entitlement in a non-pension statute. The following suggested language would adequately address this concern:

> On bill page 2, line 23, insert after "System" "if so provided in Section 5301 (pertaining to Mandatory and Optional Membership) of Title 71 (State Government) of the Pennsylvania Consolidated Statutes."

Mandatory and Optional Membership. Section 5301 of the SERS Code addresses the issue of System membership. While the bill itself is silent on whether membership would be mandatory or optional for the affected group of employees, for most full-time State employees of Commonwealth departments, membership in SERS 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 or optional membership in SERS is appropriate for this class of employee.

COMMISSION RECOMMENDATION

On August 22, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

A later version of House Bill Number 143 (Printer's Number 2589) passed the House on November 19, 2007.

Bill ID: House Bill Number 144, Printer's Number 996

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

Subject: Membership in the State Employees' Retirement System for
Crewleaders of the Pennsylvania Conservation Corps and
Purchase of Service Credit for Previous Service as a Crewleader

SYNOPSIS

House Bill Number 144, Printer's Number 996, would: 1) effective January 1, 2008, amend the State Employees' Retirement Code to provide for optional membership in the State Employees' Retirement System for employees classified as crewleaders employed by the Pennsylvania Conservation Corps pursuant to the Pennsylvania Conservation Corps Act; and 2) amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code to permit active members or active multiple-service members of both the Public School Employees' Retirement System (PSERS) and 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, 2008, provided the member elects to purchase the service within three years of becoming eligible to do so and that the member bears the full actuarial cost of the service purchase and is prohibited from withdrawing contributions made for the service purchase under retirement Option 4.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of 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, 2006, the Public School Employees' Retirement System (PSERS) had 263,350 active members and 161,813 annuitants and beneficiaries. As of December 31, 2005, the State Employees' Retirement System (SERS) had 109,981 active members and 101,179 annuitants and beneficiaries.

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.

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.

Membership in the State Employees' Retirement System (SERS)

Section 5301 of the SERS Code addresses the issue of System membership. For most full-time State employees of Commonwealth departments, membership in SERS 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 bill would amend the SERS Code to provide for optional membership in SERS for employees classified as crewleaders employed by the Pennsylvania

Conservation Corps pursuant to the Pennsylvania Conservation Corps Act. Under the bill, an affected employee must make an irrevocable election to become a member of SERS within 90 days of the effective date of the bill, or in the case of a newly hired employee, within 90 days of the effective date of employment as a crewleader.

Purchase of Service Credit

Many public employee defined benefit pension plans permit members to receive credit for limited categories of previous service with another employer or for previously noncredited service with the current public employer. In defined benefit plans, the number of years of credited service have a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit members to receive additional service credit through service purchase authorizations are of value to the member because they may enhance the value of the retirement benefit, may accelerate retirement eligibility, and also may accelerate eligibility for other types of Commonwealth-subsidized 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, 2008.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and determined that there would be no increase in unfunded actuarial accrued liability due to the service purchase authorization contained in the bill, but there would be an increase in the dollar amount of employer normal cost associated with the provision of prospective membership in SERS. In preparing the estimate, the Commission's consulting actuary assumed that all eligible employees would elect to become members of SERS. The estimate of the normal cost increase was based upon census data provided by the Department of Labor and Industry, which indicated that there were 49 employees classified as crewleaders who would be affected by the bill, with a total reported payroll for these employees of $1,142,432.

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	Amount
Change in Unfunded Actuarial Accrued Liability	$0

	Amount	As a % of Affected Payroll
Additional Employer Annual Costs		
Normal Cost	$103,000	8.39%
Amortization Payment	0	0.00%
Total Additional Increase in Employer Annual Costs [1]	$103,000	8.39%

[1] 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.

POLICY CONSIDERATIONS

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

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 SERS is mandatory. Certain other employees 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 membership in SERS is appropriate for this class of employee and, if so, whether membership in SERS should be mandatory or optional.

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 the 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 requires payment by the member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase. Therefore, there would be no immediate actuarial cost impact upon the Systems attributable to the service purchase authorizations.

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.

Potential 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. Because the Pennsylvania Conservation Corps Act specifically precludes the affected employees from eligibility for most of the employee benefits normally afforded state employees, crewleaders are currently ineligible for collateral retirement-related benefits, such as eligibility for Commonwealth-subsidized postretirement healthcare benefits. If, however, the Conservation Corps Act is amended to provide for such benefits in the future, crewleaders may become entitled to apply a portion of their service as crewleaders to attaining eligibility for these collateral benefits.

COMMISSION RECOMMENDATION

On April 19, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 144, Printer's Number 996, had first consideration in the House on March 20, 2007, and was re-referred to the House Appropriations Committee on April 23, 2007.

Bill ID: House Bill Number 364, Printer's Number 428

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

Subject: Age and Service Requirements for Normal Retirement Benefits

SYNOPSIS

House Bill Number 364, Printer's Number 428, would amend the Municipal Police Pension Law (Act 600 of 1955) to modify the current minimum service and age requirements for normal retirement eligibility from 25 years at age 55, to not less than 20 years of service at any age.

DISCUSSION

The Municipal Police Pension Law (Act 600 of 1955) governs the establishment of retirement systems for police officers in every borough, incorporated town or township with three or more full-time police officers and every regional police department. At its option, a municipality with fewer than three full-time police officers also may establish a police officer retirement system under the Municipal Police Pension Law. As of January 1, 2005, there were at least 623 municipal and regional police officer retirement systems with three or more members operating under the Municipal Police Pension Law, covering 7,918 active municipal police officers. In addition, there also are some one- and two-officer plans that operate under the Municipal Police Pension Law.

Under the Municipal Police Pension Law, a police officer is eligible to receive a full (normal) retirement benefit after accumulating a total of 25 years of service with the same municipality and upon attaining age 55. If an actuarial valuation shows it is feasible, this age requirement may be reduced to age 50. The monthly pension (excluding length-of-service increments and cost-of-living adjustments) is an amount equal to one-half of the monthly salary of the officer averaged over the most recent 36 to 60 months of employment and payable during the retiree's lifetime. Additionally, certain communities that operated under a home rule charter in accordance with 53 Pa. C. S. Pt. III, Subpt. E, which had pension plans with benefits in excess of Act 600 allowances in effect prior to January 24, 2001, may continue to provide those benefits to police employees hired prior to January 24, 2001.

In addition to the monthly pension, the municipality may pay a length-of-service increment to a retiree for each completed year of service beyond 25 years. Under current law, the length-of-service increments cannot total more than $500 per month for members with 30 or more years of service.

The bill would amend Section 3 of the Municipal Police Pension Law to mandate that each affected municipality change the eligibility requirements for normal retirement benefits by changing the minimum service requirement for retirement eligibility from 25 years to not less than 20 years and by eliminating any minimum age requirement for normal retirement eligibility. It is important to note that the language of the bill does not reduce the service requirement from 25 years to 20 years. Instead, the bill sets the minimum service requirement at "not less than 20 years." In theory, this language could allow for an increase rather than a decrease in the service requirement. However, because of the nature of the collective bargaining process, the most likely impact of the bill would be to effectively reduce the service requirement to 20 years from 25 years and eliminate any age requirement for normal retirement eligibility.

Because the retirement benefit for Act 600 pension plans is a fixed percentage (50%) of the member's final average salary, providing the retirement benefit earlier effectively increases the value of the retirement benefit earned for each year of service. With the current service requirement of 25 years, the annual accrual rate for these pension plans is effectively 2%. With implementation of the proposed minimum service requirement of 20 years, the effective accrual rate for the plans will increase to 2.5%. This would potentially result in a basic retirement benefit equal to 50% of final average salary after 20 years of service.

As was typical at the time of its enactment, Act 600 resembles pension plans for military personnel with half-pay pensions after 25 years of service. This "fixed benefit" approach differs from the usual "formula-based" defined benefit pension plan in which the pension benefit is variable based on the product of years of service multiplied by a benefit accrual rate. Under the current fixed benefit police officer pension plan, there is a disincentive to remain in public service after completing 25 years of service, while there is an incentive for remaining in service longer under a conventional formula-based retirement plan. The disincentive in Act 600 is somewhat mitigated by the fact that, in times of salary progression, the officer's pension is higher with each year of employment because of the higher final average salary. In an attempt to remedy further the disincentive inherent in the fixed benefit approach, Act 600 was amended to permit the payment of length-of-service increments.

The bill would seem to contradict the intent of the length-of-service increments in Act 600 by encouraging the retirement of experienced municipal police officers at ages far younger than currently permissible. For example, under the bill, a police officer entering service with a municipality at age 21 would be eligible for a full, unreduced retirement benefit after completing 20 years of service at age 41, or nine to fourteen years earlier than under current law. If enacted, the bill would likely create a strong disincentive to remain in service beyond the minimum service requirement.

SUMMARY OF ACTUARIAL COST IMPACT

In preparing the actuarial cost estimate, the Commission's consulting actuary assumed that all members of the affected municipal police pension plans would retire upon accumulating the minimum service requirement of 20 years. Based upon this assumption, the Commission's consulting actuary has determined that the bill would have the following aggregate actuarial cost impact.

	Amount
Increase in Aggregate Actuarial Accrued Liabilities	$385,000,000 — $400,000,000

	Amount	As a % of Payroll
Increases in Employers' Annual Costs		
Normal Costs	$11,500,000 — $13,000,000	2.36% — 2.66%
Amortization Payments [1]	56,420,000 — 58,619,000	11.56% — 12.01%
Total Increases in Employers' Annual Costs	$67,920,000 — $71,619,000	13.92% — 14.67%

[1] Nine year level-dollar payments assuming a 7.65% interest rate.

POLICY CONSIDERATIONS

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

Commonwealth Mandate to Municipalities. The bill mandates a benefit modification applicable to municipal police pension plans subject to Act 600. The General Assembly and the Governor must determine whether it is appropriate for the Commonwealth to mandate, rather than permit, local governments to incur the additional costs associated with the provision of enhanced pension benefits.

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

Contradictory Policy Objectives. The bill would likely have the effect of encouraging the retirement of experienced municipal police officers at ages far younger than currently permissible. For example, under the bill, a police officer entering service with a municipality at age 21 would be eligible for a full, unreduced retirement benefit after completing 20 years of service at age 41, or nine to fourteen years earlier than under current law. Yet, the provisions of Act 600 permitting the payment of service increments are intended to achieve the opposite effect by encouraging experienced officers to remain in service after achieving normal retirement eligibility. The rationale for such apparently contradictory policy objectives is not apparent.

POLICY CONSIDERATIONS (CONT'D)

Absence of Cost Sharing. Act 600 pension plans historically have been contributory, with members contributing a percentage of payroll toward their retirement benefits. The material costs resulting from enactment of the bill would be imposed entirely upon the affected municipalities without requiring any additional contributions from the benefitted members.

COMMISSION RECOMMENDATION

On March 22, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 364, Printer's Number 428, was introduced and referred to the House Local Government Committee on February 13, 2007.

Bill ID: House Bill Number 374, Printer's Number 438

System: State Employees' Retirement System

Subject: Purchase of State Service Credit for Previous Employment as a Mineworker

SYNOPSIS

House Bill Number 374, Printer's Number 438, 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.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. Membership in SERS is mandatory for most State employees. Certain other employees are not required, but are given the option to participate. As of December 31, 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. Normal retirement age for certain other members, including certain public safety employees and members of the General Assembly, is age 50. Generally, the pension benefit is equivalent to the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Permitting members to 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 State service credit for certain types of prior private sector employment in the mining industry.

Under the Pennsylvania Anthracite Coal Mine Act (Act 346 of 1965) and the Pennsylvania Bituminous Coal Mine Act (Act 339 of 1961), individuals seeking employment in mine inspection-related professions with the Department of Environmental Protection are required to meet certain experience requirements to be eligible for employment by the Department. The bill would amend Section 5505 of the Code to provide for the purchase of State service credit for prior employment in the mining industry. Under the bill, all of the following classifications of Department employees would be permitted to purchase State service credit for certain periods of previous employment in the mining industry: mine inspectors, electrical inspectors, first-aid instructors, mine rescue instructors, emergency response training specialists, and supervisors or managers of any of the above listed mining specialties. The bill would permit an eligible member to purchase State service credit for the number of years of previous employment in mining required for employment by, and certification with, the Department pursuant to the experience requirements of Act 346 and Act 339. Depending upon the specific employee classification, eligible members would be permitted to purchase from 5 to 10 years of State service credit for previous employment in the mining profession.

Under Section 5304 of the SERS Code, nonstate service purchase authorizations have been enacted by the General Assembly in order to recognize certain types of previous service with an employer other than the Commonwealth. Service purchases for all periods of nonstate service are credited as Class A service, at a 2.0% annual benefit accrual rate. In contrast, State service credit for most members is now credited as Class AA at a higher 2.5% annual benefit accrual rate. The distinction between “state” and “nonstate” service credit is significant. The qualitatively greater benefit accrual rate associated with State service reflects 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 public service.

Sections 5302 and 5303 of the SERS Code deal with the calculation, crediting, reinstatement and purchase of State service. Authorizations to purchase, reinstate or otherwise credit “state” rather than “nonstate” service are generally limited to those cases involving credit for intervening military service, a creditable leave of absence, the reinstatement of State service credit following a break in service, the correction of an inequity resulting from an involuntary transfer of governmental function, or the recognition of past service to remedy inequities created by employer actions. The bill represents a major departure from current policy by authorizing the purchase of up to 10 years of State service credit in SERS for previous service with a non-governmental, private sector employer.

Therefore, the bill represents a potentially significant benefit enhancement for eligible members. Because the bill specifies that mining service is to be credited as State service (instead of nonstate service), and since the affected members of SERS are all members of Class AA and earn retirement benefits at an annual benefit accrual rate of 2.5%, the service purchase authorization would have the effect of enhancing the retirement benefit of an eligible member by 2.5% for every year of service credit purchased.

The bill specifies the use of a service purchase calculation that is similar to the service purchase calculation contained in Section 5505(b) (relating to nonintervening military service) in determining the service purchase amount for the purchase of creditable mining service. Using the calculation specified in the bill, the amount due to purchase the service would be determined by applying the member’s basic contribution, the additional contribution rate plus the Commonwealth normal contribution rate for active members at the time of entry subsequent to such creditable service of the member into State service to the member’s average annual rate of compensation over the first three years of State service and multiplying the result by the number of creditable years of service being purchased together with statutory interest during all periods of subsequent State service to the date of purchase. The bill specifies that members may pay for service purchases through one of the following payment methods: 1) by making a lump-sum payment within 30 days; or 2) through a salary deduction plan agreed to by the member and the Board, together with interest at the rate applicable to the most recently issued 30-year bonds of the United States Treasury Department. Because the service purchase method specified by the bill results in the member paying significantly less than the full actuarial cost of the increased benefit, the resulting 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, a member also may become eligible for certain collateral retirement benefits (such as majority State-paid retiree health insurance, leave payouts upon separation from service, etc.) sooner than otherwise or may achieve eligibility for these benefits when the member could not otherwise do so.

To summarize, the service purchase authorization contained in the bill is highly unusual because: 1) the bill represents a significant and precedent-setting departure from current public pension policy by authorizing the purchase of State service credit for previous service with a private sector employer; 2) the bill would permit an unusually large amount of service to be purchased, up to 10 years for certain classifications of employees (which would have the effect of accelerating retirement eligibility for some members or qualifying a member for retirement eligibility when the member would not otherwise qualify); and 3) the bill provides for a service purchase calculation that is unusually generous from the member's standpoint and which benefits the member at the expense of the Commonwealth.

SUMMARY OF ACTUARIAL COST IMPACT

On August 3, 2006, the Commission's consulting actuary provided the Commission with an actuarial note for House Bill Number 2257, Printer's Number 3145, which is substantively identical to House Bill Number 374, Printer's Number 438. In preparing the actuarial cost estimate for the service purchase authorization provided by the bill, the Commission's consulting actuary utilized census data provided to the Commission staff by the Pennsylvania Department of Environmental Protection (DEP) for the 45 affected SERS members. For the purposes of this analysis, the Commission's consulting actuary assumed that each eligible member would purchase the maximum amount of service credit to which the member would be entitled, based upon the applicable DEP employment classification. Additionally, due to the potentially hazardous nature of the work performed by the affected employee classifications, the Commission's consulting actuary incorporated an assumption that reflects the possibility of a more rapid retirement rate upon attainment of superannuation age for the affected employees than would otherwise be the case for the general SERS membership. Based upon these assumptions, the estimated range of actuarial cost impact resulting from the bill is summarized in the following table.

SUMMARY OF ACTUARIAL COST IMPACT (CONT'D)

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$2,500,000 — $2,950,000

	Amount	As a % of Affected Payroll
Increases in Employers' Annual Costs		
Normal Costs	$ 0 — $ 0	0.0% — 0.0%
Amortization Payments [1]	380,000 — 450,000	13.4% —15.8%
Total Increases in Employers' Annual Costs	$380,000 — $450,000	13.4% —15.8%

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

POLICY CONSIDERATIONS

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

Major Departure from Current Policy. The bill represents a major departure from current policy by authorizing the purchase of up to 10 years of State service credit in SERS for previous service with a private sector employer. If enacted, the bill would set a new precedent in the purchase of service credit and would likely result in numerous similar requests to purchase service for previous service with various non-governmental employers. The public policy rationale for authorizing a service purchase of this type is not apparent.

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 Service as a Mineworker. The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The service for which credit is to be made purchasable under the bill does not occur under any of these situations. 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 method for calculating the member contributions to purchase service credit for nonstate service proposed in the bill would result in a member paying significantly 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. The absence of a restriction on withdrawal of the purchase amount under Option 4 will increase the cost to SERS associated with the authorization to purchase credit for this service.

Drafting Irregularity. The bill would amend Section 5505 of the SERS Code, which deals with contributions for the purchase of nonstate rather than State service credit. The bill should be amended or redrafted to amend the correct section of the Code, which is Section 5303.

COMMISSION RECOMMENDATION

On March 22, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 374, Printer's Number 438, was introduced and referred to the House State Government Committee on February 13, 2007.

Bill ID: House Bill Number 425, Printer's Number 489

System: Police Pension Plans in Cities of the Third Class

Subject: Age and Service Requirements for Normal Retirement Benefits

SYNOPSIS

House Bill Number 425, Printer's Number 489, would amend the Third Class City Code to modify the current minimum service and age requirements for normal retirement eligibility in police pension plans from not less than 20 years of service upon attaining a minimum age of 50, to 20 years of service at any age.

DISCUSSION

Under Article 43(a) of the Third Class City Code, a city of the third class must establish a retirement system for its police officers by ordinance. All members of the city police force are mandatory members of the retirement system. As of January 1, 2005, there were 55 police officer retirement systems in cities of the third class with a total active membership of 2,334.

Under the Third Class City Code, a police officer is eligible for a full, unreduced (normal) retirement benefit after not less than 20 years of service. The ordinance creating the pension plan need not prescribe a minimum age, but if one is prescribed, it must be age 50. (A review of the Commission's records reveals that as of January 1, 2005, eighteen plans had no age requirement for normal retirement eligibility). A member's retirement benefit is computed as, and limited to, the greater of one-half of the final rate of pay or of one-half of the monthly average salary of the police employee during the employee's five highest years of compensation. Certain cities operating under an optional or home rule charter that provided police pension benefits in excess of 50 percent of pay may continue to do so if the benefit provision of the pension plan was in effect prior to June 19, 2002.

Under current law, a city also may include in the retirement benefit a service increment in excess of $100 per month for each year of service rendered before age 65 that is in excess of the normal retirement service requirement. The maximum permissible service increment is $500 per month.

As was typical at the time of their enactment, pension plans for police officers in cities of the third class resemble pension plans for military personnel with half-pay pensions after at least 20 years of service. This "fixed benefit" approach differs from most modern defined benefit pension plans in which the pension benefit is variable based on the product of the years of service multiplied by a benefit accrual rate. Under the Third Class City Code, there is a disincentive for police officers to remain in service after completing the minimum age and service requirements. In an attempt to remedy this disincentive, the pension plan for police officers in cities of the third class was amended to add service increments. The result was that experienced public safety employees had a retirement-related incentive to continue service beyond normal retirement eligibility.

The bill would seem to contradict the intent of the length-of-service increments in the Third Class City Code by encouraging the retirement of experienced city police officers at ages younger than is currently the case in most third class cities. For example, under the bill, a police officer entering service with a city at age 21 would be eligible for a full, unreduced retirement benefit after completing 20 years of service at age 41, or nine years earlier than provided by the majority of plans under current law. If enacted, the bill would likely create a disincentive to remain in service beyond the required 20 years.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and determined that the bill would have the following aggregate actuarial cost impact.

	Amount
Increase in Aggregate Actuarial Accrued Liabilities	$42,000,000 — $46,000,000

	Amount	As a % of Payroll
Increases in Employers' Annual Costs		
Normal Costs	$1,400,000 — $1,800,000	1.13% — 1.46%
Amortization Payments [1]	5,717,000 — 6,261,000	4.63% — 5.07%
Total Increases in Employers' Annual Costs	$7,117,000 — $8,061,000	5.76% — 6.53%

[1] 10 year amortization payments at an interest rate of 7.62%.

POLICY CONSIDERATIONS

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

Commonwealth Mandate to Municipalities. Under the Third Class City Code, a police officer is eligible for a full, unreduced retirement benefit after at least 20 years of service. The ordinance creating the pension plan need not prescribe a minimum age, but if one is prescribed, it must be age 50. A review of the Commission's records reveals that 18 police pension plans subject to the Third Class City Code currently permit full retirement with a minimum of 20 years of service with no minimum age requirement. The bill would mandate a benefit modification applicable to police pension plans in cities of the third class that prescribe a minimum normal retirement age. The General Assembly and the Governor must determine whether it is appropriate for the Commonwealth to mandate, rather than permit, the affected cities to incur the additional costs associated with the provision of the benefit modification.

Contradictory Policy Objectives. The bill would likely have the effect of encouraging the retirement of experienced city police officers at ages younger than currently provided. For example, under the bill, a police officer entering service with a city at age 21 would be eligible for a full, unreduced retirement benefit after completing 20 years of service at age 41, or at least nine years earlier than is currently the case in most cities of the third class.

Yet, the provisions of the Third Class City Code permitting the payment of service increments are intended to achieve the opposite effect by encouraging experienced officers to remain in service after achieving normal retirement eligibility. The rationale for such apparently contradictory policy objectives is not apparent.

Absence of Cost Sharing. Police pension plans subject to the Third Class City Code historically have been contributory, with members contributing a percentage of payroll toward their retirement benefits. The material costs resulting from enactment of the bill would be imposed entirely upon the affected municipalities without requiring any additional contributions from the benefitted members.

COMMISSION RECOMMENDATION

On March 22, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 425, Printer's Number 489, was introduced and referred to the House Local Government Committee on February 13, 2007, and re-referred to the House Urban Affairs Committee on March 19, 2007.

Bill ID: Amendment Number 02972 to
House Bill Number 475, Printer's Number 585

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

Subject: Change in Cost-Sharing Between Public School Employees' Retirement System Employers and the Commonwealth and Mandated Minimum Employer Contribution Requirements

SYNOPSIS

House Bill Number 475, Printer's Number 585, would amend both the Public School Employees' Retirement Code and the State Employees' Retirement Code by incrementally increasing the mandated minimum employer contribution requirements present in the respective retirement Codes.

Amendment Number 02972 to House Bill Number 475, Printer's Number 585, would amend the Public School Employees' Retirement Code by altering the current employer/Commonwealth cost-sharing provisions contained in the Code.

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of 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, 2006, the Public School Employees' Retirement System (PSERS) had 263,350 active members and 161,813 annuitants and beneficiaries. As of December 31, 2006, the State Employees' Retirement System (SERS) had 110,972 active members and 102,060 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.

Mandated Minimum Employer Contribution Requirements

Act 38 of 2002 first established a 1% minimum employer contribution rate for both PSERS and SERS. 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. Act 8 of 2007 extended and made permanent the 4% employer floor rate for SERS.

House Bill Number 475, Printer's Number 585, 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, 2008, and 2) an amount equal to the employer normal contribution rate plus the premium assistance contribution rate for the fiscal year beginning July 1, 2009, and for each fiscal year thereafter.

The bill would amend the State Employees' Retirement Code by increasing the currently mandated minimum employer contribution requirement of 4% to: 1) 5% for the fiscal year beginning July 1, 2008, 2) 6% for the fiscal year beginning July 1, 2009, and 3) an amount equal to the employer normal contribution rate for the fiscal year beginning July 1, 2010, 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 actuarial 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, 2009, for PSERS and July 1, 2010, 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.

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 minimum contributions mandated by the bill will mitigate some of the increasing amortization costs.

Change in Cost-Sharing Between PSERS Employers and the Commonwealth

Each year, the PSERS board, in consultation with the System's consulting actuary, establishes the annual employer contribution requirements for the retirement system. There are four basic components that comprise the total employer contribution requirement: 1) the employer normal cost rate (the normal cost represents the value of benefits earned in a given year); 2) the accrued liability contribution rate (the accrued liability represents the portion of the present value of future plan benefits attributable to service accrued as of a given date); 3) the supplemental annuity contribution rate (the amortization contribution requirement applicable to past supplemental annuities (COLAs)); and 4) the premium assistance contribution rate (the amount required to fund the premium assistance program in a given year).

Under the PSERS Code, the employer and the Commonwealth share the cost of required contributions. The current process requires "school entities" as defined in the Code (school districts, intermediate units, and area vocational technical schools) to initially pay the entire amount of the required employer contributions. The Commonwealth then reimburses school entities with an amount that is not less than 50% of the aggregate employer contribution rate. (The actual amount is determined through a formula known as the "Market Value Income Aid Ratio" as defined in section 2501(14.1) of the Public School Code of 1949, which is also used in calculating other reimbursements by the Commonwealth and between school districts.) The statewide average is a 52%/48% ratio, with the Commonwealth paying 52%. All other PSERS employers that are not school entities currently pay one-half of the employer contribution rate, with the Commonwealth contributing the remaining one-half. Examples of PSERS employers that are not school entities as defined in the PSERS Code include the colleges and universities under the State System of Higher Education, community colleges, various schools for the blind and deaf, charter schools and miscellaneous other employers.

Effective June 30, 2008, Amendment Number 02972, would amend sections 8326 and 8535 of the Code to alter the Commonwealth/PSERS employer cost-sharing provisions by increasing the Commonwealth share of the employer contribution requirements. In addition to the amount based on the income aid ratio, the Commonwealth would be required to pay the full amount (100%) of the accrued liability contribution rate under section 8328(c) and 100% of the supplemental annuity contribution rate under section 8328(e) rather than not less than one-half as currently required under the Code. The Commonwealth would also be required to pay the full accrued liability contribution rate and supplemental annuity contribution rate for employers that are not school entities.

Retirement benefit changes enacted by the General Assembly affect the retirement system's accrued liability (in the case of benefit changes applicable to active members) and the supplemental annuity contribution rate (in the case of supplemental annuities for retirees). Therefore, the amendment would have the effect of requiring the Commonwealth to bear the full actuarial cost of any future retirement benefit enhancements.

The Commission's consulting actuary has reviewed House Bill Number 475, Printer's Number 585, and has estimated the projected changes in future employer contribution rates that would result from enactment of the bill.

Projected Employer Contribution Rates for PSERS due to House Bill Number 475, Printer's Number 585

Fiscal Year ending June	Current Statute	Under House Bill No. 475	Increase/ (Decrease)
2009	4.97%	7.72%	2.75%
2010	4.73	7.35	2.62
2011	4.73	7.33	2.60
2012	4.73	7.32	2.59
2013	11.89	11.08	(0.81)
2014	10.26	9.16	(1.10)
2015	9.08	8.01	(1.07)
2016	8.90	7.86	(1.04)
2017	8.78	7.77	(1.01)
2018	8.68	7.70	(0.98)

Projected Employer Contribution Rates for SERS due to House Bill Number 475, Printer's Number 585

Fiscal Year ending June	Current Statute	Under House Bill No. 475	Increase/ (Decrease)
2009	4.00%	5.00%	1.00%
2010	4.00	6.00	2.00
2011	4.00	8.39	4.39
2012	4.00	8.39	4.39
2013	9.85	8.93	(0.92)
2014	9.52	8.40	(1.12)
2015	8.70	8.39	(0.31)
2016	8.78	8.39	(0.39)
2017	8.91	8.39	(0.52)
2018	9.05	8.39	(0.66)

The Commission's consulting actuary has also reviewed Amendment Number 02972 to House Bill Number 475, Printer's Number 585, and determined the effects of the amendment on PSERS. The Commission's consulting actuary has determined that the amendment does not alter the System's benefit provisions nor does it change the System's funding requirements. Instead, the amendment simply alters the ratio of employer costs by reallocating a portion of employer costs from PSERS employers to the Commonwealth. The Commission's consulting actuary has estimated the projected changes in the future employer contribution cost-sharing ratio that would result from enactment of both the amendment and of House Bill Number 475, Printer's Number 585, as amended by Amendment Number 02972. The estimates are shown in the following table.

Public School Employees' Retirement System

Estimated Change in Commonwealth/Employer Cost Sharing due to Amendment 02972 to House Bill Number 475, Printer's Number 585 *
($ amounts in millions)

	Current Code			Amendment Number 02972 Only					House Bill Number 475 as amended by Amendment Number 02972				
Fiscal Year ending June 30	Total Employer Contribution Rate	Commonwealth Portion	Employers' Portion	Total Employer Contribution Rate	Commonwealth Portion	Employers' Portion	Increase/ (Decrease) in Commonwealth Contribution	Increase/ (Decrease) in Employers' Contribution	Total Employer Contribution Rate	Commonwealth Portion	Employers' Portion	Increase/ (Decrease) in Commonwealth Contribution	Increase/ (Decrease) in Employers' Contribution
2009	4.97%	52.00%	48.00%	4.97%	28.92%	71.08%	($151.6)	$151.6	7.72%	54.24%	45.76%	$22.9	($22.9)
2010	4.73%	52.00%	48.00%	4.73%	25.41%	74.59%	($170.4)	$170.4	7.35%	52.00%	48.00%	$0.0	$0.0
2011	4.73%	52.00%	48.00%	4.73%	25.61%	74.39%	($173.1)	$173.1	7.33%	52.00%	48.00%	$0.0	$0.0
2012	4.73%	52.00%	48.00%	4.73%	25.71%	74.29%	($176.7)	$176.7	7.32%	52.00%	48.00%	$0.0	$0.0
2013	11.89%	52.00%	48.00%	11.89%	70.61%	29.39%	$322.3	($322.3)	11.08%	68.46%	31.54%	$265.7	($265.7)
2014	10.26%	52.00%	48.00%	10.26%	66.04%	33.96%	$215.3	($215.3)	9.16%	61.95%	38.05%	$136.3	($136.3)
2015	9.08%	52.00%	48.00%	9.08%	61.73%	38.27%	$135.6	($135.6)	8.01%	56.61%	43.39%	$56.7	($56.7)
2016	8.90%	52.00%	48.00%	8.90%	61.12%	38.88%	$128.2	($128.2)	7.86%	55.97%	44.03%	$49.3	($49.3)
2017	8.78%	52.00%	48.00%	8.78%	60.69%	39.31%	$124.3	($124.3)	7.77%	55.58%	44.42%	$45.3	($45.3)
2018	8.68%	52.00%	48.00%	8.68%	60.41%	39.59%	$122.7	($122.7)	7.70%	55.37%	44.63%	$43.6	($43.6)

* All figures reflect the System's actual 22.93% market return on investments for 2006-2007 and utilize the System's current 8.5% annual investment return assumption beginning July 1, 2007, and for each year thereafter.

In reviewing the bill and amendment, the Commission 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 for future benefit accruals, but does not fully address current or future unfunded actuarial accrued liabilities.

Appropriateness of Change in Employer Cost Sharing. Under current Code provisions, PSERS employers and the Commonwealth share roughly equally in the costs of providing required employer contributions. In the aggregate, Amendment Number 02972 would shift a larger proportion of this cost from employers to the Commonwealth. Because retirement benefit changes enacted by the General Assembly affect PSERS' accrued liability (in the case of benefit changes applicable to active members) and supplemental annuity contribution rate (in the case of supplemental annuities for retirees), enactment of the amendment would result in the Commonwealth being required to bear the full cost of any future benefit changes. The General Assembly and the Governor will need to determine the appropriateness of such a reallocation of employer contribution requirements.

Drafting Ambiguities. In reviewing the bill and amendment, the Commission staff identified the following drafting ambiguities.

Potential for Misinterpretation. Although it appears that the intent of Amendment Number 02972 is to increase the Commonwealth's share of the accrued liability and supplemental annuity contribution requirements from 50% to 100%, the amendment could be misread to require the Commonwealth to contribute 150% of these rates. The Commission staff has been informed that the PSERS staff has prepared corrected language to rectify this possible misinterpretation and has provided these corrections to the amendment's sponsor.

Potential for Negative Contribution Rate. Under House Bill Number 475 as amended by Amendment Number 02972, the total employer contribution rate would be at least the sum of the normal contribution rate and the premium assistance contribution rate beginning July 1, 2009. As a result, the contribution requirement would not be negative in situations where the sum of the accrued liability contribution rate and the supplemental annuity contribution rate as adjusted by the experience adjustment factor were negative. If, however, Amendment Number 2972 were enacted on it own, or if the amendment were attached to another bill without the minimum employer contribution rate language of House Bill Number 475, the wording of the amendment should be reviewed and revised as necessary to avoid unintended consequences. The language should be clarified regarding whether the Commonwealth or PSERS employers would receive the benefit in the case of a negative combined accrued liability/supplemental annuity/experience adjustment factor contribution rate. Based on the Commission staff's understanding of the current language of the amendment, it appears that the Commonwealth would realize the entire savings from such a negative contribution rate. It is unclear whether such an outcome was the intent of the amendment's sponsor or merely an oversight.

COMMISSION RECOMMENDATION

On October 23, 2007, the Commission voted to attach the actuarial note to the bill and amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 475, Printer's Number 585, was introduced and referred to the House Finance Committee on March 6, 2007.

Bill ID: House Bill Number 561, Printer's Number 628

System: Pennsylvania Municipal Retirement System

Subject: Service Credit for Intervening and Nonintervening Military Service

SYNOPSIS

House Bill Number 561, Printer's Number 628, would amend the Pennsylvania Municipal Retirement Law (Law) to liberalize current provisions pertaining to the types of military service for which members may receive service credit. The bill would remove existing statutory language that requires intervening or nonintervening military service to have occurred "in times of war, armed conflict, or National Emergency, so proclaimed by the President of the United States" in order to be considered creditable service.

DISCUSSION

The Pennsylvania Municipal Retirement System (PMRS) is a governmental, multiple-employer retirement system created by the Commonwealth under the Pennsylvania Municipal Retirement Law (Act 15 of 1974) for the purpose of administering employee retirement systems for municipalities on a contracted basis. Responsibility for the organization and administration of PMRS is vested in the 11-member Pennsylvania Municipal Retirement Board (Board). The Commonwealth appoints all 11 Board members, but the Commonwealth is not financially accountable as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with PMRS. Therefore, PMRS is considered a related organization of the Commonwealth.

Participating municipalities are financially responsible only for their own plan obligations. PMRS is maintained by contributions from municipalities, payroll deductions and other contributions of employees, and by earnings from the investments of the system. While the monies of individual municipalities are accounted for separately, they are pooled for investment experience. PMRS also pools certain cost experiences, including the cost of administration, disability experience, and retired life experience. As of January 1, 2006, there were 8,374 active employees participating in 684 PMRS covered defined benefit plans and 896 active employees participating in 172 defined contribution plans covered by PMRS.

One of the most common service purchase authorizations provided by public employee retirement systems is for periods of military service which interrupt or delay the commencement of a career with the public employer. Permitting a member to receive retirement service credit for military service is of benefit to the member because the member's retirement benefit can be enhanced through the acquisition of additional service credit, and in some cases, retirement eligibility can be accelerated.

In 1994, the United States Congress passed the Uniformed Services Employment and Re-employment Rights Act (USERRA), which replaced the former Veterans Reemployment Rights Law (VRRL). To ensure that they are not held at a disadvantage in their employment rights, USERRA requires that all employees rendering intervening military service (service that interrupts employment) be considered as having been on leave of absence during that time, a policy that is also reflected in the Commonwealth of Pennsylvania's Military Code and in most state pension plan statutes (USERRA does not address the issue of *nonintervening* military service.). Specifically, 38 U.S.C. § 4318(a)(2)(A) provides that the employee "shall be treated as not having incurred a break in service … by reason of such person's period or periods of service." Further, § 4318(b)(1) provides that "[a]n employer … shall … be liable to an employee pension benefit plan for funding any obligation of the plan to provide the benefits described in subsection (a)(2) …," and that "[n]o such payment may exceed the amount the person would have been permitted or required to contribute had the person remained continuously employed by the employer" (§ 4318(b)(2)). While USERRA only requires the shifting of the interest cost to the employer, in practice, PMRS has interpreted this language to prohibit the assessment of interest on employee contributions made in connection with the purchase of intervening military service.

The Pennsylvania General Assembly has also chosen to authorize the purchase of nonintervening military service (service completed prior to commencement of employment with the public employer) in most of the Commonwealth's public pension plans.

Under the Pennsylvania Municipal Retirement Law, active members of PMRS are entitled to receive retirement service credit for all periods of intervening military service and are entitled to purchase up to five years of nonintervening military service that occurred "in times of war, armed conflict or national emergency, so proclaimed by the President of the United States." Military service rendered during any period that does not meet this standard would not be considered creditable service. However, because USERRA had the effect of superceding the Pennsylvania Municipal Retirement Law with respect to the rights of members purchasing intervening military service, PMRS advises that it has not denied a member's request to purchase such service in recent years. USERRA does not, however, supercede the eligibility requirements contained in the Pennsylvania Municipal Retirement Law pertaining to the purchase of nonintervening military service. As a result, approximately 25% of requests to purchase nonintervening military service have been denied by PMRS because the service was not performed "in times of war, armed conflict or national emergency, so proclaimed by the President of the United States." The individuals currently excluded from purchasing nonintervening military service are those members of PMRS who served in the U. S. armed forces during the 15-year period from roughly 1975 to 1990. The bill would have the effect of liberalizing the service purchase eligibility criteria for nonintervening military service and would bring the Pennsylvania Municipal Retirement Law into compliance with USERRA with respect to the purchase of intervening military service.

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

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary reviewed the bill and determined that based upon the experience of PMRS with respect to the rate of denial of service purchase requests for nonintervening military service credit (due to the limited number of individuals currently excluded from purchasing nonintervening military service), and the minimal additional costs associated with granting such service purchases due to the fact that the member will bear a majority of the cost associated with the service purchase, the actuarial cost of the bill will not be meaningful.

POLICY CONSIDERATIONS

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

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

Substantial Compliance with Federal Law. The bill attempts to bring the Pennsylvania Municipal Retirement Law into conformance with Federal statute by removing language in the Law pertaining to members' eligibility for the crediting of intervening military service that conflicts with the provisions of USERRA. While PMRS may consider such technical amendments to be desirable, conforming amendments are not required by USERRA because federal law already supercedes the intervening military service credit provisions of the Pennsylvania Municipal Retirement Law that are contrary to USERRA.

COMMISSION RECOMMENDATION

On October 23, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 561, Printer's Number 628, was introduced and referred to the House Finance Committee on March 6, 2007.

Bill ID: House Bill Number 1042, Printer's Number 1219

System: State Employees' Retirement System

Subject: Retirement Benefit Reduction for Members of the General Assembly

SYNOPSIS

House Bill Number 1042, Printer's Number 1219, would amend the State Employees' Retirement Code to: 1) beginning January 1, 2008, reduce the retirement benefits of future members of the Pennsylvania General Assembly who become members of the State Employees' Retirement System by requiring these individuals to become members of Class AA (with a corresponding benefit accrual rate of 2.5%) rather than Class D-4 (with a benefit accrual rate of 3.0%; 2) beginning July 1, 2007, increase the superannuation retirement eligibility requirements applicable to future members of the General Assembly from age 50 to the earlier of age 60 or upon the accumulation of 35 years of credited service; and 3) retain at current levels the retirement benefit eligibility rights of current members of the General Assembly who are also members of the State Employees' Retirement System.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, defined benefit, cost-sharing, multiple-employer retirement 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 state employees. Certain other employees, including members of the General Assembly, are not required but are given the option to participate. As of December 31, 2006, SERS had 110,972 active members and 102,060 annuitants and beneficiaries.

Under the Code, 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. The superannuation age for most members is age 60 with three years of service or any age with 35 years of service. Age 50 is the normal retirement age for members of the General Assembly and certain public safety employees.

Prior to the passage of Act 9 of 2001, the annual benefit accrual rate applicable to most members of SERS was 2.0%, with a corresponding 5.0% employee contribution requirement. Act 9, through the creation of new classes of membership in SERS (Class AA for most members and Class D-4 for members of the General Assembly), increased the benefit accrual rates for most SERS members from 2.0% to 2.5%. Currently, most members of SERS are Class AA, which has a 2.5% benefit accrual rate and a corresponding member contribution requirement of 6.25% of pay. For members of the General Assembly who elected membership in Class D-4, the annual benefit accrual rate increased to 3.0%, with a corresponding member contribution rate of 7.5% of pay. Because Act 9 was applicable to all periods of 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% for Class AA members and 50% for Class D-4 members of the General Assembly.

Effective January 1, 2008, the bill would have the effect of mandating a benefit reduction applicable to new members of the General Assembly who elect to become members of SERS, by requiring membership in Class AA and barring eligibility for Class D-4. Beginning July 1, 2007, the bill would also mandate an increase in the superannuation eligibility requirement from age 50 to age 60 (with a minimum of three years service) or the accumulation of 35 years of credited service, whichever first occurs.

The bill does not reduce the retirement benefit accrual rates applicable to current members of the General Assembly who are also active members of SERS. Instead, the bill would effectively create a reduced benefit tier applicable to new members of the General Assembly beginning January 1, 2008. Under the bill, current members are specifically exempted from the provisions of the bill, unless or until there is a break in service. Former members of the General Assembly who return following a break in service would be eligible to become members of Class AA, but not D-4.

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).[3] See *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. See *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 mandating reduced benefits applicable only to members of the General Assembly who become members of SERS after January 1, 2008, the bill avoids impairing the contractual retirement benefit rights of current members, while having the effect of creating a new contractual relationship between the Commonwealth as public employer and new members of the General Assembly who become members of SERS. However, the bill would also alter the superannuation requirements for these members retroactively to July 1, 2007. Such a retroactive change in benefit eligibility would likely run afoul of the Commonwealth's Constitutional prohibition against contract impairment.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and determined that because the bill is applicable to only new members of the General Assembly, there would be no change in unfunded actuarial accrued liability resulting from the bill's enactment. There would be a decrease in normal cost over time as current D-4 members leave service and are replaced by Class AA members, resulting in an eventual employer normal cost savings of 3.83% of legislative payroll. The estimated actuarial cost impact is summarized in the following table, and is based upon the assumption that there would be 40 new legislators joining Class AA in 2009 (the assumed first year) with average salaries of $81,145.

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[3]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."

	Amount
Change in Unfunded Actuarial Accrued Liability	$0

	Amount	As a % of Payroll
Change in Employer Annual Cost		
Normal Cost	$(120,000)	(3.83)%
Amortization Payment	$ 0	0.00 %
Total Change in Employer Annual Cost	$(120,000)	(3.83)%

POLICY CONSIDERATIONS

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

Significant Benefit Reduction. The bill represents a significant benefit reduction applicable to: 1) new members of SERS who become members of the General Assembly, 2) members who return to the General Assembly following a break in service, and 3) current members of the General Assembly who have not yet elected membership in SERS. The bill would have the effect of reducing the benefit accrual rate for these members from the current 3.0% to 2.5% and would increase the superannuation requirements for these members from age 50 to age 60, partially undoing the benefit enhancement provided by Act 9 of 2001.

Potential for Benefit Inequity. By creating what is in effect a reduced benefit tier applicable only to certain members of the General Assembly, the bill creates the potential for pension benefit inequities in the treatment of similarly situated employees, and the potential for litigation brought by members over resulting pension benefit disparities.

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

Inconsistent Effective Dates. Effective January 1, 2008, the bill would change the class of service applicable to new members of the General Assembly who elect to become members of SERS, by requiring such members to become members of Class AA and barring eligibility in Class D-4. Beginning July 1, 2007, the bill would also mandate an increase in the superannuation requirements from age 50 to age 60 (with a minimum of three years service) or the accumulation of 35 years of credited service, whichever first occurs. It is unclear if the application of differing effective dates for these two components of the bill is purposeful or merely a drafting oversight. It would be advisable to adopt a single effective date applicable to both the benefit and superannuation changes that is not retroactive in its application.

Retroactive Application. In the Commonwealth, public employee retirement benefits are recognized as deferred compensation for work already performed. These contractual pension rights become fixed upon the employee's entry into the retirement system and cannot be subsequently unilaterally diminished or adversely affected. The retroactive application of the July 1, 2007, effective date would most likely run afoul of the Commonwealth's Constitutional prohibition against contract impairment.

COMMISSION RECOMMENDATION

On October 23, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 1042, Printer's Number 1219, was introduced and referred to the House Finance Committee on April 10, 2007.

Bill ID: House Bill Number 1479, Printer's Number 1826

System: All Public Safety Employees

Subject: Killed-in-Service Survivor Benefits

SYNOPSIS

House Bill Number 1479, Printer's Number 1826, 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; 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; and 4) reimburse any municipal police pension plan subject to Act 600 for any killed-in-service death benefits paid to survivors under Section 5(e)(2) and require the Commonwealth to assume the obligation for the continuing payment of such benefits.

DISCUSSION

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 2007-2008, the actual benefit is $105,985), to the surviving beneficiaries of public safety personnel who are killed in the course of performing their official duties (Act 21 of 2007, signed July 2, 2007, added individuals who are "certified hazardous material response team members" to the list of those entitled to this benefit). 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, twenty law enforcement officers have been killed in the performance of their duties. Of these officers, five 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 fourteen 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 2007 statewide average weekly wage is $1,168.50, for a maximum workers' compensation rate of $779 (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 $779 per week.

Viewing this calculation on an annual basis, workers' compensation would pay the first $40,508 on a wage loss of $60,762 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-nine decedents who were not covered by the Act 600 killed-in-service benefit, the Commonwealth would have an annual obligation of $280,280. Assuming that the number of compensable deaths will continue at a rate similar to that which has occurred during the 30 plus 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.

The bill would also 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 five 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, Lower Gwynedd Township and Upper Saucon Township had no such offsets. The resulting benefit payment obligations for the remaining four plans are set forth in the following table.

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

Affected Municipality	Annual Benefit Paid From Pension Plan [1]	Benefits Paid to 12/31/07 [2]	Survivor Age [3]
Newtown Borough	$ 22,605	$ 50,865	51
Lititz Borough	60,637	217,282	53
Lower Gwynedd Twp.	65,277	288,317	38
Upper Saucon Township	55,411	60,029	33
Total	$203,930	$616,493	

[1] 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.

[2] 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 12/31/07.

[3] Survivor age at time of member's death.

If the bill is enacted as written, the first-year cost to the Commonwealth would be approximately $616,493 for reimbursement of the benefit payments made through December 31, 2007. The Commonwealth's future annual obligation would be approximately $203,930, 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 insignificant within the context of the Commonwealth's annual budget.

SUMMARY OF ACTUARIAL COST IMPACT

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.

POLICY CONSIDERATIONS

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

> <u>Equity in the Treatment of Public Safety Employees</u>. 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.
>
> <u>Appropriate Reallocation of Risk</u>. 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.

COMMISSION RECOMMENDATION

On August 22, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 1479, Printer's Number 1826, was introduced and referred to the House Finance Committee on June 5, 2007.

Bill ID: House Bill Number 1892, Printer's Number 2614

System: State Employees' Retirement System

Subject: Purchase of Non-State Service Credit for Previous Employment in the Mining Industry

SYNOPSIS

House Bill Number 1892, Printer's Number 2614, 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 five years of non-state service credit for previous private sector employment in the mining industry.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. Membership in SERS is mandatory for most State employees. Certain other employees are not required, but are given the option to participate. As of December 31, 2006, SERS membership consisted of 110,972 active members and 102,060 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 equivalent to the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement.

Service Purchase Authorizations in Public Employee Retirement Systems

Among public employee defined benefit pension plans, it is common practice to permit active members to receive credit for limited categories of service with another employer or previously uncredited service with the current public employer. For employees with past service in the authorized categories, these provisions can be of great value, often enhancing the value of the retirement benefit and, in some cases, accelerating eligibility for retirement. Because of the value of these provisions to public employees, proposals to authorize the purchase of additional categories of prior service are frequently presented to the Commonwealth's policymakers. However, it is important to note that the addition of any new authorization for the purchase of previously non-creditable service generally involves a cost to the affected retirement system. This cost must be borne by the employee eligible to purchase the service, by the former employer (in the case of a transfer of governmental function), by the current public employer, or by some combination of these sources. In cases where some or all of the cost of a service purchase authorization is to be borne by the current employer, the cost may be paid as an additional employer contribution equal to the value of the increased benefit or may be recognized as an increase in the unfunded actuarial accrued liability of the retirement system.

For more than 25 years, the Commission has reviewed numerous legislative proposals to authorize the purchase of prior service in public employee retirement systems. Most of these bills have pertained to the State Employees' Retirement System and the Public School Employees' Retirement System. The frequency with which such proposals have been brought before the Commission and the General Assembly has created the impression among observers in the field that members of public employee retirement systems in Pennsylvania may purchase credit for a broad array of prior service. In reality, however, few of these provisions are enacted. The existing statutory authorizations to purchase service credit in public employee retirement systems are limited in number and are restricted to certain well-defined situations.

In general, the existing provisions cover service to meet an urgent national need, service in a governmental operation that is transferred, interrupted public service, or public education service. Urgent national need has been either military service (intervening or nonintervening) or employees on temporary assignment to the federal government. Service in a governmental operation that is transferred has included county health departments, county school boards, school librarians, county nurses, personal staff of appellate court judges, and highway systems. Interrupted service has included leaves without pay and those who left service either for other employment or those who retired from public service and then returned. Public education has included public education service in other states and with the federal government.

Under Section 5304 of the SERS Code, nonstate service purchase authorizations have been enacted by the General Assembly in order to recognize certain types of previous service with an employer other than the Commonwealth. Service purchases for all periods of nonstate service are credited as Class A service, at a 2.0% annual benefit accrual rate. In contrast, state service credit for most members is now credited as Class AA at a higher 2.5% annual benefit accrual rate. The distinction between "state" and "nonstate" service credit is significant. The qualitatively greater benefit accrual rate associated with state service reflects 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 public service.

The bill would amend the Code to entitle eligible members of SERS to purchase up to five years of nonstate service credit for private sector employment in the mining industry. Under the Pennsylvania Anthracite Coal Mine Act (Act 346 of 1965) and the Pennsylvania Bituminous Coal Mine Act (Act 339 of 1961), individuals seeking employment in mine inspection-related professions with the Department of Environmental Protection are required to meet certain experience requirements to be eligible for employment by the Department. For certain employment classifications, up to 10 years of experience in the mining industry may be required.

The bill would amend Sections 5304 and 5505 of the Code to provide for the purchase of non-state service credit for prior employment in the mining industry. Under the bill, the following classifications of Department employees would be permitted to purchase service credit for certain periods of previous employment in the mining industry: mine inspector, electrical inspector, and emergency response training specialist. Permitting a member to receive service credit for previous employment in the mining industry would be of benefit to an eligible member because the affected member's retirement benefit would be enhanced and retirement benefit eligibility may be accelerated.

The bill specifies the use of a service purchase calculation that is essentially identical to the service purchase calculation contained in Section 5505(b) (relating to nonintervening military service) in determining the service purchase amount for the purchase of creditable mining service. Because the service purchase method specified by the bill results in the member paying significantly less than the full actuarial cost of the increased benefit, the resulting unfunded actuarial accrued liability would be funded by the Commonwealth through level-dollar amortization payments over a 10-year period.

The bill specifies that members may pay for the service purchase through one of the following payment methods: 1) by making a lump-sum payment within 30 days of certification of the purchase amount by the Board; or 2) through a salary deduction authorization plan agreed to by the member and the Board, which may include a deferral of payment amounts and statutory interest until the termination of state service.

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, a member also may become eligible for certain collateral retirement benefits (such as majority state-paid retiree health insurance, leave payouts upon separation from service, etc.) sooner than otherwise or may achieve eligibility for these benefits when the member could not otherwise do so.

SUMMARY OF ACTUARIAL COST IMPACT

In preparing the actuarial cost estimate for the service purchase authorization provided by the bill, the Commission's consulting actuary utilized census data provided to the Commission staff by the Pennsylvania Department of Environmental Protection (DEP) for the 35 affected SERS members. For the purposes of this analysis, the Commission's consulting actuary assumed that each eligible member would purchase the maximum amount of service credit to which the member would be entitled, based upon the applicable DEP employment classification. Additionally, due to the potentially hazardous nature of the work performed by the affected employee classifications, the Commission's consulting actuary incorporated an actuarial assumption that reflects the possibility of a more rapid retirement rate upon attainment of superannuation age for the affected employees than would otherwise be the case for the general SERS membership. Based upon these assumptions, the estimated range of actuarial cost impact resulting from the bill is summarized in the following table.

	Amount
Increase in Unfunded Actuarial Accrued Liabilities	$950,000 — $1,200,000

	Amount	**As a % of Affected Payroll**
Increases in Employers' Annual Costs		
Normal Costs	$ 0 — $ 0	0.0% — 0.0%
Amortization Payments [1]	145,000 — 183,000	6.2% — 7.8%
Total Increases in Employers' Annual Costs	$145,000 — $183,000	6.2% — 7.8%

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

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

Departure from Current Policy. The bill represents a departure from current policy by authorizing the purchase of up to five years of non-state service credit in SERS for previous service with a non-governmental employer. If enacted, the bill would set a new precedent in the purchase of service credit and would likely result in numerous similar requests to purchase service for previous service with various non-governmental employers.

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

Inequity of Certain Service Purchase Authorizations. In its report, 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 to the public employer. The use of service purchase authorizations on an ad hoc basis to recognize past education, training, or experience requires policymakers 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 Employment in the Mining Industry. 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.

Restriction on Duplication of Service Credit. In its report, the Commission recommended that a public employee who, at the time of exercising a service purchase option, is entitled to receive, is eligible to receive now or in the future, is receiving or has received retirement benefits under a retirement system administered and wholly or partially paid for by any other employer, be prohibited from purchasing and receiving service credit for such previous service. Such a restriction is viewed by the Commission as an appropriate expression of the view of retirement benefits as deferred compensation for service already performed and that an individual should not be compensated twice for the same service. The bill contains such a restriction on the duplication of service credit.

Adequacy of Purchase Payments. The method for calculating the member contributions to purchase service credit for nonstate service proposed in the bill would result in a member paying significantly 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. 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 most service purchase authorizations, the Commission recommended that affected members be limited to one exercise of the option applicable to any one period of eligible prior service. The bill contains such a limitation.

The Commission also recommended that a member 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. The absence of a restriction on withdrawal of the purchase amount under Option 4 will increase the cost to SERS associated with the authorization to purchase credit for this service.

COMMISSION RECOMMENDATION

On November 21, 2007, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

LEGISLATIVE STATUS AS OF DECEMBER 31, 2007

House Bill Number 1892, Printer's Number 2614, was introduced and referred to the House Finance Committee on October 15, 2007.

PART II

PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

A. ACT 205 OF 1984.

- **2007 Filing Period**

In August of 2007, the Commission transmitted filing notices to the 4,500 local governments required to file employee pension plan reports pursuant to Act 205. Several follow-up notices were sent to local governments that failed to respond to the filing notice in the fall of 2007. The filing deadline for the 2007 Act 205 reports will be March 31, 2008.

- **Municipal Pension Cost Certification**

In the summer of 2007, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2007 allocation of General Municipal Pension System State Aid. In 2007, the State aid provided to municipalities to offset their employee pension costs totaled $206 million. More than 1,400 individual allocations of General Municipal Pension System State Aid were determined by the cost data certified by the Commission.

B. ACT 293 OF 1972.

- **2006 Filing Period**

Since the passage of the Municipal Pension Plan Funding Standard and Recovery Act, the actuarial reporting program under Act 293 has only been applicable to county employee retirement systems. The 2006 actuarial reports on these systems were filed in 2007. The financial, demographic, and actuarial data contained in the reports has been reviewed and will be summarized in the *Status Report on Local Government Pension Plans* to be published by the Commission late in 2008.

PART III

PUBLIC EMPLOYEE RETIREMENT SYSTEM POLICY DEVELOPMENT AND COORDINATION

A. STATUTORY PROVISIONS.

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

Section 6. Powers and Duties.

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

(1) To study generally the subject of retirement, income after retirement, disability and death benefits and the retirement needs of public employees. The Commission shall have responsibility to formulate principles and objectives applicable thereto and to recommend any new legislation it deems advisable.

(2) To analyze on its own or upon request from either the legislative or executive branch any bill relating to public employee retirement or pension policy and issue a report thereto in a timely fashion. Such report shall be submitted to the General Assembly and the Governor and shall include an assessment of the actuarial soundness, feasibility and cost of such legislation.

(9) To monitor and evaluate from time to time all the laws and systems thereunder which relate to public employee pension and retirement policy in the Commonwealth.

(10) To study the relationship of retirement and pension policy to other aspects of public personnel policy and to the effective operation of government generally.

(11) To examine the interrelationships among public employee pension and retirement systems throughout the State.

B. RESEARCH.

- ***Special Report: Divestment and Pennsylvania's Public Employee Retirement Systems***

In recent years, much attention has been focused on the investment practices of public pension funds. For the past two decades, the trend among public pension plans has generally been toward loosening restrictions on the types of investments that pension plan trustees may make and empowering trustees to structure diversified investment portfolios intended to maximize investment returns across all asset classes while controlling risk. In general, the trend has been a positive one, resulting in significantly enhanced investment return rates.

During the current and past several legislative sessions of the Pennsylvania General Assembly, a number of bills and resolutions have been introduced in both the House and Senate prohibiting or limiting the investment of certain State or State-related funds, including assets managed by the Public School Employees' Retirement System and the State Employees' Retirement System. Most of these divestment proposals have dealt with corporations or other entities that: 1) engaged in business activities in certain countries regarded as hostile to United States interests; 2) engaged in business activities in countries with oppressive regimes that routinely violate international norms and fundamental human rights; or 3) engaged in business activities which themselves could be considered harmful to society or which are regarded as having no redeeming social value.

The Commission became concerned that divestment mandates, though well intentioned, could have significant negative consequences for public pension plans, public employers and, ultimately, Commonwealth taxpayers. The Commission also believed that there were significant practical and policy issues associated with divestment that warranted elaboration. For these reasons, the Commission elected to undertake a study and issue a special report. Research began in the latter half of 2007 and the Commission's report entitled *Special Report: Divestment and Pennsylvania's Public Employee Retirement Systems* was released by the Commission in October 2007. The stated purpose of the special report is to provide information on the issue of divestment generally, and on the potential impact of specific divestment mandates upon the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS). The special report contains a summary description of PSERS and SERS, a general discussion on the topic of divestment, including a brief history of divestment within the context of "socially responsible investing," provides a description of the current situation with respect to divestment efforts nationally, and presents the major arguments for and against divestment as a tool for facilitating political and social change. The report includes a discussion of the major policy considerations associated with the imposition of divestment mandates both generally, and as they apply to specific legislative proposals now pending in the General Assembly.

C. STATEWIDE PUBLIC EMPLOYEE RETIREMENT SYSTEM REVIEWS.

Under the Public Employee Retirement Commission Act, the Commission conducts periodic reviews of the actuarial and financial reports of the various public employee retirement systems. The Commission conducted its review of the Public School Employees' Retirement System in April 2007.

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

At the April 19, 2007, meeting of the Commission, the Staff presented a summary of the June 30, 2006, Actuarial Valuation Report of the Public School Employees' Retirement System (PSERS) issued January 24, 2007, 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 for pensions of .72% (health insurance contribution rate declined .05%).
- Decrease in the funded ratio from 83.7% to 81.2%.
- Unfunded accrued liability of $12,162,600,000.
- An increase in unfunded accrued liability of $2,155,300,000.
- The unfunded accrued liability was $889,310,000 greater than expected.
- An increase in the total normal cost to 13.93% from 13.83%.
- Employer contributions remain above the 4.00% minimum employer contribution rate.

Changes in Contribution Rate

		Employer Contributions			
Fiscal Year	Member Contributions	Normal Cost	Unfunded Accrued Liability	Health Insurance	Total
2007/2008	7.25%	6.68%	(0.24)%	.69%	7.13%
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%

Reasons for Change in the Contribution Rate

• Increase due to change in normal rate	0.06%
• Increase due to payroll growth	0.07
• Increase due to actuarial loss on assets	0.24
• Increase due to actuarial loss on liabilities	0.46
• Decrease due to change in health insurance contribution rate	(0.05)
• Decrease due to effect of 4% floor on FY 2006 pension contribution	(0.06)
Total	0.72%

Reasons for Increase Greater than Expected in Unfunded Accrued Liability

- Experience (Gains) Losses

— Loss from Investment Return on Actuarial Value of Assets	$298,510,000
— Loss from Salary Increases Greater than Expected	423,116,000
— Loss from Retirement and Other Separation Experience	175,573,000
— Gain from Annuitants' Mortality Experience	(7,889,000)
Total	$889,310,000

* * * * * * * * * *

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.

Summary of Actuarial Valuation
Public School Employees' Retirement System as of June 30, 2006

The following is a summary of the June 30, 2006, Actuarial Valuation of the Public School Employees' Retirement System and a comparison of the 2006 results with those of 2005.

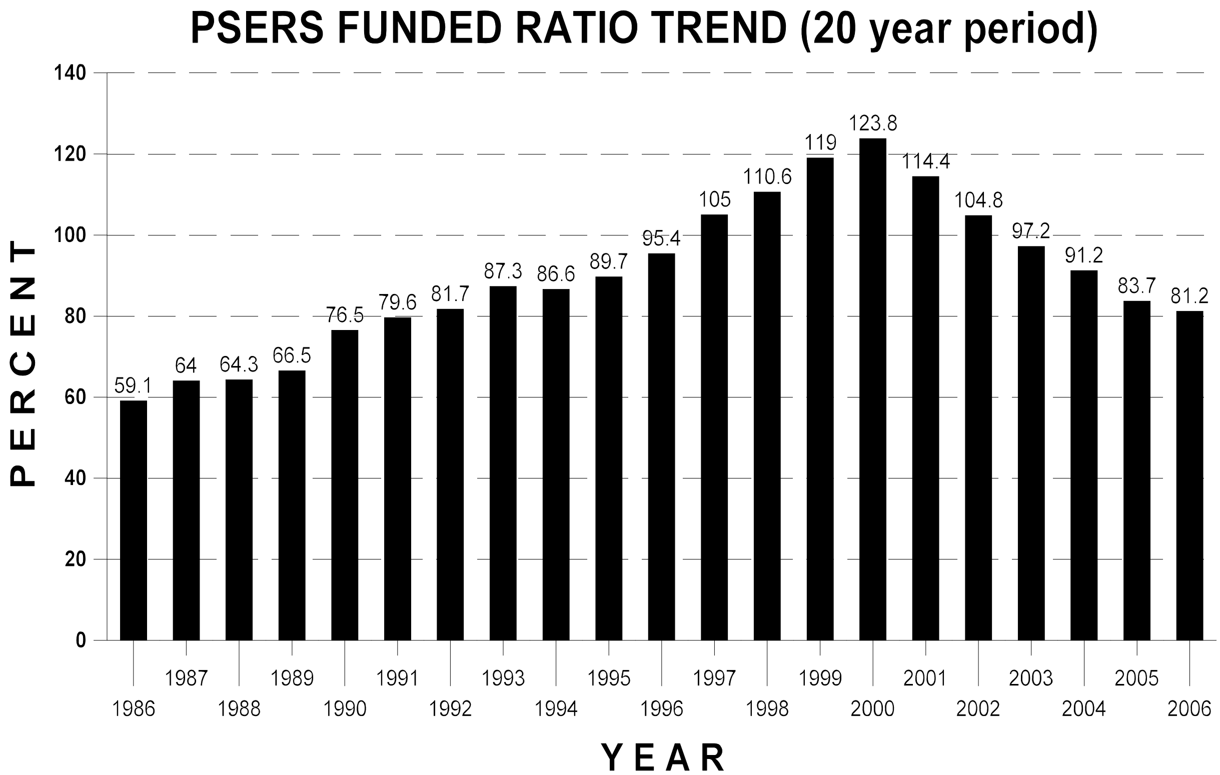
	6/30/05		6/30/06	
Membership				
Active Members	255,465		263,350	
Inactive and Vested Members	58,720		94,071	
Retired Members	141,763		146,582	
Disabled Members	6,964		7,175	
Survivors and Beneficiaries	7,792		8,056	
Payroll and Annuities Payable				
Total Annual Payroll	$10,527,668,000		$11,419,049,000	
Annual Annuities and Benefits	$ 3,027,550,000		$ 3,274,451,000	
Valuation Data				
Accrued Liability [1]	$61,226,581,000		$64,720,138,000	
Assets	51,219,293,000		52,557,503,000	
Unfunded Accrued Liability [1]	$10,007,288,000		$12,162,635,000	
Fund Ratio (Pensions and Health Insurance Combined)	83.7%		81.2%	
Funding Costs				
Normal Cost	$1,455,976,484.40	13.83 %	$1,590,673,525.7	13.93 %
Amortization [2]	(100,012,846.00)	(0.95)%	(27,405,717.6)	(0.24)%
Full Actuarial Funding	$1,355,963,638.40	12.88 %	$1,563,267,808.1	13.69 %
Support - Minimum [3]				
Member	Employer Pension Contribution Rate is above the minimum in Fiscal Year 2006-2007		Employer Pension Contribution Rate is above the minimum in Fiscal Year 2007-2008	
School District				
Commonwealth				
Total Support [4]				
Support - No Minimum [3]				
Member	$ 759,044,862.80	7.21 %	$ 827,881,052.5	7.25%
School District	298,459,387.80	2.835%	367,693,377.8	3.22%
Commonwealth	298,459,387.80	2.835%	367,693,377.8	3.22%
Total Support [4]	$1,355,963,638.40	12.88 %	$1,563,267,808.1	13.69%

1 Includes liability for health care payments.

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

3 Act 40 provides a 4.0% minimum employer pension contribution rate. The employer pension contribution rate in fiscal year is 6.44%.

4 The 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, for Fiscal Year 2006-2007 are not included in the 6/30/05 totals. In addition, an employer health-care contribution rate of 0.69% is not included in the 6/30/06 totals.


PSERS FUNDED RATIO TREND (20 year period)
PERCENT
140
120
100
80
60
40
20
0
59.1
64
64.3
66.5
76.5
79.6
81.7
87.3
86.6
89.7
95.4
105
110.6
119
123.8
114.4
104.8
97.2
91.2
83.7
81.2
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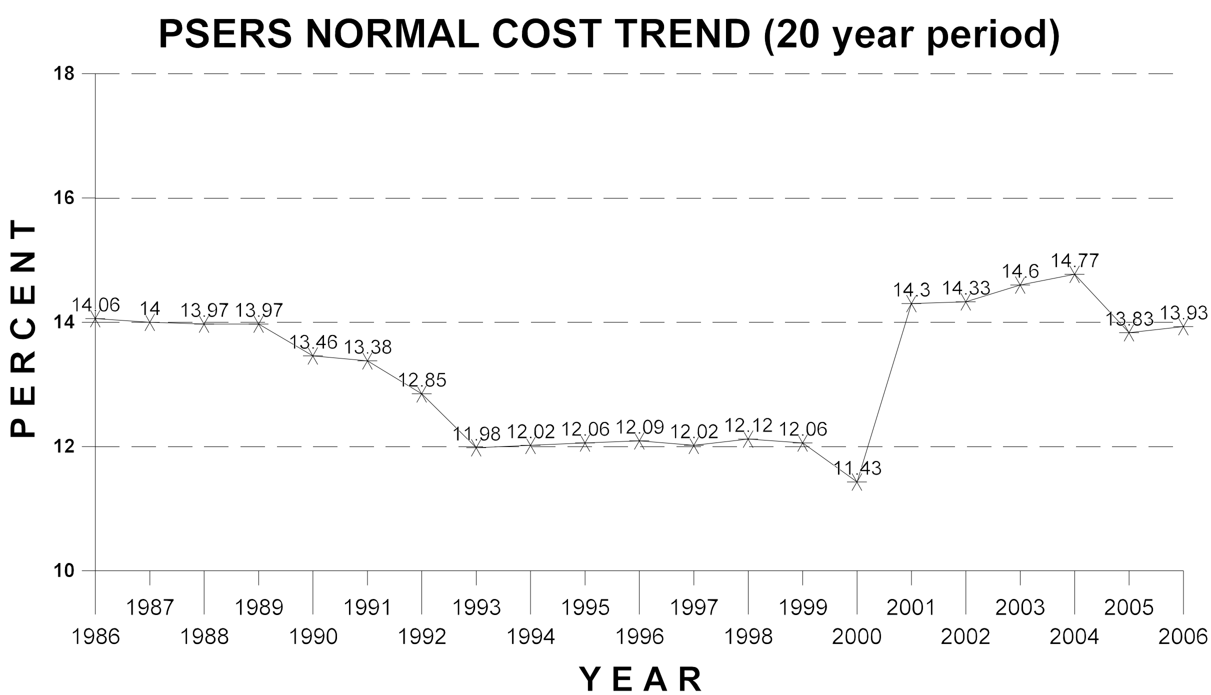
PSERS NORMAL COST TREND (20 year period)
PERCENT
18
16
14
12
10
14.06
14
13.97
13.97
13.46
13.38
12.85
11.98
12.02
12.06
12.09
12.02
12.12
12.06
11.43
14.3
14.33
14.6
14.77
13.83
13.93
1986
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2006
YEAR

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 2007 and their sponsoring organizations were as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

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

Mr. A. Christopher Cap
PENNSYLVANIA STATE ASSOCIATION OF BOROUGHS

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

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

Ms. Olivia M. Lazor
COUNTY COMMISSIONERS ASSOCIATION OF PENNSYLVANIA

Mr. Douglas E. Bilheimer
PENNSYLVANIA MUNICIPAL AUTHORITIES ASSOCIATION

MUNICIPAL EMPLOYEE PENSION ADVISORY COMMITTEE

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

Mr. Joseph Fitzgerald
PENNSYLVANIA FRATERNAL ORDER OF POLICE

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

Mr. Ronald Fonock
PENNSYLVANIA CHIEFS OF POLICE ASSOCIATION

Mr. W. Gerard Oleksiak
PENNSYLVANIA STATE EDUCATION ASSOCIATION

Consulting Actuaries

The actuarial services committee developed and adopted guidelines for providing actuarial services to the Commission on June 2, 1982. The guidelines establish the educational and experience standards for the selection of consulting actuaries. The engagement of multiple actuarial consultants was considered appropriate to provide the Commission with an enhanced scope of actuarial experience and a greater response capacity, and to avoid potential conflicts of interest. The actuarial consultants engaged by the Commission during 2007 were:

Conrad Siegel Actuaries
Mr. David H. Killick

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

Mercer Human Resource Consulting
Mr. Stephen T. McElhaney

APPENDIX B

LEGISLATIVE PROCEDURES UNDER SECTION 7 OF THE PUBLIC EMPLOYEE RETIREMENT COMMISSION ACT

I. Implementation by the General Assembly.

A. At the beginning of each legislative session of the General Assembly, the Speaker of the House and the President Pro Tempore of the Senate formally advise the chairmen of each standing committee in their respective chamber of the actuarial review provisions implemented by Act No. 1981-66.

B. Both chambers of the General Assembly adopt procedures most consistent with their operating rules to ensure that committee approved bills or floor amended bills are not considered prior to receipt of an actuarial note from the Commission or the passage of 20 legislative days from the date of first consideration or adoption of the floor amendment.

1. Actuarial Note Requests for Committee Approved Bills.-

   The Committee chairman in either chamber of the General Assembly shall notify the Commission upon reporting a bill to the floor which proposes any change relative to a public employee pension system and request preparation of an actuarial note.

2. Actuarial Note Requests for Floor Amended Bills.-

   The majority leader of either chamber of the General Assembly shall request preparation of an actuarial note for the floor amended bill on behalf of the respective chamber. The Commission shall provide the actuarial note as expeditiously as possible.

3. Actuarial Note Requests for Bills Referred by Other Chamber.-

   When a committee in either chamber of the General Assembly approves without amendment a bill to the floor which has had an actuarial note attached in the other chamber, preparation of a new actuarial note is unnecessary. Where an amendment to the bill has been approved by the committee, the chairman shall notify the Commission and request preparation of a new actuarial note. The Commission shall provide the actuarial note as expeditiously as possible.

4. Actuarial Note Requests from the House or Senate Appropriations Committees.-

   Whenever a request is received by the Commission from the chairman of either the House Appropriations Committee or the Senate Appropriations Committee for an actuarial note on a bill in the possession of the committee, the Commission shall formally authorize preparation of the actuarial note, as opposed to an advisory note, and transmit the actuarial note to the requesting committee as expeditiously as possible.

II. Response by the Commission.

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

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

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

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

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

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

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

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

Adopted April 10, 1985.

APPENDIX C

BY-LAWS OF THE
PUBLIC EMPLOYEE RETIREMENT COMMISSION

Title 4. Administration

Part XII. Public Employee Retirement Commission

Section 401.1. Definitions.

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

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

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

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

Member - a member of the Commission.

Chapter 402. By-Laws

Section 402.1. Meetings

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

Section 402.2. Quorum and Voting.

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

Section 402.3. Open Meetings.

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

Section 402.4. Minutes.

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

Section 402.5. Officers.

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

Section 402.6. Office.

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

Section 402.7. Committees.

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

Section 402.8. Advisory Committees.

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

Section 402.9. Budget.

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

Section 402.10. Miscellaneous.

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

Section 402.11. Amendment.

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

Revised November 17, 1987

APPENDIX D

PUBLIC EMPLOYEE RETIREMENT COMMISSION

COMPREHENSIVE LIST OF 2007 - 2008 SESSIONS LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES AS OF DECEMBER 31, 2007

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 126 P. N. 152 (Godshall)	PSERS and SERS, increasing and expanding the employer contribution floor rates provided for in the Codes of the Systems.	Referred to House State Government Committee **Actuarial Note (A. 00174)** **Actuarial Note (P. N. 152)**	01/31/07 03/22/07 03/22/07
H. B. 135 P. N. 161 (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 Education Committee	01/31/07
H. B. 143 P. N. 2589 (Baker)	Pennsylvania Conservation Corps Act (Act 112 of 1984), beginning July 1, 2008, mandating membership in SERS for Pennsylvania Conservation Corps "crewleaders," and authorizing the provision of State healthcare benefits for crewleaders.	Referred to House State Government Committee **Advisory Note (P. N. 169)** Reported as Amended First Consideration Re-committed to House Rules Committee **Actuarial Note (P. N. 2017)** **Commission Letter (A. 03287)** Second Consideration **Commission Letter (P. N. 2589)** Third Consideration and Final Passage (187-3)	01/31/07 02/15/07 06/20/07 06/20/07 06/20/07 08/22/07 09/27/07 10/03/07 10/29/07 11/19/07
H. B. 144 P. N. 996 (Baker)	PSERS and SERS, beginning January 1, 2008, providing for optional membership in the system for crewleaders employed pursuant to the PA Conservation Corps Act, and providing for the purchase of up to five years of nonschool or nonstate service credit for previous service as a crewleader with the PA Conservation Corps rendered prior to January 1, 2008, 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 State Government Committee **Advisory Note (P. N. 170)** First Consideration **Actuarial Note (P. N. 996)**	01/31/07 02/15/07 03/20/07 04/19/07
H. B. 200 P. N. 1489 (Eachus)	An Act, mandating the payment of postretirement cost-of-living adjustments to eligible retired municipal police officers beginning January 1, 2007, establishing the Ad Hoc Postretirement Adjustment Account to pro-	Referred to House Finance Committee	05/04/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	vide for future COLAs and to provide for funding from the General Municipal Pension System State Aid program, and mandating Commonwealth reimbursement to municipalities.		
H. B. 230 P. N. 1252 (Daley)	PSERS, permits an active member or active multiple service member 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 who during the period from March 1, 2008, through June 1, 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; or 2) a member who during the period from March 1, 2009, through June 1, 2009, 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, 2009. The bill also entitles an affected 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.	Referred to House Finance Committee	04/13/07
H. B. 231 P. N. 1261 (Daley)	SERS, permits an active member or active multiple service member 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 who during the period from March 1, 2008, through June 1, 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; or 2) a member who during the period from March 1, 2009, through June 1, 2009, has attained at least 30 eligibility points, or a combi-	Referred to House Finance Committee Corrective reprint (P. N. 1261)	04/13/07 04/17/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	nation 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, 2009. The bill also entitles an affected 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.		
H. B. 350 P. N. 400 (Reed)	PSERS and SERS, effective July 1, 2008, mandating payment of a 5% annual COLA to eligible annuitants of both systems for a period of five years, provided that the actuaries of the respective systems certify that sufficient reserves exist in the funds of the systems to allow for the payment of the COLAs without the need for increases in employer contributions and without any added cost to the taxpayers of the Commonwealth.	Referred to House Finance Committee	02/09/07
H. B. 358 P. N. 408 (Rapp)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), amending Chapter 7, Section 704, relating to the distribution of funds generated by the Foreign Fire Insurance Tax, requiring the State Treasurer to equally distribute any fund increases in even-numbered years to municipalities that received less than $10,000 in relief funds in the previous year.	Referred to House Finance Committee	02/09/07
H. B. 364 P. N. 428 (Casorio)	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.	Referred to House Local Government Committee **Actuarial Note (P. N. 428)**	02/13/07 03/22/07
H. B. 374 P. N. 438 (Haluska)	SERS, amends the Code to permit certain active members employed by the Department of Environmental Protection to purchase service credit for previous private sector experience in mining.	Referred to House State Government Committee **Actuarial Note (P. N. 438)**	02/13/07 03/22/07
H. B. 385 P. N. 449 (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 Finance Committee	02/13/07
H. B. 386 P. N. 450 (Petri)	SERS, amending the Code to establish an optional defined contribution plan to be known as the State Employees' Optional Retirement Program effective July 1, 2007.	Referred to House Finance Committee	02/13/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 425 P. N. 489 (Wojnaroski)	Third Class City Code, reducing the eligibility requirements for normal retirement applicable to police officers from age 50 with at least 20 years of service to 20 years of service at any age.	Referred to House Local Government Committee Re-referred to House Urban Affairs Committee **Actuarial Note (P. N. 489)**	02/13/07 03/19/07 03/22/07
H. B. 459 P. N. 582 (Kauffman)	SERS, defining "campus police officer" and providing age 50 superannuation retirement benefits to certain campus police officers.	Referred to House State Government Committee	03/06/07
H. B. 475 P. N. 585 (Nickol)	PSERS and SERS, increasing and making permanent the minimum employer contribution rates provided for in the Codes of the Systems.	Referred to House Finance Committee **Actuarial Note (P. N. 585 and A. 02972)**	03/06/07 10/23/07
H. B. 476 P. N. 533 (Nickol)	The Borough Code (Act 581 of 1966), providing for the purchase of military service credit by firefighters.	Referred to House Committee on Veterans Affairs and Emergency Preparedness	02/26/07
H. B. 478 P. N. 535 (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 costs to the Auditor General for the purpose of distributing General Municipal Pension System State Aid.	Referred to House Finance Committee	02/26/07
H. B. 526 P. N. 597 (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	03/06/07
H. B. 545 P. N. 615 (O'Neill)	PSERS, amending the Code to 1) credit the annuity reserve account with "actual interest," which the bill defines as the difference between the Fund's earnings and the actuarial assumed rate of return (currently 8.5%), instead of the currently mandated "valuation interest," defined in the Code as 5.5% and which is credited to all accounts (including the annuity reserve account) except for the members' savings account which is credited at 4%; and 2) changing the amortization period for COLA liabilities from the currently mandated 10-year level dollar to 20-year level dollar.	Referred to House Finance Committee	03/06/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 554 P. N. 623 (Dally)	Municipal Police Pension Law (Act 600 of 1955), permitting members to purchase service credit for up to five years of previous part-time service.	Referred to House Finance Committee	03/06/07
H. B. 561 P. N. 628 (Dally)	PMRS, liberalizing the service purchase eligibility criteria for 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 **Actuarial Note (P. N. 628)**	03/06/07 10/23/07
H. B. 622 P. N. 687 (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	03/06/07
H. B. 623 P. N. 688 (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	03/06/07
H. B. 624 P. N. 689 (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	03/06/07
H. B. 625 P. N. 690 (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	03/06/07
H. B. 626 P. N. 691 (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	03/06/07
H. B. 627 P. N. 692 (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	03/06/07
H. B. 628 P. N. 693 (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	03/06/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 629 P. N. 694 (Hickernell)	Municipal Authorities, 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	03/06/07
H. B. 637 P. N. 721 (Surra)	SERS, amending the definition of "enforcement officer" to include officers of the Pennsylvania Game Commission.	Referred to House Game and Fisheries Committee	03/07/07
H. B. 639 P. N. 700 (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	03/06/07
H. B. 682 P. N. 1352 (Nickol)	SERS, removing the authority of the Juvenile Court Judges' Commission to establish an independent retirement program and making various other changes to the Code that are of a technical, corrective or editorial nature.	Referred to House Finance Committee **Commission Letter (P. N. 768)** First Consideration **Commission Letter (P. N. 1352)** Re-referred to House Appropriations Committee **Commission Letter (A. 00476)**	03/09/07 03/27/07 04/18/07 04/20/07 04/23/07 04/26/07
H. B. 719 P. N. 804 (Nickol)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), providing for the establishment of in-service retirement option plans by local governments and making various amendments of a technical, editorial or administrative nature.	Referred to House Finance Committee	03/09/07
H. B. 733 P. N. 860 (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 Finance Committee	03/19/07
H. B. 746 P. N. 873 (Reed)	SERS, defining "campus police officer" and providing age 50 superannuation retirement benefits to certain campus police officers.	Referred to House Finance Committee	03/19/07
H. B. 837 P. N. 1084 (Denlinger)	SERS, permitting the purchase of up to five years of nonstate service credit for previous service as a municipal police officer.	Referred to House Finance Committee	03/29/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 876 P. N. 1446 (D. Evans)	SERS, amending the code to extend and make permanent the currently mandated minimum employer contribution rate of 4 percent.	Referred to House Finance Committee	03/22/07
		Commission Letter (P. N. 1031)	03/23/07
		First Consideration	04/25/07
		Commission Letter (P. N. 1446)	04/26/07
		Second Consideration	05/07/07
		Third Consideration and Final Passage (196-1)	05/21/07
		Referred to Senate Finance Committee	05/23/07
		First Consideration	06/06/07
		Second Consideration	06/11/07
		Third Consideration and Final Passage (50-0)	06/12/07
		Signed by the Governor (Act 8 of 2007)	06/27/07
H. B. 888 P. N. 1042 (Casorio)	Municipal Police Pension Law (Act 600 of 1955), increasing the maximum benefit that may be payed to the surviving spouse or child of a member who dies while in service or on retirement from not less than 50% to not less than 60% of the pension benefit that was or would have been payable to the member at the time of death, reducing the time period over which a member's pension benefit is calculated from the last 36 to the last 24 months of employment, increasing the maximum service increment from $500 to $600 monthly, and increasing the limit on the maximum pension benefit, including COLAs, from 75% to 80% of salary.	Referred to House Finance Committee	03/22/07
H. B. 1012 P. N. 1181 (Goodman)	PSERS, further providing for membership of the PSERS Board.	Referred to House Finance Committee	04/03/07
H. B. 1042 P. N. 1219 (Nickol)	SERS, beginning January 1, 2008, requiring all new members of the General Assembly to become Class AA members of the System, and beginning July 1, 2007, increasing the normal retirement age for new members of the General Assembly from age 50 to age 60 or any age with 35 years of service credit.	Referred to House Finance Committee	04/10/07
		Actuarial Note (P. N. 1219)	10/23/07
H. B. 1085 P. N. 1257 (Shapiro)	SERS, prohibiting investments in companies with ties to countries identified as state-sponsors of terrorism.	Referred to House State Government Committee	04/16/07
		First Consideration	06/30/07
		Commission Letter (A. 03399, 03443, 03444, 03445, 03446, 03447 and 03448)	10/09/07
		Commission Letter (A. 03449)	10/23/07
		Commission Letter (A. 03436)	10/23/07
		Commission Letter (P. N. 1257)	10/23/07
		Commission Letter (A. 03702)	10/26/07
		Commission Letter (A. 04066)	11/09/07
		Commission Letter (A. 04069)	11/09/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 1086 P. N. 1258 (Shapiro)	The Fiscal Code, amends the Code to prohibit investments in entities doing business with state-sponsors of terror.	Referred to House State Government Committee First Consideration **Commission Letter (A. 03774)**	04/16/07 06/30/07 11/09/07
H. B. 1087 P. N. 1259 (Shapiro)	PSERS, prohibiting investments in companies with ties to countries identified as state-sponsors of terrorism.	Referred to House State Government Committee First Consideration **Commission Letter (A. 03375, 03450, 03451, 03452, 03453, 03454 and 03455)** **Commission Letter (A. 02678)** **Commission Letter (A. 03456)** **Commission Letter (P. N. 1087)** **Commission Letter (A. 03704)** **Commission Letter (A. 03772)**	04/16/07 06/30/07 10/09/07 10/23/07 10/23/07 10/23/07 10/26/07 11/09/07
H. B. 1097 P. N. 1328 (Buxton)	SERS, amending the Code to permit an annuitant to deduct and assign a portion of the annuitant's retirement benefit to a retiree organization affiliated with an employee organization recognized as a collective bargaining representative.	Referred to House Finance Committee	04/18/07
H. B. 1103 P. N. 1333 (Mann)	PSERS and SERS, amending the Codes of both Systems by mandating that nonintervening military service be credited as Class T-D of Class AA (2.5% accrual rate) instead of Class T-C or Class A (2.0% accrual rate).	Referred to House Finance Committee	04/18/07
H. B. 1140 P. N. 2190 (Josephs)	An Act prohibiting all Commonwealth Public Funds, including but not limited to SERS and PSERS, from investing in certain private business entities doing business with or in the nation of Sudan and requiring the Commonwealth to reimburse the affected funds for any investment losses resulting from divestment.	Referred to House State Government Committee **Commission Letter (P. N. 1390)** Reported as Amended **Commission Letter (A. 01811, 01812, 02024 and 02025)** Second Consideration Third Consideration Final Passage (194-3) Referred to Senate Finance Committee	04/23/07 05/23/07 06/20/07 06/29/07 07/02/07 07/06/07 07/06/07 07/08/07
H. B. 1163 P. N. 1427 (Wansacz)	PSERS and SERS, amending the Codes of both Systems to require that nonintervening military service be credited as school or state service rather than nonschool or nonstate service.	Referred to House Finance Committee	04/25/07
H. B. 1233 P. N. 1518 (Nickol)	Titles 20 (Decedents, Estates and Fiduciaries) and 53 (Municipalities Generally), clarifying the definition of fiduciary, for authorized investments, defining OPEBs and UAL.	Referred to House Judiciary Committee	05/04/07
H. B. 1294 P. N. 1599 (Surra)	PSERS, amending section 8304 of the Code to permit the purchase of up to three years of nonschool service credit for previous work experience used by a member to obtain certification as a vocational teacher.	Referred to House Finance Committee	05/18/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 1300 P. N. 1605 (Hutchinson)	PSERS, amending section 8304 of the Code to permit the purchase of up to three years of nonschool service credit for previous work experience used by a member to obtain certification as a vocational teacher.	Referred to House Finance Committee	05/18/07
H. B. 1387 P. N. 1734 (Gibbons)	PSERS, providing a supplemental annuity (COLA) to eligible annuitants, commencing with the first monthly annuity payment after July 1, 2007, with percentage increases ranging from 20% to 100%, depending upon the member's date of retirement and paid over a five-year period. An eligible annuitant is defined as any superannuation, withdrawal or disability annuitant who is receiving an annuity on July 1, 2007, and whose most recent effective date of retirement is prior to July 1, 2001. Annuitants with creditable service in Class T-D, Class AA or Class D-4 would not be eligible to receive the supplemental annuity.	Referred to House Finance Committee	05/29/07
H. B. 1390 P. N. 1737 (Wojnaroski)	SERS, mandating the payment of automatic annual supplemental annuities to retired State police officers.	Referred to House Finance Committee	05/29/07
H. B. 1411 P. N. 1791 (Solobay)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), establishing a "Surplus Restricted Account," and redirecting a portion of State aid to the surplus restricted account for distribution to municipalities for fire protection services.	Referred to House Finance Committee Re-referred to House Veterans Affairs and Emergency Preparedness Committee	06/05/07 07/03/07
H. B. 1437 P. N. 2470 (McCall)	PSERS, permitting an active member to purchase up to two years of nonschool service credit for time spent on a maternity leave of absence after November 1, 1978.	Referred to House Education Committee	09/24/07
H. B. 1479 P. N. 1826 (Harper)	Emergency and Law Enforcement Personnel Death Benefits Act (Act 101 of 1976) 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	Referred to House Finance Committee **Actuarial Note (P. N. 1826)**	06/05/07 08/22/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	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.		
H. B. 1553 P. N. 1955 (Freeman)	SERS, creating a special multiple-service election period applicable to active members of the system beginning from the effective date of the bill and ending January 1, 2009.	Referred to House Finance Committee	06/18/07
H. B. 1600 P. N. 2811 (Levdansky)	The bill would create the Supplemental Homeowner and Property Tax Relief Act, providing for supplemental Commonwealth-tax relief and establishing the Personal Income Tax Surcharge Fund. Amendment Number 05021 would substantially revise the bill, establishing a stand-alone act designed to provide for property tax relief, public school funding, and public school cost controls. Chapter 17 (Retirement Cost Control and Payments) of Amendment Number 05021 would alter the current Commonwealth/Public School Employees Retirement System (PSERS) employer cost-sharing arrangement by fixing at 3% of payroll the total amount of employer contributions required of PSERS employers that are school entities.	Referred to House Finance Committee Reported as Amended First Consideration Re-committed to House Appropriations Committee **Commission Letter (A. 05021)**	07/17/07 11/01/07 11/01/07 12/05/07 12/12/07
H. B. 1724 P. N. 2302 (M. Smith)	Third Class City Code, amending section 4309, further providing for the definitions of "salary" and "pay" for the purpose of benefit calculation.	Referred to House Finance Committee	07/13/07
H. B. 1737 P. N. 2315 (D. O'Brien)	Cities of the First Class (Philadelphia), an act prohibiting a city of the first class from denying pension and pension-related benefits to the surviving spouse of a deceased firefighter due to the remarriage of the surviving spouse.	Referred to House Finance Committee	07/13/07
H. B. 1841 P. N. 2593 (Surra)	PSERS, amends the Code by establishing the Public School Employees' Benefit Board, mandating a school employee benefits study, providing for a statewide health benefits program for public school employees, for retirement health savings plans, and establishing the Public School Employees' Benefit Trust Fund.	Referred to House Education Committee	10/04/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 1892 P. N. 2614 (Haluska)	SERS, authorizing the purchase of nonstate service credit for certain previous employment in the mining industry.	Referred to House Finance Committee **Actuarial Note (P. N. 2614)**	10/15/07 11/21/07
H. B. 1932 P. N. 2685 (Readshaw)	Second Class (Allegheny) County Code, benefit enhancement for coroners and deputy coroners.	Referred to House Finance Committee	10/18/07
H. B. 1977 P. N. 2759 (Boyd)	SERS, effective November 30, 2008, establishing a "unified contribution pension plan," which is a defined contribution retirement plan applicable to all public employees (hired on or after November 30, 2008) of all public employers within the Commonwealth, including state, school, municipal, county and all other employers of a governmental or quasi-governmental nature.	Referred to House Finance Committee	10/26/07
H. B. 1991 P. N. 2792 (Readshaw)	PSERS and SERS, providing automatic, biannual supplemental annuities equal to the change in CPI to annuitants of both PSERS and SERS beginning July 1, 2009.	Referred to House Finance Committee	10/30/07
H. B. 1995 P. N. 2796 (Moul)	PMRS, amends the disability retirement eligibility requirements for police officers and firefighters from being unable to engage in any gainful employment to being unable to perform the duties of that office.	Referred to House Finance Committee	10/30/07
H. B. 2010 P. N. 2839 (Cutler)	PSERS and SERS, amending the Codes of both systems by limiting the amount of a maximum single life annuity to an amount not to exceed the highest compensation received during any period of 12 consecutive months.	Referred to House Finance Committee	11/14/07
H. B. 2038 P. N. 2857 (Creighton)	SERS, establishing an alternative defined contribution retirement program for members of the General Assembly.	Referred to House Finance Committee	11/15/07
H. B. 2084 P. N. 2940 (Gibbons)	PSERS and SERS, amending the codes of both systems to provide supplemental annuities to annuitants of both systems to be paid in equal installments over a five-year period effective July 1, 2007, with the amounts of the supplemental annuities dependent upon the effective date of retirement of the annuitant. Under the bill, an eligible annuitant is defined as a retiree who is receiving a superannuation, withdrawal or disability annuity on July 1, 2007, whose most recent effective date of retirement is prior to July 1, 2001, and whose credited service does not include any service credited as class T-D, D-4 or AA.	Referred to House State Government Committee	12/05/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. R. 36 P. N. 35 (D. Evans)	A resolution establishing a select committee of the House to study potential courses of action for Commonwealth departments, agencies and pension systems that make investments in, procure goods and services from, or otherwise do business with companies conducting business in or with the Republic of Sudan, and requiring that the committee report its findings to the House by June 30, 2007.	Referred to House State Government Committee	01/30/07
H. R. 166 P. N. 1072 (Frankel)	A Resolution directing the Public School Employees' Retirement System to conduct a study of public school retirees' loss of purchasing power and to evaluate the economic impact of retirement benefits paid to school retirees on the Commonwealth, and directing PSERS to report its findings to the Majority and Minority Leaders of the House and to the Majority and Minority Chairs of the House Education Committee within four months of adoption of the resolution.	Referred to House Finance Committee	03/29/07
H. R. 353 P. N. 2085 (Markosek)	A Resolution directing the Legislative Budget and Finance Committee to study the feasibility and cost effectiveness of placing transit agency employees under the Commonwealth's jurisdiction for the purposes of providing healthcare and retirement benefits, and to report its findings no later than June 30, 2008.	Referred to House Transportation Committee	06/25/07
S. B. 24 P. N. 32 (O'Pake)	Tax Reform Code, amending the Code to provide for the reallocation of a portion of funds generated by the tax on foreign fire insurance premiums for the purpose of funding a personal income tax credit for emergency medical services personnel.	Referred to Senate Finance Committee	01/29/07
S. B. 94 P. N. 130 (D. White)	PSERS, permits the purchase of up to four years of nonschool service credit for previous service as an elected county official.	Referred to Senate Finance Committee	02/15/07
S. B. 110 P. N. 823 (Piccola)	PSERS, requiring the Board to provide certain contact information for active and annuitant members to an active member association or annuitant association.	Referred to Senate Finance Committee	04/10/07
S. B. 130 P. N. 175 (Mellow)	PSERS and SERS, implementing a permanent "30 and out" early retirement incentive applicable to all active members of both Systems.	Referred to Senate Finance Committee	03/05/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
S. B. 138 P. N. 183 (Rhoades)	PSERS, permitting the purchase of service credit for unused sick leave.	Referred to Senate Finance Committee	03/05/07
S. B. 205 P. N. 247 (Mellow)	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 mandating that the city permit eligible active members to purchase up to five years of nonintervening military service credit.	Referred to Senate Finance Committee	03/07/07
S. B. 206 P. N. 248 (Mellow)	City of 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 mandating that the city permit the purchase and crediting of certain military service.	Referred to Senate Finance Committee	03/07/07
S. B. 228 P. N. 265 (Greenleaf)	PSERS and SERS, providing for a "30 and out" limited early retirement incentive for eligible active members of both Systems.	Referred to Senate Finance Committee	03/07/07
S. B. 270 P. N. 374 (Rhoades)	SERS, amends the Code to permit certain active members who are employed by the Department of Environmental Protection to purchase State service credit for previous private sector employment in mining.	Referred to Senate Finance Committee Corrective Reprint (P. N. 374)	03/08/07 03/12/07
S. B. 271 P. N. 308 (Gordner)	PSERS, further providing for membership of the PSERS Board of Trustees.	Referred to Senate Finance Committee	03/08/07
S. B. 282 P. N. 319 (Costa)	Second Class City (Pittsburgh) Firemen 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	03/09/07
S. B. 283 P. N. 320 (Costa)	Second Class City (Pittsburgh) Employee Pension Law, amending the law by removing current language requiring the cessation of pension payments to surviving spouses upon remarriage.	Referred to Senate Finance Committee	03/09/07
S. B. 381 P. N. 429 (Costa)	Second Class County Code, reducing the age and service requirements for normal retirement benefit eligibility applicable to deputy sheriffs.	Referred to Senate Finance Committee **Actuarial Note (P. N. 429)**	03/13/07 10/23/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
S. B. 382 P. N. 430 (Costa)	Second Class County Code, expanding special public safety benefit coverage to corrections officers employed at county juvenile detention facilities.	Referred to Senate Finance Committee	03/13/07
S. B. 473 P. N. 517 (Wonderling)	PSERS, 1) beginning January 1, 2008, 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	03/15/07
S. B. 556 P. N. 596 (Kasunic)	PSERS and SERS, mandating the payment of annual CPI-based COLAs to eligible annuitants of both Systems beginning July 1, 2007.	Referred to Senate Finance Committee	03/19/07
S. B. 596 P. N. 646 (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	03/20/07
S. B. 647 P. N. 699 (Logan)	Second Class County Code, extending public safety employee pension benefit coverage to county detectives.	Referred to Senate Finance Committee **Actuarial Note (P. N. 699)** First Consideration	03/22/07 08/22/07 10/24/07
S. B. 698 P. N. 744 (Greenleaf)	SERS, defining "active duty for training" and authorizing the purchase of nonstate service credit for certain types of reserve or national guard military service for training purposes.	Referred to Senate Finance Committee	03/26/07
S. B. 770 P. N. 865 (Orie)	PSERS and SERS, prohibiting the implementation of any benefit enhancement (except for the enactment of supplemental annuities) affecting active members of both Systems without the approval of a majority of the electorate.	Referred to Senate Finance Committee	04/20/07
S. B. 791 P. N. 883 (Armstrong)	SERS, making an appropriation from the State Employees' Retirement Fund to the State Employees' Retirement Board in the amount of $26,568,000 for the fiscal year beginning July 1, 2007.	Referred to Senate Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (47-2) First Consideration Second Consideration Re-referred to House Appropriations Committee Third Consideration and Final Passage (198-2) Signed by the Governor (Act 1A)	04/24/07 04/30/07 05/01/07 05/02/07 05/21/07 05/22/07 05/22/07 06/25/07 06/30/07

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
S. B. 792 P. N. 884 (Armstrong)	PSERS, making an appropriation from the Public School Employees' Retirement Fund to the Public School Employees' Retirement Board in the amount of $40,811,000 for the fiscal year beginning July 1, 2007.	Referred to Senate Appropriations Committee	04/24/07
		First Consideration	04/30/07
		Second Consideration	05/01/07
		Third Consideration and Final Passage (48-1)	05/02/07
		Referred to House Appropriations Committee	05/07/07
		First Consideration	05/21/07
		Re-referred to House Appropriations Committee	05/22/07
		Second Consideration	05/22/07
		Third Consideration and Final Passage (200-0)	06/25/07
		Signed by the Governor (Act 2A)	06/30/07
S. B. 826 P. N. 1609 (Armstrong)	PSERS and SERS, increasing the mandated minimum employer contribution requirements beginning July 1, 2008, from 4.0% to 6.44% plus the premium assistance contribution rate for PSERS and from 4.0% to 5.0% for SERS.	Referred to Senate Finance Committee	05/10/07
		Commission Letter (P. N. 1009)	05/17/07
		First Consideration	05/21/07
		Second Consideration	05/22/07
		Re-referred to Senate Appropriations Committee	06/13/07
		Actuarial Note (A. 03780)	11/21/07
		Commission Letter (A. 04511)	11/30/07
		Third Consideration and Final Passage (49-0)	12/04/07
S. B. 898 P. N. 1051 (Greenleaf)	PSERS, defining "nonpublic school," and permitting the purchase of up to five years of nonschool service credit for previous service as a school employee, teacher or instructor in a nonpublic school.	Referred to Senate Finance Committee	05/22/07
S. B. 1039 P. N. 1336 (Regola)	PMRS, amending section 112 of the Law to extend through calendar year 2010, retroactive to January 1, 2006, the authority of the PMRS board to use interest earnings in excess of regular interest to pay administrative expenses not covered by the $20 a member per year assessments.	Referred to Senate Finance Committee	07/24/07
		Actuarial Note (P. N. 1336)	08/22/07
S. B. 1054 P. N. 1358 (Kasunic)	PSERS and SERS, amending the Codes of both systems to, beginning July 1, 2007, provide for mandatory, permanent, bi-annual cost-of-living adjustments equal to the change in CPI and payable to all annuitants of both systems.	Referred to Senate Finance Committee	08/27/07
S. B. 1093 P. N. 1383 (Orie)	Municipal Police Pension Law (Act 600 of 1955), further providing for the applicability of survivor benefits to certain survivors.	Referred to Senate Finance Committee	09/17/07
S. B. 1112 P. N. 1497 (Logan)	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 fire-	Referred to Senate Finance Committee	10/25/07
		Commission Letter (P. N. 1497)	10/29/07

	fighter, 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; 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; and 4) reimburse any municipal police pension plan subject to Act 600 for any killed-in-service death benefits paid to survivors under Section 5(e)(2) and require the Commonwealth to assume the obligation for the continuing payment of such benefits.		
S. B. 1221 P. N. 1662 (Stack)	PSERS and SERS, providing for the payment of annual, CPI-based supplemental annuities to all eligible annuitants of both systems beginning July 1, 2008, and annually thereafter.	Referred to Senate Finance Committee	12/21/07
S. R. 16 P. N. 16 (Washington)	A resolution establishing a select committee of the Senate to study potential courses of action for Commonwealth departments, agencies and pension systems that make investments in, procure goods and services from, or otherwise do business with companies conducting business in or with the Republic of Sudan, and requiring that the committee report its findings to the Senate by June 30, 2007.	Referred to Senate Finance Committee	01/29/07
S. R. 46 P. N. 363 (Orie)	A Resolution directing the Legislative Budget and Finance Committee to investigate and make recommendations for the establishment and administration of a voluntary statewide health-care and pension benefit system for local government employees, and requiring the Committee to report its findings and recommendations to the Senate within one year of the adoption of the resolution.	Referred to Senate Local Government Committee	03/12/07

APPENDIX E

CONCISE INDEX TO ACTUARIAL NOTES

PRINTER'S NO. 1357

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE RESOLUTION

No. 230 Session of 2007

INTRODUCED BY HARHAI, BEYER, BIANCUCCI, CALTAGIRONE, CAPPELLI, CLYMER, CREIGHTON, DiGIROLAMO, DONATUCCI, FABRIZIO, GALLOWAY, GEORGE, GIBBONS, GINGRICH, GOODMAN, GRELL, GRUCELA, HERSHEY, JAMES, KENNEY, KILLION, KOTIK, KULA, MAJOR, MANTZ, McILHATTAN, MELIO, MILLARD, MUSTIO, NICKOL, PALLONE, PETRONE, PHILLIPS, READSHAW, ROSS, SAINATO, SAYLOR, SCAVELLO, SIPTROTH, SONNEY, STERN, SURRA, R. TAYLOR, THOMAS, VEREB, VULAKOVICH, WOJNAROSKI, YOUNGBLOOD, HARHART, STABACK, CONKLIN AND FREEMAN, APRIL 23, 2007

INTRODUCED AS NONCONTROVERSIAL RESOLUTION UNDER RULE 35, APRIL 23, 2007

A RESOLUTION

Recognizing Anthony W. Salomone for his numerous years of service to this Commonwealth, and honoring him upon his retirement as Executive Director of the Public Employee Retirement Commission on May 11, 2007.

WHEREAS, Anthony W. Salomone was appointed to the Public Employee Retirement Commission (PERC) as its Executive Director in 1986; and

WHEREAS, He will retire from the commission on May 11, 2007; and

WHEREAS, Before his appointment to the commission in 1986, he served in the Department of Community Affairs as chief of the municipal consulting division and was director of the Office of Policy Development; and

WHEREAS, Under Salomone's leadership at PERC, the commission has been responsible both for reviewing legislation that would affect public employee retirement systems and for studying, on a continuing basis, public employee retirement system policy as implemented on the Commonwealth and local government levels to assure systems compatibility and integration as well as actuarial soundness of the systems; and

WHEREAS, For the past 21 years, he directed the commission's annual reviews of actuarial valuation reports of the two Statewide pension systems: the State Employees' Retirement System and the Public School Employees' Retirement System; and

WHEREAS, In addition, Salomone served on several State boards and legislative task forces that required his expertise in pension systems and actuarial impacts; and

WHEREAS, He is married to Eve Marie Salomone and the father of Janine and Nicole; and

WHEREAS, That, for his many years of outstanding service to this Commonwealth, it is fitting to extend gratitude for his service and best wishes for a long and happy retirement; therefore be it

RESOLVED, That the House of Representatives recognize Anthony W. Salomone for his numerous years of outstanding service to this Commonwealth; and be it further

RESOLVED, That the House of Representatives honor him upon his retirement as Executive Director of the Public Employee Retirement Commission on May 11, 2007.

PRINTER'S NO. 939

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE RESOLUTION

No. 105 Session of 2007

INTRODUCED BY COSTA AND BROWNE, MAY 1, 2007

INTRODUCED AND ADOPTED, MAY 1, 2007

A RESOLUTION

Honoring Anthony W. Salomone, Executive Director of the Public Employee Retirement Commission, upon his retirement.

WHEREAS, Anthony W. Salomone was appointed to the Public Employee Retirement Commission on June 10, 1986, and has served faithfully and conscientiously as Executive Director; and

WHEREAS, Mr. Salomone is retiring on May 11, 2007; and

WHEREAS, During Mr. Salomone's tenure, the commission has issued more than 400 actuarial notes on proposed public employee pension legislation to assure actuarial viability, 13 policy development reports on retirement needs of public employees and 11 municipal pension plan status reports to summarize the findings of data collected in accordance with the mandates of the Municipal Pension Plan Funding Standard and Recovery Act; and

WHEREAS, Mr. Salomone began his State employment on June 17, 1971, as a research analyst for the Pennsylvania Department of Community Affairs; and

WHEREAS, Mr. Salomone advanced in the Pennsylvania Department of Community Affairs as a Municipal Administration Consultant in the Central Regional Office, as a Chief, Municipal Consulting Division, in the Bureau of Local Government Services and as Director of Policy Development in the Executive Office until becoming Executive Director of the commission in 1986; and

WHEREAS, Mr. Salomone, through his knowledge of the commission's principles, policies and programs, ensured the effective administrative operation of the commission by providing administrative, management and technical support to professional and support staff members; therefore be it

RESOLVED, That the Senate honor Anthony W. Salomone, Executive Director of the Public Employee Retirement Commission, as he retires May 11, 2007, with sincere appreciation for his outstanding managerial abilities, technical expertise on public pension issues and professional dedication and commitment to the commission, its staff and the citizens of this Commonwealth and best wishes for health, happiness and success in his future endeavors.