

# PUBLIC EMPLOYEE RETIREMENT COMMISSION



2011 ANNUAL REPORT

**Commonwealth of Pennsylvania**



2011  
Annual Report  
of the  
Public Employee Retirement Commission



Public Employee Retirement Commission  
Commonwealth of Pennsylvania  
February 2012

# PUBLIC EMPLOYEE RETIREMENT COMMISSION

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## ***Gubernatorial Appointees***

Mr. Anthony W. Salomone  
Chairman  
*Retired Executive Director of the  
Public Employee Retirement Commission  
Commonwealth of Pennsylvania*

Mr. Christ J. Zervanos  
Vice Chairman  
*Retired Director of Labor Relations  
Office of Administration  
Commonwealth of Pennsylvania*

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

Mr. David F. Werner, CPA  
*Retired Partner, State and Local Tax Services  
ParenteBeard LLC*

Ms. Ureneus V. Kirkwood  
*Past President of the Pennsylvania  
Association of School Retirees*

## ***Legislative Appointees***

Senator Patrick M. Browne  
*District 16  
Lehigh, Monroe and  
Northampton Counties*

Senator Daylin B. Leach  
*District 17  
Montgomery County*

Representative Garth D. Everett  
*District 84  
Lycoming County*

Representative R. Ted Harhai  
*District 58  
Fayette and Westmoreland Counties*

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Executive Director: James L. McAneny  
Commission Office: 510 Finance Building  
P. O. Box 1429  
Harrisburg, PA 17105-1429  
Telephone: (717) 783-6100  
FAX: (717) 787-9531  
E-mail: [perc@pa.gov](mailto:perc@pa.gov)  
Web Site: [www.perc.state.pa.us](http://www.perc.state.pa.us)



COMMONWEALTH OF PENNSYLVANIA  
PUBLIC EMPLOYEE RETIREMENT COMMISSION  
HARRISBURG  
17120

*February 2012*

To: *Governor Corbett  
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 2011.*

*During 2011, the Commission authorized the attachment of seven actuarial notes to bills 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 and the State Employees' Retirement System. This report also describes research conducted during 2011 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-ninth 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 2011.*

*Sincerely,*

A handwritten signature in cursive script, appearing to read "Anthony W. Salomone".

*Anthony W. Salomone  
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 \$343 million in 2011.*

*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-sixth report issued on a calendar year basis, and the first to be issued solely in electronic format.*

*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 2011.*



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**DUTIES AND RESPONSIBILITIES  
OF THE COMMISSION**



## PART I

### PREPARATION OF ACTUARIAL NOTES AND ADVISORY NOTES

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#### A. STATUTORY PROVISIONS.

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

*Section 6. Powers and duties.*

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

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

*Section 7. Actuarial notes.*

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

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

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

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

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

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

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

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

## **B. SUMMARY OF 2011 ACTIVITY.**

During 2011, the Commission authorized the attachment of seven actuarial notes to bills at the request of the General Assembly.

## **C. SYNOPSES OF ACTUARIAL NOTES.**

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

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**Bill ID:** Senate Bill Number 1072, Printer's Number 1352

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

**Subject:** New Benefit Tier

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SYNOPSIS

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Senate Bill Number 1072, Printer's Number 1352, would amend the act of July 28, 1953, P.L. 723, No. 230, known as the Second Class County Code (Code), by establishing a new mandatory benefit tier applicable to county employees hired on or after the effective date of the bill. The bill would also amend Section 1703 of the Code by altering the membership composition of the Allegheny County Retirement Board, and would make technical amendments to the plan intended to ensure that the Allegheny County Employees' Retirement System is maintained as tax qualified under the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 401 (c)).

More specifically, the bill would amend the Code to make the following benefit modifications for employees hired on or after the effective date of the bill:

- 1) For nonuniformed employees, increase the length of service required to receive normal retirement benefits from 20 years to 25 years, while retaining age 60 normal retirement age;
- 2) For public safety employees, increase the length of service required to receive normal retirement benefits from 20 years to 25 years, while retaining age 50 normal retirement age for police officers and firefighters, and age 55 normal retirement age for the county sheriff, deputy sheriffs, prison guards and probation officers;
- 3) Increase the length of service required for vesting from 8 years to 10 years for all classes of employees;
- 4) For retirement benefit purposes, extend the period over which the final average salary is calculated from the highest 24 months of the last four years of employment to the highest 48 months of the last eight years of employment, or the last four years of employment if compensated on a bi-weekly basis;
- 5) Increase the length of service required to receive service increment benefits from 20 years to 25 years;
- 6) Increase the minimum length of service required to be eligible for early retirement from eight years to ten years;
- 7) Increase the minimum length of service required to provide for survivor benefits from eight years to ten years;
- 8) Increase the length of service required to provide for survivor benefits under disability retirement from 20 years to 25 years; and
- 9) Amend Section 1701 by altering the definition of "compensation" to eliminate overtime compensation from the retirement benefit calculation.

Article 17 of the Second Class County Code (Code) provides the pension plan for employees of Allegheny County. The Allegheny County Retirement System (System) is a governmental, defined benefit pension plan. Membership in the System is mandatory for county employees. As of January 1, 2010, there were 7,479 active members of the System with an annual payroll of approximately \$307 million. Under the Code, the normal retirement benefit is equivalent to 50 percent of the member's final average salary. The final average salary is calculated as the monthly average of the highest 24 months of compensation earned during the last 48 months of service prior to retirement.

A member's compensation level is an important component in the formula used to calculate a member's retirement benefit entitlement. Generally, the higher a member's final average compensation, the greater the retirement benefit amount. Section 1701 of the Code defines "compensation" as: *Pick-up contributions plus salary or wages received per day, weekly, bi-weekly, semi-monthly, monthly, annually, or during an official term year.* To date, this definition of compensation has been interpreted to include compensation for overtime if the overtime compensation was considered "pensionable," that is, employee contributions were made to the plan on account of the additional overtime pay.

Under the actuarial cost method used by the System, the System's consulting actuary employs a variety of demographic and economic assumptions that are used to determine the funding requirements of the retirement plan. Among these are assumptions for salary and salary growth applicable to the various groups of county employees. If actual plan experience differs significantly from the actuarial assumptions, for example, if the compensation used to calculate members' benefits is significantly greater than what the actuary assumed it would be, then the retirement system will suffer an actuarial loss. The bill would amend the definition of compensation applicable to all county employees hired on or after the effective date of the bill, to preclude overtime from the calculation of a member's retirement benefit.

The System employs the member's "final average salary" as one of the components of the statutory formula that is used to compute a member's retirement benefit entitlement. Currently, a member's final average salary is calculated as the monthly average of the highest 24 months of compensation earned during the last 48 months of service prior to retirement. The bill would amend Section 1712 of the Code to change the final average salary calculation applicable to employees hired on or after the effective date of the bill to the monthly average of the highest 48 months of the last eight years of employment, or the last four years of employment if compensated on a bi-weekly basis.

Only newly hired employees of Allegheny County would be subject to the benefit modifications mandated by the bill. All current employees of the county who are members of the System will continue to have the current final average salary calculation applied to the retirement benefit formula. If enacted, the bill's elimination of overtime compensation from the retirement benefit formula combined with the implementation of a less generous final average salary calculation would have the effect of functioning as a reduced benefit tier applicable to all new employees of the county.

Special retirement benefit coverage is provided to the various types of public safety employees who are employed by Allegheny County. The special coverage provided to the county sheriff, deputy sheriffs, prison guards and probation officers employed by the county is to retire voluntarily and receive a normal retirement benefit if the employee has attained age 55 and has accumulated 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 of the county 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. The bill would amend the requirements to receive normal retirement benefits by increasing the length of service required to receive normal retirement benefits from 20 years to 25 years of service, while retaining age 50 normal retirement age for

police officers and firefighters, age 55 normal retirement age for the county sheriff, deputy sheriffs, prison guards and probation officers, and age 60 normal retirement age for all other employees.

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

The bill would establish two additional early retirement options, "Option I-A" and "Option II-A," applicable only to county employees hired on or after the effective date of the bill. Under early retirement Option I-A (section 1710(h)(1.1)), any county employee who has completed at least ten, but less than 25, years of service may retire voluntarily and receive a deferred benefit commencing at age 60. Alternatively, under Option II-A (section 1710(h)(2.1)), an employee who has accumulated at least ten, but less than 25, years of service and is at least age 55, but less than 60, may elect to receive an early retirement benefit that is actuarially reduced by one-half of one percent for each month the employee is under age 60.

There appears to be a drafting error in the bill under Option II-A of section 1710(h)(2.1). As it is currently written, the bill states that "*...the above retirement allowance shall be subject to a reduction of one-half of one per centum for each month under the age of sixty years. In no event shall a retirement allowance be paid until the age of sixty years is attained.*" This language would seem to negate the need for an early retirement option if an employee is prohibited from collecting the retirement benefit until age 60, the normal retirement age. Current county employees may collect an early retirement benefit as early as age 55 while being subjected to a reduction of one-half of one percent for each month under the age of 60. The staff believes it was the sponsors' intent to provide the same early retirement option for future county employees. The bill's language should be corrected to reflect the age 55 minimum for new employees as well.

In addition to the normal retirement benefit provided by the System, any county employee who retires with more than 20 years of service is eligible to receive a service increment of two percent per year (computed upon the annual retirement allowance to which the employee is entitled) for each completed year of service beyond 20 years. No service increment is paid for more than 20 years of "excess" service. Under the bill, any county employee hired on or after the effective date of the bill who retires with more than 25 years of service would be eligible to receive a service increment of two percent per year for each completed year of service beyond 25 years. The service increment benefit would continue to be limited to no more than 20 years of "excess" service.

Currently, a county employee may elect to provide survivor benefits for a spouse. Survivor benefits may be provided to the surviving spouse of a deceased employee upon the condition that the employee had attained age 50 and completed at least eight, but less than 19, years of service in order for a surviving spouse to be eligible for a reduced retirement option benefit at the time the deceased employee would have reached aged 55. For an employee who completes 20 or more years of service and dies before reaching age 50, the surviving spouse is eligible to immediately receive a reduced retirement option. For a county employee hired on or after the effective date of the bill, survivor benefits may be provided to the surviving spouse of a deceased employee upon the condition that the employee had attained age 50 and completed at least ten, but less than 24, years of service and died before reaching age 55. A reduced retirement option benefit would be provided to the surviving spouse at the time the deceased employee would have reached age 55. For an employee who completes 25 or more years of service and dies before reaching age 50, the surviving spouse would be eligible to immediately receive a reduced retirement option.

Currently, a county employee retiring under disability retirement may provide for survivor benefits if the employee has reached age 55 and completed 20 or more years of service. A county employee retiring under disability with at least fifteen, but less than 20, years of service is eligible upon reaching age 55 to provide for survivor benefits. The surviving spouse receives the maximum amount of \$75 per month upon the deceased employee's death. Under the bill, any county employee hired on or after the effective date of the bill and retiring under disability retirement may provide for survivor benefits if the employee has reached age 55 and completed 25 or more years of service. Any county employee retiring under disability retirement with at least twelve, but less than 25, years of service would be eligible upon reaching age 55 to provide for survivor benefits. The surviving spouse would receive the maximum amount of \$75 per month upon the deceased employee's death. The bill would also amend the disability retirement provision for current county employees by reducing the length of service required to provide for survivor benefits from fifteen years to twelve years.

**Summary of Benefit Modifications Under Senate Bill Number 1072**

	<b>Current Employees</b>	<b>Future Employees</b>
<b>Eligibility Requirements for Normal Retirement</b>	<b>Non-Uniformed:</b> Age 60 and 20 years of service <b>Police &amp; Firefighters:</b> Age 50 and 20 years of service <b>Sheriffs, Deputies, Prison Guards &amp; Probation Officers:</b> Age 55 and 20 years of service	<b>Non-Uniformed:</b> Age 60 and 25 years of service <b>Police &amp; Firefighters:</b> Age 50 and 25 years of service <b>Sheriffs, Deputies, Prison Guards &amp; Probation Officers:</b> Age 55 and 25 years of service
<b>Benefit Accrual Per Year of Service</b>	1/20th of normal retirement benefit	1/25th of normal retirement benefit
<b>Service Increment Benefit</b>	2.0% of annual retirement allowance for years of service between 20 and 40 years	2.0% of annual retirement allowance for years of service between 25 and 45 years
<b>Vesting</b>	100% after 8 years of service	100% after 10 years of service
<b>Early Retirement</b>	After 8 years, but less than 20 years, of service	After 10 years, but less than 25 years, of service
<b>Compensation</b>	Includes overtime pay	Excludes overtime pay
<b>Average Monthly Compensation for Benefit Purpose</b>	Highest 24 months of the last 4 years of employment or 2 years of employment on a bi-weekly pay basis	Highest 48 months of the last 8 years of employment or 4 years of employment on a bi-weekly pay basis

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill and the demographic data provided by the Allegheny County Employees' Retirement System and determined the actuarial cost impact of the bill on the basis of the entry age normal cost method. The Commission's consulting actuary has determined that because the benefit modifications mandated by the bill would apply only to employees hired on or after the effective date of the bill, there would be no change to the System's current actuarial accrued liability. However, future normal cost will gradually decline as new

employees subject to the reduced benefit provisions of the bill are hired and current employees gradually leave service. The following table shows the estimated decrease in future annual normal cost in time increments of 5, 10, 15 and 20 years after the effective date of the bill.

<b>Year After Effective Date of Senate Bill No. 1072</b>	<b>Decrease in Normal Cost</b>	<b>Decrease in Normal Cost as Percentage of January 1, 2010, Active Payroll</b>
5	\$ 2,208,000	0.72%
10	\$ 5,335,000	1.74%
15	\$ 9,444,000	3.08%
20	\$14,994,000	4.89%

The bill would mandate a benefit modification applicable to all employees hired on or after the effective date of the bill. The following example serves to illustrate this benefit modification. Under current law, a typical county employee retiring at age 60 with 20 years of service would receive a monthly retirement benefit of approximately \$1,844. Under the bill, a typical future county employee working the same number of years and retiring at the same age would receive a monthly retirement benefit of approximately \$1,425. This would amount to an average benefit reduction of roughly 22.7% for future employees. However, if a future county employee works five years longer, for a total of 25 years of service and retires at age 60, the monthly retirement benefit would improve to approximately \$1,781 (compared to approximately \$2,028 for a current county employee), a benefit reduction of roughly 12.2% compared to a current county employee.

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POLICY CONSIDERATIONS

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

Reduction in Normal Cost. The bill would amend the definition of compensation applicable to all county employees hired on or after the effective date of the bill, to preclude the inclusion of overtime in the calculation of a member's retirement benefit. The bill would also mandate a less generous final average salary calculation applicable to newly hired county employees. Although these changes would do nothing to reduce the liabilities attributable to the benefit accruals of current active members, together they would have the effect of reducing the normal cost associated with the retirement benefit accruals of future employees.

Reduced Benefit Tier. If enacted, the bill's elimination of overtime compensation from the retirement benefit formula and increased service requirement combined with the implementation of a less generous final average salary calculation would have the effect of functioning as a reduced benefit tier applicable to new employees of the county.

Benefit Disparity. By implementing a reduced benefit tier, the bill creates the potential for benefit inequities in the treatment of similarly situated public employees that may result in employee bargaining disputes and subsequent litigation over benefit disparities.

Retirement Board Composition. The bill would amend Section 1703 of the Code to alter the composition of the Allegheny County Retirement Board by replacing certain elected officials with appointed county officials. The General Assembly must determine whether it is appropriate to replace the elected officials with appointed officials.

Drafting Ambiguity. In reviewing the bill, the staff has noted what appears to be a drafting error in paragraph (h)(2.1) of section 1710. The bill states on page 8, lines 24-28:

*“Further, the above retirement allowance shall be subject to a reduction of one-half of one per centum for each month under the age of sixty years. In no event shall a retirement allowance be paid until the age of sixty years is attained.”*

Currently, county employees may take an early retirement allowance before the age of sixty, but with a reduction in the retirement allowance equal to one-half of one percent for each month under the age of sixty. The earliest age an employee can collect a retirement allowance is age fifty-five. It appears the language in the bill for new employees should be corrected to reflect the age fifty-five minimum as well.

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COMMISSION RECOMMENDATION

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

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2011

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Senate Bill Number 1072, Printer's Number 1352, was introduced and referred to the Senate Finance Committee on June 15, 2011.

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**Bill ID:** House Bill Number 89, Printer's Number 45

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

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

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SYNOPSIS

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House Bill Number 89, Printer's Number 45, would amend the act of July 3, 1947 (P. L. 1242, No. 507), which is the statute establishing the pension plans for police officers and firefighters in the City of Scranton. The act permits a uniformed employee of either the police or firemen's pension plans to purchase up to five years of nonintervening military service if the member enters employment with the City of Scranton within three years of the date of the member's release from active military service. The bill would amend the Act by removing the statutory three-year time limit within which a member must commence employment with the City following military service in order to be eligible to purchase credit for nonintervening military service, and by mandating that moneys be appropriated by the City to the pension plans to enable the purchase of military service credit. House Bill Number 89, Printer's Number 45, is a companion bill to House Bill Number 90, Printer's Number 46, which would similarly amend the pension statute affecting nonuniformed employees.

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DISCUSSION

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The act of July 3, 1947 (P. L. 1242, No. 507) establishes the pension plan for uniformed (police and fire) employees in the City of Scranton. The City of Scranton Police Pension Plan is a contributory, defined benefit pension plan. For police officers hired prior to July 1, 1987, the normal retirement age is age 65 or any age upon the completion of 25 years of service. The normal retirement benefit for members who have attained age 65 is equal to 2% for each year of service based upon the salary being received at retirement, up to a maximum of 50% of salary. The normal retirement benefit for members who have not attained age 65 is 50% of the salary paid to the member at the highest grade held by the member at retirement. For police officers hired on or after July 1, 1987, normal retirement age is age 55 and 25 years of service. The normal retirement benefit is 50% of the member's average monthly salary based upon the final 36 months of employment. As of January 1, 2009, there were 156 active members of the plan.

The City of Scranton Firemen's Pension Plan is a contributory, defined benefit pension plan. For firemen hired prior to July 1, 1987, the normal retirement age is any age upon the completion of 25 years of service. The normal retirement benefit is equal to 50% of the member's salary at retirement, plus a service increment of 0.5% per year, payable in five-year increments, for service in excess of 25 years. For firemen hired on or after July 1, 1987, normal retirement age is age 55 with 25 years of service, and the normal retirement benefit is equal to 50% of the member's average monthly salary based upon the final 36 months of employment. As of January 1, 2009, there were 143 active members of the plan.

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

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

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

Permitting a member to receive retirement service credit for nonintervening military service has been a longstanding policy among the major public employee retirement systems of the Commonwealth. The currently mandated three-year time limit appears arbitrary, and is a condition not imposed by any other state or municipal pension statute. There is no reasonable public pension policy rationale for making eligibility for the purchase of nonintervening military service contingent upon the expanse of time between when an individual left the military and became a public employee of the City. If the purchase of nonintervening military service is to be permitted, all such service should be treated equally. The bill, therefore, seeks to remove an inequity in the crediting of nonintervening military service that currently exists in the statute governing police and firemen retirement systems of the City.

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SUMMARY OF ACTUARIAL COST IMPACT

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

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POLICY CONSIDERATIONS

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

Equity in the Crediting of Military Service. Permitting a member to receive retirement service credit for military service has been a longstanding policy among the major public employee retirement systems of the Commonwealth. The bill removes statutory language that currently treats nonintervening military service inequitably for retirement credit purposes.

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COMMISSION RECOMMENDATION

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

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2011

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House Bill Number 89, Printer's Number 45, was introduced and referred to the House Urban Affairs Committee on January 19, 2011.

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**Bill ID:** House Bill Number 90, Printer's Number 46

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

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

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SYNOPSIS

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House Bill Number 90, Printer's Number 46, would amend the Second Class A City Employee Pension Law by removing the statutory three-year time limit within which a member must commence employment with the City of Scranton following military service in order to be eligible to purchase credit for nonintervening military service, and by mandating that affected members be entitled to purchase the nonintervening military service credit. House Bill Number 90, Printer's Number 46, is a companion bill to House Bill Number 89, Printer's Number 45, which would similarly amend the pension statute affecting uniformed (police and fire) employees.

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DISCUSSION

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The Second Class A City Employee Pension Law (Act of September 23, 1959, P. L. 970, No. 400) establishes the pension plan for nonuniformed employees in the City of Scranton. The City of Scranton Nonuniformed Pension Plan is a contributory, defined benefit pension plan. Normal retirement age is age 55 with at least 15 years of service. As of January 1, 2009, there were 180 active members of the plan.

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

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

In addition to service credit for intervening military service (covered by USERRA), the Second Class A City Employee Pension Law permits an active member of the pension plan to purchase up to five years of nonintervening military service (military service performed prior to commencement of employment) if the member entered employment with the City of Scranton within three years of the

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DISCUSSION (CONT'D)

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date of the member's release from active military service. The bill would amend the Second Class A City Employee Pension Law by removing the statutory three-year time limit within which a member must commence employment with the City following military service in order to be eligible to purchase credit for nonintervening military service, and by mandating that affected members be entitled to purchase the nonintervening military service credit.

Permitting a member to receive retirement service credit for nonintervening military service has been a longstanding policy among the major public employee retirement systems of the Commonwealth. The currently mandated three-year time limit appears arbitrary, and is a condition not imposed by any other state or municipal pension statute. There is no reasonable public pension policy rationale for making eligibility for the purchase of nonintervening military service contingent upon the expanse of time between when an individual left the military and became a public employee of the City. If the purchase of nonintervening military service is to be permitted, all such service should be treated equally. The bill, therefore, seeks to remove an inequity in the crediting of nonintervening military service that currently exists in the Second Class A City Employee Pension Law.

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SUMMARY OF ACTUARIAL COST IMPACT

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

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POLICY CONSIDERATIONS

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

Equity in the Crediting of Military Service. Permitting a member to receive retirement service credit for military service has been a longstanding policy among the major public employee retirement systems of the Commonwealth. The bill removes language in the Second Class A City Employee Pension Law that currently treats nonintervening military service inequitably for retirement credit purposes.

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COMMISSION RECOMMENDATION

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

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2011

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House Bill Number 90, Printer's Number 46, was introduced and referred to the House Urban Affairs Committee on January 19, 2011.

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**Bill ID:** House Bill Number 418, Printer's Number 384

**System:** State Employees' Retirement System

**Subject:** State Legislators' Defined Contribution Program

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SYNOPSIS

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House Bill Number 418, Printer's Number 384, would amend Title 71 (State Government) by adding a new chapter, Chapter 56, titled "State Legislators' Defined Contribution Program," and by modifying the mandatory and prohibited membership sections in Chapter 53 regarding membership in the State Employees' Retirement System (SERS). Chapter 56 of Title 71 would establish a new voluntary retirement program applicable to any State legislator who first becomes a member of the General Assembly on or after December 1, 2012, or who is re-elected to serve as a member of the General Assembly beginning on or after December 1, 2012. Membership in the State Employees' Retirement System (SERS) would be prohibited for a State legislator who first becomes a member of the General Assembly on or after December 1, 2012. A current member who is re-elected to serve in the General Assembly beginning on or after December 1, 2012, would cease accruing service credit in SERS as of November 30, 2012, but would have the opportunity to elect membership in the State Legislators' Defined Contribution Program.

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DISCUSSION

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### **The Retirement Codes and Systems**

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. As of June 30, 2010, there were approximately 106 participating State and other organizations in SERS.

Membership in SERS is mandatory for most State employees. Certain other employees are not required but are given the option to participate. As of December 31, 2010, there were 109,255 active members and 111,713 annuitant members of SERS.

For most members of the System, the basic benefit formula used to determine the normal retirement benefit is equivalent to the product of 2.5% multiplied by the member's years of accumulated service credit ("eligibility points") multiplied by the member's final average (highest three years) salary. Since the passage of Act 9 of 2001 (which increased the accrual rate for most members from 2.0% to 2.5%), most members of SERS are Class AA members and contribute 6.25% of pay to the System. Within SERS, there are a number of additional membership classes with corresponding benefit accrual and employee contribution rates that differ from the majority of State employees.

Act 120 of 2010 implemented major pension reforms, including the establishment of new benefit tiers applicable to most new members. Effective January 1, 2011, most new members (including members of the General Assembly) are required to become members of one of two membership classes, known as "Class A-3" and "Class A-4." Most new members of SERS, other than State Police officers or members employed in a position for which a class of service other than Class A or Class AA is credited or could be elected, become members of Class A-3 beginning January 1, 2011 (or if a member of the General Assembly, beginning December 1, 2010). Class A-3 members are eligible for an annuity based upon an annual benefit accrual rate of 2% and have a

corresponding employee contribution requirement of 6.25% of compensation. As an alternative to Class A-3, an employee who becomes a member of SERS on or after January 1, 2011, may elect Class A-4 membership within 45 days of becoming a member of SERS. A Class A-4 member is eligible for an annuity based upon an annual benefit accrual rate of 2.5% with a corresponding employee contribution requirement equal to 9.3% of compensation.

Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with at least 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. For most members of SERS who first became members after the effective date of Act 120, the superannuation requirement is age 65 with a minimum of three years of service credit, or any combination of age and service that totals 92 with at least 35 years of credited service, and age 55 for members of the General Assembly and certain public safety employees.

### **State Legislators' Defined Contribution Program**

Effective December 1, 2012, the new retirement program established by the bill, known as the State Legislators' Defined Contribution Program (Program), would consist of a defined contribution (DC) plan with an employer-matching contribution of up to 4% of the member's "pensionable earnings." Once eligible, a State legislator would have 90 days to elect to participate in the program. A participant may contribute to the pension plan up to the limits imposed by Federal law. A participant would become vested in the employer-matching contributions after three years of service in the General Assembly during which the member participated in the program.

If enacted, the bill would create an additional benefit tier for State legislators, replacing the traditional defined benefit tiers currently provided by SERS with a defined contribution plan applicable to all current and prospective members of the General Assembly. For the purposes of the Commission's discussion, the major issues of the new pension plan have been divided into the following four categories: 1) establishment, organization and operation; 2) coverage, benefits and contributions; 3) investments; and 4) ancillary issues.

#### ***Establishment, Organization and Operation***

The bill mandates the creation of the State Legislators' Defined Contribution Program, establishes the SERS Board as administrator of the program, and sets forth the board's powers and duties. Most of the details governing the actual operation of the new program are delegated to the SERS Board which will be responsible for establishing the rules and regulations governing the Program. These rules and regulations will presumably address the many specific details involved in the operation of a public pension plan, such as the collection of contributions, investment options, benefit payment methods, domestic relations orders, beneficiary designations, etc. It also appears that most of the new program's investment and administrative functions will be handled by third-party administrators contracted by the board to provide the necessary services.

#### ***Coverage, Benefits and Contributions***

The General Assembly consists of 253 members – 203 representatives with two-year terms and 50 senators with four-year terms. Based on the demographic data provided by the System, as of July 2011, there are currently 239 legislators participating in SERS. With the exception of special elections, terms will end for all representatives and half of the senators in 2012. Terms will end for the remaining senators in 2014.

As it is currently written, the bill would cease active membership in SERS for currently participating legislators as of November 30, 2012. It is the understanding of the Commission, however, that active membership cannot be ended for a legislator in the middle of a term. Any such active membership in SERS would cease at the end of an elected term. The current language of the bill would need to be revised before enactment to reflect that active membership in SERS would end as of November 30, 2012, or the date a legislator's current term ends, whichever is later.

Upon the end of a member's term, the bill would freeze the accrued benefits of the State legislators in SERS, along with credited service. Member contributions would cease and the member would not be eligible for disability benefits. Because the current definition of "final average salary" in the SERS Code refers to a member's compensation and is not limited to an *active* member's compensation, the bill as currently written would not freeze a legislator's compensation for purposes of determining the final average salary once active membership in SERS has ended. This would enable a current legislator who becomes an inactive member of SERS to continue receiving increased benefits due to salary increases during the member's working career. If it is the intent of the bill's sponsors to freeze the final average salary upon the end of active membership in SERS, then the bill should be revised to clarify this language prior to enactment.

By prohibiting continued membership in SERS and the accrual of service credit after November 30, 2012, for current members of the General Assembly, it appears that the bill would impair the retirement benefit rights of active members who are re-elected to serve beginning on or after December 1, 2012. It has been well-established that in the Commonwealth, public employee retirement benefits are recognized as deferred compensation for work already performed, which confers upon public employees certain contractual rights protected by the Pennsylvania Constitution (Article I, section 17). *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 unilaterally diminished or adversely affected, regardless of whether (1) the member is vested; or (2) the devaluation is necessary for actuarial soundness. *Association of Pa. State College and University Faculties v. State System of Higher Education*, 505 Pa. 369, 479 A.2d 962 (1984). See also *Hughes v. Public School Employees' Retirement Board*, 662 A.2d 701 (Pa. Cmwlth. 1995), *alloc. denied*, 542 Pa. 678, 668 A.2d 1139 (1995) (member has property interest in pension benefit).

Participants in the Program would become fully vested in the employer-matching contributions after three years of service during which the member participated in the program. Presumably, non-vestees who terminate service prior to vesting would be entitled to a return of their own contributions to the plan, however, there is no specific provision for this contingency.

Under the Program, the maximum employer contribution is 4% of compensation. The current employer normal cost rate for SERS members is greater than 4% of compensation. Because legislators currently have an earlier superannuation age than Class A-3 members, the employer normal cost rate for legislators would be more than 4% of compensation. Therefore, the value of the employer-provided benefits to the participants of the program will generally be lower than the employer-provided benefits provided to current SERS members. Historically, members of the General Assembly have been a part of special membership classes that have been entitled to enhanced retirements benefits and reduced superannuation requirements.

Although the new pension plan is established as a defined contribution pension plan, the language in the bill is unclear as to whether member contributions to the plan are mandatory or voluntary. Section 5609 seems to indicate that participant contributions are mandatory by stating that "regular participant contributions shall be made to the program on behalf of each participant," and that the employer "shall cause participant contributions for current service to be made." However, later in the section, it is stated that participants "*may* elect to contribute to the program on their behalf." Participants may make contributions to the program on their own behalf to the extent

permitted by Federal law, with a dollar-for-dollar employer-matching contribution of up to 4% of the member's "pensionable earnings," a term that is not defined. The bill does not set a minimum participant contribution rate for either the participant or the employer, which could mean that participants may choose to contribute nothing, and likewise, the employer would also make no contributions toward the participant's retirement plan. Further, there may be serious tax-qualification issues involved with such an approach. Based on the Commission's understanding of the IRC tax-qualification rules, employee contributions to a defined contribution plan sponsored by a governmental entity can only be made on a pre-tax basis if plan membership is mandatory or there is a one-time irrevocable salary reduction agreement in place.

### ***Investments***

Participants of the Program will be provided with a variety of investment options, including lifestyle funds that are based upon age and projected retirement date. The Program will also make available investment options that represent a broad cross-section of asset classes and risk profiles. The bill includes no provision in the event an active participant does not select a specific investment option, such as providing a default investment option that would be the lifestyle fund which most closely represents the current demographic of the active participant and the projected retirement date of the active participant.

The SERS Board will designate a third-party administrator to run the daily operations of the new retirement program. The third-party administrator will be responsible for informing participants of specific investment options offered, along with designing a comprehensive educational program to assist participants in retirement planning education and financial planning guidance on matters such as investment diversification, investment risks, investment costs and asset allocation.

The SERS Board will not be held responsible for any investment losses incurred by participants in the Program or for the failure of any investment to earn a specific or expected return. The board will bear the expenses arising from allowing public employee participation in the Program and for contribution deductions to the fund managers. All other expenses from the administration of the Program will be assessed against the accounts created on behalf of participants, either by the fund managers or by the board.

### ***Ancillary Issues***

*Liability Contributions.* If the bill is enacted, legislators would no longer be considered active members of SERS and employer contributions to SERS from the General Assembly would not be required. Because SERS has an unfunded actuarial accrued liability, consideration should be given to requiring a past service liability contribution from the General Assembly prior to the bill's enactment. Such contribution could be equal to the SERS' employer contribution rate applied to the legislators' compensation less the defined contribution employer-matching contributions and could be payable until SERS no longer has an unfunded actuarial accrued liability.

*Pension Forfeiture Act.* Under Act 140 of 1978, known as the Public Employee Pension Forfeiture Act (43 P.S. §§ 1311-1315), a public official or public employee who is convicted or pleads guilty or no defense to a crime related to public office or public employment is disqualified to receive a retirement or other benefit or payment of any kind except a return without interest of the contributions paid into a retirement system. Because ownership of the funds vests immediately with the employee at the time of contribution under a defined contribution plan, it is unclear to what extent the Public Employee Pension Forfeiture Act would apply to the individual retirement accounts of the Program's participants.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary has estimated the actuarial cost of the bill as written and as if it were amended to freeze the final average salary for current legislators upon re-election to the General Assembly. According to Section 5508(c)(3) of the SERS Code, increases due to legislation enacted subsequent to December 2009 are to be amortized in equal dollar payments over 10 years. The estimate is based on census data provided by the System for 239 legislators who are currently members of SERS. As of June 2011, the payroll was \$19,680,940.

**Estimated Actuarial Cost for the  
State Employees' Retirement System  
(\$ amounts in millions)**

	<b>House Bill 418 as Drafted</b>	<b>House Bill 418 if Amended to Freeze Final Average Salary</b>
Change in Unfunded Accrued Liability (UAL)	\$(3.3)	\$(9.1)
% of Affected Payroll	-16.8%	-46.2%
Change in First Year Employer Contribution		
Normal Cost	\$(0.8)	\$(0.8)
UAL Amortization	(0.5)	(1.4)
Total	(1.3)	(2.2)
% of Affected Payroll	-6.6%	-11.2%

The amounts do not include the employer-matching contributions to the new DC plan. If all legislators currently in SERS elect to contribute at least 4% of payroll to the new plan, the employer-matching contribution would be about \$787,000 reflecting the June 2011 payroll.

Because legislators would no longer be considered active members of SERS, their payroll would not be included in the appropriation payroll used to determine the employer contribution rate. Because the appropriation payroll would be slightly lower and the amortization amount of the unfunded actuarial accrued liability would not be changing, the employer contribution rate, prior to the application of the collared contribution rate, would increase slightly. The example provided by the Commission's consulting actuary shows that if the legislative payroll of \$20,000,000, as of December 31, 2010, were not included in the SERS appropriation payroll of \$5,851,704,000, the employer contribution rate for fiscal year 2011-2012 would increase by 0.06% prior to the application of the collared contribution rate.

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

Contract Impairment. By prohibiting continued membership in SERS and the accrual of service credit after November 30, 2012, for current members of the General Assembly, it appears that the bill would impair the retirement benefit rights of active members who are re-elected to serve beginning on or after December 1, 2012. It has been well-established that in the Commonwealth, public employee retirement benefits are recognized as deferred compensation for work already performed, which confers upon public employees certain contractual rights protected by the Pennsylvania Constitution (Article I, section 17).

Benefit Value and Security. While a detailed benefit comparison was beyond the scope of the Commission's actuarial note, the DC plan proposed in the bill would provide members of the General Assembly (both current and prospective) with a retirement income that is likely to be less valuable, predictable and secure than SERS' traditional DB plan. During the past decade, defined contribution plan participants have endured two major market down-turns that have negatively affected the investment performance of their retirement accounts; the first during the period from roughly 2001-2003, and most recently in 2008. In view of these past market fluctuations, retirement planning based on projected DC account balances is likely to be less predictable and involve greater individual attention to risk management than participation in a traditional DB plan. Historically, members of the General Assembly have been a part of special membership classes that have been entitled to enhanced retirement benefits and reduced superannuation requirements. The General Assembly and the Governor must determine the appropriateness of such a change in the Commonwealth's public pension policy.

Appropriate Delegation of Legislative Authority. The bill empowers the SERS Board to develop the details of major plan design elements and administrative details by rule or regulation. The General Assembly and the Governor must determine if the broad powers afforded the SERS Board constitutes an appropriate delegation of legislative authority.

Potential Liability Exposure. As drafted, the bill contains numerous plan design deficiencies and ambiguities. If left unaddressed, these deficiencies may expose the SERS Board and the Commonwealth to litigation brought by employees over retirement benefit entitlement issues.

Tax Qualification. The bill states that the State Legislators' Defined Contribution Program shall be administered as a tax-qualified plan under the IRC. However, this declaration alone may prove insufficient to ensure the tax-qualified treatment of the Program. Based on the Commission's understanding of the IRC tax-qualification rules, employee contributions to a DC plan sponsored by a governmental entity can only be made on a pre-tax basis if plan membership is mandatory or there is a one-time irrevocable salary reduction agreement in place. The bill should be reviewed by qualified legal counsel specializing in tax-qualification issues to ensure IRC compliance.

Pension Forfeiture Act. It is unlikely that the Public Employee Pension Forfeiture Act, 1978, July 8, P. L. 752, No 176, as amended, would apply to the new defined contribution plan, since the employee's share of the funds vests immediately with the employee at the time of contribution.

Technical Considerations. In reviewing the bill, the Commission staff noted numerous deficiencies in the areas of plan design, drafting ambiguities, drafting inconsistencies, the use of undefined terms, and the use of apparently contradictory language. The bill should be thoroughly reviewed and revised to correct these deficiencies prior to enactment. Following are the more significant issues noted by the staff.

*Active membership status.* As it is currently written, the bill would cease active membership in SERS for currently participating legislators as of November 30, 2012. It is the understanding of the Commission, however, that active membership cannot be ended for a legislator in the middle of a term. Any such active membership in SERS would cease at the end of an elected term. The current language of the bill would need to be revised before enactment to reflect that active membership in SERS would end as of November 30, 2012, or the date a legislator's current term ends, whichever is later.

*"Final Average Salary" Calculation.* Because the current definition of "final average salary" in Section 5102 of the SERS Code refers to a member's compensation and is not limited to an *active* member's compensation, the bill as currently written would not freeze a legislator's compensation for purposes of determining the final average salary once active membership in SERS has ended. This would enable a current legislator who becomes an inactive member of SERS to continue receiving increased benefits due to salary increases during the member's working career. If it is the intent of the bill's sponsors to freeze the final average salary upon the end of active membership in SERS, then the bill should be revised to clarify this language prior to enactment of the bill.

*Vesting and Treatment of Non-Vested Participants.* The vesting provisions require clarification. Participants in the State Legislators' Defined Contribution Program would become fully-vested in the employer contribution portion of the plan after three years of service. Presumably, employees who terminate service prior to vesting would be entitled to a return of their own contributions to the plan, however, there is no specific provision for this contingency. The bill should clearly indicate that the account balance derived from employee contributions adjusted for earnings and expenses is always 100% vested.

*Optional or Mandatory Nature of Participation.* The nature of participation in the State Legislators' Defined Contribution Program requires clarification. Section 5609 seems to indicate that participant contributions are mandatory by stating that "regular participant contributions shall be made to the program on behalf of each participant," and that the employer "shall cause participant contributions for current service to be made." However, later in the section, it is stated that participants "*may* elect to contribute to the program on their behalf." Participants may make contributions to the program on their own behalf to the extent permitted by law, with a dollar-for-dollar employer-matching contribution of up to 4% of the member's "pensionable earnings," a term that is not defined. The bill does not set a minimum participant contribution rate for either the participant or the employer, which could mean that participants may choose to contribute nothing and, likewise, the employer would also make no contributions toward the participant's retirement plan. Further, there may be serious tax-qualification issues involved with such an approach. Based on the Commission's understanding of the IRC tax-qualification rules, employee contributions to a defined contribution plan sponsored by a governmental entity can only be made on a pre-tax basis if plan membership is mandatory or there is a one-time irrevocable salary reduction agreement in place.

*"Pensionable Earnings."* Section 5610 of the bill states that the General Assembly shall match the contributions to the program made by the participant dollar-for-dollar up to 4% of the participant's "pensionable earnings." As it is currently written, the bill does not include a definition for the term "pensionable earnings."

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COMMISSION RECOMMENDATION

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

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2011

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House Bill Number 418, Printer's Number 384, was introduced and referred to the House State Government Committee on February 3, 2011.

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**Bill ID:** House Bill Number 1676, Printer's Number 2123

**System:** State Employees' Retirement System

**Subject:** Cash Balance Retirement Benefit Plan

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POLICY CONSIDERATIONS

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House Bill Number 1676, Printer's Number 2123, would amend the State Employees' Retirement Code (Code) to mandate the establishment of a hybrid retirement benefit tier known as a "Cash Balance" plan.

The bill would amend the State Employees' Retirement Code to:

- 1) Effective January 1, 2012, establish a new class of membership known as Class QB applicable to most employees who become members of the System (including members of the General Assembly and the Judiciary, but excluding State Police officers) on or after January 1, 2012. A Class QB member would be a member of the newly established cash balance benefit tier.
- 2) Set the employer contribution rate on behalf of Class QB members at 4.75% of compensation and require a corresponding employee contribution to the cash balance plan of 6.25% of compensation. The employer and employee contributions would both be credited to the member's notational cash balance account, plus interest, at the rate of 4.0% annually;
- 3) Establish the superannuation requirement for members of Class QB as age 55;
- 4) Maintain optional membership for new employees eligible to elect participation in an independent retirement program (such as TIAA-CREF), but with a reduced employer contribution rate equal to 5.0% of compensation; and
- 5) Prohibit new members from purchasing previous State service or creditable nonstate service, except for military service or an approved leave of absence.

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DISCUSSION

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### **The Retirement Code and System**

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits to State employees. As of June 30, 2010, there were approximately 106 Commonwealth and other employers participating in SERS.

Membership in SERS is mandatory for most State employees. Certain other employees are not required but are given the option to participate. As of December 31, 2010, there were 109,255 active members and 111,713 annuitant members of SERS.

For most members of the System, the basic benefit formula used to determine the normal retirement benefit is equivalent to the product of 2.5% multiplied by the member's years of accumulated service credit ("eligibility points") multiplied by the member's final average (highest three years) salary. Since the passage of Act 9 of 2001 (which increased the accrual rate for most members from 2.0% to 2.5%), most members of SERS are Class AA members and contribute 6.25% of pay to the System. Within SERS, there are a number of additional membership classes with corresponding benefit accrual and employee contribution rates that differ from the majority of State employees.

Act 120 of 2010 implemented major pension reforms, including the establishment of new benefit tiers applicable to most new members. Effective January 1, 2011, most new members (including members of the General Assembly), are required to become members of one of two membership classes, known as "Class A-3" and "Class A-4." Most new members of SERS, other than State Police officers or members employed in a position for which a class of service other than Class A or Class AA is credited or could be elected, become members of Class A-3 beginning January 1, 2011 (or if a member of the General Assembly, beginning December 1, 2010). Class A-3 members are eligible for an annuity based upon an annual benefit accrual rate of 2% and have a corresponding employee contribution requirement of 6.25% of compensation. As an alternative to Class A-3, an employee who becomes a member of SERS on or after January 1, 2011, may elect Class A-4 membership within 45 days of becoming a member of SERS. A Class A-4 member is eligible for an annuity based upon an annual benefit accrual rate of 2.5% with a corresponding employee contribution requirement equal to 9.3% of compensation.

Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with at least 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. For most members of SERS who first became members after the effective date of Act 120, the superannuation requirement is age 65 with a minimum of three years of service credit, or any combination of age and service that totals 92 with at least 35 years of credited service, and age 55 for members of the General Assembly and certain public safety employees.

### **Cash Balance Retirement Benefit Plan**

A cash balance plan is a type of defined benefit (DB) plan with a defined contribution-like portability component. A cash balance plan calculates benefits in a manner similar to a defined contribution (DC) plan. Under a cash balance arrangement, benefits are accrued throughout a worker's years of employment. Similar to what tends to occur with DC plans, employees who move from employer to employer frequently or otherwise leave service early will tend to benefit more from a cash balance plan than a traditional DB plan, because the accrued benefits will tend to be greater than would be the case under a traditional DB plan. Conversely, long-service employees will tend to benefit less from a cash balance plan arrangement as compared with a traditional DB plan, because the portion of the benefit accrued in later years of service will tend to be less than under a traditional DB plan.

A cash balance plan is classified as a defined benefit plan because the employer bears the investment risks and rewards along with the mortality risk if the employee elects to receive benefits in the form of an annuity and lives beyond the anticipated retired life expectancy. Unlike a traditional DB plan, a cash balance plan establishes allocations to a hypothetical individual account (the cash balance) for each participant (individual account balances are segregated for accounting purposes only). Benefits under cash balance plans may be paid as a lump sum or annuitized over the retiree's expected remaining lifetime.

The bill would establish a mandatory cash balance benefit tier applicable to most new members of SERS, beginning January 1, 2012. The bill would create a new class of membership for State employees (including members of the General Assembly and the Judiciary, but excluding State Police officers), known as "Class QB." Class QB members would be eligible for an annuity with a present value equal to the balance of the member's cash balance account upon superannuation (age 55). A current, non-QB member of the System who has a future break in service would not be required to join Class QB, but would instead remain a member of the original retirement benefit class upon returning to State service.

Under the bill, the cash balance retirement benefit calculation would differ from the current traditional defined benefit formula. Rather than receiving an annuity based upon the current benefit formula (accrual rate x years of service x final average salary), the cash balance benefit would be equal to the value of all accumulated employee and employer contributions plus interest credited to the member's cash balance ledger account at the time of retirement. A member would be entitled to elect one of three benefit options at the time of separation: 1) a lifetime annuity based upon the total value of the member's account, plus interest (if superannuated); 2) delay receipt of benefits until superannuation age by vesting; or 3) elect to receive a lump-sum distribution of employee contributions and interest, but forfeit the employer contribution and interest component and any entitlement to a future annuity.

Cash balance plans and other types of hybrid defined benefit plans have been replacing traditional retirement plans in the private sector for many years. Many employers, including some public employers, have moved to cash balance plans in an attempt to control plan costs, reduce employer contribution volatility, and shift some of the inherent risk associated with maintaining a defined benefit plan from the employer to the employee.

Benefit costs under the cash balance plan proposal in the bill will be lower than the current traditional DB plan. A significant part of this cost difference is due to the difference between the guaranteed investment rate credited on employee accounts (4% under the bill) and investment return assumptions on pension fund assets (currently 8%). Additionally, because the bill penalizes members for early termination (prior to age 55) by requiring members to forfeit the employer contribution component of the cash balance account (or defer receipt of an annuity until age 55), the recouping of these employer contributions may serve to further reduce costs. The cash balance plan will also shift inflation risk from the employer to the employee since the final retirement benefit is a function of earnings over the working lifetime of the employee instead of the final years when such earnings are typically the highest.

The cash balance benefit proposal in the bill differs from most private sector plans in several respects. Under the bill, employer contributions with interest are forfeited if a member elects to receive a lump sum of the accumulated member contributions with interest. In the private sector, employees are generally 100% vested in both the employee and employer contributions to the cash balance account, with interest, after three years of service (the maximum permitted by federal law). Employees in the private sector are typically entitled to a lump sum of the entire vested cash balance account upon termination or retirement. Under the bill, employees would not be entitled to the employer contributions with interest or to annuitize the cash balance account until reaching age 55. The proposal in the bill also requires an employee contribution of 6.25% of pay, while private sector cash balance plans often require no employee contributions.

The bill would not affect the retirement benefit rights of current active members of the System. Instead, the bill seeks to create a new benefit tier within SERS applicable only to employees who first become members on or after January 1, 2012. By creating a new benefit tier applicable only to State employees who become members of SERS on or after the effective date, the bill avoids impairing the contractual retirement benefit rights of current members, while having the effect of creating a new contractual relationship between the public employer and new members of SERS.

The bill's major design features are described below.

- 1) **Mandatory Membership:** Membership in Class QB would be mandatory for most new State employees hired on or after January 1, 2012. Membership would be mandatory regardless of the number of hours or days worked annually. The current minimum requirement for membership in SERS (750 hours of work) would be eliminated.
- 2) **Contributions:** The contribution rate for Class QB members would be equal to 6.25% of compensation, with a corresponding employer contribution rate of 4.75% of compensation, plus 4% annual interest.
- 3) **Vesting:** Class QB members would be 100% vested in the employee contribution portion of the cash balance plan from the first day of membership. Members leaving service before age 55 may elect to defer receipt of an annuity until attaining superannuation age, or may elect to receive a refund of member contributions with interest. Members electing to receive a refund of contributions would forfeit eligibility for a future annuity benefit. The employer-share of contributions and interest would be returned to the State accumulation account.
- 4) **Superannuation:** The superannuation requirement for new members of Class QB would be age 55. The cash balance benefit would be equal to the present value of all accumulated employee and employer contributions plus interest credited to the member's cash balance ledger account at the time of retirement and would be paid to the member in the form of a lifetime annuity. An eligible member would be entitled to elect to receive a lump-sum distribution of employee contributions and interest, but would forfeit the employer contribution and interest component and any entitlement to a future annuity.
- 5) **After-tax Contributions:** In addition to mandatory employee contributions, the bill would amend Section 5501.3 of the SERS Code to permit Class QB members to make voluntary, after-tax contributions to their cash balance savings accounts in amounts up to the limits imposed by the Internal Revenue Code (IRC Section 415(c)(1)(A)). The additional contributions would be made through payroll deductions and would be treated as taxable income. A member may elect to stop or change the election amounts at any time.
- 6) **Independent Retirement Program:** The bill would maintain optional membership eligibility for new employees who are eligible to elect participation in an independent retirement program (such as TIAA-CREF), but with a reduced employer contribution rate equal to 5% of compensation (the current employer contribution rate on behalf of such members is 9.29%).
- 7) **Service Credit Purchase:** Class QB members would be prohibited from purchasing previous State service or creditable nonstate service except for an approved leave of absence (such as military service). The election of multiple service membership is also prohibited for Class QB members. Multiple service membership involves the combining of PSERS service and SERS service for retirement credit purposes. An individual with prior service credit in one of the retirement systems who, due to a change in employment status, becomes a member of the other retirement system may elect to become a multiple service member. Because vesting in a cash balance plan is immediate and no final average salary calculation is used to determine retirement benefits, multiple service membership is irrelevant to the cash balance plan environment.

- 8) **Retirement Benefit Entitlement:** Upon termination of service, any Class QB member who is eligible to receive an annuity would be entitled to receive a lifetime annuity with a present value equal to the balance of the member's savings account. Class QB members (as with all SERS members) would be entitled to elect various member benefit distribution options intended to provide members with flexibility in deciding the manner in which benefits are disbursed and to ensure that members who choose to do so have the ability to provide a reliable benefit stream to their designated survivor beneficiaries. A superannuated member may elect to receive a lump-sum distribution of employee contributions and interest in lieu of an annuity, but would forfeit the employer contribution and interest component of the cash balance account and any entitlement to a future annuity.
- 9) **Option 4:** As is the case for members of the System hired after the effective date of Act 120, Class QB would also be ineligible to withdraw their accumulated deductions in a lump sum at retirement under retirement Option 4.
- 10) **Disability Benefit:** The bill would amend Section 5704 of the SERS Code to exclude Class QB members from eligibility for a disability annuity. If a member becomes disabled, the member may receive an annuity only upon reaching superannuation age, or the member may elect to receive a return of accumulated deductions and interest, but would forfeit eligibility for a future annuity.
- 11) **Death Benefit:** If a member dies prior to retirement, the total value of the member's cash balance account (both employer and employee contributions, plus interest accrued) would be paid in a lump sum to the member's designated beneficiaries or estate. Beyond payment of the member's savings account balance in a lump sum, there are no special death benefit provisions to provide for the surviving beneficiaries of a Class QB member.

### Treatment of Educational Employees

Under current law, "school employees" (employees of the Pennsylvania State System of Higher Education [PASSHE] institutions, most employees of the Pennsylvania State University, and community college employees) are eligible to choose coverage in an employer-approved, defined contribution "alternative retirement program" as an alternative option to membership in either the State Employees' Retirement System (SERS) or the Public School Employees' Retirement System (PSERS). Of the school employees who are eligible to choose membership in an alternative retirement program, approximately 50% elect membership in SERS, 45% elect membership in an alternative retirement program and 5% elect membership in PSERS.

The purpose of the alternative retirement plan is to permit eligible employees the option of participating in a defined contribution plan similar to those commonly available to other college and university employees throughout the U.S. Section 5301(a)(12) of the SERS Code allows employers to contribute up to 9.29% of pay into the independent retirement program, and all affected employers currently contribute at that rate. The maximum employer contribution rate of 9.29% for an independent retirement program was selected so that the value of the benefits provided by it would be comparable to the value of the benefits provided by SERS to the average State employee over the course of that employee's career in public service. The Teachers' Insurance and Annuity Association of America – College Retirement Equities Fund (TIAA-CREF) is the best known, oldest, and largest of the defined contribution plans in the field of education, and from 1982 until 2001, was the only vendor permitted to be approved by the affected employers as an alternative retirement plan. With the passage of Act 35 of 2001, the number of potential, alternative retirement program vendors available to higher education institution employees was expanded to include insurance companies and mutual fund companies with investment options meeting the requirements of a tax-qualified plan under the Internal Revenue Code.

The bill would amend Section 5301 of the Code to set the employer contribution rate for eligible school employees who elect membership in an alternative retirement program at 5% of payroll. Because the maximum employer contribution on behalf of new members would be limited to 5% under the bill, eligible new employees would be entitled to a retirement benefit of lesser value relative to their colleagues who are currently members of an alternative retirement program such as TIAA-CREF.

### **Special Membership Classes**

Within SERS, there are a number of special membership classes entitled to enhanced retirement benefits, reduced superannuation requirements or both. These include all members of the judiciary, members of the General Assembly, certain enforcement officers and Pennsylvania State Police Officers. Officers of the Pennsylvania State Police who first become members of SERS on or after January 1, 2012, will be unaffected by the benefit changes of the bill. Under the bill as written, however, membership in Class QB would be mandatory for members of the judiciary and certain other public safety employees. These groups of employees would no longer be entitled to special benefit provisions that similarly situated employees currently receive. Consequently, these employees would be entitled to benefits that are significantly less valuable than their peers who became members before the effective date of the bill. Due to the hazardous nature of their duties, it may be desirable to retain some type of enhanced benefit for hazardous duty personnel in the form of special in-service death, disability or retirement provisions.

### **Judicial Benefits**

In 1974, an attempt was made to reform and make uniform the benefit provisions of the SERS Code. This attempt at reform prompted a series of lawsuits brought by members of the judiciary challenging the benefit changes as applied to members of the judicial branch. These court cases ultimately resulted in the preservation of the judiciary's entitlement to special membership status and enhanced benefits. The most salient of these cases were the "Goodheart" Supreme Court decisions (See *Goodheart v. Casey*, 521 Pa. 316 (1989); 523 Pa. 188 (1989), and *Klein v. State Employees' Retirement System*, 521 Pa. 330, 555 A.2d 1216, 1221 (1989)). Essentially, the Supreme Court of Pennsylvania ruled that the 1974 amendments to the Code, which eliminated the option to elect special class membership, were unconstitutional as applied to members of the judiciary. The Supreme Court ruled that, in order to preserve an independent judiciary, judges must be adequately compensated, pension benefits are part of compensation, and all members of a single-level court performing similar functions and exercising similar authority must be compensated at the same rate. As a result, all individuals who became members of the judiciary following the 1974 amendments to the SERS Code must be permitted to elect special class (Class E-1 or E-2) membership, make the required higher member contributions, and receive the higher pension benefit attributable to their membership class.

Based upon the independent status of the judiciary in Pennsylvania and the case law regarding the special status of its members, if enacted, the bill would almost certainly be challenged in the courts.

### **Determination of Employer Normal Cost**

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

Both the PSERS and SERS Codes require the normal cost to be determined using "... a level percentage of the compensation of the average new active member...." However, the Systems apply different interpretations to the language. Using the SERS interpretation, the average new member, or entrant, to the System currently earns a benefit at a 2.0% accrual rate. However, if enacted, the bill would require the normal cost to be calculated on new members in Class QB. This would result in a diminished normal cost calculation that would tend to understate the true cost of SERS, because in the early years of the reduced benefit tier, the majority of members would remain in benefit classes entitling them to a retirement benefit of greater value than for members of Class QB. In the short term, the understated normal cost would generate an unfunded actuarial accrued liability in SERS. This would occur because reducing the benefit accrual rate for new members only would not affect the present value of benefits for current members, but would affect the normal cost calculation.

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SUMMARY OF ACTUARIAL COST IMPACT

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In contrast, PSERS uses a more traditional method of determining normal cost under the entry age normal actuarial cost method. The traditional method develops the normal cost rate based upon a blending of accrual rates (and subsequently, the costs) attributable to all active members, rather than new entrants only. Use of the traditional method would help to achieve the presumed long-term cost reduction goals of the bill by both gradually reducing the normal cost and preventing the creation of unfunded actuarial accrued liabilities.

The Commission's consulting actuary has reviewed the bill and the actuarial cost estimate provided to the Commission by the consulting actuary for SERS. Based on estimated projections by the SERS' actuary, there will be an underlying \$3.02 billion increase in unfunded actuarial accrued liability due to the passage of the bill. The result of this analysis is shown in Table I. The table shows the projected change in the unfunded actuarial accrued liability (UAAL) and the funded ratio of SERS for Fiscal Year 2012 to Fiscal Year 2044 under (1) current law and (2) under the bill. Table II shows the projected change in employer contribution rates for Fiscal Year 2012 to Fiscal Year 2044 under (1) current law and (2) under the bill.

Based upon the entry age normal actuarial cost method and current actuarial assumptions of the System, the employer normal cost rate for new Class QB members is expected to be 0%. This is primarily due to the assumed investment return of 8% per year, which exceeds the statutory interest rate of 4% per year credited to members' cash balance accounts, and the forfeiture of any employer-provided benefit when the accumulated member contributions with interest are received as a lump sum. As a result, the total normal cost rate is expected to be less than the member contribution rate.

The bill requires that the increase in actuarial accrued liability be amortized as a level annual amount over 30 years and would not be considered costs added by legislation for purposes of the collared contribution rate. This change in amortization from the current 10 years for legislative changes to 30 years and the exception for "costs added by legislation" will lower the initial funding costs of the bill, but will increase the funding costs over the long-term.

**TABLE I**

**Projected Change in Funded Ratio and  
Unfunded Actuarial Accrued Liability (UAAL)**  
Fiscal Year 2012 to 2044

Fiscal Year	Funded Ratio		UAAL (\$ in Billions)	
	Current Law	Proposed Cash Balance Plan	Current Law	Proposed Cash Balance Plan
2012	74.1%	74.1%	\$10.35	\$10.35
2013	68.7%	64.1%	13.13	16.15
2014	62.4%	58.4%	16.49	19.46
2015	62.6%	58.9%	17.11	19.98
2016	62.6%	59.1%	17.82	20.58
2017	63.2%	59.9%	18.16	20.78
2018	64.2%	61.1%	18.15	20.69
2019	65.5%	62.4%	17.97	20.47
2020	66.7%	63.7%	17.76	20.22
2021	67.9%	65.0%	17.52	19.94
2022	69.0%	66.3%	17.26	19.64
2023	70.2%	67.7%	16.98	19.30
2024	71.4%	69.1%	16.66	18.93
2025	72.6%	70.5%	16.32	18.53
2026	73.8%	72.0%	15.94	18.10
2027	75.0%	73.6%	15.53	17.62
2028	76.2%	75.1%	15.09	17.10
2029	77.5%	76.7%	14.60	16.54
2030	78.7%	78.3%	14.07	15.93
2031	80.0%	79.9%	13.49	15.26
2032	81.3%	81.6%	12.87	14.54
2033	82.7%	83.2%	12.19	13.75
2034	84.1%	84.9%	11.45	12.90
2035	85.5%	86.5%	10.64	11.97
2036	86.9%	88.2%	9.77	10.96
2037	88.5%	89.8%	8.82	9.87
2038	90.0%	91.4%	7.78	8.68
2039	91.6%	93.0%	6.66	7.40
2040	93.3%	94.6%	5.45	6.00
2041	95.0%	96.2%	4.13	4.49
2042	96.2%	97.3%	3.20	3.34
2043	97.0%	98.1%	2.61	2.53
2044	97.5%	98.4%	2.22	2.17

**TABLE II**  
**Projected Employer Contribution Rates**  
 Fiscal Year 2012 to 2044  
 (\$ amounts in millions)

Fiscal Year Ending June 30	Appropriation Payroll	Current Law		Proposed Cash Balance Legislation		Increase / (Decrease)	
		Employer Contribution		Employer Contribution		Employer Contribution	
		Rate	Amount	Rate	Amount	Rate	Amount
2012	\$6,117	8.00%	\$489	8.00%	\$489	0.00%	\$0
2013	6,304	11.50%	725	11.50%	725	0.00%	0
2014	6,496	16.00%	1,039	16.00%	1,039	0.00%	0
2015	6,694	20.50%	1,372	20.50%	1,372	0.00%	0
2016	6,898	25.00%	1,725	25.00%	1,725	0.00%	0
2017	7,109	28.11%	1,998	26.37%	1,874	-1.74%	(124)
2018	7,325	27.69%	2,028	25.77%	1,888	-1.91%	(140)
2019	7,549	27.08%	2,044	25.07%	1,893	-2.01%	(151)
2020	7,779	26.49%	2,061	24.38%	1,897	-2.10%	(164)
2021	8,016	25.90%	2,077	23.71%	1,901	-2.19%	(176)
2022	8,261	25.33%	2,093	23.05%	1,904	-2.28%	(189)
2023	8,513	24.78%	2,110	22.41%	1,908	-2.37%	(202)
2024	8,772	24.24%	2,127	21.79%	1,912	-2.45%	(215)
2025	9,040	23.72%	2,144	21.19%	1,916	-2.53%	(228)
2026	9,316	23.21%	2,163	20.60%	1,919	-2.61%	(244)
2027	9,600	22.72%	2,181	20.04%	1,924	-2.68%	(257)
2028	9,893	22.24%	2,201	19.49%	1,928	-2.76%	(273)
2029	10,194	21.78%	2,221	18.95%	1,932	-2.83%	(289)
2030	10,505	21.33%	2,241	18.43%	1,937	-2.90%	(304)
2031	10,826	20.90%	2,262	17.93%	1,941	-2.97%	(321)
2032	11,156	20.48%	2,284	17.44%	1,946	-3.03%	(338)
2033	11,496	20.07%	2,307	16.97%	1,951	-3.09%	(356)
2034	11,847	19.67%	2,330	16.51%	1,956	-3.16%	(374)
2035	12,208	19.28%	2,354	16.07%	1,961	-3.22%	(393)
2036	12,580	18.91%	2,379	15.64%	1,967	-3.27%	(412)
2037	12,964	18.55%	2,404	15.22%	1,973	-3.33%	(431)
2038	13,360	18.19%	2,431	14.81%	1,979	-3.38%	(452)
2039	13,767	17.85%	2,458	14.42%	1,985	-3.44%	(473)
2040	14,187	17.52%	2,486	14.03%	1,991	-3.49%	(495)
2041	14,620	13.80%	2,018	10.26%	1,501	-3.54%	(517)
2042	15,065	10.76%	1,620	7.17%	1,080	-3.59%	(540)
2043	15,525	8.99%	1,396	3.63%	564	-5.36%	(832)
2044	15,998	6.99%	1,118	1.65%	264	-5.34%	(854)
Total:			\$64,886		\$55,142		\$(9,744)

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

Reduced Benefit Tier. The bill would have the effect of reducing the value of retirement benefits for most future members of SERS relative to most current members of the System. The bill would also lower the normal retirement age to age 55 for most new members, while increasing employee contributions relative to the benefits earned. Although the bill would have the effect of increasing the unfunded actuarial accrued liability, the combined effect of the proposed benefit changes will be to reduce the cost of providing benefits earned in the future.

Benefit Disparities. By creating an additional reduced benefit tier, the bill creates the potential for pension benefit inequities in the treatment of similarly situated public employees, and in some cases, the potential for litigation brought by members over resulting pension benefit disparities. The complexities involved in the administration of multiple benefit tiers will also likely add to the System's operational and administrative costs.

Normal Cost Calculation. PSERS and SERS use somewhat dissimilar methods for calculating the normal cost rate. Under the SERS method, the normal cost is calculated based upon the average *new entrant* to the System. As a result, the normal cost for SERS would decrease even though the cost of providing benefits to current members would not change. Because benefits provided to current members are higher than the benefits provided to members of the new Class QB, the employer normal cost under SERS would be significantly lower than the average cost of the benefits provided to current members, and will tend to understate the System's normal cost. In the short term, the understated normal cost would generate a significant unfunded actuarial accrued liability in SERS. In contrast, the normal cost method employed by PSERS is based on a blending of the normal cost rates of all active members. This is the traditional method for calculating the normal cost under the entry age normal actuarial cost method.

The Commission's consulting actuary has indicated that the PSERS' method would be the preferred approach for determining the normal cost for both PSERS and SERS. This is especially important if the reduced benefit classes are adopted for new members in order to avoid having a decrease in the normal cost for current members and an increase in the actuarial accrued liability. Under the PSERS' approach, the normal cost and unfunded actuarial accrued liability would not change for current members, but there would be a reduced normal cost for new members as they join the System. Thus, the total normal cost would gradually decline as new members are added and current members retire. Use of the traditional method would help to achieve the presumed long-term cost reduction goals of the bill by both gradually reducing the normal cost and preventing the creation of additional unfunded actuarial accrued liabilities.

Special Membership Classes. Under the SERS Code, there are a number of special categories of public employees entitled to enhanced benefits, reduced superannuation requirements, or both. These include members of the General Assembly, the judiciary, enforcement officers and certain other hazardous duty personnel. Under the bill, there are no special benefit provisions for several of these groups of employees. The uniform benefit level for Class QB would result in a major reduction in the value of employer-provided benefits for these groups of employees in the future and would result in significant benefit disparities between similarly situated employees.

State Police Benefits. Under the bill, State Police Officers would be exempted from Class QB membership. Historically, hazardous duty personnel have been entitled to enhanced benefits, reduced superannuation requirements, or both. However, under the bill, most newly hired hazardous duty personnel, other than State Police Officers, would be required to become Class QB members. The public policy rationale for excluding State Police Officers and not other groups of hazardous duty personnel is unclear.

Judicial Benefits. The Supreme Court of the Commonwealth has ruled that, in order to preserve an independent judiciary, judges must be adequately compensated, pension benefits are part of compensation, and all members of a single-level court performing similar functions and exercising similar authority must be compensated at the same rate. As drafted, the bill ignores the special status of judicial benefits. Based upon the independent status of the judiciary in Pennsylvania and the case law regarding the special status of its members, if enacted, the bill would almost certainly be challenged in the courts.

Treatment of Educational Employees. Because the maximum employer contribution on behalf of new members would be limited to 5% under the bill, eligible new employees will be entitled to a retirement benefit of lesser value relative to their colleagues who are currently members of an alternative retirement program such as TIAA-CREF. The bill would create the potential for pension benefit inequities in the treatment of similarly situated educational employees, and the potential for litigation brought by members over resulting pension benefit disparities.

Potential for Adverse Selection. When individuals are given the opportunity to choose among more than one retirement benefit plan, experience has shown that they tend to make the choice that appears most economically advantageous at the time. Among educational employees who have the option to choose, there are certain features of the alternative retirement plan (TIAA-CREF) that may make its selection more attractive than membership in the System. The combination of employer contributions, vesting, and the ability to self-direct investments (and perhaps earn a long-term investment return greater than the 4% statutory rate) may make alternative retirement plan membership more attractive. These factors may have the consequence of driving eligible employees toward the alternative retirement plan and away from membership in the System. As a result, membership within the System may slowly decline, adversely impacting the appropriation payroll which could lead to increases in employer unfunded liability rates.

Adequacy of Disability and Death Benefits for Hazardous Duty Personnel. Historically, it has been the practice of the Commonwealth to provide special disability and death benefits to public safety employees due to the hazardous nature of such employment. The bill represents a major departure from past practice by providing no such special benefits for hazardous duty personnel. Due to the hazardous nature of their duties, it may be desirable to retain some type of enhanced benefit for hazardous duty personnel in the form of special in-service death, disability or retirement provisions.

Personnel Recruitment and Retention. One unintended effect of the bill may be to decrease the attractiveness of public employment, particularly among certain subgroups of employees who have traditionally received enhanced retirement benefits. The General Assembly and the Governor must determine whether the benefit provisions of the bill are consistent with the Commonwealth's long-term personnel management goals.

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COMMISSION RECOMMENDATION

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

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2011

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House Bill Number 1676, Printer's Number 2123, was introduced and referred to the House State Government Committee on June 17, 2011.

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**Bill ID:** House Bill Number 1677, Printer's Number 2124

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

**Subject:** Cash Balance Retirement Benefit Plan

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SYNOPSIS

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House Bill Number 1677, Printer's Number 2124, would amend the Public School Employees' Retirement Code (Code) to mandate the establishment of a hybrid retirement benefit tier known as a "Cash Balance" plan.

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

- 1) Effective July 1, 2012, establish a new class of membership known as Class T-G applicable to most employees who become members of the System on or after July 1, 2012. A Class T-G member would be a member of the newly established cash balance benefit tier.
- 2) Set the employer contribution rate on behalf of Class T-G members at 5.0% of compensation and require a corresponding employee contribution to the cash balance plan of 7.5% of compensation. The employer and employee contributions would both be credited to the member's notational cash balance account, plus interest, at the rate of 4.0% annually;
- 3) Establish the superannuation requirement for members of Class T-G as age 55;
- 4) Maintain optional membership for new employees eligible to elect participation in an independent retirement program (such as TIAA-CREF), but with a reduced employer contribution rate equal to 5.0% of compensation;
- 5) Prohibit new members from purchasing previous school service or creditable nonschool service, except for military service or an approved leave of absence; and
- 6) Prohibit new members from participating in the Health Insurance Premium Assistance Program after retirement.

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DISCUSSION

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### **The Retirement Code and System**

The Public School Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the Public School Employees' Retirement System (PSERS) is to provide retirement allowances and other benefits, including disability and death benefits to public school employees. As of June 30, 2010, there were approximately 739 participating employers, generally school districts, area vocational-technical schools, and intermediate units in PSERS.

Membership in PSERS is mandatory for most school employees. Certain other employees are not required but are given the option to participate. As of June 30, 2010, there were 282,041 active members and 184,934 annuitant members of PSERS.

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

Act 120 of 2010 implemented major pension reform that affected the System, including the establishment of new benefit tiers applicable to most new members. Effective July 1, 2011, new members of PSERS are required to become members of one of two membership classes, known as "Class T-E" and "Class T-F." Most new members of PSERS are required to become members of Class T-E beginning July 1, 2011. Class T-E members are eligible for an annuity based upon an annual benefit accrual rate of 2% and have a corresponding employee contribution of 7.5% of compensation. As an alternative to Class T-E, an employee who becomes a member of PSERS on or after July 1, 2011, may elect Class T-F membership within 45 days of becoming a member of PSERS. A Class T-F member is eligible for an annuity based upon an annual benefit accrual rate of 2.5% with a corresponding employee contribution requirement equal to 10.3% of compensation.

Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, age 60 with 30 or more years of service, or any age with 35 years of service. For most members of PSERS who first became members after the effective date of Act 120, the superannuation requirement is age 65 with a minimum of three years of service credit, or any combination of age and service that totals 92 with at least 35 years of credited service.

### **Cash Balance Retirement Benefit Plan**

A cash balance plan is a type of defined benefit (DB) plan with a defined contribution-like portability component. A cash balance plan calculates benefits in a manner similar to a defined contribution (DC) plan. Under a cash balance arrangement, benefits are accrued throughout a worker's years of employment. Similar to what tends to occur with DC plans, employees who move from employer to employer frequently or otherwise leave service early will tend to benefit more from a cash balance plan than a traditional DB plan, because the accrued benefits will tend to be greater than would be the case under a traditional DB plan. Conversely, long-service employees will tend to benefit less from a cash balance plan arrangement as compared with a traditional DB plan, because the portion of the benefit accrued in later years of service will tend to be less than under a traditional DB plan.

A cash balance plan is classified as a defined benefit plan because the employer bears the investment risks and rewards along with the mortality risk if the employee elects to receive benefits in the form of an annuity and lives beyond the anticipated retired life expectancy. Unlike a traditional DB plan, a cash balance plan establishes allocations to a hypothetical individual account (the cash balance) for each participant (individual account balances are segregated for accounting purposes only). Benefits under cash balance plans may be paid as a lump sum or annuitized over the retiree's expected remaining lifetime.

The bill would establish a mandatory cash balance benefit tier applicable to most new members of PSERS, beginning July 1, 2012. The bill would create a new class of membership for school employees, known as "Class T-G." Class T-G members would be eligible for an annuity with a present value equal to the balance of the member's cash balance account upon superannuation (age 55). A current, non-T-G member of the System who has a future break in service would not

be required to join Class T-G, but would instead remain a member of the original retirement benefit class upon returning to school service.

The cash balance retirement benefit calculation would differ from the current traditional defined benefit formula. Rather than receiving an annuity based upon the current benefit formula (accrual rate x years of service x final average salary), the cash balance benefit would be equal to the value of all accumulated employee and employer contributions plus interest credited to the member's cash balance ledger account at the time of retirement. A member would be entitled to elect one of three benefit options at the time of separation: 1) a lifetime annuity based upon the total value of the member's account, plus interest (if superannuated); 2) delay receipt of benefits until superannuation age by vesting; or 3) elect to receive a lump-sum distribution of employee contributions and interest, but forfeiting the employer contribution and interest component and any entitlement to a future annuity.

Cash balance plans and other types of hybrid defined benefit plans have been replacing traditional retirement plans in the private sector for many years. Many employers, including some public employers, have moved to cash balance plans in an attempt to control plan costs, reduce employer contribution volatility, and shift some of the inherent risk associated with maintaining a defined benefit plan from the employer to the employee.

Benefit costs under the cash balance plan proposal in the bill will be lower than the current traditional DB plan. A significant part of this cost difference is due to the difference between the guaranteed investment rate credited on employee accounts (4% under the bill) and investment return assumptions on pension fund assets (currently 8%). Additionally, because the bill penalizes members for early termination (prior to age 55) by requiring members to forfeit the employer contribution component of the cash balance account (or defer receipt of an annuity until age 55), the recouping of these employer contributions may serve to further reduce costs.

The cash balance plan will also shift inflation risk from the employer to the employee since the final retirement benefit is a function of earnings over the working lifetime of the employee instead of the final years when such earnings are typically the highest.

The cash balance benefit proposal in the bill differs from most private sector plans in several respects. Under the bill, employer contributions with interest are forfeited if a member elects to receive a lump sum of the accumulated member contributions with interest. In the private sector, employees are generally 100% vested in both the employee and employer contributions to the cash balance account, with interest, after three years of service (the maximum permitted by federal law). Employees in the private sector are typically entitled to a lump sum of the entire vested cash balance account upon termination or retirement. Under the bill, employees would not be entitled to the employer contributions with interest or to annuitize the cash balance account until reaching age 55. The proposal in the bill also requires an employee contribution of 7.5% of pay, while private sector cash balance plans often require no employee contributions.

The bill would not affect the retirement benefit rights of current active members of the System. Instead, the bill seeks to create a new benefit tier within PSERS applicable only to employees who first become members on or after July 1, 2012. By creating a new benefit tier applicable only to school employees who become members of PSERS on or after the effective date, the bill avoids impairing the contractual retirement benefit rights of current members, while having the effect of creating a new contractual relationship between the public employer and new members of PSERS.

The bill's major design features are described below.

- 1) **Mandatory Membership:** Membership in Class T-G would be mandatory for most new school employees hired on or after July 1, 2012. Membership would be mandatory regardless of the number of hours or days worked annually. The current minimum requirement for membership in PSERS (500 hours of work) would be eliminated.
- 2) **Contributions:** The contribution rate for Class T-G members would be equal to 7.5% of compensation, with a corresponding employer contribution rate of 5.0% of compensation, plus 4% annual interest.
- 3) **Vesting:** Class T-G members would be 100% vested in the employee contribution portion of the cash balance plan from the first day of membership. Members leaving service before age 55 may elect to defer receipt of an annuity until attaining superannuation age, or may elect to receive a refund of member contributions with interest. Members electing to receive a refund of contributions would forfeit eligibility for a future annuity benefit. The employer-share of contributions and interest would be returned to the State accumulation account.
- 4) **Superannuation:** The superannuation requirement for new members of Class T-G would be age 55. The cash balance benefit would be equal to the present value of all accumulated employee and employer contributions plus interest credited to the member's cash balance ledger account at the time of retirement and would be paid to the member in the form of a lifetime annuity. An eligible member would be entitled to elect to receive a lump-sum distribution of employee contributions and interest, but would forfeit the employer contributions and interest component and any entitlement to a future annuity.
- 5) **After-tax Contributions:** In addition to mandatory employee contributions, the bill would amend Section 8321(c) of the PSERS Code to permit Class T-G members to make voluntary, after-tax contributions to their cash balance savings accounts in amounts up to the limits imposed by the Internal Revenue Code (IRC Section 415(c)(1)(A)). The additional contributions would be made through payroll deductions and treated as taxable income. A member may elect to stop or change the election amounts at any time.
- 6) **Premium Assistance:** The bill would exempt Class T-G members from the definition of "eligible annuitants," thus eliminating eligibility in the premium assistance program for members of Class T-G. Premium assistance is a non-taxable reimbursement of out-of-pocket premium expenses from an approved health insurance plan, provided the annuitant has retired and met certain eligibility requirements. Premium assistance was originally intended to encourage members to earn the minimum eligibility points before retiring. A retirement benefit for a member of Class T-G is not contingent on eligibility points; rather it is the balance of the member's savings account.
- 7) **Independent Retirement Program:** The bill would maintain optional membership eligibility for new employees who are eligible to elect participation in an independent retirement program (such as TIAA-CREF), but with a reduced employer contribution rate equal to 5% of compensation (the current employer contribution rate on behalf of such members is 9.29%).
- 8) **Service Credit Purchase:** Class T-G members would be prohibited from purchasing previous school service or creditable nonschool service except for an approved leave of absence (such as military service). The election of multiple service membership is prohibited for Class T-G members. Multiple service membership involves the combining of PSERS service and SERS service for retirement credit purposes. An individual with prior service credit in one of the retirement systems who, due to a change in employment

status, becomes a member of the other retirement system may elect to become a multiple service member. Because vesting in a cash balance plan is immediate and no final average salary calculation is used to determine retirement benefits, multiple service membership is irrelevant to the cash balance environment.

- 9) **Retirement Benefit Entitlement:** Upon termination of service, any Class T-G member who is eligible to receive an annuity would be entitled to receive a lifetime annuity with a present value equal to the balance of the member's savings account. Class T-G members (as with all PSERS members) would be entitled to elect various member benefit distribution options intended to provide members with flexibility in deciding the manner in which members' benefits are disbursed and to ensure that members who choose to do so have the ability to provide a reliable benefit stream to their designated survivor beneficiaries. A superannuated member may elect to receive a lump-sum distribution of employee contributions and interest in lieu of an annuity, but would forfeit the employer contribution and interest component of the cash balance account and any entitlement to a future annuity.
- 10) **Option 4:** As is the case for new members of the System hired after the effective date of Act 120, Class T-G would also be ineligible to withdraw their accumulated deductions in a lump sum at retirement under retirement Option 4.
- 11) **Disability Benefit:** The bill would amend Section 8344 of the PSERS Code to exclude Class T-G members from eligibility for a disability annuity. If a member becomes disabled, the member may receive an annuity only upon reaching superannuation age, or the member may elect to receive a return of accumulated deductions and interest, but would forfeit eligibility for a future annuity. Class T-G members in PSERS can opt to participate in a Long-Term Disability Group Insurance Program, which is permitted, but not required to be established by the PSERS Board. The Long-Term Disability Insurance Program would be sponsored by the Board and funded by and for Class T-G members. The organization and administration of the program would be at the sole discretion of the Board.
- 12) **Death Benefit:** If a member dies prior to retirement, the total value of the member's cash balance account (both employer and employee contributions, plus interest accrued) would be paid in a lump sum to the member's designated beneficiaries or estate. Beyond payment of the member's savings account balance in a lump sum, there are no special death benefit provisions to provide for the surviving beneficiaries of a Class T-G member.

### **Health Insurance Premium Assistance Program**

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

Under the bill, Section 8102 of the Code is amended to exempt members of Class T-G from the definition of “eligible annuitant,” thus eliminating eligibility in the premium assistance program for members of Class T-G. The elimination of premium assistance for Class T-G members will eliminate the increase in the employer’s contribution rate for Class T-G members. A review of the most recent actuarial valuation report for PSERS (June 30, 2010) reveals contributions to the program equal 0.65% of total payroll. Current members of the System will continue to receive premium assistance funded through employer contributions.

### **Treatment of Educational Employees**

Under current law, “school employees” (employees of the Pennsylvania State System of Higher Education [PASSHE] institutions, most employees of the Pennsylvania State University, and community college employees) are eligible to choose coverage in an employer-approved, defined contribution “alternative retirement program” as an alternative option to membership in either the State Employees’ Retirement System (SERS) or the Public School Employees’ Retirement System (PSERS). Of the school employees who are eligible to choose membership in an alternative retirement program, approximately 50% elect membership in SERS, 45% elect membership in an alternate retirement program, and 5% elect membership in PSERS.

The purpose of the alternative retirement plan is to permit eligible employees the option of participating in a defined contribution plan similar to those commonly available to other college and university employees throughout the U.S. Section 5301(a)(12) of the SERS Code allows employers to contribute up to 9.29% of pay into the independent retirement program, and all affected employers currently contribute at that rate. The maximum employer contribution rate of 9.29% for an independent retirement program was selected so that the value of the benefits provided by it would be comparable to the value of the benefits provided by SERS to the average State employee over the course of that employee’s career in public service. The Teachers’ Insurance and Annuity Association of America - College Retirement Equities Fund (TIAA-CREF) is the best known, oldest, and largest of the defined contribution plans in the field of education, and from 1982 until 2001, was the only vendor permitted to be approved by the affected employers as an alternative retirement plan. With the passage of Act 35 of 2001, the number of potential, alternative retirement program vendors available to higher education institution employees was expanded to include insurance companies and mutual fund companies with investment options meeting the requirements of a tax-qualified plan under the Internal Revenue Code.

The bill would amend Section 8301 of the PSERS Code to set the employer contribution rate for eligible school employees who elect membership in an alternative retirement program at 5% of payroll. Because the maximum employer contribution on behalf of new members would be limited to 5% under the bill, eligible new employees would be entitled to a retirement benefit of lesser value relative to their colleagues who are currently members of an alternative retirement program such as TIAA-CREF.

### **Determination of Employer Normal Cost**

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

Both the PSERS and SERS Codes require the normal cost to be determined using "... a level percentage of the compensation of the average new active member...." However, the Systems apply different interpretations to the language. PSERS uses the traditional method of determining normal cost rate under the entry age normal actuarial cost method. The traditional method develops the normal cost rate based upon a blending of accrual rates (and subsequently, the costs) attributable to all active members. Under this method, the average new member, or entrant, to the System currently earns a benefit based on a blend of the 2.0% and 2.5% benefit accrual rates. If enacted, the bill would require the normal cost calculation to include new members in Class T-G. As current members leave active service and are replaced by new members in Class T-G, the PSERS normal cost rate will gradually decline.

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SUMMARY OF ACTUARIAL COST IMPACT

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The Commission's consulting actuary has reviewed the bill and the actuarial cost estimate provided to the Commission by the consulting actuary for PSERS. The result of this analysis is summarized in the following table. The table shows the employer contribution rate and the employer contribution amount for PSERS for Fiscal Year 2012 to Fiscal Year 2044 under (1) current law and (2) under the bill.

Based upon the entry age normal actuarial cost method and current actuarial assumptions of the System, the employer normal cost rate for new Class T-G members is expected to be 0%. This is primarily due to the assumed investment return of 8% per year, which exceeds the statutory interest rate of 4% per year credited to members' cash balance accounts, and the forfeiture of any employer-provided benefit when the accumulated member contributions with interest are received as a lump sum. As a result, the total normal cost rate is expected to be less than the member contribution rate.

The employer contribution rate decreases as an increasing number of Class T-G members enter the System. The employer normal cost as a percentage of appropriation payroll steadily declines as current members with annual accrual rates of 2.0% or more exit the System and are replaced by new members in Class T-G, which are assumed to have no measurable employer obligation. The current healthcare premium assistance rate is 0.65% of compensation. This rate would eventually become 0% as Class T-G members would not be eligible for healthcare premium assistance.

SUMMARY OF ACTUARIAL COST IMPACT

**Public School Employees' Retirement System**

Projected Employer Pension Contribution Rates  
Fiscal Year 2012 to 2044  
(\$ amounts in millions)

Fiscal Year Ending June 30	Appropriation  Payroll	Current Law		Proposed Cash Balance Legislation		Increase / (Decrease)	
		Employer Contribution		Employer Contribution		Employer Contribution	
		Rate	Amount	Rate	Amount	Rate	Amount
2012	\$14,112	8.00%	\$1,129	8.00%	\$1,129	0.00%	\$0
2013	14,565	11.50%	1,675	11.50%	1,675	0.00%	0
2014	15,032	16.00%	2,405	16.00%	2,405	0.00%	0
2015	15,529	20.50%	3,183	20.50%	3,183	0.00%	0
2016	16,058	23.00%	3,693	22.73%	3,650	-0.27%	(43)
2017	16,625	23.85%	3,965	23.44%	3,897	-0.41%	(68)
2018	17,226	24.64%	4,245	24.12%	4,155	-0.52%	(90)
2019	17,869	25.62%	4,578	24.98%	4,464	-0.64%	(114)
2020	18,556	26.36%	4,891	25.63%	4,756	-0.73%	(135)
2021	19,284	26.39%	5,089	25.55%	4,927	-0.84%	(162)
2022	20,055	26.46%	5,306	25.53%	5,120	-0.93%	(186)
2023	20,860	26.48%	5,524	25.46%	5,311	-1.02%	(213)
2024	21,698	26.48%	5,746	25.35%	5,500	-1.13%	(246)
2025	22,571	26.44%	5,968	25.22%	5,692	-1.22%	(276)
2026	23,478	26.38%	6,194	25.06%	5,884	-1.32%	(310)
2027	24,413	26.29%	6,418	24.86%	6,069	-1.43%	(349)
2028	25,374	26.21%	6,650	24.67%	6,260	-1.54%	(390)
2029	26,362	26.10%	6,881	24.46%	6,448	-1.64%	(433)
2030	27,377	26.00%	7,118	24.24%	6,636	-1.76%	(482)
2031	28,419	25.90%	7,360	24.03%	6,829	-1.87%	(531)
2032	29,490	25.81%	7,611	23.81%	7,022	-2.00%	(589)
2033	30,591	25.72%	7,868	23.60%	7,220	-2.12%	(648)
2034	31,728	25.63%	8,132	23.38%	7,418	-2.25%	(714)
2035	32,908	25.54%	8,405	23.16%	7,621	-2.38%	(784)
2036	34,137	14.69%	5,015	12.17%	4,154	-2.52%	(861)
2037	35,413	13.47%	4,770	10.83%	3,835	-2.64%	(935)
2038	36,744	11.66%	4,284	8.89%	3,267	-2.77%	(1,017)
2039	38,133	10.03%	3,825	7.13%	2,719	-2.90%	(1,106)
2040	39,586	8.63%	3,416	5.64%	2,233	-2.99%	(1,183)
2041	41,106	7.47%	3,071	4.60%	1,891	-2.87%	(1,180)
2042	42,694	6.36%	2,715	3.60%	1,537	-2.76%	(1,178)
2043	44,343	5.07%	2,248	2.39%	1,060	-2.68%	(1,188)
2044	46,056	4.01%	1,847	1.40%	645	-2.61%	(1,202)
Total:			\$161,225		\$144,612		\$(16,613)

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

Reduced Benefit Tier. The bill would have the effect of reducing the value of retirement benefits for most future members of PSERS relative to most current members of the System. The bill would also lower the normal retirement age to age 55 for most new members, while increasing employee contributions relative to the benefits earned. The combined effect of the proposed benefit changes will be to reduce the cost to employers of providing benefits earned in the future.

Benefit Disparities. By creating an additional reduced benefit tier, the bill creates the potential for pension benefit inequities in the treatment of similarly situated public school employees, and in some cases, the potential for litigation brought by members over resulting pension benefit disparities. The complexities involved in the administration of multiple benefit tiers will also likely add to the System's operational and administrative costs.

Normal Cost Calculation. PSERS and SERS use dissimilar methods for calculating the normal cost rate. The normal cost rate method employed by PSERS reflects the average cost as a percentage of pay from entry into the System reflecting the actual class of membership of each active member. This is the traditional method for calculating the normal cost under the entry age normal actuarial cost method. Using this method, the PSERS' actuary develops a normal cost rate based on a blending of accrual rates and member contribution rates, depending on each member's date of hire and class of service. The Commission's consulting actuary has indicated that the PSERS' method would be the preferred approach for determining the normal cost for both PSERS and SERS.

Treatment of Educational Employees. Because the maximum employer contribution on behalf of new members would be limited to 5% under the bill, eligible new employees will be entitled to a retirement benefit of lesser value relative to their colleagues who are currently members of an alternative retirement program such as TIAA-CREF. The bill would create the potential for pension benefit inequities in the treatment of similarly situated educational employees, and the potential for litigation brought by members over resulting pension benefit disparities.

Personnel Recruitment and Retention. One unintended effect of the bill may be to decrease the attractiveness of public school employment. The General Assembly and the Governor must determine whether the benefit provisions of the bill are consistent with the long-term personnel management goals of school and Commonwealth employers.

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COMMISSION RECOMMENDATION

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

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2011

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House Bill Number 1677, Printer's Number 2124, was introduced and referred to the House State Government Committee on June 17, 2011.

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**Bill ID:** House Bill Number 1791, Printer's Number 2300

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

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

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SYNOPSIS

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House Bill Number 1791, Printer's Number 2300, 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.

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DISCUSSION

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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 28 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 \$50 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 \$1,000 monthly, in addition to any retirement benefit provided under the Second Class County Code.

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SUMMARY OF ACTUARIAL COST IMPACT

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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, 2010, 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.

	<u>Amount</u>	
Increase in Unfunded Actuarial Accrued Liability	\$656,000	
	<u>Amount</u>	<u>As a % of Affected Payroll</u>
Increase in Employer Annual Costs		
Normal Cost	\$ 3,200	0.16%
Amortization Payment <sup>1</sup>	<u>71,000</u>	<u>3.59%</u>
Total Increase in Employer Annual Costs	\$74,200	3.75%

<sup>1</sup> Amortization payments are the same amount each year for 15 years.

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POLICY CONSIDERATIONS

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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.

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COMMISSION RECOMMENDATION

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

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LEGISLATIVE STATUS AS OF DECEMBER 31, 2011

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House Bill Number 1791, Printer's Number 2300, was introduced and referred to the House Urban Affairs Committee on July 26, 2011.



**PART II**

**PUBLIC EMPLOYEE RETIREMENT SYSTEM  
ADMINISTRATION**

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**A. ACT 205 OF 1984.**

- **2011 Filing Period**

In April of 2011, the Commission transmitted filing notices to the 4,500 local governments required to file employee pension plan reports pursuant to Act 205. A follow-up notice was sent to local governments that failed to respond to the filing notice and were known to have a pension plan. The filing deadline for the 2011 Act 205 reports will be March 30, 2012.

- **Municipal Pension Cost Certification**

In the summer of 2011, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2011 allocation of General Municipal Pension System State Aid. In 2011, the State aid provided to municipalities to offset their employee pension costs totaled \$343 million. More than 1,400 individual allocations of General Municipal Pension System State Aid were determined by the cost data certified by the Commission.

- **Increased General Municipal Pension System State Aid for 2011 - A One-Time Event**

Many municipalities received a significant increase in the amount of their 2011 State aid allocation over what was received in the past. The inflated amount was a result of the Pennsylvania Department of Revenue's enforcement of the conversion from quarterly tentative payments of the Gross Premium Tax that funds the Act 205 State aid program to a single annual prepayment. Because of this change, an advance collection of revenues that comprise the fund occurred, significantly increasing the amount of individual unit values for distribution this year. This was a one-time event that we anticipate will not re-occur in the future.

**B. ACT 293 OF 1972.**

- **2010 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 2010 actuarial reports on these systems were filed in 2011. 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 2012.



## PART III

### PUBLIC EMPLOYEE RETIREMENT SYSTEM POLICY DEVELOPMENT AND COORDINATION

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#### A. STATUTORY PROVISIONS.

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

*Section 6. Powers and Duties.*

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

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

#### B. 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 August 2011 and the State Employees' Retirement System in November 2011.

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

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At the August 4, 2011, meeting of the Commission, the Staff presented a summary of the June 30, 2010, Actuarial Valuation Report of the Public School Employees' Retirement System (PSERS) issued January 31, 2011, and reviewed some significant facts concerning the condition of PSERS since the prior valuation.

**General Funding Information**

- An increase in actuarial accrued liability from \$75,625,850,000 to \$79,122,259,000.
- A decrease in the actuarial value of assets from \$59,886,689,000 to \$59,423,679,000.
- An increase in unfunded actuarial accrued liability from \$15,739,161,000 to \$19,698,580,000 (total increase of \$3,959,419,000).
- The unfunded accrued liability was \$2,240,463,000 more than expected.
- A 4.1% decrease in the funded ratio from 79.2% to 75.1%.
- An increase in employer contributions for pensions of 3.0% (plus 0.65% to the health insurance contribution rate).
- Employer contributions for pension benefits are set at the collared rate of 8%, per Act 120 of 2010 as maximum employer contribution rate, plus the 0.65% health insurance contribution rate for a total employer contribution rate of 8.65%.
- An increase in the total normal cost from 15.42% to 15.49%.

**Changes in Contribution Rate**

Fiscal Year	Member Contributions	Employer Contributions				
		Normal Cost	Unfunded Accrued Liability	Health Insurance	Preliminary Employer Contribution	Final Employer Contribution*
2011/2012	7.37%	8.12%	10.15%	.65%	18.27%	8.65% <sup>1</sup>
2010/2011	7.34%	8.08%	(0.50)%	.64%	8.22%	5.64% <sup>2</sup>
2009/2010	7.32%	7.35%	(3.72)%	.78%	4.41%	4.78% <sup>3</sup>
2008/2009	7.29%	6.68%	(3.37)%	.76%	4.07%	4.76% <sup>3</sup>
2007/2008	7.25%	6.68%	(0.24)%	.69%	7.13%	7.13%

\* Certified by the Board.

<sup>1</sup> Reflects Act 120 Pension Collar.

<sup>2</sup> Reflects Act 46.

<sup>3</sup> Reflects Act 40 Pension Floor.

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

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**Reasons for Change in the Contribution Rate**

- Fiscal Year 2010/2011 Act 46 final rate	5.64 %
- Deferral of Fiscal Year 2011 pension contribution due to Act 46	<u>2.58</u>
- Fiscal Year 2010/2011 rate prior to Act 46	8.22 %
- Increase due to change in normal rate	0.04
- Net Increase due to payroll growth and liability experience	0.40
- Increase due to actuarial loss on assets	1.94
- Increase due to Act 120 funding reforms (before 3% collar)	8.31
- Deferral of Fiscal Year 2012 pension contribution due to Act 120 3% collar	(10.27)
- Increase due to change in health insurance contribution rate	<u>0.01</u>
Total Fiscal Year 2011/2012 Employer rate	8.65 %

**Reasons for Change Greater Than Expected in Unfunded Actuarial Accrued Liability**

• Experience (Gains) Losses	
- Loss from investment return on actuarial value of assets	\$2,855,287,000
- Loss from salary increases greater than expected	42,030,000
- Loss from new entrants and pickups	247,891,000
- Loss from termination experience (retirement/disability/termination)	111,228,000
- Gain from non-vested termination experience	(239,456,000)
- Loss from data/miscellaneous	63,758,000
- Loss from mortality experience	<u>386,286,000</u>
Sub-Total:	\$3,467,024,000
• Act 120 change in asset averaging period	<u>\$(1,226,561,000)</u>
Grand Total:	\$2,240,463,000

\*\*\*\*\*

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

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

**Summary of Actuarial Valuation  
Public School Employees' Retirement System as of June 30, 2010**

The following is a summary of the June 30, 2010, Actuarial Valuation of the Public School Employees' Retirement System and a comparison of the 2010 results with those of 2009.

	<u>6/30/10</u>		<u>6/30/09</u>	
<b>Membership</b>				
Active Members	282,041		279,701	
Inactive and Vested Members	111,931		103,805	
Retired Members	168,238		162,206	
Disabled Members	7,972		7,713	
Survivors and Beneficiaries	8,724		8,044	
<b>Payroll and Annuities Payable</b>				
Total Annual Payroll	\$12,788,847,000		\$12,524,593,000	
Annual Annuities and Benefits	\$ 4,339,639,000		\$ 3,996,288,000	
<b>Valuation Data</b>				
Accrued Liability <sup>1</sup>	\$79,122,259,000		\$75,625,850,000	
Actuarial Value of Assets	<u>59,423,679,000</u>		<u>59,886,689,000</u>	
Unfunded Accrued Liability <sup>1</sup>	\$ 19,698,580,000		\$ 15,739,161,000	
<b>Fund Ratio (Pensions and Health Insurance Combined)</b>				
	75.1%		79.2%	
<b>Funding Costs</b>				
Total Normal Cost	\$1,980,992,400	15.49 %	\$1,931,292,200	15.42 %
Amortization <sup>2</sup>	<u>1,432,919,000</u>	<u>10.15 %</u>	<u>(67,748,000)</u>	<u>(0.50)%</u>
Full Actuarial Funding	\$3,413,911,400	25.64 %	\$1,863,544,200	14.92 %
<b>Support</b>				
Member	\$ 942,538,024	7.37%	\$ 919,305,126	7.34%
Employer <sup>3</sup>	<u>1,106,235,266</u>	<u>8.65%</u>	<u>706,387,045</u>	<u>5.64%</u>
Total Support	\$2,048,773,290	16.02%	\$1,625,692,171	12.98%

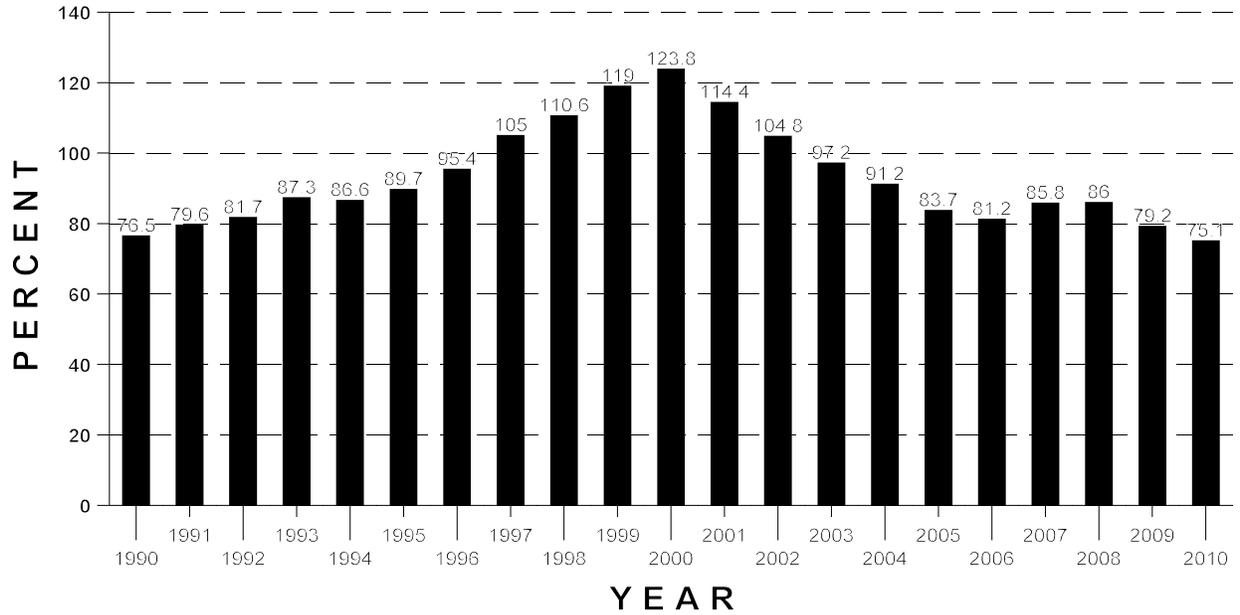
<sup>1</sup> Includes liability for health care payments.

<sup>2</sup> Act 120 of 2010 amended the amortization schedule. The unfunded actuarial accrued liability is re-amortized as of the June 30, 2010, valuation, including the cost of Act 120, over a 24-year period with the amortization payments determined as a level percentage of pay. Future valuation experience gains or losses, and changes in the unfunded accrued liability resulting from changes in actuarial assumptions and methods, will be amortized over a 24-year period as a level percentage of pay. Future increases in accrued liability enacted by legislation after June 30, 2010, will be funded over a 10-year period as a level percentage of pay. Note: Amortization payments calculated based upon projected employer payroll. See Table 2, Page 14.

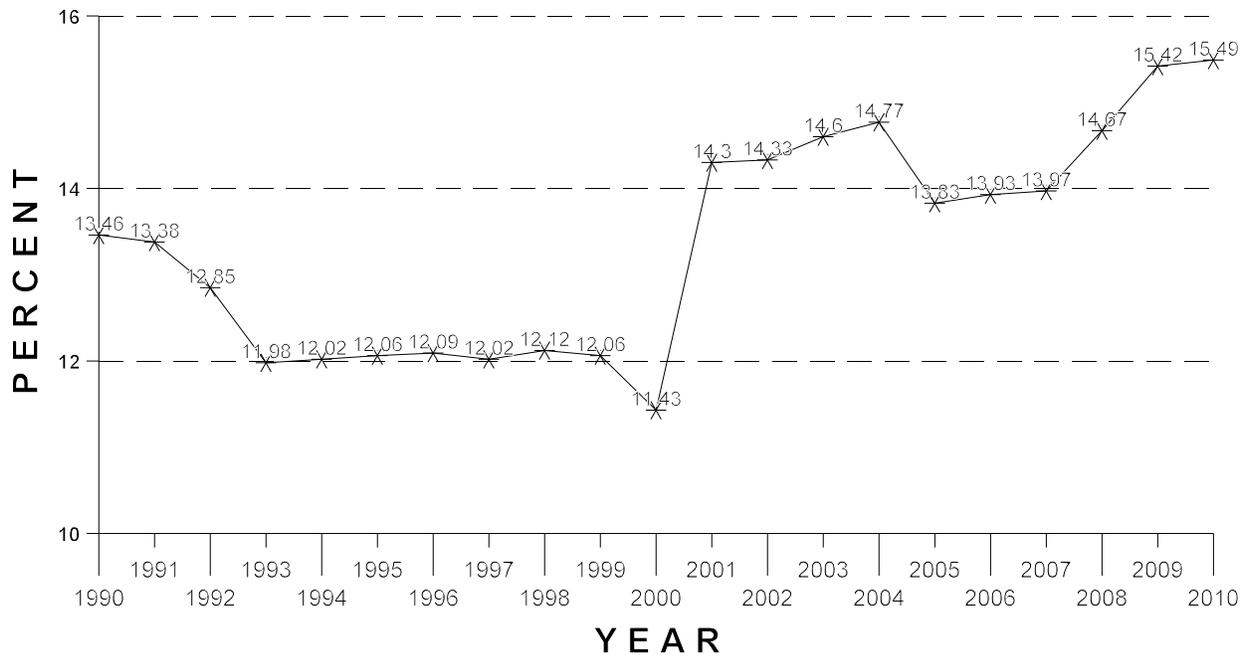
<sup>3</sup> Under the PSERS Code, the employer and the Commonwealth share the cost of required contributions. The current process requires "school entities" as defined in the Code (school districts, intermediate units, and area vocational technical schools) to initially pay the entire amount of the 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 current statewide average is roughly 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.

Act 46 of 2010 re-certified the employer contribution rate for Fiscal Year 2010-2011 to 5.0%. The final rate, including the employer health-care contribution, was 5.64%. The employer contribution rate of 8.0% for Fiscal Year 2011-2012 reflects the Act 120 collar of 3%. The employer health-care contribution rate for Fiscal Year 2011-2012 is 0.65%.

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



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



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

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At the November 17, 2011, meeting of the Commission, the Staff presented a summary of the December 31, 2010, Actuarial Valuation Report of the State Employees' Retirement System (SERS) issued June 8, 2011, and reviewed some significant facts concerning the condition of SERS since the prior valuation.

**General Discussion**

- Funding Changes
  - The funding of the System (because of Act 120 of 2010) is 8.00 percent. The December 31, 2010, contribution before Act 120 would have been 18.93 percent.

**Summary of Changes**

- Changes in the December 31, 2010, valuation:

	Normal Cost	Unfunded Liability	Total
- Benefit changes under Act 120 of 2010	- 4.62%	4.09%	- 0.53%
- Loss from investment earnings		1.90%	1.90%
- Underfunding due to retroactive fresh start		1.00%	1.00%
- Other differences	- 0.72%	- 0.21%	- 0.93%
- Pay increases different than assumptions		- 0.64%	- 0.64%
- Change in demographics of new entrants	- 0.11%	0.10%	- 0.01%
- Impact of Liability Fresh Start Amortization		12.38%	12.38%
- Change in amortization due to change in payroll	0.00%	0.12%	0.12%
- Total Change	- 5.45%	18.74%	13.29%

- The following elements affected the amount of the unfunded liability:

- Benefit changes under Act 120 of 2010	\$2,694,534,957
- Loss from investment earnings	1,251,331,836
- Underfunding due to retroactive fresh start	741,206,894
- Other differences	(137,350,227)
- Pay increases different than assumptions	(421,223,587)
- Change in demographics of new entrants	64,191,000
- Total Change	\$4,192,690,873

December 31, 2010, Unfunded Liability	\$9,735,648,534
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**Commission's Review of the SERS Actuarial Valuation Report (Cont'd)**

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**Employer Normal Cost Rate**

- Normal Cost Rate for New Active Members:
  - Superannuation and Withdrawal 8.80%
  - Disability 0.72%
  - Death 0.41%
  - Refunds 0.40%
  
  - Total 10.33%
  
  - Member Contributions 6.25%
  - Employer Normal Cost 4.08%

\*\*\*\*\*

The Commission reviewed this report with Mr. Leonard Knepp, Executive Director, Mr. Tony Clark, Chief Investment Officer, and Mr. Brent Mowery, Consulting Actuary, of the State Employees' Retirement System.

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

**Summary of Actuarial Valuation  
State Employees' Retirement System as of December 31, 2010**

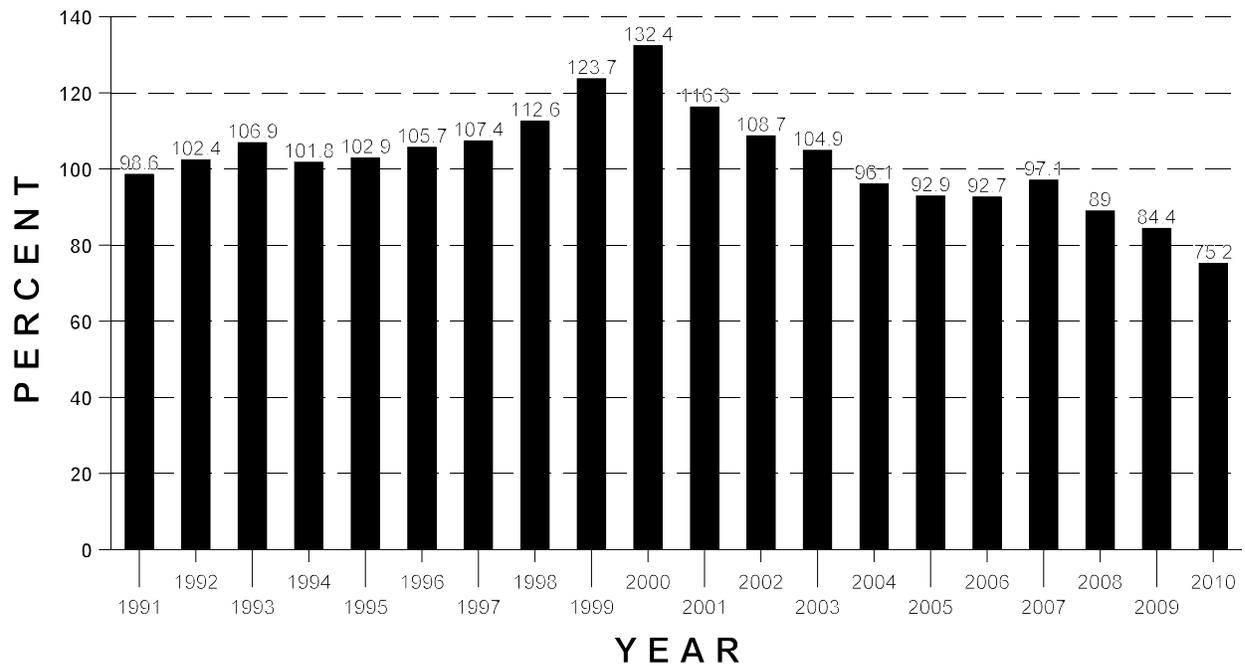
The following is a summary of the December 31, 2010, actuarial valuation of the State Employees' Retirement System and a comparison of the 2010 results with those of 2009.

	<u>12/31/10</u>		<u>12/31/09</u>	
<b><u>Membership</u></b>				
Active	109,255		110,107	
Inactive	6,326		6,190	
Retired	93,900		92,102	
Disabled	7,801		7,674	
Survivors and Beneficiaries	10,012		9,863	
<b><u>Payroll and Annuities Payable</u></b>				
Total Annual Funding Payroll	\$5,851,704,000		\$5,935,988,000	
Annual Annuities and Benefits	\$2,087,317,311		\$1,987,987,717	
<b><u>Valuation Data</u></b>				
Accrued Liability	\$39,179,593,969		\$35,797,016,636	
Assets <sup>1</sup>	<u>29,443,945,435</u>		<u>30,204,693,112</u>	
Unfunded Accrued Liability	\$ 9,735,648,534		\$ 5,592,323,524	
Funded Ratio <sup>2</sup>	75.2%		84.4%	
<b><u>Funding Costs</u></b> <sup>3</sup>				
Normal Cost <sup>4</sup>	\$ 238,749,523.2	4.08 %	\$ 565,699,656.4	9.53 %
Amortization <sup>5</sup>	\$ <u>868,978,044.0</u>	<u>14.85 %</u>	\$ <u>(230,909,933.2)</u>	<u>(3.89)%</u>
Actuarial Funding	\$1,107,727,567.2	18.93 %	\$ 334,789,723.2	5.64 %
<b><u>Support</u></b> <sup>3</sup>				
Member	\$365,731,500.0	6.25%	\$370,999,250.0	6.25%
Commonwealth <sup>6</sup>	\$ <u>468,136,320.0</u>	<u>8.00%</u>	\$ <u>296,799,400.0</u>	<u>5.00%</u>
Total Support	\$833,867,820.0	14.25%	\$667,798,650.0	11.25%
Total Commonwealth Contribution <sup>7</sup>	\$468,721,490.4	8.01%	\$297,392,998.8	5.01%

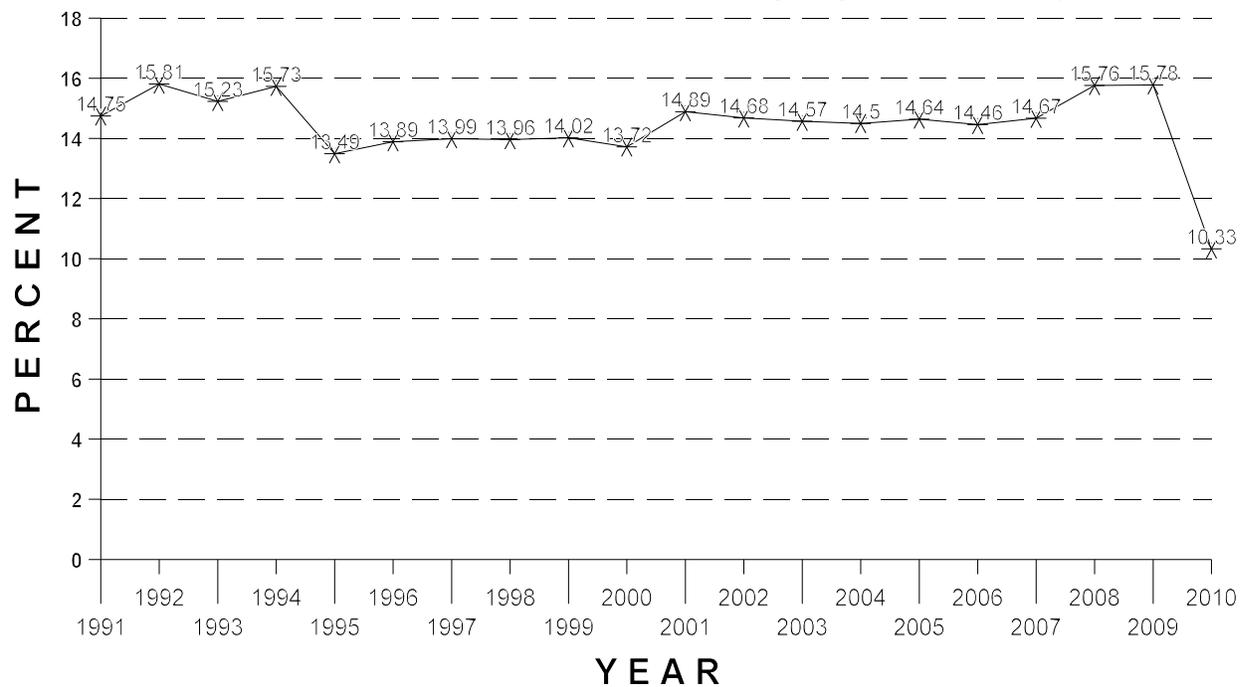
**EXPLANATORY FOOTNOTES**

- <sup>1</sup> The Assets figure is the actuarial value not the market value.
- <sup>2</sup> The Funded Ratio is based upon the actuarial value, not the market value, of assets and liabilities.
- <sup>3</sup> Due to rounding, the dollar figures shown here differ slightly from those shown in the Actuarial Reports.
- <sup>4</sup> The State Employees' Retirement Code requires that the employer normal contribution rate be based on the level percentage of payroll normal cost determined under the entry age normal actuarial cost method for new members less the portion of the cost to be funded by member contributions.
- <sup>5</sup> On November 23, 2010, Governor Rendell signed into law Act 2010-120 (previously House Bill No. 2497, P. N. 4476), which required the total December 31, 2009, unfunded liability to be amortized over 30 years as part of a fresh start that combined all of the unfunded liability amortizations into one amortization. The net losses in 2010 were amortized over 30 years.
- <sup>6</sup> Act 120 established that the FY 2011-12 maximum employer contribution rate for employer funding of SERS shall be limited by a 3.00% contribution collar on the final FY 2010-11 employer contribution requirement of 5.00% of payroll. Therefore, the FY 2011-12 employer contribution rate is limited to 8.00% of payroll. The total employer cost before Act 120 would have been 18.93%.
- <sup>7</sup> The total Commonwealth support contribution for the SERS plan includes a .01% contribution for the Benefits Completion Plan.

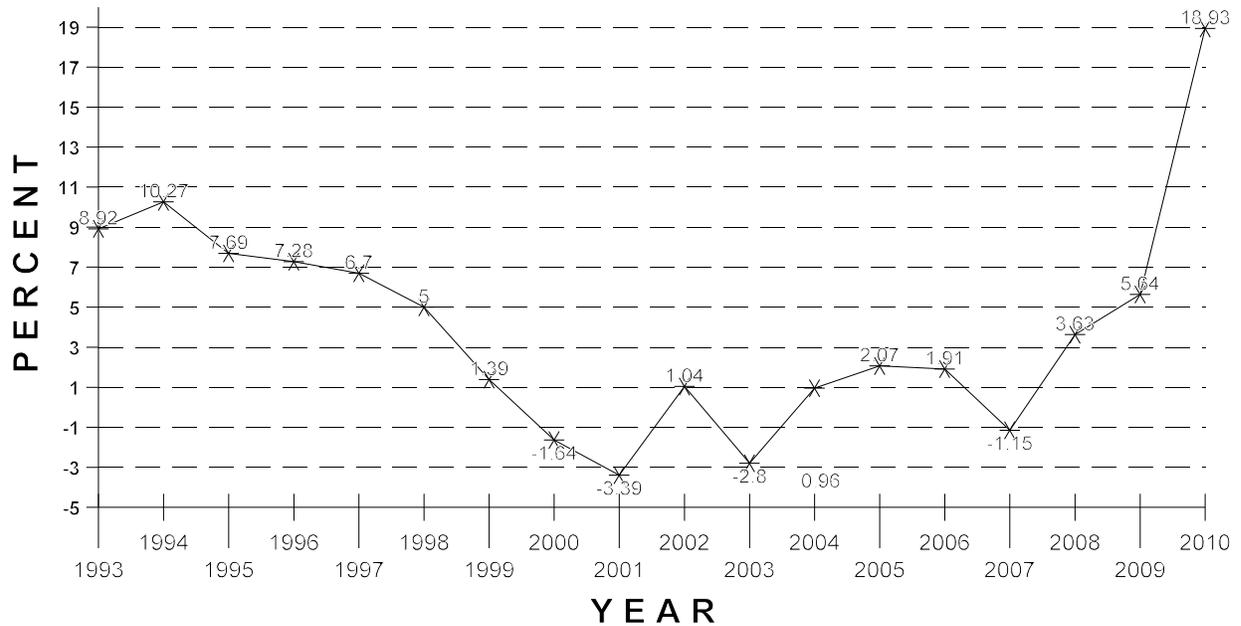
### SERS FUNDED RATIO TREND (20 year period)



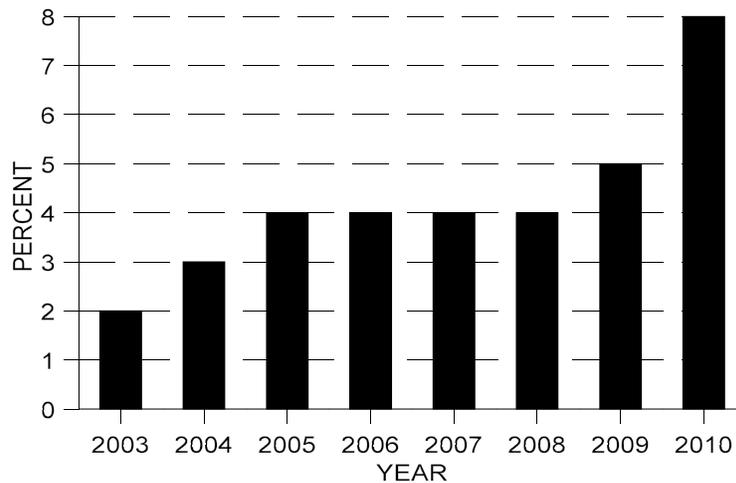
### SERS NORMAL COST TREND (20 year period)



### SERS ACTUAL EMPLOYER CONTRIBUTION RATE



### SERS MANDATED EMPLOYER CONTRIBUTION RATE



Commonwealth mandated contributions by year:

- 2.00 percent mandated contribution per Act 40 of 2003.
- 3.00 percent mandated contribution per Act 40 of 2003.
- 4.00 percent mandated contribution per Act 40 of 2003.
- 4.00 percent mandated contribution per Act 8 of 2007.
- 5.00 percent mandated contribution per Act 46 of 2010.
- 8.00 percent mandated contribution per Act 120 of 2010.



# **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 2011 and their sponsoring organizations were as follows:

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

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

Mr. A. Christopher Cap  
PENNSYLVANIA STATE ASSOCIATION OF BOROUGHES

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

Mr. Michael J. Dennehy, Jr.  
PENNSYLVANIA STATE ASSOCIATION OF TOWNSHIP SUPERVISORS

Ms. Craig Lehman  
COUNTY COMMISSIONERS ASSOCIATION OF PENNSYLVANIA

Mr. Douglas E. Bilheimer  
PENNSYLVANIA MUNICIPAL AUTHORITIES ASSOCIATION

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

Mr. Art Martynuska  
PENNSYLVANIA PROFESSIONAL FIRE FIGHTERS' ASSOCIATION

Mr. Richard Costello  
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. Steven R. Nickol  
PENNSYLVANIA STATE EDUCATION ASSOCIATION

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

**Consulting Actuaries**

The actuarial services committee developed and adopted guidelines for providing actuarial services to the Commission on June 2, 1982. The guidelines establish the educational and experience standards for the selection of consulting actuaries. The engagement of multiple actuarial consultants was considered appropriate to provide the Commission with an enhanced scope of actuarial experience and a greater response capacity, and to avoid potential conflicts of interest. The actuarial consultants engaged by the Commission during 2011 were:

*Conrad Siegel Actuaries*

Mr. David H. Killick

*Milliman, Inc.*

Ms. Katherine A. Warren

Mr. Timothy J. Nugent

*Cheiron, Inc.*

Mr. Kenneth A. Kent

## APPENDIX B

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

#### I. Implementation by the General Assembly.

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

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

1. Actuarial Note Requests for Committee Approved Bills.-

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

2. Actuarial Note Requests for Floor Amended Bills.-

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

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

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

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

Whenever a request is received by the Commission from the chairman of either the House Appropriations Committee or the Senate Appropriations Committee for an actuarial note on a bill in the possession of the committee, the Commission shall formally authorize preparation of the

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

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

**II. Response by the Commission.**

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

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

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

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

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

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

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

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

Adopted April 10, 1985.

## **APPENDIX C**

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

#### Title 4. Administration

#### Part XII. Public Employee Retirement Commission

##### Section 401.1. Definitions.

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

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

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

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

Member - a member of the Commission.

#### Chapter 402. By-Laws

##### Section 402.1. Meetings

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

##### Section 402.2. Quorum and Voting.

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

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

Section 402.3. Open Meetings.

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

Section 402.4. Minutes.

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

Section 402.5. Officers.

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

Section 402.6. Office.

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

Section 402.7. Committees.

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

Section 402.8. Advisory Committees.

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

Section 402.9. Budget.

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

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

Section 402.10. Miscellaneous.

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

Section 402.11. Amendment.

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

Revised November 17, 1987



## APPENDIX D

### PUBLIC EMPLOYEE RETIREMENT COMMISSION

#### COMPREHENSIVE LIST OF 2011 – 2012 SESSIONS LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES AS OF DECEMBER 31, 2011

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 30 P. N. 2121 (Daley)	PSERS, permits active members of PSERS to retire during the period of February 28, 2011, through June 2, 2011, with 30 years of service, or with a combination of years of service and age that when added together total 80, without the member's annuity being reduced on account of a retirement age that is under superannuation age. The bill would entitle an eligible member to insurance coverage under a contract of insurance affecting the member that is in effect on the member's effective date of retirement. The bill would also temporarily require that 60% of the "net savings cost" realized from the replacement of retiring members be deducted from the required reimbursement to each school district and be transmitted to the Public School Employees' Retirement Fund.	Introduced and Referred to House Education Committee	06/17/11
H. B. 31 P. N. 2122 (Daley)	SERS, permits an active member of SERS to retire during the period of February 28, 2011, through June 2, 2011, with 30 years of service, or with a combination of years of service and age that when added together total 80, without the member's annuity being reduced on account of a retirement age that is under superannuation age. The bill would entitle an eligible member to insurance coverage under contract of insurance affecting the member that is in effect on the member's effective date of retirement. The bill would also temporarily require that 60% of the "net savings cost" realized from the replacement of retiring members be deducted from the required reimbursement to each agency and be transmitted to the State Employees' Retirement Fund.	Introduced and Referred to House State Government Committee	06/17/11
H. B. 89 P. N. 45 (Murphy)	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.	Introduced and Referred to House Urban Affairs Committee <b>Actuarial Note (P. N. 45)</b>	01/19/11 11/17/11
H. B. 90 P. N. 46 (Murphy)	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	Introduced and Referred to House Urban Affairs Committee <b>Actuarial Note (P. N. 46)</b>	01/19/11 11/17/11

BILL NUMBER  
 PRINTER'S NUMBER  
 (PRIME SPONSOR)

SYNOPSIS

CONCISE STATUS AND HISTORY

DATE

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	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.		
H. B. 130 P. N. 2547 (Boyle, B.)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding to the list of criminal offenses any offense that requires registration under 42 PA.C.S. Sec. 9795.1 (relating to registration).	Introduced and Referred to House State Government Committee	10/14/11
H. B. 418 P. N. 384 (Krieger)	SERS, establishing a new voluntary retirement program applicable to any state legislator who first becomes a member of the General Assembly on or after December 1, 2012, or who is re-elected to serve as a member of the General Assembly beginning on or after December 1, 2012. Membership in the State Employees' Retirement System (SERS) would be prohibited for a state legislator who first becomes a member of the General Assembly on or after December 1, 2012. A current member who is re-elected to serve in the General Assembly beginning on or after December 1, 2012, would cease accruing service credit in SERS as of November 30, 2012, but would have the opportunity to elect membership in the new retirement program.	Introduced and Referred to House State Government Committee <b>Actuarial Note (P. N. 384)</b>	02/03/11 08/04/11
H. B. 487 P. N. 442 (Hutchinson)	PSERS, permitting active members to purchase up to three years of creditable nonschool service for work experience used by the member to obtain certification as a vocational teacher.	Introduced and Referred to House Education Committee	02/04/11
H. B. 517 P. N. 484 (Harkins)	Act 362 of 1945, providing members of any third class city's retirement system a post retirement adjustment. The city council shall approve the increase subject to the approval of the board, provided the provisions of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205) have been satisfied.	Introduced and Referred to House Urban Affairs Committee	02/08/11
H. B. 551 P. N. 518 (Petri)	PSERS, amending the Code to establish an optional defined contribution plan to be known as the Public School Employee's Optional Retirement Program effective January 1, 2009.	Introduced and Referred to House State Government Committee	02/08/11
H. B. 552 P. N. 519 (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, 2011.	Introduced and Referred to House State Government Committee	02/08/11
H. B. 802 P. N. 821 (Reed)	SERS, defining "campus police officer" and providing age 50 superannuation retirement benefits to certain campus police officers.	Introduced and Referred to House State Government Committee	02/23/11
H. B. 969 P. N. 1045 (Goodman)	PSERS, further providing for membership of the PSERS Board.	Introduced and Referred to House Education Committee	03/08/11

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 982 P. N. 1078 (Haluska)	SERS, authorizing the purchase of nonstate service credit for certain previous employment in the mining industry.	Introduced and Referred to House State Government Committee	03/09/11
H. B. 1034 P. N. 1121 (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 of credited service.	Introduced and Referred to House Finance Committee	03/14/11
H. B. 1241 P. N. 1360 (Baker)	Pennsylvania Conservation Corps Act (Act 112 of 1984), beginning July 1, 2011, providing for membership in SERS for Pennsylvania Conservation Corps "crewleaders," and authorizing the provision of state healthcare benefits for crewleaders.	Introduced and Referred to House State Government Committee	03/31/11
H. B. 1242 P. N. 1361 (Baker)	PSERS and SERS, beginning July 1, 2011, amending the SERS Code to provide for optional membership in SERS for "crewleaders" employed pursuant to the PA Conservation Corps Act (Act 112 of 1984). The bill also amends the PSERS and SERS Codes to provide for the purchase of up to five years of nonschool or non-state service credit for service as a crewleader with the PA Conservation Corps rendered prior to July 1, 2011, provided the member elects to purchase the service within three years of becoming eligible to do so and the member pays the full actuarial cost of the benefit enhancement.	Introduced and Referred to House State Government Committee	03/31/11
H. B. 1252 P. N. 1371 (Roebuck)	PSERS, permits active members of the System to retire during various periods of time upon attaining 30 eligibility points without the member's annuity being reduced on account of a retirement age that is under superannuation age. Under the bill, an eligible member would be: 1) a member of PSERS who during the period from March 1, 2012, through June 30, 2012, has attained at least 30 eligibility points, terminates service, and files an application for an annuity with an effective date of retirement not later than July 1, 2012; or 2) a member of PSERS who during the period from March 1, 2013, through June 30, 2013, has attained at least 30 eligibility points, terminates service, and files an application for an annuity with an effective date of retirement not later than July 1, 2013.	Introduced and Referred to House State Government Committee	03/31/11
H. B. 1492 P. N. 1796 (Hutchinson)	PSERS, permitting the purchase of up to five years of nonschool service credit for previous service as a county employee other than service as a county nurse.	Introduced and Referred to House Finance Committee	05/09/11
H. B. 1530 P. N. 1874 (O'Brien)	Cities of the First Class (Philadelphia) or Second Class (Pittsburgh), an act prohibiting a city of the first or second class from denying pension and pension related benefits to the surviving	Introduced and Referred to House Finance Committee	05/11/11

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	spouse of a deceased firefighter or fire department employee due to the remarriage of the surviving spouse.		
H. B. 1567 P. N. 2069 (Boback)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding that forfeited benefits shall be immediately forfeited upon the public official's entry of a plea of guilty or no contest or upon initial entry of a jury verdict or judicial order of guilty to a crime related to public office or public employment.	Introduced and Referred to House Judiciary Committee First Consideration Reported as Amended Second Consideration Re-referred to House Appropriations Committee Third Consideration and Final Passage (201-0) Referred to Senate State Government Committee	05/23/11 05/24/11 06/08/11 06/08/11 06/13/11 06/13/11 06/21/11
H. B. 1608 P. N. 1993 (Sainato)	SERS, amending the definition of "correction officer" for retirement benefit purposes to include any full-time employee of the Department of Corrections or the Department of Public Welfare who is designated an essential employee by either Department.	Introduced and Referred to House Judiciary Committee	06/02/11
H. B. 1637 P. N. 2042 (Santarsiero)	An Act establishing the Public Employee Pension Commission, to study and make recommendations with respect to the PSERS and SERS pension systems, including both short-term, as well as long-term, solutions to fill funding gaps and guarantee fiscal solvency.	Introduced and Referred to House Finance Committee	06/07/11
H. B. 1642 P. N. 2058 (Staback)	SERS, amending the definition of "enforcement officer" to include officers of the Pennsylvania Game Commission.	Introduced and Referred to House State Government Committee	06/08/11
H. B. 1663 P. N. 2103 (Mann)	Emergency and Law Enforcement Personnel Death Benefits Act (Act 101 of 1976), expanding eligibility for survivor benefits and increasing the survivor benefits from \$100,000 to \$250,000, the maximum benefit payable in the event an eligible public safety officer dies in the line of duty.	Introduced and Referred to House Finance Committee	06/14/11
H. B. 1676 P. N. 2123 (Boyd)	SERS, would amend the Code of the System to: 1) Effective January 1, 2012, establish a new class of membership known as "Class QB." Most employees who become a member of the system on or after January 1, 2012 (including members of the General Assembly and judiciary but excluding State police officers), would become a member of Class QB, including an employee who is not an active member of the System (because membership is optional or prohibited), but who becomes a member of the System on or after January 1, 2012. Class QB members would be eligible for an annuity with a present value equal to the balance of the member's savings account, and would have a corresponding employee contribution requirement of 6.25% of compensation; 2) Establish the employer contribution rate as 4.75% of Class QB compensation and credited to each individual member's	Introduced and Referred to House State Government Committee <b>Actuarial Note (P. N. 2123)</b>	06/17/11 08/04/11

savings account, along with statutory interest at the rate of 4.0%; 3) Modify the superannuation requirements for new members of Class QB to age 55; 4) Maintain optional membership for employees who are eligible to elect participation in an independent retirement program (such as TIAA-CREF), but with a reduced employer contribution rate equal to 5.0% of compensation; and 5) Prohibit new members from purchasing previous State service or creditable nonstate service, except for military service or an approved leave of absence.

H. B. 1677  
 P. N. 2124  
 (Boyd)

PSERS, would amend the Code of the System to: 1) Effective July 1, 2012, establish a new class of membership known as "Class T-G" applicable to most employees who become members of the System on or after July 1, 2012. A Class T-G member would be a member of the newly established cash balance benefit tier. 2) Set the employer contribution rate on behalf of Class T-G members at 5.0% of compensation and require a corresponding employee contribution to the cash balance plan of 7.5% of compensation. The employer and employee contributions would both be credited to the member's notational cash balance account, plus interest, at the rate of 4.0% annually; 3) Establish the superannuation requirement for members of Class T-G as age 55; 4) Maintain optional membership for new employees eligible to elect participation in an independent retirement program (such as TIAA-CREF), but with a reduced employer contribution rate equal to 5.0% of compensation; 5) Prohibit new members from purchasing previous school service or creditable nonschool service, except for military service or an approved leave of absence; and 6) Prohibit new members from participating in the Health Insurance Premium Assistance Program after retirement.

Introduced and Referred to House  
 State Government Committee  
**Actuarial Note (P. N. 2124)**

06/17/11  
 08/04/11

H. B. 1702  
 P. N. 2962  
 (Gingrich)

The Borough Code (Act 581 of 1966), reenacting and amending the Code.

Introduced and Referred to House  
 Local Government Committee  
**Commission Letter (P. N. 2152)**  
 Reported as Amended  
 First Consideration  
 Second Consideration  
 Re-referred to House Appropriations  
 Committee  
 Reported as Amended  
 Third Consideration and Final  
 Passage (190-4)  
 Referred to Senate Local Government  
 Committee  
 Reported as Amended  
 First Consideration

06/21/11  
 10/11/11  
 11/15/11  
 11/15/11  
 12/14/11  
 12/14/11  
 12/14/11  
 12/19/11  
 12/21/11  
 01/18/12  
 01/18/12

BILL NUMBER  
 PRINTER'S NUMBER  
 (PRIME SPONSOR)

	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
H. B. 1761 P. N. 2894 (M. Smith)	Second Class County Code, amending the definition of "compensation" to exclude overtime pay from the calculation of a member's retirement benefit; increasing the superannuation requirement for new members to age 60 with 25 years of service; increasing the vesting period to 10 years; further providing for the calculation of retirement allowances; and further providing for membership of the Allegheny County Retirement Board.	Introduced and Referred to House Finance Committee Reported as Amended <b>First Consideration</b> <b>Commission Letter (P. N. 2894)</b> Second Consideration Re-referred to House Appropriations Committee	06/29/11 12/14/11 12/14/11 12/19/11 01/17/12 01/17/12
H. B. 1791 P. N. 2300 (Vulakovich)	Second Class County Code, adding the definition of "county detective," and extending public safety employee pension benefit coverage to county detectives.	Introduced and Referred to House Urban Affairs Committee <b>Actuarial Note (P. N. 2300)</b>	07/26/11 11/17/11
H. B. 1821 P. N. 2331 (Boyle, B.)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), providing a death benefit for the spouse or beneficiary of a natural gas responder killed in the performance of duty.	Introduced and Referred to House Veterans Affairs and Emergency Preparedness Committee	08/22/11
H. B. 1881 P. N. 2460 (Wagner)	PMRS, amends the Pennsylvania Municipal Retirement Law (Act 15 of 1974) to permit a retired municipal police officer to return to part-time duty, or as a substitute officer, for up to 800 hours per calendar year without losing retirement benefits.	Introduced and Referred to House Local Government Committee	10/03/11
H. B. 1988 P. N. 2922 (Ross)	Municipalities Financial Recovery Act (Act 47 of 1987), amending the act to further define the definition of "arbitration settlement" to include arbitration awards or other determinations. The amended definition of "arbitration settlement" in section 103 shall apply retroactively to September 8, 1987.	Introduced and Referred to House Urban Affairs Committee	12/20/11
H. B. 2080 P. N. 2904 (O'Neill)	An Act, 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.	Introduced and Referred to House Education Committee	12/15/11
H. B. 2102 P. N. 2928 (Staback)	SERS, amending the definition of "enforcement officer" to include officers of the Pennsylvania Game Commission.	Introduced and Referred to House State Government Committee	12/20/11
H. B. 2117 P. N. 2947 (Denlinger)	SERS, permitting the purchase of up to five years of nonstate service credit by a member of the Pennsylvania State Police for previous service as a municipal police officer.	Introduced and Referred to House State Government Committee	01/17/12
H.R. 180 P. N. 1395 (Benninghoff)	A House Resolution directing the Legislative Budget and Finance Committee to study the feasibility and cost-effectiveness of consolidating the State Employees' Retirement System and Public School Employees' Retirement System into one retirement system for the purposes of providing retirement benefits to both public school and State employees, and to report its	Introduced and Referred to House State Government Committee	04/05/11

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	findings to the House of Representatives by November 30, 2012.		
S. B. 197 P. N. 169 (Boscola)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding Section 13(a)(14), (30) or (37) of the Controlled Substance, Drug, Device, and Cosmetic Act "when the offense is committed by a school administrator on school property" to the definition of "Crimes related to public office or public employment."	Introduced and Referred to Senate Finance Committee	01/20/11
S. B. 257 P. N. 234 (Erickson)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), providing a death benefit for the spouse or beneficiary of an ambulance service or rescue squad member working for a hospital killed in the performance of duty.	Introduced and Referred to Senate Labor and Industry Committee	01/26/11
S. B. 669 P. N. 677 (Kasunic)	PSERS and SERS, mandating the payment of annual CPI-based COLAs to eligible annuitants of both Systems beginning July 1, 2011.	Introduced and Referred to Senate Finance Committee	02/25/11
S. B. 670 P. N. 678 (Kasunic)	PSERS and SERS, amending the Codes of both systems to, beginning July 1, 2011, provide for mandatory, permanent, bi-annual cost-of-living adjustments equal to the change in CPI and payable to all annuitants of both systems.	Introduced and Referred to Senate Finance Committee	02/25/11
S. B. 672 P. N. 680 (Kasunic)	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.	Introduced and Referred to Senate Finance Committee	02/25/11
S. B. 766 P. N. 780 (Stack)	Emergency and Law Enforcement Personnel Death Benefits Act (Act 101 of 1976), increasing the survivor benefits from \$100,000 to \$250,000, the maximum benefit payable in the event an eligible public safety officer dies in the line of duty.	Introduced and Referred to Senate Labor and Industry Committee	03/07/11
S. B. 770 P. N. 784 (Stack)	PSERS and SERS, providing for the payment of annual, CPI-based supplemental annuities to all eligible annuitants of both systems beginning July 1, 2012, and annually, thereafter.	Introduced and Referred to Senate Finance Committee	03/07/11
S. B. 867 P. N. 934 (White, D.)	SERS, establishing a mandatory defined contribution retirement program for persons who become members of the General Assembly after December 1, 2012, or who are re-elected to	Introduced and Referred to Senate Finance Committee	03/28/11

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	serve as a member of the General Assembly beginning on or after December 1, 2012. Matching employer contributions shall not exceed 4% of the member's compensation, while members can contribute to the program to the extent permitted by law.		
S. B. 874 P. N. 890 (Eichelberger)	The Third Class City Code (Act 317 of 1931), reenacting and amending the Code.	Introduced and Referred to Senate Local Government Committee <b>Commission Letter (P. N. 890)</b>	03/22/11 11/07/11
S. B. 893 P. N. 905 (Farnese)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), permitting an active member of a retirement system of a first class city (Philadelphia) to purchase up to 10 years of prior service with the military; or as an employee of the Federal Government, State or political subdivision within the Commonwealth or a public school within the Commonwealth. Credited service may only be purchased if the member is currently vested in a retirement system and only for service for which the member is not entitled to a vested pension from another employer.	Introduced and Referred to Senate Finance Committee	03/23/11
S. B. 953 P. N. 1024 (Brubaker)	PSERS, amending the Code to increase the number of hours required for mandatory membership in the System for any school employee who is not a member of the system and is employed on a per diem or hourly basis, from 500 to 1,000 hours in any fiscal year.	Introduced and Referred to Senate Finance Committee	04/08/11
S. B. 958 P. N. 1028 (Tartaglione)	Pennsylvania Conservation Corps Act (Act 112 of 1984), beginning July 1, 2011, and prospective only, providing for mandatory membership in SERS for Pennsylvania Conservation Corps "crewleaders," and authorizing the provision of state healthcare benefits for crewleaders.	Introduced and Referred to Senate Labor and Industry Committee	04/11/11
S. B. 1055 P. N. 1191 (Corman)	SERS, making an appropriation from the State Employees' Retirement Fund in the amount of \$27,320,000, to provide for expenses of the State Employees' Retirement Board for the fiscal year beginning July 1, 2011.	Introduced and Referred to Senate Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (49-0) Referred to House Appropriations Committee First Consideration Second Consideration Re-referred to House Appropriations Committee Third Consideration and Final Passage (197-0) Signed by the Governor (Act 2A of 2011)	05/10/11 05/23/11 05/24/11 06/06/11 06/07/11 06/14/11 06/21/11 06/21/11 06/23/11 06/30/11
S. B. 1056 P. N. 1192 (Corman)	PSERS, making an appropriation from the Public School Employees' Retirement Fund in the amount of \$44,107,000, to provide for expenses	Introduced and Referred to Senate Appropriations Committee First Consideration	05/10/11 05/23/11

	SYNOPSIS	CONCISE STATUS AND HISTORY	DATE
	of the Public School Employees' Retirement Board for the fiscal year beginning July 1, 2011.	Second Consideration Third Consideration and Final Passage (49-0) Referred to House Appropriations Committee First Consideration Second Consideration Re-referred to House Appropriations Committee Third Consideration and Final Passage (198-0) Signed by the Governor (Act 3A of 2011)	05/24/11  06/06/11 06/07/11 06/14/11 06/21/11 06/21/11 06/30/11 06/30/11
S. B. 1072 P. N. 1352 (Costa)	Second Class County Code, amending the definition of "compensation" to exclude overtime pay from the calculation of a member's retirement benefit; increasing the superannuation requirement for new members to age 60 with 25 years of service; increasing the vesting period to 10 years; further providing for the calculation of retirement allowances; and further providing for membership of the Allegheny County Retirement Board.	Introduced and Referred to Senate Finance Committee <b>Actuarial Note (P. N. 1352)</b>	06/15/11 11/17/11
S. B. 1197 P. N. 1490 (Stack)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), providing a death benefit for the spouse or beneficiary of a natural gas responder killed in the performance of duty.	Introduced and Referred to Senate Veterans Affairs and Emergency Preparedness Committee	08/02/11
S. B. 1215 P. N. 1501 (Solobay)	Title 71 (State Government), defining "Commonwealth firefighter or firefighter instructor" and providing age 50 superannuation retirement benefits to certain Commonwealth firefighters or firefighter instructors.	Introduced and Referred to Senate Finance Committee	08/03/11
S. B. 1240 P. N. 1515 (Solobay)	SERS, permitting the purchase of nonstate service for certain periods of previous service as a mine worker.	Introduced and Referred to Senate Finance Committee	09/06/11
S. B. 1290 P. N. 1679 (Farnese)	Public Employee Pension Forfeiture Act (Act 140 of 1978), amending the act by adding to the list of criminal offenses any offense that requires registration under 42 PA.C.S. Sec. 9795.1 (relating to registration).	Introduced and Referred to Senate Finance Committee	10/18/11
S. B. 1321 P. N. 1750 (Earll)	Municipalities Financial Recovery Act (Act 47 of 1987), amending the act to further provide for collective bargaining. Under the bill, a collective bargaining contract or a collective bargaining arbitration award rendered after the adoption of a plan shall not in any manner violate, expand or diminish the recovery plan's provisions. A collective bargaining agreement, contract or settlement in existence in a municipality or an arbitration award in effect in a municipality prior to a consolidation or merger shall remain effective after consolidation or merger until it expires.	Introduced and Referred to Senate Local Government Committee Reported as Amended First Consideration <b>Commission Letter (P. N. 1750)</b> Second Consideration Re-referred to Senate Appropriations Committee	10/31/11 11/01/11 11/01/11 11/03/11 12/05/11 12/05/11



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