PUBLIC EMPLOYEE RETIREMENT COMMISSION

2002 ANNUAL REPORT

Commonwealth of Pennsylvania

2002

Annual Report

of the

Public Employee Retirement Commission

Public Employee Retirement Commission
Commonwealth of Pennsylvania
February 2003

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
HARRISBURG
17120

February 2003

To: Governor Rendell
and Members of the Pennsylvania General Assembly

As required by the Public Employee Retirement Commission Act, this annual public report is issued to summarize the Commission's findings, recommendations, and activities for the year 2002.

During 2002, the Commission authorized the attachment of nineteen actuarial notes to eleven bills, four documents, two bills as amended, and five amendments at the request of the various committees of the General Assembly. This report contains a synopsis of each of these notes and contains a summary of the Commission's review of the State Employees' Retirement System and the Public School Employees' Retirement System. This report also describes research conducted during 2002 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 twentieth 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 2002.

Sincerely,

Paul D. Halliwell
Chairman

INTRODUCTION

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

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

Under the Municipal Pension Plan Funding Standard and Recovery Act, adopted in 1984, the Commission has three 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 that exceeds $150 million. The last is to administer the Financially Distressed Municipal Pension System Recovery Program that involves the annual determination and certification of distress data used in allocating the Supplemental State Assistance.

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 seventeenth report issued on a calendar year basis.

The Commission thanks those who actively participated in its meetings, the members of its advisory committees and the organizations they represent, and all others who have offered advice and support to the Commission during 2002.

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PREPARATION OF ACTUARIAL NOTES AND ADVISORY NOTES

A. STATUTORY PROVISIONS.

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

Section 6. Powers and duties.

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

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

Section 7. Actuarial notes.

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

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

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

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

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

A. STATUTORY PROVISIONS. (Cont'd)

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

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

B. SUMMARY OF 2002 ACTIVITY.

During 2002, the Commission authorized the attachment of nineteen actuarial notes to eleven bills, four documents, five amendments and two bills as amended. In addition, the Commission's staff provided the General Assembly with four advisory notes.

C. SYNOPSES OF ADVISORY NOTES.

- Document Number 00662. At the request of Representative John Barley, Majority Chairman, House Appropriations Committee, on March 20, 2002, the Commission staff provided an advisory note on Document Number 00662. Document Number 00662 would amend the Public School Employees' Retirement Code (Code) to: 1) create a new class of service in the Public School Employees' Retirement System (PSERS), to be known as Class T-E, requiring all school employees who become members of the system after the effective date of the bill to become members of Class T-E, and extending the option to elect Class T-E to all current Class T-D members; 2) mandate that only those members who become members of Class T-E will be eligible to receive future cost-of-living adjustments (COLAs) enacted by the General Assembly; 3) exclude from eligibility for future COLAs all current active members who fail to elect Class T-E membership within the election period specified in the draft bill; 4) extend the amortization period on the liabilities associated with all prior and future COLAs from 10-year level dollar to 20-year level dollar amortization; 5) provide a COLA, similar in structure to the 1998 COLA, to all current annuitants who retired on or before July 1, 2001; 6) require the Board to re-certify the employer contribution rate for the fiscal year beginning July 1, 2002, to account for the change in amortization; and 7) insert new definitions and make various other amendments of a technical or administrative nature.

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

- House Bill Number 1046, Printer's Number 1200. At the request of Representative Paul I. Clymer, Majority Chairman, House State Government Committee, on February 26, 2002, the Commission staff provided an advisory note on House Bill Number 1046, Printer's Number 1200. House Bill Number 1046, Printer's Number 1200, would amend section 5304 of the State Employees' Retirement Code (Code) to provide for the purchase of up to five years of nonstate service for service as an employee of the American Red Cross.

- House Bill Number 1604, Printer's Number 1961. At the request of Representative Paul I. Clymer, Majority Chairman, House State Government Committee, on February 19, 2002, the Commission staff provided an advisory note on House Bill Number 1604, Printer's Number 1961. House Bill Number 1604, Printer's Number 1961, would amend section 5102 of the State Employees' Retirement Code to provide superannuation retirement benefit eligibility to district justices upon attaining age 50 or at any age upon the accrual of 24 years of credited service. Under current law, superannuation age for district justices, as for most other SERS members, is age 60 or at any age upon accrual of 35 years of credited service.

- House Bill Number 1723, Printer's Number 2138. At the request of Representative Jess M. Stairs, Majority Chairman, House Education Committee, on March 4, 2002, the Commission staff provided an advisory note on House Bill Number 1723, Printer's Number 2138. House Bill Number 1723, Printer's Number 2138, would amend sections 8102 and 8304 of the Public School Employees' Retirement Code (Code) to permit the purchase of an unlimited amount of nonschool service for time spent on a maternity leave of absence required by the employer in connection with the member's adoption of a child. The bill limits the amount of service that may be purchased to an amount not to exceed two years per leave of absence (there is no limit, however, on the total number of years that may be purchased) and is applicable only to a maternity leave of absence that was required by the employer and began prior to November 1, 1978. The bill also provides for the purchase of service for the period immediately following the maternity leave of absence during which a member was required by the employer to return to school service on a part time basis because a full-time position was not available at the time.

D. SYNOPSES OF ACTUARIAL NOTES.

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

Bill ID: Document Number 0712

System: Public School Employees' Retirement System

Subject: Early Retirement Incentive

SYNOPSIS

Document Number 0712 would amend the Public School Employees' Retirement Code (Code) to permit an active member or an active multiple service member of the Public School Employees' Retirement System (PSERS) to retire during various periods of time with less than 35 eligibility points without the member's annuity being reduced on account of a retirement age that is under superannuation age.

Under Document Number 0712, an eligible member would be:

1) An active member of PSERS who during the period from April 1, 2002, through June 30, 2002, has at least 34 eligibility points, terminates service and files an application for an annuity with an effective date of retirement not later than July 1, 2002;

2) An active member of PSERS who during the period from April 1, 2003, through June 30, 2003, has at least 33 eligibility points, terminates service and files an application for an annuity with an effective date of retirement not later than July 1, 2003;

3) An active member of PSERS who during the period from April 1, 2004, through June 30, 2004, has at least 32 eligibility points, terminates service and files an application for an annuity with an effective date of retirement not later than July 1, 2004;

4) An active member of PSERS who during the period from April 1, 2005, through June 30, 2005, has at least 31 eligibility points, terminates service and files an application for an annuity with an effective date of retirement not later than July 1, 2005; or

5) An active member of PSERS who during the period from April 1, 2006, through June 30, 2006, has 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, 2006.

DISCUSSION

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, 2001, there were approximately 695 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, 2001, there were 243,311 active members and 132,716 annuitant members of PSERS. In general, the annual retirement benefit is the product of 2.5 percent of the member's high three-year average salary multiplied by the member's years of service.

Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. Previously, temporary provisions of the Code have permitted members with 30 or more years of service to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to the superannuation or normal retirement age. The most recent special early retirement provision expired June 30, 1999. The special early retirement provisions were adopted in 1984 and revised and extended for PSERS in 1986, 1987, 1988, 1991, 1994 and 1998.

In both the public and private sectors, early retirement incentive programs (ERIPs) have frequently been used as a tool for achieving long term work force reductions for strategic reasons or short term payroll reductions for budgetary reasons. Despite their relative popularity, the savings potential directly attributable to an ERIP occurs only during the period that begins the day the employee retires and ends the day the employee would have retired had the incentive not occurred. In most instances, the total savings potential resulting from an ERIP occurs within no more than three to five years after the ERIP becomes effective. Any savings that occur in the longer term because of a permanent reduction in the work force could instead be achieved through a policy of attrition without the added pension costs of the ERIP.

Because the direct savings attributable to an ERIP occur rapidly and the costs are recognized slowly, budgetary savings frequently occur for a short period of time immediately after implementation of an ERIP. However, those short-term savings may be less than the pension costs incurred, particularly when amortization costs are considered. The net financial impact of an ERIP is largely determined by the number of vacated positions that are filled and the salary differential between the retirees and the replacement employees. These two factors, the replacement rate and the salary differential, must be effectively controlled for an ERIP to have the potential to result in net long-term cost savings.

The period of time during which the employee must leave service in order to receive the incentive is often referred to as an early retirement “window.” The window and the related election period should be long enough to allow employees to access retirement counselors, make informed decisions and plan for the transition to retirement. If the window is for too long a period, includes a period of retroactivity or is continuously renewed, the effect is to merely provide bonuses to employees who would have retired anyway.

As discussed above, the temporary “30 and Out” early retirement windows, which originally were from July 1, 1985, to June 30, 1986, were extended and revised a number of times until the most recent extension that expired on June 30, 1999. The effectiveness of ERIPs as an incentive for accelerating retirements within a window period is diminished by making them available either continuously or frequently. Because the special early retirement provisions were in effect continuously from 1985 to 1997 and again for parts of 1998 and 1999, a new normal retirement pattern was established based on the availability of the provisions. Granting frequent, short-period early retirement windows or granting early retirement windows continuously constitutes a defacto benefit liberalization rather than an incentive to retire.

Because there have been no ERIPs in effect for school employees since the closure of the last “30 and Out” window in 1999, the reopening of such a window at this time would likely result in an initial surge of early retirements. The proposed legislation differs from previous ERIPs by opening what is essentially a five-year early retirement window, or what could be called a “30 to 34 and Out” retirement window. The proposed legislation avoids the potential negative impact on the public school system that may result from the sudden retirement of key school employees by implementing the ERIP in a gradual manner over a multi-year period beginning 2002 and ending 2006.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission has reviewed the proposed legislation and determined that the new early retirement incentive will result in the following costs.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$465,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs[1]		
Normal Cost	$ 0	0.00%
Amortization Payment [2]	77,000,000	0.72%
Total Increase in Employer Annual Costs	$77,000,000	0.72%

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

[2] 10-year amortization period. Payments cease after 10 years.

POLICY CONSIDERATIONS

In reviewing the proposed legislation, the Commission staff identified the following policy considerations.

Effectiveness of Early Retirement Provisions as Incentives. The various "30 and Out" special early retirement provisions were in effect almost continuously for members of PSERS from July 1, 1987 to June 30, 1999. The proposed legislation would have the effect of opening what in essence is a five-year "30 to 34 and Out" early retirement window from July 1, 2002, to July 1, 2006. If enacted, this would mean that some type of early retirement incentive will have been in effect for a total of 17 of the 21 years beginning July 1, 1985. The effectiveness of early retirement provisions as an inducement for accelerating retirements is greatly diminished by making them available almost continuously.

Purpose of the ERIP. Early retirement incentive programs usually are implemented as a policy tool for achieving long-term work force reductions or the restructuring of the work force at current levels for strategic reasons, or to achieve short term payroll savings for budgetary reasons. The legislation should clearly articulate the policy objectives of the early retirement incentive. If it is the intention of the General Assembly to provide enhanced retirement benefits on a quasi-permanent basis, the practice of granting recurring early retirement "windows" on an ad hoc basis functions to preclude timely recognition of the actuarial costs incurred by the retirement system due to the defacto benefit liberalization.

Undetermined Ancillary Costs. In addition to the direct actuarial cost impact on PSERS attributable to the ERIP, there may be other indirect costs associated with its implementation. The ERIP may result in increased demand for future COLAs, due to the earlier retirement and longer retired lifetimes of affected employees. There may also be increased employer costs associated with longer periods of post-retirement health care, and earlier sick and annual leave payouts.

Impact on Services. It should be recognized that school districts across the Commonwealth are not homogeneous with respect to their staffing and budgetary requirements. Some school districts may have greater or lesser staffing needs than others. Because most public school employees in the Commonwealth are covered by PSERS, it is desirable to have provisions in the Code which will serve school districts that have a need to encourage employees to retire without impairing the ability of other school districts to retain senior employees who may be difficult to replace. Early retirement incentive programs that fail to take these differences into consideration may impose greater staffing challenges on already overburdened school districts, resulting in a negative effect on public school services.

COMMISSION RECOMMENDATION

On May 23, 2002, the Commission voted to attach the actuarial note to the proposed legislation, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

Bill ID: Document Number 1181

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

Subject: Cost-of-Living Adjustments, Amortization Methodology, Minimum Employer Contribution Rate, Enhanced Service Credit for Certain Employees Transferred to the Department of Corrections, Return to Service by Annuitants, Recertification of PSERS Employer Contribution Rate, Retirement Coverage Continuity for Employees Transferred from Shippensburg University to Juvenile Court Judges' Commission, and Various Changes of a Technical, Administrative, or Editorial Nature

SYNOPSIS

Document Number 1181 would amend:

1) The Public School Employees' Retirement Code and the State Employees' Retirement Code by setting a minimum employer contribution rate equal to no less than one percent, plus, in the case of the Public School Employees' Retirement Code, the premium assistance contribution rate;

2) The Public School Employees' Retirement Code and the State Employees' Retirement Code by changing the amortization methodology for most future liabilities from 10-year level-dollar to 20-year level dollar;

3) The Public School Employees' Retirement Code by setting, at five years, the period over which all realized and unrealized investment gains and losses are to be recognized in determining the actuarial asset value;

4) The Public School Employees' Retirement Code to extend from 95 to 120 days the period for which an annuitant may return to school service in an emergency without being subject to the cessation of annuity requirements of the Code;

5) The State Employees' Retirement Code to permit former employees of the Department of Education who were transferred to the Department of Corrections pursuant to Act 15 of 1999 to elect membership in the State Employees' Retirement System and receive SERS age 50 retirement credits in connection with their new status as corrections employees;

6) The Public School Employees' Retirement Code to require that the Board re-certify the employer contribution rate for the fiscal year commencing July 1, 2002, to reflect the impact of the amendments contained in the legislation;

7) The State Employees' Retirement Code to permit a former employee of the Shippensburg University of Pennsylvania who was transferred to the Juvenile Court Judges' Commission due to an interagency transfer of staff approved by the Office of Administration and who, while an employee of Shippensburg University, had elected membership in an independent retirement program (TIAA-CREF) approved by the employer, to continue to participate in the alternative retirement program following the administrative transfer, or at the discretion of the employee, to elect membership in the State Employees' Retirement System (SERS);

8) The Public School Employees' Retirement Code and the State Employees' Retirement Code to provide a two-part cost-of-living adjustment to annuitants of both systems commencing July 1, 2002 and July 1, 2003, respectively; and

9) The Public School Employees' Retirement Code and the State Employees' Retirement Code to make various other changes of a technical, administrative or editorial nature.

DISCUSSION

The Retirement Codes and Systems

The Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) are governmental, cost-sharing, multiple-employer pension plans. The designated purpose of the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) (Systems) is to provide retirement allowances and other benefits, including disability and death benefits, to public school and state employees. As of June 30, 2001, there were approximately 695 participating employers, generally school districts, area vocational-technical schools, charter schools, and intermediate units in PSERS. As of December 31, 2000, there were 106 participating state and other organizations in SERS. Membership in the Systems is mandatory for most school and state employees. Certain other employees are not required but are given the option to participate. As of June 30, 2001, there were 243,311 active members and 132,716 annuitant members of PSERS. As of December 31, 2000, SERS had 109,469 active members and 88,392 annuitants and beneficiaries.

Under the Public School Employees' Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. Under the State Employees' Retirement Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees.

Amortization Periods and Actuarial Approach

Prior to the enactment of Act 23 of 1991, the unfunded actuarial accrued liabilities that were incurred in the provision of cost-of-living adjustments (COLAs) by SERS and PSERS were amortized on a level dollar basis over a period of 20 years. Following the enactment of Act 23 of 1991, the amortization payments were calculated on a level percentage basis, which results in the dollar amount of the amortization payments annually increasing over the amortization period by an assumed rate. The specified rate of increase in the annual amortization payments of both SERS and PSERS was five percent. The level percentage basis amortization approach had the effect of lowering payments in the early years of the amortization period and increasing the payments in the later years. With the passage of Act 9 of 2001, the amortization approach for both SERS and PSERS was changed to 10-year level dollar. The proposed bill would change, effective July 1, 2004 for SERS and effective July 1, 2002 for PSERS, the amortization of future liabilities from 10-year level dollar to 20-year level dollar, with the exception of the amortization of liabilities attributable to COLAs which would remain at 10-year level dollar.

Like a home mortgage payment schedule, a longer amortization payment schedule results in smaller annual amortization payments and larger total payments. For example, amortizing the $3,214,000,000 unfunded actuarial accrued liability incurred by SERS with the enactment of Act 9 of 2001 on a level dollar basis over a ten year period would result in annual payments of $451,463,930 and total amortization payments of approximately $4.5 billion. Amortizing the same liability over a twenty year period on a level dollar basis would result in payments of $313,019,826 and total amortization payments of approximately $6.3 billion. However, an analysis of amortization can also be viewed in the context of the overall funding requirements of the retirement system. For example, the employer contribution rate of SERS, including amortization requirements, has been projected by the SERS actuary in an analysis dated April 2, 2002. The following data was extracted from that analysis and shows that in the very near term and in the distant future the 10-year level dollar amortization results in lower contribution requirements. The data also shows that the 20-year level dollar amortization, proposed in the bill, results in more level contribution requirements, which would avoid dramatic year-to-year changes in the contribution requirements (demonstrated most effectively between year 2011 and 2012 in the data below) and therefore be consistent with both actuarial funding objectives and fiscal management goals.

Summary of Estimated Future Employer Contribution Rates for SERS

	Amortization Methodology	
Contribution Year	**10-Year Level Dollar**	**20-Year Level Dollar**
2004	3.79%	6.76%
2005	9.60%	10.76%
2006	14.47%	14.10%
2007	16.74%	15.64%
2008	17.15%	15.89%
2009	17.31%	15.97%
2010	17.28%	15.92%
2011	17.13%	15.80%
2012	26.17%	15.64%
2013	24.06%	15.47%
2014	21.02%	15.30%
2015	16.62%	15.13%
2016	12.90%	14.97%
2017	11.06%	14.81%
2018	10.58%	14.66%

Additionally, the bill, effective July 1, 2004 for SERS and effective July 1, 2002 for PSERS, establishes minimum employer contribution rates equal to one percent of payroll. In the case of PSERS, the minimum employer contribution rate excludes the health insurance rate certified as a component of the PSERS funding requirements. The minimum employer contribution rates would function to level the employer contributions over time, with the leveling effect increasing as the minimum contribution rates approach the normal cost rates of the Systems. The bill also sets in statute a five-year “smoothing” method for asset valuation for PSERS, a practice currently utilized by SERS. PSERS currently uses a shorter, three-year smoothing method. This change will serve to mitigate the need for abrupt year-to-year changes in the employer contribution rate.

Emergency Return to Service by Annuitants

The proposal would amend the emergency return to service provisions of the PSERS Code by extending from 95 to 120 days the current limit on the number of full-day school sessions per school year for which an annuitant (retiree) of PSERS may return to school service either in an emergency or during a shortage of appropriate subject certified teachers. During the return to service, the retiree earns no service credit in PSERS for the retiree's service, the retiree, employer, and the Commonwealth make no contributions to PSERS for the retiree's service, and the retiree is not subject to cessation of the member's pension or forfeiture of the ten percent early retirement incentive.

Increasing the number of days during which a retired member may return to service during an emergency without the member's pension being stopped and the member becoming an active member again will result in de minimus forgone actuarial gains that will have no material actuarial cost impact on the Public School Employees' Retirement System.

Provision of Age-50 Service Credit for Certain Employees of the Department of Education Transferred to the Department of Corrections Pursuant to Act 15 of 1999

The proposal would clarify and expand the language contained in Act 15 of 1999, which addressed the administrative transfer of certain employees from the Department of Education to the Department of Corrections, which impacted upon the retirement benefits of the transferred employees. The proposal corrects benefit inequities resulting from the transfer and would permit corrections employees affected by the transfer to convert credited school and nonschool service with PSERS to state and nonstate service with SERS, and obtain age 50 service credit for the service. The provisions are effective January 1, 2002, and include a supplemental postretirement adjustment for members affected by Act 15 of 1999 who have retired.

Cost-of-Living Adjustments (COLAs)

Cost-of-living adjustments in public employee retirement systems are granted for the purpose of maintaining the adequacy of the retirement benefits after retirement occurs. In the absence of cost-of-living adjustments, the purchasing power of the retirement benefits is diminished over time due to the effects of inflation. Because one commonly accepted goal of a public employee retirement system is to provide a benefit at retirement that is adequate to meet the needs of the retirement system's retired members, the provision of cost-of-living adjustments to ensure the adequacy of the benefit throughout retirement represents a logical extension of this goal.
Historically, cost-of-living adjustments (COLAs) have been authorized by the Pennsylvania General Assembly for both PSERS and SERS retirees on an ad hoc basis every four or five years since 1968, with the incurred unfunded actuarial accrued liabilities being amortized over a 20-year period. The passage of Act 9 of 2001 altered this amortization schedule. The Codes of both SERS and PSERS, as amended by Act 9 of 2001, now require that the unfunded liabilities of COLAs be amortized over a 10-year period, with the amortization payments calculated on a level dollar basis, and this requirement is retained in the draft legislation. This more rapid amortization approach serves to reduce the total amount of the required amortization payments associated with future COLAs, lessen the potential for the compounding of amortization payments attributable to multiple COLAs, and increase inter-generational equity by reducing the time elapsed between the service of the COLA recipients and the funding for the COLA benefits.

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

The proposal would amend both the PSERS and SERS Codes to provide a "two-part" ad hoc COLA to annuitants of both systems, with the first part commencing with the first monthly annuity payment after July 1, 2002. To be eligible for the first part of the COLA, superannuation, and disability annuitants must be receiving an annuity on July 1, 2002, and have an effective date of retirement prior to July 2, 1990. Withdrawal annuitants will not be eligible to receive the COLA until the first day of July coincident with or following attainment of superannuation age. The unfunded accrued liability resulting from the benefit increase will be amortized through level dollar payments over a period of 10 years beginning July 1, 2003.

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

Most Recent Effective Date of Retirement	Percentage Factor
July 2, 1988 through July 1, 1990	8.00%
July 2, 1983 through July 1, 1988	10.00%
July 2, 1980 through July 1, 1983	15.00%
Prior to July 2, 1980	25.00%

The second part of the COLA will commence with the first monthly annuity payment after July 1, 2003. Annuitants eligible to receive the COLA would include superannuation and disability annuitants: 1) who are receiving an annuity on July 1, 2003; 2) who have an effective date of retirement prior to January 1, 2002; and 3) whose credited service does not include any service credited as either Class T-D or Class AA service. Eligible withdrawal annuitants will not be eligible to receive the COLA until the first day of July coincident with or following attainment of superannuation age. The unfunded accrued liability resulting from the benefit increase will be amortized through level dollar payments over a period of 10 years beginning July 1, 2004.

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

Most Recent Effective Date of Retirement	Percentage Factor
July 2, 2001 through July 1, 2002	2.27%
July 2, 2000 through July 1, 2001	3.08%
July 2, 1999 through July 1, 2000	4.87%
July 2, 1998 through July 1, 1999	6.35%
July 2, 1994 through July 1, 1998	7.50%
July 2, 1990 through July 1, 1994	9.00%
Prior to July 2, 1990	0.00%

Transfer of Certain Shippensburg University Employees to the Juvenile Court Judges' Commission

Although rare, transfers of governmental function do occur and, in some cases, may impact the retirement system membership status of transferred employees. Some recent examples include the transfer of county-level court administrators from membership in county retirement systems to SERS membership by Act 12 of 1999, and the transfer of Department of Education employees involved in the training and education of inmates to the Department of Corrections by Act 15 of 1999. In January 2002, 13 employees of Shippensburg University were administratively transferred to the Juvenile Court Judges' Commission due to a similar transfer of governmental function. Formerly, the affected employees were employed within the Juvenile Court Judges' Commission's Statistical Analysis Center, which is funded through a memorandum of understanding between Shippensburg University and the Juvenile Court Judges' Commission. Of the 13 affected employees, nine were members of the Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF), which is an employer approved alternative retirement program.

The bill would amend the Code to permit an individual administratively transferred to the Juvenile Court Judges' Commission from Shippensburg University to retain membership in the approved alternative defined contribution retirement plan, known as TIAA-CREF. A participant would not be eligible to receive service credit in SERS for any service for which contributions had been made to the defined contribution plan. Those employees who elect SERS membership would begin to earn retirement credit with SERS prospectively, but would be prohibited from receiving credit with SERS for prior state service rendered during the time they were members of TIAA-CREF. There would be no actuarial cost impact on SERS attributable to the proposed retirement coverage accommodation of the transferred employees.

Under certain Executive Board actions and collective bargaining agreements, total years of service credit in SERS are used to determine eligibility for some ancillary retirement benefits that are not provided for in the Code. Examples of ancillary retirement benefits include payment by the Commonwealth to the employee at retirement for a portion of earned, unused sick leave and full payment by the Commonwealth throughout retirement for the retiree's medical insurance. Employees who remain members of TIAA-CREF, as provided for under the bill, would not be SERS members and, therefore, would not be eligible for these ancillary retirement benefits.

Technical and Editorial Amendments

The proposal makes various changes to both the Public School Employees' Retirement Code and to the State Employees' Retirement Code that are technical, administrative or editorial in nature. These changes, which address: notice to members, state employee definition, disability annuities, right and duties of annuitants, termination of annuities, and payment of death benefits, would have no significant actuarial cost impact on the Systems.

SUMMARY OF ACTUARIAL COST IMPACT

Each System's consulting actuary has provided the following estimate of the actuarial cost impact on the System.

Public School Employees' Retirement System (PSERS)

Cost-of-Living Adjustment

	Amount
Increase in Unfunded Actuarial Accrued Liability	$1,102,500,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs Amortization Payment [1]	$208,300,000	1.92%

[1] Amortization contribution shown is the aggregation of two ten-year, level dollar amortization schedules commencing on 7/1/03 and 7/1/04. Paid in part by the Commonwealth and in part by the school districts and other educational employers.

State Employees' Retirement System (SERS)

Cost-of-Living Adjustment

	Amount
Increase in Unfunded Actuarial Accrued Liability	$652,300,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Amortization Payment [1]	$99,400,000	1.91%

[1] Amortization contribution shown is the aggregation of two ten-year, level dollar amortization schedules commencing on 7/1/03 and 7/1/04.

Provision of Age-50 Service Credit

The consulting actuary of the State Employees' Retirement System has provided the following cost estimate for this benefit change.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$16,085,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Amortization Payment [1]	$2,451,000	0.05%

[1] Amortization calculated as level dollar payments over 10 years; amortization schedule would be impacted by the change in amortization methodology proposed in the bill.

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

Erosion of Annuitant Reemployment Limits. From a personnel policy perspective, limits on reemployment of annuitants are intended to preclude the concurrent payment of salaries and retirement benefits over an extended period, while permitting short-term reemployment of annuitants in "emergency" situations to accommodate personnel management needs. As the limit is applicable on a yearly basis, the General Assembly must determine whether extending the limit from 95 to 120 days is warranted to achieve the intended purpose.

Equity in Employment Transfer. In most cases of a transfer of governmental function, the issue of equity or fairness in the treatment of employees in the matter of pension plan coverage is easily judged in cases where the change in employment is beyond the discretion of the employee, where there has been no fundamental change in the nature of duties, lines of supervision, standards of performance or basis of compensation, and where retirement benefit coverage was part of the employee's compensation package. The bill appears to treat employees transferred from Shippensburg University to the Juvenile Court Judges' Commission in a fair and equitable manner in the matter of pension plan coverage.

Postretirement Adjustments. Increasing the pension benefits after retirement to reflect the erosion of the pension benefit caused by inflation is a common practice in the public sector.

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

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

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

Amortization. The use of a shorter amortization period reduces the interval between the point in time when the liability is incurred and the point in time when the liability is funded and thereby reduces the degree of inter-generational cost transfer. The increased contributions in the early years of a shorter amortization period provide an opportunity for additional investment income which would otherwise not be available to reduce the aggregate contributions required to fund the retirement plan. The use of a shorter amortization period reduces the total amount of the amortization payments required to fund the liability, and limits the potential for compounded amortization payments attributable to multiple cost-of-living adjustments. The proposal retains the 10-year level dollar amortization approach for COLA liabilities.

Partial Pre-funding of COLA Liabilities. Senate Resolution Number 103 declared that the General Assembly is concerned with funding cost-of-living adjustments in the most economical manner, and efficiency in governmental operations is viewed as an appropriate objective by the citizens of the Commonwealth. In its report, the Commission recommended that the SERS and PSERS Codes be amended to provide a specified percentage of payroll contribution to be included in the annual determinations of the employer contribution rates as a means to provide advance direct funding for future COLAs and that the resulting contributions be placed in restricted accounts and used to partially pre-fund the liabilities of future cost-of-living adjustments. The systematic accumulation of monies within SERS and PSERS dedicated to reduce the unfunded liabilities incurred in the provision of future cost-of-living adjustments is a reasonable mechanism to achieve modified advance direct funding. The proposal contains no provision for the partial pre-funding of future COLAs.

<u>Need Determination Factor</u>. Change in the Consumer Price Index (CPI) during an applicable period of retirement is the predominate basis for determining the amount of COLAs provided in public employee retirement plans. The proposal in the bill takes into account an appropriate need factor based upon the CPI.

<u>Benefit Eligibility Criteria</u>. Historically, COLA benefit payments have been provided to all retired members upon the attainment of normal (superannuation) retirement age, with disability retirees normally receiving the post-retirement adjustment immediately. The proposed COLA precludes from eligibility for the COLA those annuitants who elected either Class AA or Class T-D service pursuant to Act 9 of 2001prior to retirement.

<u>Delayed Funding</u>. The COLA proposal delays beginning amortization of the accrued liability associated with the provision of the COLA until July 1, 2003 (for “part 1") and July 1, 2004 (for “part 2"), increasing the dollar amount of the amortization payments required to fund the liabilities incurred.

<u>Removal of Funding Period Applicable to Future COLAs</u>. The default language in section 8328(d) of the PSERS Code providing that the amortization of COLAs enacted after June 30, 2002, will commence “from July 1, coincident with or next following the effective date of such legislation” is deleted in the document. This change will require that all future COLA legislation specify for PSERS a commencement date for the amortization payments, which would not be required for SERS.

<u>Clarification of Provisions</u>. The proposal in the document clarifies language in the respective retirement Codes designed to ease administrative complexity and associated costs, and ensure conformance and consistency with statutory requirements.

COMMISSION RECOMMENDATION

On April 4, 2002, the Commission voted to attach the actuarial notes provided by the Systems to the document, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

Bill ID: Document Number 7028

System: Public School Employees’ Retirement System

Subject: Representative Payees

SYNOPSIS

Document Number 7028 would amend the Public School Employees’ Retirement Code (Code) by adding a section that would empower the Public School Employees’ Retirement Board to certify and redirect annuity payments to “representative payees” who will act as agents on behalf of annuitants in cases where it is determined, by the Public School Employees' Retirement System board, that such an arrangement is in the best interests of the annuitant.

DISCUSSION

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, 2001, there were approximately 695 participating units, generally school districts, area vocational-technical schools, charter schools, and intermediate units in PSERS. Membership in PSERS is mandatory for most public school employees. Certain other employees are not required, but are given the option, to participate. As of June 30, 2001, there were 243,311 active members and 132,716 annuitant members of PSERS.

Under the Public School Employees’ Retirement Code, superannuation or normal retirement age is age 62 with at least one full year of service, or age 60 with 30 or more years of service, or any age with 35 years of service. Temporary provisions of the Code have permitted members with 30 or more years of service to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to the superannuation or normal retirement age. The most recent special early retirement provision expired June 30, 1999.

Under the proposal, if the Board determines it is in the best interest of an annuitant, the Board is authorized to certify payment of a member’s annuity to a “representative payee,” regardless of the annuitant’s legal competency, for the use and benefit of the member. The authorization to designate a representative payee would also be provided in cases of a disability annuitant. The bill defines a representative payee as a person, agency, organization or institution certified by the Board to manage the annuity payments of an annuitant who is mentally or physically unable to supervise or manage his or her affairs.

The proposal provides that the Board’s certification of persons to serve as representative payees be made on the basis of 1) the Board’s investigation of the selected person, including a face-to-face interview, if practicable, and 2) evidence that the certification is in the interest of the annuitant as determined by the Board. As part of any investigation of a prospective representative payee conducted by the Board, the proposal mandates that the Board require the prospective representative payee to submit proof of identity, verify the person’s identity, conduct a criminal background check, making a determination of disqualification where crimes are found, and determine that the prospective representative payee poses no risk to the annuitant and represents no substantial conflict of interest.

The proposal prohibits the payment of an annuity to a representative payee if: 1) the person was previously convicted of a crime of sufficient magnitude to disqualify the person unless the Board determines that an exception would be in the best interest of the annuitant and the person demonstrates to the Board significant progress in personal rehabilitation; 2) the person's certification as a representative payee has previously been revoked or terminated by the Board; or 3) the person is a creditor of the annuitant providing goods or services for consideration, with the exception of relatives living with the annuitant, a legal representative of the annuitant, a licensed or certified residential facility, a person who owns or administers a residential facility if the Board determines it is in the best interest of the annuitant, and an individual determined by the Board, pursuant to written findings and under published, formal procedures, to be acceptable to serve as a representative payee. The proposal also establishes guidelines for the procedures to be used by the Board in determining if a representative payee is acceptable.

The proposal provides for the direct payment of an annuity to be deferred or suspended upon the Board's certification of a representative payee. The period of the payment deferral or suspension shall not exceed 30 days unless the annuitant is legally incompetent. In addition, the proposal provides for the annuitant to receive advance notice of the Board's intent to certify a representative payee, but there is no period specified for the advance notice. If an annuitant is dissatisfied with the Board's determination and certification of a representative payee, the annuitant shall be entitled to a hearing before the Board.

The proposal provides for a representative payee to report not less than annually to the Board with respect to the use of the annuity payments, and the Board is required to implement review procedures to ensure that the representative payee is not misusing the annuity payments. If the representative payee is an "institution" of the Commonwealth or another state or the federal government, the reporting requirements will not apply, and the Board may establish a system to monitor and review the performance of the institution. The Board may require a report at any time from a representative payee if there is reason to believe there is misuse of the annuity payments. The proposal requires the Board to maintain, through annual updates, centralized files of the representative payees certified and the corresponding annuitants.

The proposal would require the Board to perform numerous administrative functions to implement the program for the certification of representative payees and to make many determinations on matters such as whether the "interest of an annuitant would be served" with certification of a representative payee. There will be significant administrative costs incurred to perform the mandated administrative functions under the proposal, and the appropriateness of the Board's duty to make determinations in many of the instances required under the proposal may be questioned from a public pension policy perspective as being outside the expected role and expertise of a retirement board.

Under the proposal, the Board may make a determination to certify a representative payee to receive the annuity payments of an annuitant without the permission of the annuitant. Although annuitants would have the right to hearings after being notified of the Board's intent, there would be considerable hardship and delay imposed on the annuitants in the hearing process, and there may be credible legal challenges if the Board's determinations are affirmed in hearings. Because annuitants are legally entitled to the annuity payments and there are existing mechanisms, such as direct deposit, bill payer services, power of attorney, etc., to address physical or mental competency issues, the propriety of and need for the proposed representative payee program are not apparent.

SUMMARY OF ACTUARIAL COST IMPACT

Because the proposal only addresses administrative procedures, there would be no actuarial cost impact on PSERS due to the proposal. However, there would be an undeterminable increase in the System's administrative costs.

POLICY CONSIDERATIONS

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

> <u>Absence of Need</u>. Because there are existing mechanisms to address physical and mental incompetency issues, the need for the proposed representative payee program is not apparent.
>
> <u>Administrative Impact</u>. The proposal would significantly increase the administrative costs of PSERS and require the PSERS Board to make determinations in matters not within the Board's areas of expertise.
>
> <u>Legal Challenges</u>. The proposed interjection of the PSERS Board into matters concerned with the disposition of annuity payments may result in development of legal challenges and expenses not previously experienced.
>
> <u>Need for language Clarification</u>. Section 8510(c) of the proposal appears to limit the deferral or suspension of direct payment of an annuity to not more than 30 days *after the Board makes a determination* for the certification of a representative payee, but it provides for the annuity payments deferred or suspended *pending the selection of a representative payee* to be paid "as a single lump sum or over such period as the board may determine is in the best interest of the annuitant." The language is unclear on when the 30-day limit on the "deferred and suspended payments" commences, and there is uncertainty as to why provisions are made for payment of the deferred or suspended payments over any period when it would represent, at most, one annuity payment.

COMMISSION RECOMMENDATION

On April 4, 2002, the Commission voted to attach the actuarial note transmittal to the document, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

Bill ID: House Bill Number 523, Printer's Number 566

System: State Employees' Retirement System

Subject: Benefit Enhancement for Philadelphia Municipal Court Bail Commissioners

SYNOPSIS

House Bill Number 523, Printer's Number 566, would amend the State Employees' Retirement Code (Code) to permit an active member or an active multiple service member who is a bail commissioner of the Philadelphia Municipal Court to elect Class E-2 membership for all future bail commissioner service.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. As of December 31, 2000, there were 106 state and other organizations participating in SERS. Membership in SERS is mandatory for most state employees. Certain other employees are not required, but are given the option to participate. As of December 31, 2000, SERS membership consisted of 109,469 active members and 88,392 retirees and beneficiaries currently receiving benefits.

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

Prior to March 1, 1974, there were a number of special classes of membership in SERS, each of which had its own class of service multiplier. As part of the Commonwealth's pension reform efforts of the early 1970s, which also included the adoption of Act 293 of 1972 and of a new Public School Employees' Retirement Code on October 2, 1975, on March 1, 1974, a new State Employees' Retirement Code was adopted that, among other things, placed all individuals joining SERS after February 28, 1974, in Class A, for which the class of service multiplier is 1.0. One of the reasons for this change was to ensure that SERS would continue to be treated as a qualified pension plan under section 401(a) of the Internal Revenue Code by removing a source of possible discrimination. Individuals who were members of a special class of membership prior to March 1, 1974, and who remained continuously in the same job category, would continue to receive retirement service credit for the special membership class until they moved into a different job category or left Commonwealth employment. Regardless of their dates of employment, however, members of the judiciary retain the option to elect special class membership in SERS (Class E-1 membership for judges, and Class E-2 membership for district justices) for all periods of judicial service. This benefit provision is not provided for in the Code, but instead is the result of a series of court cases in which the constitutionality of some of the 1974 Code changes were challenged, the most salient of these cases being the "Goodheart" Supreme Court decisions (see *Goodheart v. Casey*, 521 Pa. 316 (1989); 523 Pa. 188 (1989). See also *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 additional member contributions, and receive the higher pension benefit attributable to their membership class.

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

The bill would provide an enhancement to the pension benefits of bail commissioners by permitting these members to elect Class E-2 membership prospectively for all periods of employment as a bail commissioner performed following the effective date of the bill. Under the bill, currently employed bail commissioners would have 30 days from the effective date of the bill to elect Class E-2, and new employees would have 30 days from the date of hire. The benefit enhancement would place bail commissioners in the same pension benefit category as district justices.

The class of service multiplier has an effect both on the calculation of the regular member contributions and on the member's annuity. The annuity for Class E-2 members is obtained by multiplying the standard single-life annuity by a class of service multiplier. The class of service multiplier for Class E-2 is 1.5, and the employee contribution rate for Class E-2 is 7.50 percent. The bail commissioner (Class E-2 under the bill) component of the member's final pension benefit would be added to any prior or future Class AA service credit earned by the member through another type of state or school service, and any Class A service credit accruing to the member through purchases of nonstate service in determining the member's final pension benefit.

Justices, judges, and district justices all are judicial offices that existed on March 1, 1974. The position of bail commissioner with the Philadelphia Municipal Court did not yet exist on that date. In 1984, section 1123(a)(5) of the Judicial Code was amended to permit the judges of the Philadelphia Municipal Court to appoint up to six bail commissioners for four-year terms who become employees of the Commonwealth. The provisions of Act 187 of 1984 providing for the bail commissioners speak of their receiving "an annual salary equal to the salary of an associate judge of the Traffic Court of Philadelphia." The statutory provisions do not speak of "salary and emoluments" nor do they speak of "compensation." SERS, therefore, classified the bail commissioners in Class A because of the 1974 Code requirement that a Commonwealth employee "who becomes a member of the system subsequent to the effective date of [the Code] shall be classified as a Class A member . . . ."

The duties of the bail commissioners as specified in section 1123(a)(5) of the Judicial Code are similar to those of district justices as specified in section 1414(a)(4) of the Judicial Code. If, therefore, the General Assembly intends bail commissioners to receive salary and emoluments, including pension benefits, equal to those of an existing class of judicial officer (in this case, district justices), then the bill is the best method to accomplish this end, and classification as Class E-2 would appear to be consistent with established precedents.

SUMMARY OF ACTUARIAL COST IMPACT

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

	Amount
Increase in Unfunded Actuarial Accrued Liability	$20,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Normal Cost	$2,600	0.8%
Amortization Payment [1]	3,100	1.0%
Total Increase in Employer Annual Costs	$5,700	1.8%

[1] Level dollar payments for ten years.

POLICY CONSIDERATIONS

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

<u>Legislative Intent</u>. Under the State Employees' Retirement Code, since 1974, it has been clear that the legislative intent of the General Assembly has been that all individuals newly employed by the executive, legislative or judicial branch be precluded from special class membership and that individuals employed after March 1, 1974 , be classified similarly for retirement benefit purposes. If, in light of the Pennsylvania Supreme Court decisions extending Class E-1 or Class E-2 eligibility to all judicial officers regardless of the date of employment or election, the General Assembly wishes to treat bail commissioners similarly to district justices in terms of pension benefits, the bill is an appropriate way to accomplish that objective. If, however, the General Assembly wishes to retain its 1974 position, the bill would represent a departure from legislative intent.

COMMISSION RECOMMENDATION

On April 4, 2002, 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.

FINAL LEGISLATIVE STATUS

House Bill Number 523, Printer's Number 566, was referred to the House Judiciary Committee on February 7, 2001.

Bill ID: Amendment Number 3114
to House Bill Number 1043, Printer's Number 1188

System: State Employees' Retirement System

Subject: Benefit Enhancement for Certain Class C Members

SYNOPSIS

Amendment Number 3114 to House Bill Number 1043, Printer's Number 1188, would amend the State Employees' Retirement Code (Code) to create a new class of service within the State Employees' Retirement System (SERS), to be known as Class C-1, which would have a class of service multiplier of 1.25, and to permit certain current and former Class C members of SERS to elect membership in Class C-1 and receive Class C-1 service credit for all periods of Class C service, except for Class C service performed as a Pennsylvania State Police Officer, provided the member files a written election notice with the State Employees' Retirement Board prior to January 1, 2003, or prior to termination of state service, or in the case of a member of the Public School Employees' Retirement System (PSERS), prior to termination of school service, whichever first occurs.

Under the provisions of Amendment Number 3114, an eligible member would be:

1) A state employee who on July 1, 2002, is an active or inactive Class C member of SERS;

2) A former state employee who was formerly a member of Class C, and on July 1, 2002, is a multiple service member, a school employee and a member of PSERS; or

3) A former state employee who was formerly a member of Class C, who is a school employee and who after July 1, 2002, becomes a multiple service member.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of SERS is to provide retirement allowances and other benefits, including disability and death benefits to state employees. As of December 31, 2001, there were approximately 108 participating state and other organizations in SERS. Membership in SERS is mandatory for most state employees. Certain other employees are not required to become members but are given the option to participate. As of December 31, 2001, there were 109,716 active members and 89,217 annuitant members of SERS. Under the Code, superannuation or normal retirement age for most members is age 60 with three or more years of service credit or at any age with 35 years of service credit. Normal retirement age for certain other members, including certain public safety employees and members of the General Assembly, is age 50. Generally, the pension benefit is equivalent to the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary.

Since the passage of Act 9 of 2001, most active members of SERS currently are members of Class AA, which has a class of service multiplier of 1.25. Class AA members include most regular state employees, and employees of certain Commonwealth commissions and authorities. Under the

Code, the class of service multiplier has an effect both on the calculation of the regular member contributions and on the member's annuity.

> The regular member contribution is the product of the basic contribution rate of five percent of compensation multiplied by the class of service multiplier; and
>
> The maximum single life annuity of a member is the product of two percent multiplied by the member's years of credited service multiplied by the member's final average (highest three years) salary multiplied by the member's class of service multiplier.

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

Because Class C members were unaffected by Act 9 of 2001, the basic pension benefit formula used to determine the standard single-life annuity for Class C members remains 2% X final average salary X years of Class C service. Section 5702(a)(3) of the Code provides that, in addition to the standard single life annuity, a member of Class C is entitled to a "member's annuity," which is actuarially equivalent to the member's accumulated member contributions (also called "accumulated deductions") plus statutory (4%) interest at retirement calculated as though the member had retired at age 60. Under Section 5702(a)(2), a Class C member may also be eligible for a third benefit component in the form of Social Security Integration (SSI) coverage, if the member elected SSI coverage prior to March 1, 1974. According to demographic data supplied by the staff of SERS, there currently are 27 employees who are either active contributing or inactive members of Class C and who would be affected by the benefit provisions of Amendment 3114.

Effective July 1, 2002, the amendment would create a new membership class, Class C-1, and would permit all active or inactive employees who are now, or who have been, members of Class C (excluding Pennsylvania State Police Officers) to elect Class C-1 membership for all periods of Class C service. The newly created class, Class C-1, would have a class of service multiplier of 1.25, which would result in all Class C-1 members receiving an annuity equivalent to 2.5 percent of their final average salaries for all Class C-1 service at retirement. The net effect of the amendment would be to enhance the basic pension benefit calculation applied to all periods of Class C service by 25 percent. However, it appears from the language of the amendment that a Class C member who elects Class C-1 would forego eligibility for the "member's annuity" component currently provided to Class C members. Lastly, the amendment would also have the effect of establishing a member contribution rate to the State Employees' Retirement Fund for Class C-1 members of 6.25 percent of compensation.

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

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed Amendment Number 3114 and estimated the actuarial cost impact attributable to the amendment. The estimate is based on census data, provided by SERS, for the 27 known Class C enforcement officers who would be eligible to elect Class C-1 membership. In addition to these members, there may be a number of other members and former members of either SERS or PSERS who would be eligible under the amendment. The staffs of SERS and PSERS were unable to provide the Commission staff with census data on other potential eligible members, however, it is believed that the number of additional potentially eligible members is quite small.

Amendment 3114 requires the Pennsylvania Liquor Control Board and the Pennsylvania State Police to bear the full amount of the liability attributable to the benefit enhancement. For this reason, the increase in normal cost and amortization payment figures displayed in the following table are expressed as a percentage of affected payroll.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$425,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Cost		
Normal Cost	$ 5,000	0.3%
Amortization Payment[1]	65,000	4.0%
Total Increase in Employer Annual Costs	$70,000	4.3%

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

POLICY CONSIDERATIONS

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

Significant Benefit Enhancement. Providing a class of service multiplier of 1.25 for Class C-1 will, in effect, enhance retirement benefits (and pre-retirement death benefits) for members electing Class C-1 service by 25 percent over the current maximum single life annuity calculation used for members of Class C.

Provision for Cost Sharing. The provision in the amendment requiring an increase in the member contribution rate from 5.0 percent to 6.25 percent of compensation appears to be a reasonable public pension policy approach. However, the amendment does not require members electing Class C-1 service to contribute the additional 1.25 percent of compensation for the period of Class C service subsequent to January 1, 2002.

Elimination of Benefit Inequity. Among its various other provisions, Act 9 of 2001, requires that all employees who become members of SERS on or after July 1, 2001, become members of Class AA, which has a class of service multiplier of 1.25. Therefore, a newly hired Class AA enforcement officer would be provided with a retirement benefit formula that is more lucrative than that for a Class C enforcement officer, creating a retirement benefit disparity between similarly situated employees. However, it should be noted that due to the effects of the additional benefit component provided to Class C members under Section 5702(a)(3), it is possible, though unlikely, that some Class C members would not benefit from electing Class C-1 membership.

COMMISSION RECOMMENDATION

On September 26, 2002, the Commission voted to attach the actuarial note to the amendment, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1043, Printer's Number 1188, was amended on third consideration in the House on June 10, 2002.

Bill ID: House Bill Number 1046, Printer's Number 1200

System: State Employees' Retirement System

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

SYNOPSIS

House Bill Number 1046, Printer's Number 1200, would amend section 5304 of the State Employees' Retirement Code (Code) to provide for the purchase of up to five years of nonstate service for service as an employee of the American Red Cross.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. As of December 31, 2000, there were 106 state and other organizations participating in SERS. Membership in SERS is mandatory for most state employees. Certain other employees are not required, but are given the option to participate. As of December 31, 2000, SERS membership consisted of 109,469 active members and 88,392 retirees and beneficiaries currently receiving benefits.

Under the Code, superannuation or normal retirement age for most members is age 60 with three or more years of service credit or at any age with 35 years of service credit. Normal retirement age for certain other members, including certain public safety employees and members of the General Assembly, is age 50. Generally, the pension benefit is the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Permitting members to receive credit for service with another employer benefits the member because the retirement benefit is enhanced and, in some cases, retirement eligibility is accelerated.

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

Chartered by Congress in 1905, the American Red Cross (Red Cross) is a humanitarian organization dedicated to providing disaster relief and emergency services through a nationwide network of Red Cross chapters. Although not a part of the federal government, the Red Cross does work closely with federal and state agencies in times of crisis. In 2000, the Red Cross responded to approximately 67,000 disasters, including home fires, hurricanes, floods, earthquakes, tornadoes, hazardous materials spills, transportation accidents, explosions and other natural and manmade calamities. Nearly half of the nation's total blood supply is collected annually by Red

Cross volunteers through local area chapters. The Red Cross does employ a cadre of professional and support staff, but volunteers comprise 97 percent of the total workforce.

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

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

SUMMARY OF ACTUARIAL COST IMPACT

Because no data is available on the number of SERS members who would be eligible to purchase service credit under the bill, a precise estimate of the actuarial cost associated with the bill could not be accurately made. The following cost estimates were prepared by the Commission's consulting actuary, based upon general data and assumptions. The following table illustrates the estimated percentage of the full actuarial cost paid by the member for selected age and service combinations. The estimates are based on average career salary increases of 6.0% from time of entry to time at purchase. The consulting actuary of the Commission has estimated this percentage for a range of Commonwealth normal contribution rates at time of entry. The rates used range from a low of 3.60% to a high of 10.73%. As the Commonwealth normal contribution rate at time of entry increases, the percentage of the total cost paid by the member also increases.

Estimated Percentage of Total Cost Paid by the Member				
Age at Entry Into Commonwealth Service	**Age at Retirement**	**Normal Contribution Rate = 3.60%**	**Normal Contribution Rate = 7.00%**	**Normal Contribution Rate = 10.73%**
25	60	18%	25%	32%
35	60	22	30	38
45	60	26	35	45
55	60	31	42	52

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

Estimated Percentage of Total Cost Paid by the Member				
Age at Entry Into Commonwealth Service	**Age at Retirement**	**Average Salary Increase of 4%**	**Average Salary Increase of 6%**	**Average Salary Increase of 8%**
25	60	45%	25%	13%
35	60	45	30	19
45	60	45	35	27
55	60	45	42	39

Because no demographic data is available on the number of SERS members who would be eligible for the service purchase, the Commission's consulting actuary estimated the increase in unfunded actuarial accrued liability attributable to the service purchase authorization provided for in the bill for hypothetical groups of 250 and 500 eligible employees, based upon an average salary of $41,000, average past salary growth of 6.0%, and a Commonwealth normal contribution rate of 7.0% at time of entry. It was also assumed that each member would purchase an average of three years of service credit.

Number of Eligible Members	Estimated Increase in Unfunded Actuarial Accrued Liability (UAL)
250	$ 5,900,000
500	$11,700,000

Any increase in the unfunded actuarial accrued liability will be amortized over 10 years through level dollar amortization payments. The first year of amortization would range from $0.9 million to $1.8 million, or approximately 0.02% to 0.04% of total Commonwealth payroll.

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

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

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

Appropriateness of Credit for American Red Cross Service. The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The service for which credit is to be made purchasable under the bill does not occur under any of these situations. The service credit authorization proposed in the bill would represent permission to purchase credit for service with a non-governmental entity.

Adequacy of Purchase Payments. The statutory method for calculating the member contributions to purchase service credit for nonstate service proposed in the bill may result in a member paying less than the full actuarial cost of the increased benefit acquired through the service credit purchase. This service credit purchase price will result in an increase in the unfunded actuarial accrued liability of SERS and increased amortization payments by the Commonwealth. A service purchase transaction that favors a member at the expense of the retirement system is viewed by the Commission as being appropriate only where necessary for the purpose of equity. If the bill were to be amended to require payment by the member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase, there would be no actuarial cost to the Commonwealth.

Cost Effective Technical Provisions. For service purchase authorizations of this type, the Commission recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The bill imposes no limit on the time frame within which the purchase option may be exercised. The Commission also recommended that, in cases where the service purchase amount required to be paid by an employee includes amounts representing both employer and employee costs attributable to the purchased service, the portion of the payment representing employer cost be precluded from withdrawal by a member upon retirement. Unless the bill is amended to exclude the employer portion of the purchase payment from Option 4 lump sum withdrawal, it will enable an eligible member to receive the service credit and have the entire purchase amount returned upon retirement as part of the Option 4 withdrawal. The absence of a restriction on withdrawal of the purchase amount under Option 4 will increase the cost to SERS associated with the authorization to purchase credit for this nonstate service.

Exclusion from Early Retirement Provisions. In order to prevent an increase in the unfunded actuarial accrued liability of SERS caused by the use of the service credit purchased under this bill to qualify for an early retirement program, the General Assembly may wish to add an additional restriction to proposed section 5304(c)(9) to preclude members from applying the service credit purchased under this bill to qualify for any type of early retirement incentive.

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

COMMISSION RECOMMENDATION

On September 26, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1046, Printer's Number 1200, was referred to the House State Government Committee on March 19, 2001.

Bill ID: House Bill Number 1173, Printer's Number 1360

System: All Municipal Pension Systems

Subject: Distribution of General Municipal Pension System State Aid under Act 205 of 1984

SYNOPSIS

The bill would amend the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to modify the formula used for calculating and distributing General Municipal Pension System State Aid (GMPSSA) for calendar years 2001 through 2005 by providing for an additional State aid distribution that is based upon the presence of an unfunded actuarial accrued liability in a municipal pension plan.

DISCUSSION

Under Act 66 of 1981, the General Assembly created the Public Employee Retirement Commission (Commission) and directed the Commission to give priority to formulating and recommending passage of legislation, within one year of the initial meeting of the Commission, to mandate actuarial funding standards and establish a recovery program for municipal pension systems determined to be financially distressed. The resulting statute was the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984).

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

The Commonwealth imposes a tax on the premiums of casualty and fire insurance policies sold in Pennsylvania by out-of-state ("foreign") insurance companies. Act 205 establishes a General Municipal Pension System State Aid (GMPSSA) program financed from the proceeds of the foreign casualty insurance premium tax and a portion of the foreign fire insurance premium tax. The act provides for the annual allocation of these funds to municipalities, other than counties and authorities, based upon the number of full-time employees participating in municipal retirement systems. For a municipality's employees to be considered in the allocation formula, the municipal retirement system in which they participate must have been established before January 1, 1985, or maintained by the municipality for three plan years.

Under the current Act 205 State aid allocation formula, the total amount of funds available each year are required to be distributed to all eligible municipalities to offset employer pension costs. The City of Philadelphia receives an allocation equal to 25% of the amount available for distribution. After Philadelphia's allocation is deducted, the remaining amount in the fund is distributed based on the lesser of "unit value" or "cost." Each nonuniformed employee is counted as one unit and each uniformed employee is counted as two units for purposes of the allocation formula. Because the amount available changes each year and the entire fund is allocated using a formula that considers both unit value and employer pension costs, the unit value fluctuates each year. The unit value has ranged from $2,200 to $2,763 in the past ten years. Each eligible municipality receives an annual allocation that is the lesser of either an allocation equal to that year's unit value multiplied by the number of units applicable to that municipality or an allocation equal to the aggregate actual funding requirements of the municipality's pension plans (cost). By law, in no case may an allocation under the formula exceed the total pension costs of the municipality.

Eligible municipalities that have aggregate annual pension costs that are less than the calculated unit value allocation receive State aid allocations equal to full pension costs. As they are limited to that amount, these municipalities are referred to as being "capped at cost." All eligible municipalities that have aggregate annual pension costs that are greater than the calculated unit value receive an allocation equal to the calculated unit value multiplied by the number of units in that municipality. These municipalities are referred to as "unit value recipients." The following example may serve to further illustrate the distinction between municipalities that are "capped at cost" and those that are "unit value recipients." In 2002, when the unit value was calculated to be $2,763, if a hypothetical municipality were administering a pension plan for one nonuniformed employee and the municipality's total annual pension costs were equal to $2,600, the municipality would receive $2,600 in State aid and would be termed "capped at cost." If, however, the same hypothetical municipality had total annual pension costs of $2,900 (costs exceeding the unit value), the municipality would receive $2,763 in State aid and would be referred to as a "unit value recipient."

Under the bill, during calendar years 2001 through 2005, the amount of available State aid would be distributed under a modified formula. The modified formula provides a State aid allocation component directly to eligible municipal pension plans. (The current allocations are distributed to municipalities, not pension plans). The bill uses the 2000 allocation of State aid as a base year, and provides that for the years 2001 through 2005 any growth in the amount of State aid available would be allocated to municipal pension plans that have unfunded actuarial accrued liabilities, based on the number of units applicable to each plan.

The language of the bill does not consider that the amount of State aid available for distribution during calendar years 2001 through 2005 may be less than the amount of State aid available in the "base year" of 2000. Also, since State aid for calendar years 2001 and 2002 has already been distributed, the bill should be amended to reflect that the revised allocation will not commence until 2003.

The language of Section 402(e)(9) of the bill, which allocates the additional State aid on the basis of units certified by municipal pension plans with an unfunded actuarial accrued liability, does not appear to consider the possibility that such an allocation may result in a pension plan receiving State aid in excess of the aggregate actual financial requirements. The receipt of State aid in excess of pension costs would conflict with existing language in Act 205, which limits the allocation of State aid to pension costs. The bill would also distribute the additional State aid component directly to municipal pension plans rather than to municipalities, which also conflicts with Act 205.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary reviewed the bill and determined that the additional allocations called for would result in the distribution of State aid in a manner that is not closely linked to the actual annual costs of a municipal pension plan based upon the calculation of the minimum municipal obligation under Act 205. Moreover, the additional allocations provided for in the bill would unnecessarily complicate the State aid allocation formula and could cause the inequitable distribution of State aid.

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

Potential for Inequitable Distribution of State Aid. Act 205 of 1984 provides a formula for the equitable distribution of State aid to all municipalities based upon need. The bill would alter this formula in a manner that would distort the intended purpose of the State aid allocation by targeting certain municipalities for additional aid allocations. Furthermore, the additional aid allocations would be allocated on a basis unrelated to the criteria (unfunded accrued liability) used to determine eligibility for the additional aid, a condition that would produce serious inequities.

Conflicts with Current Law. Section 402(f)(2) of Act 205 prohibits the distribution of State aid to municipalities in excess of the aggregate actual financial requirements of a municipality's pension plans. The bill would provide an additional allocation based on the presence of an unfunded actuarial accrued liability in a municipal pension plan. The additional allocation provided for in the bill could result in allocations to pension plans that exceed actual costs.

Technical Concerns. In reviewing the bill, the Commission staff noted the following technical concerns:

State Aid Distribution. The bill appears to distribute State aid directly to municipal pension plans rather than to municipalities as currently required by Act 205.

Lack of Reallocation Provisions. The modified formula does not provide for the reentry of additional allocations into the allocation formula where the additional allocations cannot be distributed to eligible municipalities due to individual municipal cost cap limitations. These "excess allocations" should either be reentered into the formula to increase the amounts available to eligible recipients or returned to the fund for distribution the subsequent year.

Availability of State Aid not Constant. The bill appears to assume that the amount of State aid available for distribution during calendar years 2001 through 2005 will always be greater than the amount of State aid available in the "base year" of 2000. The unit value fluctuates from year-to-year based both upon the availability of funds and municipal pension costs. The bill does not appear to consider the possibility that available State aid may remain flat or may actually decline during calendar years 2001 through 2005.

Updates Required. The bill would begin distribution of the additional allocations in 2001. Because State aid has already been distributed for calendar years 2001 and 2002, and there is no provision under current law for the retroactive distribution of State aid, the specified dates in the bill should be updated to reflect the passage of time since the bill's initial introduction.

Potential for Program Redundancy. The bill provides additional allocations of State aid to municipal pension plans based upon the existence of unfunded actuarial accrued liabilities in those plans. This provision of the bill appears to be based, in part, upon the premise that unfunded actuarial accrued liabilities are not reflected in the current State aid allocation formula. In fact, the amortization costs associated with unfunded actuarial accrued liabilities in municipal pension plans are already considered in the existing State aid allocation formula.

Potential for Manipulation. The State aid allocation formula provided for in the bill could provide a disincentive for municipalities with pension plans that have unfunded actuarial accrued liabilities to fully amortize those liabilities because the bill would provide additional State aid allocations to plans that continue to have unfunded liabilities.

City of Philadelphia Excluded. Under Act 205, the City of Philadelphia receives an allocation not to exceed of 25 percent of State aid that is available in any calendar year. It appears that pension plans in the City of Philadelphia were not considered in the bill and would not benefit from the additional State aid allocations provided for in the bill.

Treatment With Respect to Bonded Debt. Municipalities that have issued debt to fund unfunded actuarial accrued liabilities would be excluded from receiving the additional allocations under the bill. Even though Act 205 treats these municipalities as though they had not funded their unfunded actuarial accrued liabilities for distribution of General Municipal Pension System State Aid and for Supplemental State Assistance, the bill would penalize municipalities that have eliminated unfunded actuarial accrued liabilities through the issuance of bonded debt.

Limited-Term Modification. If there is reason for the bill's proposed modification in the allocation formula for the State aid used to offset municipal pension costs, there is no public pension policy rationale for limiting the modification to a five-year period.

COMMISSION RECOMMENDATION

On November 21, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the Commission's actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1173, Printer's Number 1360, was referred to the House Local Government Committee on March 27, 2001.

Bill ID: House Bill Number 1354, Printer's Number 1585

System: All Pennsylvania Public Employee Retirement Systems

Subject: Increasing the Benefits of Surviving Spouses

SYNOPSIS

House Bill Number 1354, Printer's Number 1585, is a joint resolution that would amend Section 26 of Article 3 of the Constitution of Pennsylvania to permit the General Assembly to increase the retirement benefits or pensions payable to beneficiaries who are spouses of members of a public employee retirement system if the increases are certified to be "actuarially sound."

DISCUSSION

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

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

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

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

The bill makes the granting of increased benefits to surviving spouses contingent upon a retirement system being "certified to be actuarially sound." The term "actuarially sound" is not a precisely defined concept and there is no generally accepted definition of the phrase within the actuarial profession. An actuarially sound public employee retirement system may be defined as any system that is being funded using an appropriate actuarial cost method, without regard to the time period over which unfunded actuarial accrued liabilities are to be amortized. However, an "actuarially sound" plan may also be defined more stringently as one in which combined employee and employer contributions are sufficiently large to fully fund the normal cost and amortize any unfunded actuarial accrued liabilities over some specified time period. Therefore, because the phrase, "Provided, that such increases are certified to be actuarially sound," has no generally accepted meaning within the actuarial profession, it should be deleted from the bill to avoid confusion.

SUMMARY OF ACTUARIAL COST IMPACT

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

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

	Postretirement Adjustment Design Format			
Retirement System	**Fixed % Increase**	**% per Year Retired**	**\$ per Year Retired [1]**	**\$ per Year of Service [1]**
PSERS	2% — 3%	3% — 5%	5% — 10%	3% — 5%
SERS	3% — 5%	10% — 15%	20% — 25%	7% — 10%
County	3% — 5%	10% — 15%	15% — 20%	5% — 10%
Municipal	5% — 10%	15% — 30%	30% — 60%	15% — 30%

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

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

POLICY CONSIDERATIONS

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

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

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

Increased Cost of Postretirement Adjustments. Postretirement adjustments will cost more if extended to surviving spouses.

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

Drafting Ambiguity. The phrase “Provided, that such increases are certified to be actuarially sound” has no standard meaning and should be deleted to avoid confusion.

COMMISSION RECOMMENDATION

On November 21, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1354, Printer's Number 1585, was referred to the House State Government Committee on April 17, 2001.

Bill ID: House Bill Number 1363, Printer's Number 3059

System: Police Officer and Firefighter Retirement Systems in Cities of the Third Class

Subject: Benefit Enhancements

SYNOPSIS

House Bill Number 1363, Printer's Number 3059, would amend both the police officer and the firefighter pension plans in The Third Class City Code to:

1) Change the prescribed pension benefit for a public safety employee from an amount that is one-half of an employee's annual salary to an amount that is *no less than* one-half of an employee's annual salary;

2) Limit the provision of the enhanced retirement benefit provided for in the bill to situations in which no additional costs will be incurred by the city;

3) Increase the limit on the service increment paid to a retired public safety employee, in addition to the retirement allowance, from $100 a month to $500 a month; and

4) Increase the amount of the active member contribution for the service increment benefit from $1 a month to $5 a month.

DISCUSSION

Under articles 43(a) and 43(b) of The Third Class City Code, a city of the third class must establish a retirement system for its police officers and firefighters (public safety employees) by ordinance. All members of the city police force and all full-time, paid firefighters must be members of the retirement systems. As of January 1, 1999, there were 57 police officer retirement systems in cities of the third class with 2,468 active members and 44 firefighter retirement systems with 1,599 active members.

As was typical at the time of their enactment, pension plans for public safety employees in cities of the third class resemble pension plans for military personnel with half-pay pensions after 20 years of service. This "fixed benefit" approach differs from most modern defined benefit pension plans in which the pension benefit is variable based on the product of the years of service multiplied by a benefit accrual rate. Under The Third Class City Code, a public safety employee may retire on a superannuation (normal, full) retirement after 20 years of service. The ordinance creating the pension plan need not prescribe a minimum age, but if one is prescribed, it must be age 50. A retiree's retirement benefit is computed as, and limited to, the greater of one-half of the final rate of pay or of one-half of the monthly average salary of the public safety employee during the employee's five highest years. The bill would remove the current benefit limit by mandating that the pension benefit be equal to an amount that is *no less than* one-half of the employee's final rate of pay; however, the bill does not prescribe any *maximum* benefit level for the pension benefit.

On its face, the bill would appear to grant each Third Class City discretion in the provision of increased normal retirement pension benefits for its police and fire pension plans, without actually requiring an increase in pension benefits beyond currently mandated levels. However, because police and firefighter pension benefits are subject to the collective bargaining process, a city may nonetheless be compelled by an Act 111 arbitration award to provide enhanced benefits which city officials may view as unaffordable.

The impact of the bill on the overall pension benefits of active members of Third Class City police and firefighter pension plans is also worthy of consideration. In cities where Social Security coverage is provided to members in addition to the normal retirement benefit, the combined benefits will equal 70 percent to 85 percent of salary during the member's final year of employment. This is generally considered to be a level of retirement income that is sufficient to maintain a member's standard of living in retirement at a level to which the member has been accustomed during the member's working career. Because the bill permits the normal retirement pension benefit to be increased well beyond current levels, the potential exists for combined Social Security and normal retirement benefits to reach or exceed 100 percent of the member's compensation.

Under current law, the city also may pay a retired public safety employee a service increment of 1/40 of the retirement benefit for each year of service in excess of 20 years rendered to the city before the retiree reached age 65. Currently, the service increment cannot be more than $100 a month.

Under an historic "fixed benefit" public safety employee pension plan, there is a disincentive to remain in public service after completing the minimum service (20 years in the case of cities of the third class), while there is an appropriate incentive for remaining in service longer under a conventional "variable benefit" approach. In an attempt to remedy the disincentive inherent with the "fixed benefit" approach, the pension plan for police officers in cities of the third class was amended by Act 596 of 1951 (enacted January 18, 1952) to add service increments. In Act 242 of 1959, the pension plan for firefighters was amended to permit service increments, and in Act 204 of 1968, to mandate the current service increment provisions. The result was that skilled public safety employees had a retirement-related incentive to continue service beyond 20 years.

When the service increments were added to the pension plans, they were limited to a maximum of $100 a month. Inherent in any named dollar limit is the change in the purchasing power over a long period of time. For example, in March 2001, about $569 was needed to purchase what $100 would have purchased in January 1952 when the police officer pension plan was amended to add the service increment. As a result of the change in the purchasing power, the service increment benefits have become relatively less valuable because of the $100 a month limit. The bill permits an increase in the limit from $100 a month to $500 a month, thus authorizing cities of the third class to pay retiring public safety employees an increment of up to an additional $400 a month.

When the provisions granting a service increment limited to $100 a month were added to The Third Class City Code, provisions also were added requiring public safety employees to make a service increment contribution of not more than $1 a month until reaching age 65. The bill would increase the limit of $100 a month to $500 a month and also mandate a similar increase in employee contributions from $1 a month to $5 a month. An alternative would be to authorize the cities to increase the public safety employee increment contribution from $1 a month to the greater of $1 a month per $100 a month of service increment benefit being implemented or one-third of the increase in the normal cost attributable to the increase in the service increment being implemented.

Normal Retirement Benefit Increase

Because the benefit enhancement called for in the bill is optional, and because the benefit increase can potentially be to any level in excess of one-half of the member's salary, the Commission's consulting actuary provided costs based upon two utilization scenarios: 1) that one-half of state-wide active members covered would receive a benefit increase equal to 60% of annual salary; and 2) that one-half of state-wide active members covered would receive a benefit increase equal to 70% of annual salary. The consulting actuary of the Commission studied a sample of twelve police officer retirement systems and nine firefighter retirement systems in cities of the third class. Extrapolating the results of the 21 sample plans to the remaining 101 plans produces the following aggregate results.

	Benefit Increase to 60% of Pay		Benefit Increase to 70% of Pay	
Increase in Unfunded Actuarial Accrued Liability	$27,000,000 - $30,000,000		$55,000,000 - $60,000,000	
	Amount	**As a % of Payroll**	**Amount**	**As a % of Payroll**
Increase in Employer Annual Costs				
Normal Cost	$1,700,000 - $1,900,000	0.99% - 1.11%	$ 3,400,000 - $ 3,800,000	1.99% - 2.22%
Amortization Payment[1]	$3,659,000 - $4,066,000	2.14% - 2.38%	$ 7,454,000 - $ 8,131,000	4.36% - 4.75%
Total	$5,359,000 - $5,966,000	3.13% - 3.49%	$10,854,000 - $11,931,000	6.35% - 6.97%

[1] 10 year amortization at an interest rate of 7.50%.

Service Increment Increase

Based upon the assumption that 75 percent of state-wide active members covered would receive a service increment benefit increase from $100 to $500, the Commission's consulting actuary estimated that this benefit enhancement would have the following aggregate costs.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$38,000,000 - $40,000,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$1,100,000 - $1,300,000	0.64% - 0.76%
Amortization Payment[1]	5,150,000 - 5,421,000	3.01% - 3.17%
Employee Contributions	(140,000) - (160,000)	(0.08%) - (0.09%)
Total	$6,110,000 - $6,561,000	3.57% - 3.84%

[1] 10 year amortization at an interest rate of 7.50%.

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

Commonwealth-Mandated Benefit. The bill mandates benefit modifications of police officer and firefighter retirement systems in cities of the third class. The appropriateness of the Commonwealth mandating local governments to provide specific pension benefits is questionable from a public policy standpoint.

Benefit Level. Increasing the normal retirement benefit above 50 percent of salary may result in total retirement benefits, including Social Security benefits, that exceed pre-retirement income. The General Assembly must determine whether the proposed change is appropriate within the context of total post-retirement income.

Absence of Cost Sharing for Normal Retirement Benefit Increase. The material costs resulting from increasing the normal retirement benefit would be imposed entirely upon the affected cities without any statutorily required increased contributions by the benefitted members.

Presence of Cost Sharing for Service Increment Increase. The proposed service increment increase is accompanied by a proportionate member contribution increase. Supplemental member contributions as a flat dollar amount were implemented simultaneously with the original service increment benefits to fund a portion of the cost of the service increment benefits.

Need for Remedial Action. Periodic modification of the flat dollar limits on service increments is appropriate because of erosion of the value of the limits that has resulted since they initially were established.

Uniformity of Pension Benefits. A similar service increment is authorized in retirement systems for nonuniformed employees in cities of the third class under the optional retirement law. If this proposal is determined to be appropriate, the authorization of a similar service increment should be extended to retirement systems for nonuniformed employees in cities of the third class that operate under article 43(c) of The Third Class City Code.

Impact on Actuarial Conditions. As proposed, the bill mandates benefit increases with the potential for increasing the unfunded actuarial accrued liabilities in some of the affected retirement systems. Authorization providing local flexibility in the modification of the service increment limit would permit consideration of the varying actuarial conditions in retirement systems for public safety employees in cities of the third class.

Conflicting Provisions. The bill liberalizes normal retirement benefits for members of the affected pension plans, however, section 3 of the bill also appears to limit this same benefit enhancement to retirement plans in which there is a “de minimis” risk that the increased benefits will result in a future requirement that the city increase payments to the pension plan to meet the funding requirements of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). If interpreted literally, the limitations imposed by section 3 of the bill would negate the benefit enhancement provided for in the bill, because there will always be a risk that the funding status of a given retirement plan can change to a point where the city will be required to increase contributions to the plan in order to meet the funding requirements of Act 205. This limitation appears to conflict with the basic purpose of the bill.

Potential for Manipulation of Benefit Amount. The bill's proposed change in the basic pension benefit retains current language that provides for the benefit to be based on the member's final annual salary rather than based on a final average salary. Past practice in public pension plans has shown that the final annual salary may be manipulated with overtime compensation and promotions to produce higher benefits than would have occurred otherwise. These unanticipated benefit increases result in unfunded actuarial liabilities because they are not funded through the normal contribution requirements.

Drafting Ambiguities**.** Section 3 of the bill imposes limitations on the provision of benefit enhancements provided for in the bill. These limitations are based on standards and terminology that are not defined in the bill. The absence of precisely defined terms and standards would render section 3 of the bill subject to interpretation, hinder its uniform application, and would possibly cause it to be subject to administrative or legal challenges. The bill should be amended to include a definitions section to clearly define these terms and standards and to clarify the procedural problems inherent in Section 3 as currently drafted.

COMMISSION RECOMMENDATION

On February 7, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1363, Printer's Number 3059, was amended in the Senate Appropriations Committee on June 10, 2002. A later version of the bill (Printer's Number 3981) passed in the Senate and was signed into law by the Governor as Act 65 of 2002 on June 19, 2002.

Bill ID: House Bill Number 1547, Printer's Number 2789, as amended by Amendment Number 4291

System: State Employees' Retirement System

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

SYNOPSIS

House Bill Number 1547, Printer's Number 2789, as amended by Amendment Number 4291, would amend the Pennsylvania Conservation Corps Act (Act of 1984, P.L. 561, No. 112) to, beginning July 1, 2002, provide for membership in the State Employees' Retirement System for employees classified as crewleaders in the Pennsylvania Conservation Corps pursuant to the Pennsylvania Conservation Corps Act, and requiring that service as a crewleader rendered prior to July 1, 2002, be considered purchasable as nonschool or nonstate service. House Bill Number 2187, Printer's Number 2947, which amends the Public School Employees' Retirement Code and the State Employees' Retirement Code, is intended to serve as a companion bill that specifically addresses the purchases of service for service as a crewleader rendered prior to July 1, 2002. (Refer to the Commission's actuarial note transmittal dated February 7, 2002, on House Bill Number 2187, Printer's Number 2947, for details on the service purchase issue.) House Bill Number 1547 also addresses the provision of Commonwealth-funded medical benefits to crewleaders.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits to state employees. As of December 31, 2000, there were 106 participating state and other organizations in SERS. Membership in the SERS is mandatory for most state employees. Certain other employees are not required but are given the option to participate. As of December 31, 2000, SERS had 109,469 active members and 88,392 annuitants and beneficiaries.

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

Pennsylvania Conservation Corps

The Pennsylvania Conservation Corps (PCC) was created in July 1984 by the Pennsylvania Conservation Corps Act (Act 112 of 1984). Administered by the Department of Labor and Industry, the mission of the PCC is to develop the workplace skills, life skills and self-confidence of corps members, and to instill in corps members a sense of citizenship and community service through participation in conservation projects, historical work and various other projects of public benefit. Since 1984, the PCC has undertaken more than 900 projects in urban, suburban and rural areas statewide. Entities that are eligible to sponsor PCC projects include: local governments; community-based non-profit organizations; the Pennsylvania Emergency Management Agency; the Pennsylvania Game Commission; the Pennsylvania Fish and Boat Commission; the Historical and Museum Commission; and the Departments of Aging, Corrections, Education, Public Welfare, Military and Veterans Affairs, Community and Economic Development, and Conservation and Natural Resources.

Corps members are Pennsylvania residents, between the ages of 18 and 25. Preference in enrollment is given to the economically disadvantaged. Corps members enroll for an initial one-year term of service, with the possibility of extending for an additional six to twelve months of service. Corps members are paid the minimum wage, with a 10 percent pay increase after six months on the job. Corps members who complete a year of service are eligible to receive a one-time cash bonus of $1,000. While enrolled, Corps members receive on the job vocational training, including carpentry, masonry, electrical work, landscaping and a variety of other trades. Corps members work in crews under the supervision of crewleaders who have experience in the building trades and are skilled in motivating and training young adults.

Crewleaders are supervisory personnel employed by the Department of Labor and Industry pursuant to the Pennsylvania Conservation Corps Act. To be eligible for employment as a crewleader, an individual must be a Pennsylvania resident, be registered with the local Job Center for employment, and be physically and mentally capable of performing labor intensive work and supervisory duties. Crewleader candidates are referred to the PCC by the Bureau of State Employment, and preference in hiring is given to honorably discharged military veterans. Crewleaders are full-time, temporary employees, and receive a starting wage of $10 per hour. Examples of work performed by crewleaders include: interviewing and enrolling corps members, planning, organizing, scheduling and assigning work to corps members, directing crew activities, evaluating corps members' work performance, and compiling and submitting periodic reports. Crewleaders are initially employed for a one-year term of service, which may be extended, at the option of the Department of Labor and Industry, for an unlimited number of additional one-year terms. Crewleaders are not, however, entitled to any of the employee benefits normally provided to regular Commonwealth employees, except for paid Commonwealth holidays and workmen's compensation.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary determined that there would be no increase in unfunded actuarial accrued liability due to the bill, but there will be an increase in the dollar amount of employer normal cost. The estimate of the normal cost increase is based upon the census data provided by the Department of Labor and Industry, which indicates there are currently 53 employees classified as crewleaders who would be affected by the bill, with a total reported payroll for these employees of $1,128,068.

	Amount
Change in Unfunded Actuarial Accrued Liability	$0

	Amount	As a % of Affected Payroll
Additional Employer Annual Costs		
Normal Cost	$100,000	8.9%
Amortization Payment	0	0.0%
Total Additional Increase in Employer Annual Costs [1]	$100,000	8.9%

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

POLICY CONSIDERATIONS

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

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

Drafting Oversight. In what appears to be a minor drafting oversight, the amendment provides for the purchase of crewleader service as nonschool service under the PSERS Code, but does not mention nonstate service under the SERS Code. To correct this, the words "nonstate service under" should be inserted after the word "and" in line 11 of Amendment Number 4291.

Drafting Redundancy. The service purchase language in the bill has the effect of duplicating the service purchase authorization for service as a crewleader rendered prior to July 1, 2002, contained in the companion bill (House Bill Number 2187, Printer's Number 2947). For this reason, deleting all of lines 9 through 12 of Amendment Number 4291 may be warranted.

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

COMMISSION RECOMMENDATION

On February 7, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1547, Printer's Number 2789, passed the House on October 30, 2001, and was referred to the Senate Appropriations Committee on November 13, 2002.

Bill ID: House Bill Number 1604, Printer's Number 1961

System: State Employees' Retirement System

Subject: Enhanced Benefits

SYNOPSIS

House Bill Number 1604, Printer's Number 1961, would amend section 5102 of the State Employees' Retirement Code to provide superannuation retirement benefit eligibility to district justices upon attaining age 50 or at any age upon the accrual of 24 years of credited service. Under current law, superannuation age for district justices, and most other SERS members, is age 60 or at any age upon accrual of 35 years of credited service.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. As of December 31, 2000, there were 106 state and other organizations participating in SERS. Membership in SERS is mandatory for most state employees. Certain other employees are not required, but are given the option to participate. As of December 31, 2000, SERS membership consisted of 109,469 active members and 88,392 retirees and beneficiaries currently receiving benefits.

Under the Code, superannuation or normal retirement age for most members is age 60 with three or more years of service credit or at any age with 35 years of service credit. Normal retirement age for certain other members, including certain public safety employees and members of the General Assembly, is age 50. Generally, the pension benefit is the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. District justices have the option of electing either Class A or Class E-2 membership in SERS for all periods of judicial service. As members of Class E-2, district justices receive an enhanced pension benefit. The annuity for Class E-2 members is obtained by multiplying the standard single-life annuity by a class of service multiplier. The class of service multiplier for Class E-2 is 1.5, which in effect makes the pension benefit equal to three percent times the years of service times the final average salary, and the employee contribution rate for Class E-2 is 7.50 percent. Members of the judiciary, including district justices, were not effected by the benefit enhancements provided by Act 9 of 2001.

In Pennsylvania, Special Courts (also called minor courts) are the first level of courts in the Commonwealth's unified judicial system. In all counties (except Philadelphia), these courts are presided over by district justices, formerly known as justices of the peace. District justices have jurisdiction over summary offenses, landlord-tenant disputes and other relatively minor civil actions. They may also accept guilty pleas of misdemeanors of the third degree under certain circumstances, preside at arraignments, fix and accept bail, issue warrants and perform duties of a similar nature. Although district justices must meet certain citizenship and residency requirements to be elected to office, they are not required to be members of the Bar of the Pennsylvania Supreme Court. District justices are elected to six-year terms of office. Vacancies occurring during a term of office may be filled by gubernatorial appointment until the next election. The complement of district justices in office currently totals 544.

Prior to March 1, 1974, there were a number of special classes of membership in SERS, each of which had its own class of service multiplier that was used in the calculation of the special class member's pension benefit. As part of the Commonwealth's pension reform efforts of the early 1970s, a new State Employees' Retirement Code was adopted that, among other things, placed all individuals joining SERS after February 28, 1974, in Class A, for which the class of service multiplier is 1.0. One of the reasons for this change was to ensure that SERS would continue to be treated as a qualified pension plan under section 401(a) of the Internal Revenue Code by removing a source of possible discrimination. Individuals who were members of a special class of membership prior to March 1, 1974, and who remained continuously in the same job category, would continue to receive retirement service credit for the special membership class until they move into a different job category or left Commonwealth employment. Regardless of their dates of employment, however, members of the judiciary retain the option to elect special class membership in SERS (Class E-1 membership for judges, and Class E-2 membership for district justices) for all periods of judicial service. This benefit provision is not provided for in the Code, but instead is the result of a series of court cases in which the constitutionality of some of the 1974 Code changes were challenged, the most salient of these cases being 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.

Currently under the SERS Code, the only members eligible for superannuation retirement other than members of the General Assembly before age 60 are public safety personnel, who have been granted an earlier retirement age based on the premise that the physical requirements of their duties warrant the maintenance of an exceptionally able and vigorous work force. There is no superannuation retirement eligibility based solely on service for SERS members other than the standard 35 years.

SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission reviewed the bill. Based upon his review, he estimates the bill would have the following actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$1,100,000

	Amount	As a % of Affected Payroll
Increase in Employer Annual Costs		
Normal Cost	$340,000	1.1%
Amortization Payment [1]	168,000	.5%
Total Increase in Employer Annual Costs [2]	$508,000	1.6%

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

[2] Amortization payments cease after 10 years.

POLICY CONSIDERATIONS

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

Appropriateness of Benefit Coverage. Generally, eligibility for full retirement benefits with reduced age and service requirements has been extended to a group of employees if the nature of the duties of the employees is sufficiently hazardous and the need for an exceptionally able and vigorous workforce is sufficiently great. In considering the proposed legislation, Commonwealth policymakers must determine whether the special benefit coverage is warranted for this group of employees.

Absence of Cost Sharing. The proposed legislation provides a benefit increase applicable to active SERS members and, therefore, increases the normal cost of these members' benefits to the retirement system. It may be appropriate for a portion of the cost of the benefit increase to be allocated to active members through increased member contributions.

Policy Deviation. The bill would implement a policy change within SERS by extending reduced age and service requirements for superannuation retirement to members other than public safety personnel and members of the General Assembly. The public pension policy justification for initiating this practice is not apparent.

Benefit Disparity. The bill would provide substantially reduced age and service requirements for superannuation retirement to district justices (Class E-2). Other members of the judiciary, or judges (Class E-1), would not be included in the benefit enhancement. The public pension policy rationale for the creation of this benefit disparity among similar types of employees is not apparent, and the disparity may result in requests for the benefit increase to be extended to other members of the judiciary.

Intent of Legislation. The bill does not articulate the policy rationale for the proposed change in retirement eligibility for this group of employees.

COMMISSION RECOMMENDATION

On May 23, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 1604, Printer's Number 1961, was referred to the House State Government Committee on May 17, 2001.

Bill ID: House Bill Number 2187, Printer's Number 2947

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

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

SYNOPSIS

House Bill Number 2187, Printer's Number 2947, would amend the Public School Employees' Retirement Code and the State Employees' Retirement Code (Codes) to permit an active member or active multiple service member of either the Public School Employees' Retirement System (PSERS) or the State Employees' Retirement System (SERS) to purchase up to five years of nonschool or nonstate service for service as a crewleader with the Pennsylvania Conservation Corps rendered prior to July 1, 2002. Under the bill, members would be required to exercise the service purchase option within three years of becoming eligible to do so, would be required to pay the present value of the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credit, and would be precluded from withdrawing the amount paid for the service purchase upon retirement under retirement Option 4. House Bill Number 2187, Printer's Number 2947, is a companion bill to House Bill Number 1547, Printer's Number 2789 as amended by Amendment 4291. House Bill Number 1547 addresses the issue of prospective membership in the State Employees' Retirement System for crewleaders. (Refer to the Commission's actuarial note transmittal on the amended bill for details on that issue.)

DISCUSSION

The Public School Employees' Retirement Code and the State Employees' Retirement Code are governmental, cost-sharing, multiple-employer pension plans. The designated purposes of PSERS and SERS (Systems) are to provide retirement allowances and other benefits, including disability and death benefits to public school and state employees. As of June 30, 2000, there were 695 participating employers, generally school districts, area vocational-technical schools, charter schools, and intermediate units in PSERS. As of December 31, 2000, there were 106 participating state and other organizations in SERS. Membership in the Systems is mandatory for most school and state employees. Certain other employees are not required but are given the option to participate. As of June 30, 2000, PSERS had 234,210 active members and 134,058 annuitants and beneficiaries. As of December 31, 2000, SERS had 109,469 active members and 88,392 annuitants and beneficiaries.

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

The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Public employee defined benefit pension plan provisions that permit members to receive credit for service with another employer are of value to the members because they may enhance the retirement benefit, may accelerate retirement eligibility, and also may accelerate eligibility for other types of state-paid benefits.

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

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

The bill would expand the list of purchasable nonschool service (in the case of PSERS members) and nonstate service (in the case of SERS members) to include service credit for service as a crewleader with the Pennsylvania Conservation Corps rendered prior to July 1, 2002.

Pennsylvania Conservation Corps

The Pennsylvania Conservation Corps (PCC) was created in July 1984 by the Pennsylvania Conservation Corps Act (Act 112 of 1984). Administered by the Department of Labor and Industry, the mission of the PCC is to develop the workplace skills, life skills and self-confidence of corps members, and to instill in corps members a sense of citizenship and community service through participation in conservation projects, historical work and various other projects of public benefit. Since 1984, the PCC has undertaken more than 900 projects in urban, suburban and rural areas statewide. Entities that are eligible to sponsor PCC projects include: local governments; community-based non-profit organizations; the Pennsylvania Emergency Management Agency; the Pennsylvania Game Commission; the Pennsylvania Fish and Boat Commission; the Historical and Museum Commission; and the Departments of Aging, Corrections, Education, Public Welfare, Military and Veterans Affairs, Community and Economic Development, and Conservation and Natural Resources.

Corps members are Pennsylvania residents, between the ages of 18 and 25. Preference in enrollment is given to the economically disadvantaged. Corps members enroll for an initial one-year term of service, with the possibility of extending for an additional six to twelve months of service. Corps members are paid the minimum wage, with a 10 percent pay increase after six months on the job. Corps members who complete a year of service are eligible to receive a one-time cash bonus of $1,000. While enrolled, Corps members receive on the job vocational training, including carpentry, masonry, electrical work, landscaping and a variety of other trades. Corps members work in crews under the supervision of crewleaders who have experience in the building trades and are skilled in motivating and training young adults.

Crewleaders are supervisory personnel employed by the Department of Labor and Industry pursuant to the Pennsylvania Conservation Corps Act. To be eligible for employment as a crewleader, an individual must be a Pennsylvania resident, be registered with the local Job Center for employment, and be physically and mentally capable of performing labor intensive work and supervisory duties. Crewleader candidates are referred to the PCC by the Bureau of State Employment, and preference in hiring is given to honorably discharged military veterans. Crewleaders are full-time, temporary employees, and receive a starting wage of $10 per hour. Examples of work performed by crewleaders include: interviewing and enrolling corps members, planning, organizing, scheduling and assigning work to corps members, directing crew activities, evaluating corps members' work performance, and compiling and submitting periodic reports. Crewleaders are initially employed for a one-year term of service, which may be extended, at the option of the Department of Labor and Industry, for an unlimited number of additional one-year terms. Crewleaders are not, however, entitled to any of the employee benefits normally provided to regular Commonwealth employees, except for paid Commonwealth holidays and workmen's compensation.

SUMMARY OF ACTUARIAL COST IMPACT

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

POLICY CONSIDERATIONS

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

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

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

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

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

Exclusion from Early Retirement Provisions. In order to prevent an increase in the unfunded actuarial accrued liability of the Systems caused by the use of the service credit purchased under this bill to qualify for a future early retirement program, the General Assembly may wish to add an additional restriction to preclude members from applying the service credit purchased under this bill to qualify for any type of early retirement incentive.

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

COMMISSION RECOMMENDATION

On February 7, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2187, Printer's Number 2947, was referred to the House State Government Committee on November 26, 2001.

Bill ID: House Bill Number 2227, Printer's Number 3051

System: State Employees' Retirement System

Subject: Enhanced Service Credit for Purchase of Nonintervening Military Service

SYNOPSIS

House Bill Number 2227, Printer's Number 3051, would amend Section 5304 of the State Employees' Retirement Code to require active members who elect to purchase nonintervening military service to receive service credit for all periods of nonintervening military service that is equal to the class of service for which the member is eligible at the time the member elects to make the service purchase.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer, contributory pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits, to employees of the Commonwealth and certain independent agencies. As of December 31, 2000, there were 106 state and other organizations participating in SERS. Membership in SERS is mandatory for most state employees. Certain other employees are not required, but are given the option to participate. As of December 31, 2000, SERS membership consisted of 109,469 active members, and 88,392 retirees and beneficiaries currently receiving benefits.

Under the Code, superannuation or normal retirement age for most members is age 60 with three or more years of service credit or at any age with 35 years of service credit. Generally, the pension benefit is the product of 2.5 percent multiplied by the number of years of service credit multiplied by the member's final average (highest three years) salary. The number of years of credited service has a direct impact on the benefit amount for both regular and early retirement. Permitting members to receive credit for service with another employer benefits the member because the retirement benefit is enhanced and, in some cases, retirement eligibility is accelerated.

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

Military Service Purchases

One of the most common service purchase authorizations provided by public employee retirement plans is for periods of military service which interrupted or delayed the commencement of a career with the public employer. The affected individuals are those who committed a period of their lives to help meet the national need to maintain a prepared military and who later either returned to or became Commonwealth, school district or local government employees. 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 providing intervening military service (service that interrupted employment) be considered as having been on leave of absence during that time, a policy that is also reflected in the Commonwealth of Pennsylvania's Military Code and in most state pension plan statutes, including Section 5304(a) of the SERS Code that requires all periods of intervening military service to be credited as the class of service the member was eligible for at the time of entering into the intervening military service. The Pennsylvania General Assembly also has chosen to authorize the purchase of nonintervening military service (service completed prior to commencement of employment with the public employer) in most of the Commonwealth's public pension plans.

Under the SERS Code, as amended through Act 9 of 2001, with the exception of intervening military service, service purchases for all periods of nonstate service, including nonintervening military service, are credited as Class A service regardless of the class of service the member is in or eligible for at the time of the service purchase. The bill would implement a fundamental change in how nonstate service is credited by making the value of the service contingent upon the class of the member making the service purchase. For example, a Class AA member would receive Class AA service credit for all purchasable periods of nonintervening military service, a pre-1974 Class D-3 legislator would receive class D-3 service credit, a post-Act 9 D-4 legislator would receive class D-4 service credit, etc.

The bill does not specify the method to be used in determining the required contributions for the service purchase, and it is, therefore, unclear as to whether a special class member (class D-3, E-1, E-2, etc.) would, in practice, be required to make contributions calculated at the higher member contribution rate reflected by their respective class of service, or whether the standard nonintervening military service purchase calculation specified in Section 5505(b) of the SERS Code would continue to be used, regardless of the member's class of service. In addition, the bill appears to provide that a special class member would make the equivalent of the employer contribution calculated at the "normal contribution rate" applicable to all active members rather than at the employer contribution rate applicable to the membership classification determining the enhanced service credit. It is also unclear as to whether, in the case of special class members, the provisions of the bill could be applied retroactively to those members of a special class who may have previously purchased nonintervening military service.

The prescribed method for calculating the member's contribution to purchase nonintervening military service credit is contained in Section 5505(b) of the Code. Section 5505(b) requires the use of the "member's basic contribution rate" in calculating the amount due for the service purchase. The phrase "basic contribution rate" is a defined term contained in Section 5102 of the Code and is defined as five percent. Using the calculation contained in Section 5505(b), the amount due for the purchase of nonintervening service credit is determined by applying the member's basic contribution rate, the additional contribution rate plus the Commonwealth normal contribution rate for active members at the time of entry into state service, subsequent to such military service, to the member's average annual rate of compensation for the first three years of state service, and multiplying the result by the number of years and fractional parts of a year of nonintervening military service being purchased together with statutory interest of four percent during all periods of subsequent state and school service to the date of purchase. Because this method results in the member paying significantly less than the full actuarial cost of the increased benefit, the residual unfunded actuarial accrued liability would be created and funded by the Commonwealth through level-dollar amortization payments over a 10-year period.

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

SUMMARY OF ACTUARIAL COST IMPACT

In reviewing the bill, the Commission's consulting actuary assumed that the bill would be effective only prospectively and that the standard calculation used to determine the service purchase amount for nonintervening military service would be used. Using actuarial assumptions that are consistent with the assumptions used by the SERS consulting actuary for its December 31, 2000, actuarial valuation, the Commission's consulting actuary estimates that the bill will have the following actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$57,800,000

	Amount	As a % of Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 3,300,000	.07%
Amortization Payment [1]	8,800,000	.18%
Total Increase in Employer Annual Costs [2]	$12,100,000	.25%

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

[2] Amortization payments cease after 10 years.

POLICY CONSIDERATIONS

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

Policy Change in the Crediting of Nonstate Service. Under the SERS Code, service purchases for all periods of nonstate service (other than intervening military service), including nonintervening military service, are credited as Class A service regardless of the class of service the member is in or eligible for at the time of the service purchase. With this uniform treatment, there is no judgment made with respect to the value of one type of nonstate service versus another. The bill would implement a significant change in how nonstate service is credited by providing enhanced service credit for one type of nonstate service (nonintervening military service) and by making the crediting of service contingent upon the class of the member making the service purchase. The public policy rationale for initiating the practice of providing credit for nonstate service at varying rates is not apparent.

Inequity in Crediting of Military Service. The bill uses language similar to that used with respect to the treatment of intervening military service purchases and appears to be an attempt to treat both intervening military and nonintervening military service equally. However, the bill may, in fact, result in the provision of enhanced service credit for only nonintervening military service. Section 5304(a) requires that intervening military service be credited ". . . in the class of service for which the member was eligible at the *time of entering into military service* . . ." (Emphasis added). In contrast, the language of the bill requires that periods of nonintervening military service be credited in the class of service for which the member is eligible *at the time he elects to purchase the service*. (For example, a Class A member who was called to active duty during the Gulf War in 1991 would be eligible to receive only Class A service credit for the period of intervening military service because the member was Class A, and eligible only for Class A, at the time of entering into military service. Under the bill, a newly hired Class AA member who has nonintervening military service would receive Class AA service credit for the period of nonintervening military service because the member will be eligible for Class AA membership at the *time he elects to purchase* the service. The result would be that nonintervening military service would be more valuable to a member than periods of intervening service rendered prior to the enactment of the bill.)

Drafting Deficiencies

Dual Class Eligibility. Judges and District Justices have the option of electing either Class A or Class E (Class E-1 in the case of Judges, Class E-2 for District Justices) membership in SERS during all periods of judicial service. These members are eligible to elect more than one class of service, and the bill does not address the type of service credit these members should receive when purchasing nonintervening military service.

Retroactive Application. Because the language of the bill does not specifically exclude it, in the case of special class members (E-1, E-2, D-3) the provisions of the bill could be interpreted as being effective retroactively in cases where a special class member has previously purchased nonintervening military service. For example, in the case of a special class member who previously purchased nonintervening military service and who has been credited with Class A service for the period of purchased service, the member may successfully argue that, because the member was a member of or eligible for the special class at the time of the service purchase, the member should receive special class service credit for the period of service purchased. In contrast, a current Class AA or D-4 member could not make the same argument, because neither class existed at the time of eligibility for the service purchase. The language of the bill should be amended to specifically exclude the retroactive application of enhanced service credit for service purchases previously elected.

Adequacy of Cost Sharing. The bill would require the use of the 5% member contribution rate required for all nonintervening military service purchases (Section 5505(b) and 5102) in calculating the service purchase amount, without regard to the current class of the member or the member's corresponding contribution rate. Similarly, the bill's current language provides for the purchase amount to include "the normal (employer) contribution" that would have been made for the period of service rather than providing that the employer contribution be calculated using the employer contribution rate applicable to the membership classification being credited. Both of these provisions result in the proposed purchase amounts for nonintervening military service being significantly less as a percentage of the full actuarial cost than under current provisions.

Benefit Parity Between State-wide Retirement Systems. Historically, the General Assembly has pursued a defacto policy of providing substantially similar benefits to members of the two state-wide retirement systems, the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS). The bill amends only the

SERS Code, creating benefit disparity between SERS and PSERS with respect to the purchase of nonintervening military service.

COMMISSION RECOMMENDATION

On February 7, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2227, Printer's Number 3051, was referred to the House State Government Committee on December 11, 2001.

Bill ID: House Bill Number 2582, Printer's Number 3736

System: All Municipal Pension Systems

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

SYNOPSIS

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

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

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

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

Provide for IROP election forms;

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

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

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

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

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

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

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

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

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

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

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

Provide for rectifying future noncompliance with the IROP provisions; and

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

The technical amendments contained in the bill would:

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

Explicitly provide authority to the Auditor General to withhold State aid in instances of funding deficiencies until the deficiencies are resolved;

Upon the expiration of the Supplemental State Assistance Program (SSA) in 2003, provide for the cessation of determinations of distress for municipalities, provide for the cessation of certifications to the General Assembly of needed SSA appropriations, and provide for the cessation of certifications to the Auditor General of the SSA for each eligible municipality; and

Authorize continuation of any Recovery Program remedy previously elected and implemented that is being used by an eligible municipality on December 31, 2003.

DISCUSSION

Under Act 66 of 1981, the General Assembly created the Public Employee Retirement Commission (Commission) and directed the Commission to give priority to formulating and recommending passage of legislation, within one year of the initial meeting of the Commission, to mandate actuarial funding standards and establish a recovery program for municipal pension systems determined to be financially distressed. The resulting statute was the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984).

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

Act 205 Technical Amendments

In addition to the annual distributions of General Municipal Pension System State Aid (GMPSSA) to municipalities, Act 205 provides for a Supplemental State Assistance Program (SSA) for municipalities participating in the Recovery Program for Financially Distressed Municipal Pension Plans. Under the Act, the SSA program began in 1988 and is scheduled to terminate after 15 years. To be eligible for assistance, municipalities participating in the SSA program must file annual actuarial valuation reports with the Commission. The program is financed by annual general fund appropriations. The allocations under the program were intended to accelerate improvement in the actuarial condition of financially distressed municipal retirement systems. The amount of assistance is directly related to the degree of financial distress in the individual municipal retirement system.

The bill makes necessary technical amendments to Act 205 in connection with the scheduled expiration of the SSA program in 2003, by providing for the cessation of determinations of distress to municipalities, providing for the cessation of certifications to the General Assembly of needed SSA appropriations, and providing for the cessation of certifications to the Auditor General of the SSA for each eligible municipality.

The bill also provides for the Public Employee Retirement Commission to certify pension cost data to the Department of the Auditor General for use in the determination of State aid (GMPSSA) allocations and for the Department of the Auditor General to withhold State aid in instances of funding deficiencies under Act 205. In both cases, the language simply reflects current practices.

Deferred Retirement Option Plans

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

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

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

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

Because of the potential diversity of DROPs, it is unlikely that, in the absence of enabling legislation, DROPs created in Pennsylvania would conform to existing State statutes. While compatibility with State statutes in many states may pose no significant problem for municipal pension plans, non-conformance with Pennsylvania's Municipal Pension Plan Funding Standard and Recovery Act (Act 205), for example, would have the potential to cause inequitable allocations in the annual distribution of more than $130 million in General Municipal Pension System State Aid. Pennsylvania currently has no enabling legislation or guidelines for the implementation of DROPs administered by local governments. The bill would amend Act 205 by adding a chapter specifically addressing this issue by creating a uniform Pennsylvania local government DROP structure known as the In-service Retirement Option Plan.

SUMMARY OF ACTUARIAL COST IMPACT

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

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

2. anticipated (or already negotiated) salary increases; and

3. the level of continued benefit accruals under the plan after normal retirement.

POLICY CONSIDERATIONS

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

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

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

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

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

COMMISSION RECOMMENDATION

On May 23, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the Commission's actuarial note transmittal and favorably consider enactment of the bill.

FINAL LEGISLATIVE STATUS

House Bill Number 2582, Printer's Number 3736, was referred to the House Local Government Committee on April 18, 2002.

Bill ID: House Bill Number 2591, Printer's Number 3878

System: Act 96 County Pension Plans

Subject: Reduced Vesting Period and Optional Benefit Enhancement

SYNOPSIS

House Bill Number 2591, Printer's Number 3878, would amend the County Pension Law (Act 96 of 1971) to: 1) reduce vesting from eight-year cliff vesting to five-year cliff vesting; 2) establish a twelve month period following enactment of the legislation during which the county retirement boards may provide enhanced benefits through adopting, by rule, a 1/40th or 1/50th membership class with a required member contribution rate of 9%; and 3) permit the county retirement boards to authorize, by rule, the retroactive application of the enhanced membership class to the prior service credit of members.

DISCUSSION

The County Pension Law (Law) applies to all counties of the 2nd Class-A through Eighth Class. Under the Law, a county retirement system is established by a resolution of the county commissioners and is administered by a county retirement board, which has full power to invest and manage the assets of the retirement system. As of January 1, 2000, there were 68 county pension plans operating under the Law with total aggregate assets of approximately $4.2 billion. Combined, these county pension plans had approximately 49,213 active members and 14,680 retirees currently receiving benefits. Members are vested upon attaining eight years of credited service. The normal retirement age is age 60, or age 55 if a member has completed 20 years of service. Membership is mandatory for all employees who work or are expected to work 1,000 hours or more per year, and elected county officials have the option to participate.

An employee's right to receive a present or a future pension is said to vest when the right no longer is contingent upon the employee remaining in the service of the employer. Many public employee pension plans provide for employee contributions, which are always fully vested. Under the Law active members with less than eight years of service are vested only in their contributions and the accrued interest on these contributions. After eight years of service, active members also become vested in the county-funded component of their retirement benefits. With respect to the county annuity, a member who is involuntarily discontinued from service after having completed eight years of total service, or who voluntarily discontinues service after having completed 20 years of total service, but who has not yet reached normal retirement age, may elect either to withdraw the balance in that member's annuity reserve account, or to receive an early retirement allowance. Alternatively, a member who separates from county service after completing eight or more years of credited service, may leave the accumulated deductions credited to the member's account in the pension trust fund and receive a full retirement allowance upon reaching superannuation age. In addition to the county annuity, the member would be eligible to receive the "member's annuity," which would be the actuarial equivalent of the balance in the member's defined contribution account at the time of separation from county service.

The vesting provided for under the Law is called "cliff" vesting because the member is not vested in any portion of the employer-funded portion of the retirement benefit until the prescribed service requirement is satisfied. As soon as the prescribed service requirement is satisfied, the member is fully (100%) vested in the employer-funded portion of the accrued retirement benefit. When cliff vesting is utilized in private sector retirement plans, the Employee Retirement Income and Security Act (ERISA) requires that the cliff vesting period cannot exceed five years. (Prior to changes effective in 1989, the maximum number of years was ten under ERISA.) With the passage of Act 9 of 2001, the vesting requirements for both of the Commonwealth's state-wide retirement plans, the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS), were also reduced from ten years to five years. The bill would bring the Law into conformity with both private sector practice and the Commonwealth's two state-wide retirement plans by reducing the vesting requirement to five-year cliff vesting.

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

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

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

The bill would amend the Law by opening a one-year window, beginning on the effective date of the bill, within which any county pension board administering a pension plan under the provisions of Act 96 may establish a 1/50th or 1/40th membership class with an employee contribution rate of 9% of pay for both membership classes. The bill would also permit the retirement board to apply the higher membership class to all prior credited service with the county.

The following example is intended to serve as an illustration of how this provision could enhance a member's county annuity:

> A county employee has 25 years of credited service as a 1/60th Class member, has a final salary of $50,000 and has achieved normal retirement age. Under current Law, the member's county annuity would be calculated as 1/60th of the member's final salary multiplied by the period of total service for which the member contributed at the 1/60th rate. Under this calculation, the member would be entitled to an annual county annuity of roughly $20,000. If the same member is transferred to the newly created 1/40th Class provided for in the bill, the transfer is made just prior to retirement, and the board retroactively applies the 1/40th Class benefit calculation to all prior county service, the member's county annuity would be equal to 1/40th of the member's final $50,000 salary multiplied by 25 years of service, resulting in an annual annuity of roughly $31,250.

Reduced Vesting Provision

The Commission's consulting actuary calculated the increase in the present value of future benefits to be paid under the affected pension plans and determined the aggregate increase in the annual cost for the reduced vesting requirements under the bill utilizing the aggregate actuarial cost method. The results are as follows:

	Amount
Increase in Present Value of Future Benefits	$12,000,000

	Amount	As a % of Payroll
Increase in Annual Cost [1]	$1,500,000	0.11%

[1] Calculated using the aggregate actuarial cost method.

Membership Class Provisions

The establishment of the new membership classes and the retroactive application of the enhanced membership class to include all credited service are both optional benefit provisions under the bill. For this reason, the Commission's consulting actuary prepared cost estimates based upon the assumption that 50% of the active members covered by the 68 affected county plans would receive benefits under the new membership classes. The Commission's consulting actuary provided cost estimates for the proposed 1/40th and 1/50th membership classes, assuming both prospective only and retroactive application of the benefit liberalization for both member classes. These estimates are summarized as follows:

Prospective Application of Proposed Membership Classes

	Range of Costs [1]		
	1/50 Class		1/40 Class
Increase in Present Value of Future Benefits	$98,000,000	–	$244,000,000
Increase in Annual Cost [2]	$12,000,000 (0.86% of pay)	–	$ 29,000,000 (2.09% of pay)

Retroactive and Prospective Application of Proposed Membership Classes

	Range of Costs [1]		
	1/50 Class		1/40 Class
Increase in Present Value of Future Benefits	$240,000,000	–	$563,000,000
Increase in Annual Cost [2]	$ 28,000,000 (2.02% of pay)	–	$ 67,000,000 (4.82% of pay)

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

[2] Calculated using the aggregate actuarial cost method.

POLICY CONSIDERATIONS

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

Vesting Period. Decreasing the cliff vesting period under the law from eight to five years is consistent with current practice at the state level for both SERS and PSERS and for ERISA covered defined benefit plans in the private sector.

Significant Benefit Liberalization. The creation of a 1/40 class in a county pension plan would provide members with a county annuity that, in effect, is equal to a 2.5% accrual rate, placing these employees on par with members of SERS and PSERS.

Restricted Implementation Period. The bill provides authorization for county retirement boards to provide enhanced retirement benefits but restricts the authorization to the year following the date of the bill's enactment. If there is merit to providing the option, restricting implementation to a finite period is questionable from a public pension policy perspective.

POLICY CONSIDERATIONS (CONT'D)

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

COMMISSION RECOMMENDATION

On May 23, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2591, Printer's Number 3878, passed the House on June 11, 2002, and was referred to the Senate Appropriations Committee on November 12, 2002.

Bill ID: House Bill Number 2596, Printer's Number 3749, as amended by Amendment Number 3290

System: Allegheny County Employees' Retirement System

Subject: Purchase of Service Credit for Military Service

SYNOPSIS

House Bill Number 2596, Printer's Number 3749, would amend section 1710 of the Second Class County Code (Code) to permit a member of the Allegheny County Employees' Retirement System (System) who wishes to purchase up to three years of military service credit, to do so with no interest charged to the member, if the member pays the full service purchase amount required by the Code within three years of becoming eligible for such purchase. Amendment Number 3290 would make the bill effective immediately, rather than in 60 days.

DISCUSSION

Article 17 of the Code provides the pension plan for all employees of Allegheny County. The pension plan provisions for the employees of all other Pennsylvania counties (except Philadelphia) are contained in the County Pension Law (Act 96 of 1971). Article 17 creates a contributory, defined benefit, public employee retirement plan. Under the pension plan, eligibilities for voluntary normal retirement, involuntary normal retirement, early retirement, disability retirement, and deferred vested retirement, all are determined based upon years of credited service. Under the pension plan, the length-of-service increment paid in addition to the basic pension is also calculated based upon credited service.

Under the Code, members of the System are able or have been able to purchase service credit for the following types of service: intervening and nonintervening military service, city institution district service if the institution district was consolidated with the County Institution District, city department of health service if the department was consolidated with the County Department of Health, municipal service of a member who subsequently was employed by the County Department of Health, Pennsylvania Department of Health service of a member who was subsequently employed by the County Department of Health, and County capital improvement financing authority service.

The bill would permit a member who wishes to purchase up to three years of intervening or nonintervening military service to do so without being required to pay annual interest at the rate of six percent per year from the date of the service purchase, if the member completes payment of the full amount due on account of the service purchase within three years from the date the member becomes eligible to make the service purchase. The System will incur an actuarial loss as a result of foregoing the charging of interest on the service purchase.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary reviewed the bill and determined that the modified service purchase authorization contained in the bill would have the following estimated actuarial cost impact.

	Amount
Increase in Unfunded Actuarial Accrued Liability	$370,000

	Amount	As a % of Covered Payroll
Increase in Employer Annual Costs		
Normal Cost	$ 0	0.00%
Amortization Payment[1]	51,000	0.02%
Total Increase in Employer Annual Costs	$51,000	0.02%

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

POLICY CONSIDERATIONS

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

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

Payment of Interest on Service Purchases. The Commission recommended for the purchase of credit for service occurring before employment with the public employer, that interest be added to the service purchase amount from the date of assumed contribution to the date of payment. The bill would eliminate the requirement that interest be paid in connection with the service purchase.

Time Limit for Payment of Contributions. The Commission recommended that for service purchase options applicable to purposes other than governmental transfers where no prior public employee retirement system coverage was provided, that any contribution payable by the employee be payable either in a lump sum or in accordance with a schedule of installment payments not exceeding the length of the purchased service as agreed upon by the employee and the public employee retirement system. The bill contains such a limitation.

Unequal Treatment of Similarly Situated Individuals. The bill limits eligibility to forego the payment of interest normally associated with service purchases to those individuals who are purchasing either intervening or nonintervening military service, and does not extend this benefit to individuals purchasing other categories of purchasable service.

COMMISSION RECOMMENDATION

On September 26, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the actuarial note transmittal.

FINAL LEGISLATIVE STATUS

House Bill Number 2596, Printer's Number 3749, was referred to the House Appropriations Committee on June 11, 2002.

Bill ID: House Bill Number 2655, Printer's Number 3904

System: All Municipal Pension Systems

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

SYNOPSIS

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

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

> Authorize a local government with a defined benefit pension plan to establish an IROP as part of the plan;
>
> Permit a member of such a pension plan who is or will be eligible for normal retirement to elect to participate in the IROP;
>
> Provide for IROP election forms;
>
> Provide for early termination of IROP participation by a member without a penalty;
>
> Require that IROP participation begin the day after normal retirement and continue for the period specified in the IROP ordinance;
>
> Require that the normal retirement benefits of an IROP participant, together with interest, be credited to a separate subsidiary account;
>
> Require payment of the balance in the account to either the member or a beneficiary within 45 days after termination of IROP participation as either a lump sum or a tax-sheltered rollover distribution;
>
> Provide protection of IROP benefits to IROP participants including protection from State and municipal taxation but permitting claims under the Public Employee Pension Forfeiture Act and qualified domestic relations orders;
>
> Require that an IROP participant be eligible for all post-retirement benefits and ineligible for most pre-retirement benefits that are restricted to active employees;
>
> Provide for the crediting and payment of benefits if an IROP participant dies during the period of IROP participation;
>
> Permit a former IROP participant to be re-employed by the local government after the elected participation period ends;
>
> Require the establishment of an IROP participant account and its separate, subsidiary accounts that are to be held in trust;

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

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

Provide for rectifying future noncompliance with the IROP provisions; and

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

The technical amendments contained in the bill would:

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

Explicitly provide authority to the Auditor General to withhold State aid in instances of funding deficiencies until the deficiencies are resolved;

Upon the expiration of the Supplemental State Assistance Program (SSA) in 2003, provide for the cessation of determinations of distress for municipalities, provide for the cessation of certifications to the General Assembly of needed SSA appropriations, and provide for the cessation of certifications to the Auditor General of the SSA for each eligible municipality; and

Authorize continuation of any Recovery Program remedy previously elected and implemented that is being used by an eligible municipality on December 31, 2003.

DISCUSSION

Under Act 66 of 1981, the General Assembly created the Public Employee Retirement Commission (Commission) and directed the Commission to give priority to formulating and recommending passage of legislation, within one year of the initial meeting of the Commission, to mandate actuarial funding standards and establish a recovery program for municipal pension systems determined to be financially distressed. The resulting statute was the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984).

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

Act 205 Technical Amendments

In addition to the annual distributions of General Municipal Pension System State Aid (GMPSSA) to municipalities, Act 205 provides for a Supplemental State Assistance Program (SSA) for municipalities participating in the Recovery Program for Financially Distressed Municipal Pension Plans. Under the Act, the SSA program began in 1988 and is scheduled to terminate after 15 years. To be eligible for assistance, municipalities participating in the SSA program must file annual actuarial valuation reports with the Commission. The program is financed by annual general fund appropriations. The allocations under the program were intended to accelerate improvement in the actuarial condition of financially distressed municipal retirement systems. The amount of assistance is directly related to the degree of financial distress in the individual municipal retirement system.

The bill makes necessary technical amendments to Act 205 in connection with the scheduled expiration of the SSA program in 2003, by providing for the cessation of determinations of distress to municipalities, providing for the cessation of certifications to the General Assembly of needed SSA appropriations, and providing for the cessation of certifications to the Auditor General of the SSA for each eligible municipality.

The bill also provides for the Public Employee Retirement Commission to certify pension cost data to the Department of the Auditor General for use in the determination of State aid (GMPSSA) allocations and for the Department of the Auditor General to withhold State aid in instances of funding deficiencies under Act 205. In both cases, the language simply reflects current practices.

Deferred Retirement Option Plans

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

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

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

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

Because of the potential diversity of DROPs, it is unlikely that, in the absence of enabling legislation, DROPs created in Pennsylvania would conform to existing State statutes. While compatibility with State statutes in many states may pose no significant problem for municipal pension plans, non-conformance with Pennsylvania's Municipal Pension Plan Funding Standard and Recovery Act (Act 205), for example, would have the potential to cause inequitable allocations in the annual distribution of more than $130 million in General Municipal Pension System State Aid. Pennsylvania currently has no enabling legislation or guidelines for the implementation of DROPs administered by local governments. The bill would amend Act 205 by adding a chapter specifically addressing this issue by creating a uniform Pennsylvania local government DROP structure known as the In-service Retirement Option Plan.

SUMMARY OF ACTUARIAL COST IMPACT

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

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

2. anticipated (or already negotiated) salary increases; and

3. the level of continued benefit accruals under the plan after normal retirement.

POLICY CONSIDERATIONS

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

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

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

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

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

COMMISSION RECOMMENDATION

On May 23, 2002, the Commission voted to attach the actuarial note to the bill, recommending that the General Assembly and the Governor consider the policy issues identified in the Commission's actuarial note transmittal and favorably consider enactment of the bill.

FINAL LEGISLATIVE STATUS

House Bill Number 2655, Printer's Number 3904, was reported as amended from the House Local Government Committee on November 12, 2002. A later version of the bill (Printer's Number 4563) was re-committed to the House Appropriations Committee on November 26, 2002.

PART II

PUBLIC EMPLOYEE RETIREMENT SYSTEM ADMINISTRATION

A. ACT 205 OF 1984.

2001 Filing Period

March 29, 2002, was the deadline for the 2001 municipal pension plan reports. Of the 4,500 local governments submitting questionnaire responses, 1,944 indicated that they had established one or more pension plans. About 187 of the local governments required to submit employee pension plan reports to be eligible for General Municipal Pension System State Aid failed to meet the statutory filing deadline. Through transmitting multiple delinquency notices, the Commission was able to significantly reduce the number of delinquent local governments that were not included in the initial State aid certification to the Department of the Auditor General on August 15th. Only 34 municipalities remained delinquent as of the date of initial certification. As of December 31, 2002, only four municipalities remained delinquent in submitting their 2001 municipal pension plan reports, and the Commission was actively engaged in enforcing the reporting requirements.

With 75% of the over 3,000 municipal pension plan actuarial valuation reports received near the filing deadline, the Commission utilized its computer assisted review procedures to expedite the review of the incoming reports. The data extracted from the reporting forms was verified using electronic data processing. The Commission will issue its *Status Report on Local Government Pension Plans* based on the 2001 Act 205 data early in 2003.

Municipal Pension Cost Certification

In the summer of 2002, the Commission certified municipal pension cost data to the Department of the Auditor General for use in the 2002 allocation of General Municipal Pension System State Aid. In 2002, the State aid provided to municipalities to offset their employee pension costs totaled $150.6 million. Calculation of the municipal pension cost data for the over 1,400 municipalities was accomplished through the municipal employee pension plan data base that is maintained by the Commission through the data extracted from the over 3,000 pension plan reports submitted by municipalities.

Recovery Program

The Commission determined the 2002 distress scores for 46 municipalities participating in the Financially Distressed Municipal Pension System Recovery Program and transmitted distress determination notices to the affected municipalities. In October of 2002, the Commission also certified the payment of $331,000 in Supplemental State Assistance for 2002 and notified the Governor and General Assembly that a $330,000 appropriation would be needed to provide the Supplemental State Assistance payable in December of 2003.

A. ACT 205 OF 1984. (Cont'd)

In the fall of 2002, the Commission transmitted filing notices and reporting forms to the 17 municipalities required to submit 2002 actuarial valuation reports for their employee pension plans due to their participation in the Supplemental State Assistance Program.

B. ACT 293 OF 1972.

2002 Filing Period

The Commission transmitted filing notices and reporting forms to the 66 counties required to submit employee pension plan reports for 2002. The reports are due March 31, 2003.

PART III

PUBLIC EMPLOYEE RETIREMENT SYSTEM POLICY DEVELOPMENT AND COORDINATION

A. STATUTORY PROVISIONS.

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

Section 6. Powers and Duties.

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

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

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

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

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

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

B. RESEARCH.

Status Report on Local Government Pension Plans

During the second half of 2002, research began on the Commission's ninth report on the status of the Commonwealth's local government retirement systems since the enactment of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984). The research will be completed during the first half of 2003. The report will be a summary and analysis of municipal employee retirement system actuarial valuation reports as of January 1, 2001, submitted to the Commission under the Act and of county employee retirement system actuarial valuation reports as of January 1, 2000, submitted to the Commission under Act 293 of 1972. The data in the report will be extracted from the individual pension plan reports containing actuarial, financial, and demographic information. The report will contain both the Commission's comments on trends and conditions and the associated recommendations of the Commission.

Defined Benefit and Defined Contribution Retirement Plans

On June 21, 2001, the Pennsylvania House of Representatives adopted House Resolution Number 266, which directed the Commission to undertake a study of the relative advantages and disadvantages of defined benefit and defined contribution retirement plans, and to report its findings to the General Assembly by December 31, 2002. During the remainder of 2001, research began on the study and report, and research was complete in late 2002. On November 21, 2002, the Commission voted to approve and adopt the completed report entitled, *Selected Issues Related to Governmental Defined Benefit & Defined Contribution Pension Plans*. The report includes a general description of defined benefit and defined contribution plan designs, an analysis of national trend data with respect to the two retirement plan types, and discussions of cost and implementation considerations. The report was later issued in compliance with the December 31, 2002, deadline established by House Resolution Number 266.

Deferred Retirement Option Plans

Deferred Retirement Option Plans (DROPs) have gained substantial popularity in recent years among public sector pension plans. Generally, these programs permit public employees who are eligible for full retirement benefits to remain employed for a specific period of time, continue to receive full-time wages, and at the same time have pension benefit payments set aside in an interest-bearing account for later distribution. Through the administration of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), and through discussions with local government officials and actuarial consultants, the Commission became aware of substantial activity and interest in the establishment of DROPs by Pennsylvania local governments and employee organizations. The Commission is concerned that DROPs established without specific statutory authority will conflict with existing State law, including the administration of Act 205. For these reasons, the Commission elected to undertake a study and issue a special report on DROPs. Research began in mid-year 2001 and the Commission's report entitled, *Special Report: Deferred Retirement Option Plans (DROPS), Authorization and Guidelines for Implementation of DROPs by Local Governments in Pennsylvania*, was released in March 2002. The Commission's report includes a description of the design issues associated with the implementation of DROPs, provides a framework for the integration of DROPs into existing state law, recommends the enactment of enabling legislation for the implementation of DROPs by local governments and includes draft legislation for the consideration of the General Assembly.

Statewide Volunteer Firefighter Pension Plan

On October 7, 2002, the Pennsylvania House of Representatives adopted House Resolution Number 661, which directs the Commission to undertake a study to identify the public pension policy and

B. RESEARCH. (Cont'd)

funding considerations associated with the implementation of a Statewide volunteer firefighter retirement system, to be funded by the Commonwealth and administered by a single agency. The resolution directs the Commission to review the benefit structures and funding considerations of retirement systems in other governmental units that have established pension plans for volunteer firefighters, to solicit information from the Pennsylvania Emergency Management Agency on plan design consideration and eligibility criteria, and to report the Commission's findings and recommendations to the House of Representatives.

Preliminary work on the study began in late 2002, and the Commission plans to issue its report in 2003.

C. STATEWIDE PUBLIC EMPLOYEE RETIREMENT SYSTEM REVIEWS.

Under the Public Employee Retirement Commission Act, the Commission conducts periodic reviews of the actuarial and financial reports of the various public employees' retirement systems. The Commission conducted its review of the Public School Employees' Retirement System in February 2002, and of the State Employees' Retirement System (SERS) in September 2002.

Commission's Review of the PSERS Actuarial Valuation Report

At the February 7, 2002, meeting of the Commission, the staff presented a summary of the June 30, 2000, and the June 30, 2001, Actuarial Valuation Reports of the Public School Employees' Retirement System issued May 21, 2001, and January 23, 2002, and reviewed some significant facts concerning the condition of the System since the prior valuation.

- **General Funding Facts**

  - The employer contribution rate decreased from 1.94% for fiscal year 2000-2001 to 1.09% for fiscal year 2001-2002.
  - The employer contribution rate increased from 1.09% for fiscal year 2001-2002 to 5.64% for fiscal year 2002-2003.
  - The increase of 4.55% is due to the following reasons:

▸ Decrease due to reamortization of the unfunded accrued liability over 10 years	(8.72)%
▸ Increase due to Act 9 benefit increases	10.59
▸ Increase due to actuarial loss on assets	2.97
▸ Increase due to actuarial loss on liabilities	.25
▸ Decrease due to change in health insurance contribution rate	(.12)
▸ Decrease due to zero minimum rate contribution for fiscal year 2001-2002	(.42)
Total	4.55%

  - The contribution rate of 5.64% of payroll includes 4.67% of payroll for pension benefits plus 0.97% of payroll for the Health Insurance Premium Assistance Program.

- **Changes in Employer Contribution Rates**

Fiscal Year	Member Contributions	Normal Cost	Unfunded Accrued Liability	Health Care	Total Employer Rate
2002 - 2003	7.10%	7.20%	(2.53)%	.97%	5.64%
2001 - 2002	5.80	5.63	(6.05)	1.09	1.09
2000 - 2001	5.77	6.29	(4.65)	.30	1.94
1999 - 2000	5.72	6.40	(2.04)	.25	4.61
1998 - 1999	5.69	6.33	(.44)	.15	6.04
1997 - 1998	5.65	6.44	2.17	.15	8.76

- **Reasons for Increase in Unfunded Accrued Liability**

Experience (Gains) Losses ($000)

• Loss from investment return on actuarial value of assets	$1,839,954
• Gain from salary increases less than expected	(27,891)
• Loss from retirement and other separation experience	128,321
• Loss from annuitants' mortality experience	51,423
Total	$1,991,807

- **Projection of Contribution Rates**

Fiscal Year	Member Contributions	Employer Normal Cost	Unfunded Liability Rate	Employer Pension Rate	Health Care Contribution	Total Employer Rate
2003 - 2004	7.11%	7.19%	1.25%	8.44%	0.92%	9.36%
2004 - 2005	7.13	7.17	5.38	12.55	0.92	13.47
2005 - 2006	7.16	7.15	5.13	12.28	0.93	13.21
2006 - 2007	7.10	7.13	4.92	12.05	0.92	12.97
2007 - 2008	7.21	7.10	4.72	11.82	0.93	12.75

These projections are based on the assumption that there are no actuarial gains or losses, no changes in demographics or economic assumptions and no changes in benefit provisions.

The Commission reviewed this report with Mr. Dale H. Everhart, Executive Director, Mr. James Grossman, Acting Chief Investment Officer, and Ms. Kim M. Nicholl, Consulting Actuary, of the Public School Employees' Retirement System.

SUMMARY OF ACTUARIAL VALUATION
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
AS OF JUNE 30, 2000, AND JUNE 30, 2001

The following is a summary of the June 30, 2000, Actuarial Valuation and the June 30, 2001, Actuarial Valuation of the Public School Employees' Retirement System and a comparison of the 2000 and 2001 results with those of 1999.

	6/30/99		6/30/00		6/30/01	
Membership						
Active Members	223,495		234,210		243,311	
Inactive and Vested Members	46,426		50,682		53,979	
Retired Members	121,064		121,812		120,108	
Disabled Members	5,384		5,592		5,773	
Survivors and Beneficiaries	6,421		6,654		6,835	
Payroll and Annuities Payable						
Total Annual Payroll	$8,247,602,000		$8,939,598,000		$9,414,884,000	
Annual Annuities and Benefits	$1,830,582,000		$1,880,644,000		$1,871,995,000	
Valuation Data						
Accrued Liability [1]	$37,499,115,000		$39,822,832,000		$47,917,294,000	
Assets [2]	44,606,526,000		49,293,047,000		50,191,994,000	
Unfunded Accrued Liability [1]	$ (7,107,411,000)		$ (9,470,215,000)		$ (2,274,700,000)	
Fund Ratio	119.0%		123.8%		104.7%	
Funding Costs						
Normal Cost	$994,660,801	12.06 %	$1,021,796,051	11.43 %	$1,346,328,412	14.30 %
Amortization [3]	(383,513,493)	(4.65)%	540,845,679	(6.05)%	238,196,565	(2.53)%
Full Actuarial Funding	$611,147,308	7.41 %	$ 480,950,372	5.38 %	$1,108,131,847	11.77 %
Support						
Member	$475,886,636	5.77%	$518,496,684	5.80 %	$ 668,456,764	7.10 %
School District	67,630,336	0.82%	(18,773,156)[5]	(.21)%[5]	219,837,541.5	2.335%
Commonwealth	67,630,336	0.82%	(18,773,156)[5]	(.21)%[5]	219,837,541.5	2.335%
Total Support [4]	$611,147,308	7.41%	$480,950,372	5.38 %	$1,108,131,847	11.77 %

1. Includes liability for health care payments.

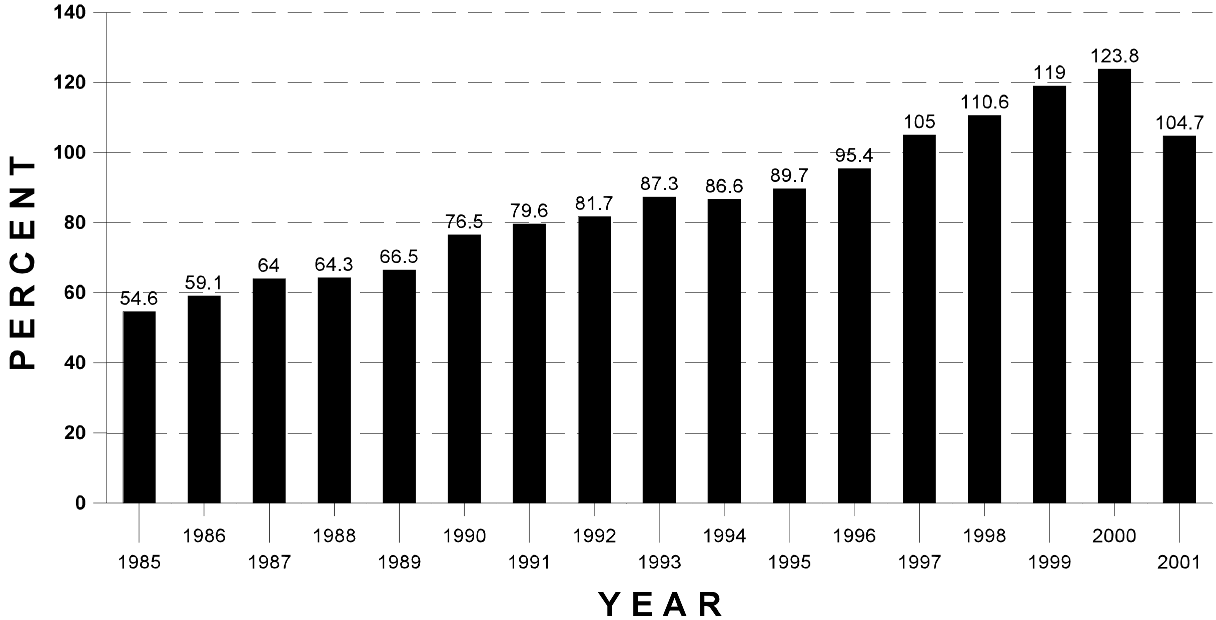
2. The smoothing period for recognizing realized and unrealized gains and losses is 3 years.

3. Act 23 of 1991 provided for additional liabilities to be payable over a twenty-year period with the dollar amount of the annual payment increasing at five percent per year. Act 9 of 2001 provided for the outstanding balance of the unfunded accrued liability as of June 30, 2001, and future additional liabilities to be amortized over a 10-year period on a level dollar basis.

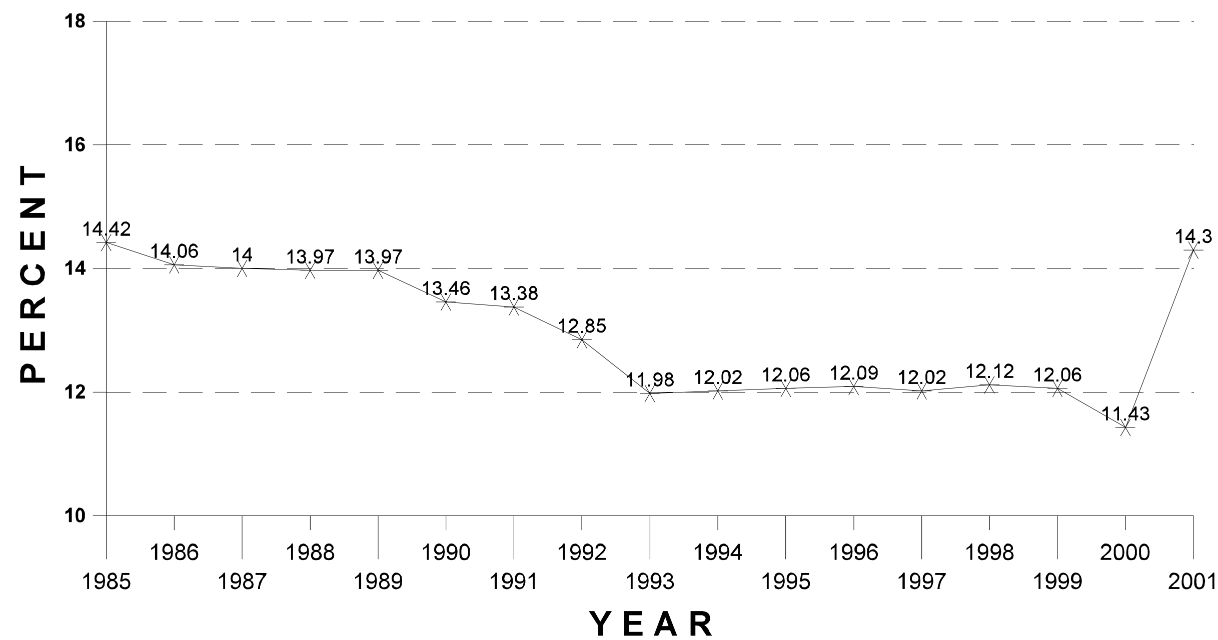
4. The employer health care contribution rate is not included in this total.

5. Actual support from school districts and the Commonwealth was zero rather than the calculated negative amount.

PSERS FUNDED RATIO TREND



PSERS NORMAL COST TREND



Commission's Review of the SERS Actuarial Valuation Report

At the September 26, 2002, meeting of the Commission, the staff presented a summary of the December 31, 2001, Actuarial Valuation Report of the State Employees' Retirement System issued April 24, 2002, and reviewed some significant facts concerning the condition of the System since the prior valuation.

- **General Discussion**

  — The valuation includes the impact of Act 9 of 2001 which made major changes in the SERS benefits and funding.

  - Benefit Changes

    - The annual accrual rate for most employees was increased from 2.0 to 2.5 percent of salary.

  - Funding Changes

    - The employee contributions for most employees increased from 5.0 to 6.25 percent of salary.

    - The amortization of any unfunded liability has been changed from 20 years, increasing 5 percent a year, to 10 years level payment.

- **Summary of Changes**

  — The employer contribution rate for Fiscal Year 2002-2003 (current year) will be 0.00 percent of payroll. This is the same as the previous year.

  — The following elements affected the employer contribution rate:

	Normal Cost	**Unfunded Liabilities**	**Total**
▸ Gains from Investment Earnings		- 0.27%	- 0.27%
▸ Change in Demographics of New Entrants	- 0.66%	0.50%	- 0.16%
▸ Pay Increase Different than Assumptions		- 0.16%	- 0.16%
▸ Change in Actuarial Methods and Assumptions	- 1.14%	0.52%	- 0.62%
▸ Gain from Contributions		- 0.08%	- 0.08%
▸ New Benefit Provision of Act 2001-9	1.72%	4.09%	5.81%
▸ Other Differences Between Experience and Assumption		- 0.73%	- 0.73%
▸ Total Change Before Modification of Funding Method	- 0.08%	3.87%	3.79%
▸ New Funding Provisions of Act 2001-9		- 5.54%	- 5.54%
December 31, 2001, Valuation	8.64%	- 12.03%	- 3.39%

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

▸ Gain from Investment Earnings	$(182,272,328)
▸ Change in Demographics of New Entrants	333,765,568
▸ Pay Increase Different than Assumptions	(108,201,268)
▸ Change in Actuarial Methods and Assumptions	348,789,360
▸ Gain from Contributions	(52,059,776)
▸ Act 9 of 2001 Benefits	2,735,791,064
▸ Other Differences Between Experience and Assumptions	(481,469,024)
▸ Total Change	$2,594,343,596
December 31, 2001, Unfunded Liability	$(3,846,737,339)

- **Employer Normal Cost Rate**

— Normal Cost Rate for New Active Members:

▸ Superannuation and Withdrawal	12.71%
▸ Disability	1.02%
▸ Death	0.74%
▸ Refunds	0.42%
▸ Total	14.89%
— Member Contributions	6.25%
— Employer Normal Cost	8.64%

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

SUMMARY OF ACTUARIAL VALUATION
STATE EMPLOYEES' RETIREMENT SYSTEM
AS OF DECEMBER 31, 2001

The following is a summary of the December 31, 2001, actuarial valuation of the State Employees' Retirement System and a comparison of the 2001 results with those of 2000.

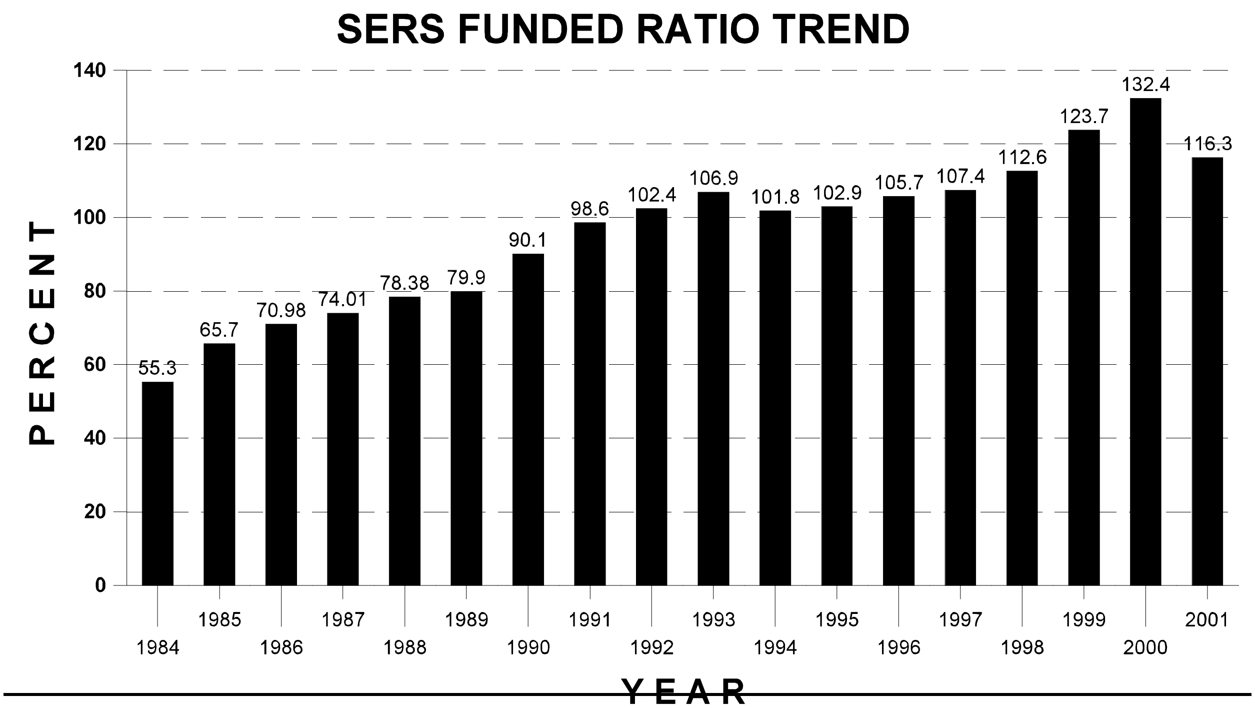
	12/31/00	12/31/01
Membership		
Active	109,469	109,716
Inactive	3,777	4,877
Retired	74,547	74,947
Disabled	5,742	5,964
Survivors and Beneficiaries	8,103	8,306
Payroll and Annuities Payable		
Total Annual Payroll	$4,500,270,590	$4,626,943,000
Annual Annuities and Benefits	$ 987,422,521	$1,035,957,692
Valuation Data		
Accrued Liability	$19,702,278,063	$23,658,756,647
Assets [1]	26,094,306,293	27,505,493,986
Unfunded Accrued Liability	$ (6,392,028,230)	$ (3,846,737,339)
Funded Ratio	132.4%	116.3%

	12/31/00		12/31/01	
Funding Costs				
Normal Cost [2]	$617,437,125	13.72%	$ 688,951,813	14.89%
Amortization [3]	$466,228,033	(10.36)%	$ 556,621,243	(12.03)%
Full Actuarial Funding	$151,209,092	3.36%	$ 132,330,570	2.86%
Support				
Member	$225,013,530	5.00%	$ 289,183,938	6.25%
Commonwealth	$(73,804,438)	(1.64%)	$(156,853,368)	(3.39)%
Total Support	$151,209,092	3.36%	$ 132,330,570	2.86%

1. The figure is the actuarial value not the market value.

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

3. Act 9 of 2001 established that, effective July 1, 2002, the amortization of both existing unfunded actuarial accrued liabilities and any future changes caused by actuarial experience and benefit modifications are to be funded over a ten-year period on a level dollar basis.


SERS FUNDED RATIO TREND
PERCENT
YEAR
140
120
100
80
60
40
20
0
55.3
65.7
70.98
74.01
78.38
79.9
90.1
98.6
102.4
106.9
101.8
102.9
105.7
107.4
112.6
123.7
132.4
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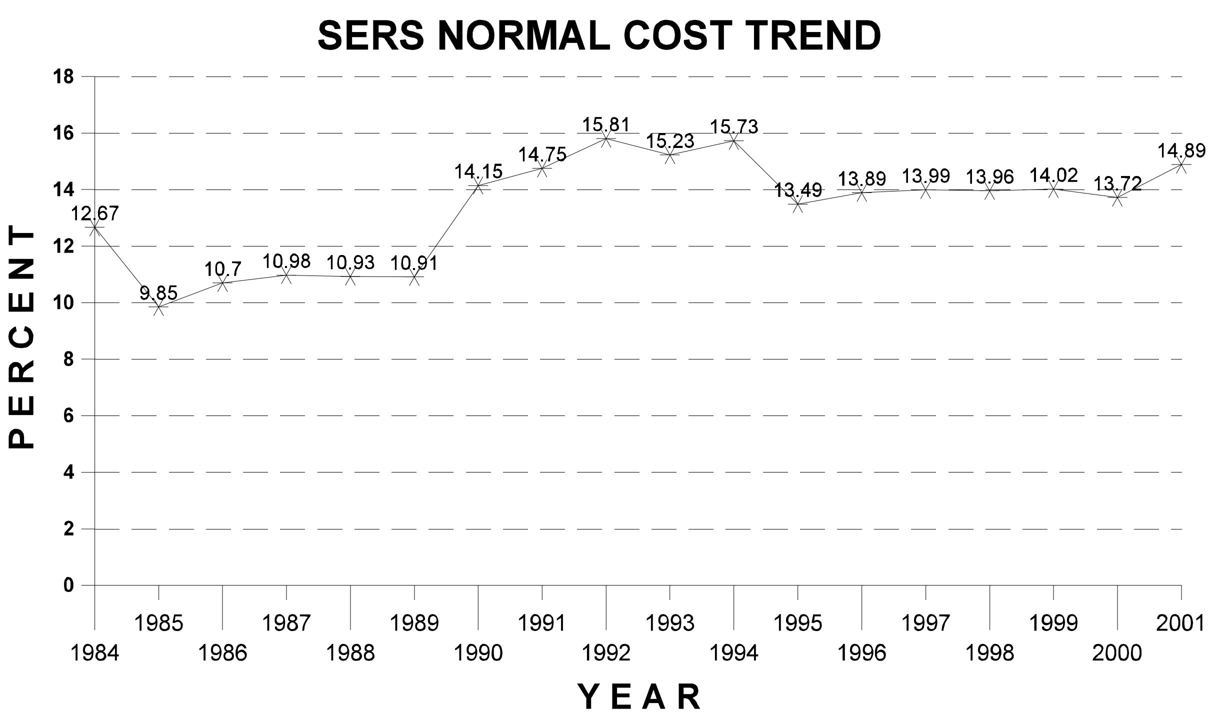
SERS NORMAL COST TREND
PERCENT
YEAR
18
16
14
12
10
8
6
4
2
0
12.67
9.85
10.7
10.98
10.93
10.91
14.15
14.75
15.81
15.23
15.73
13.49
13.89
13.99
13.96
14.02
13.72
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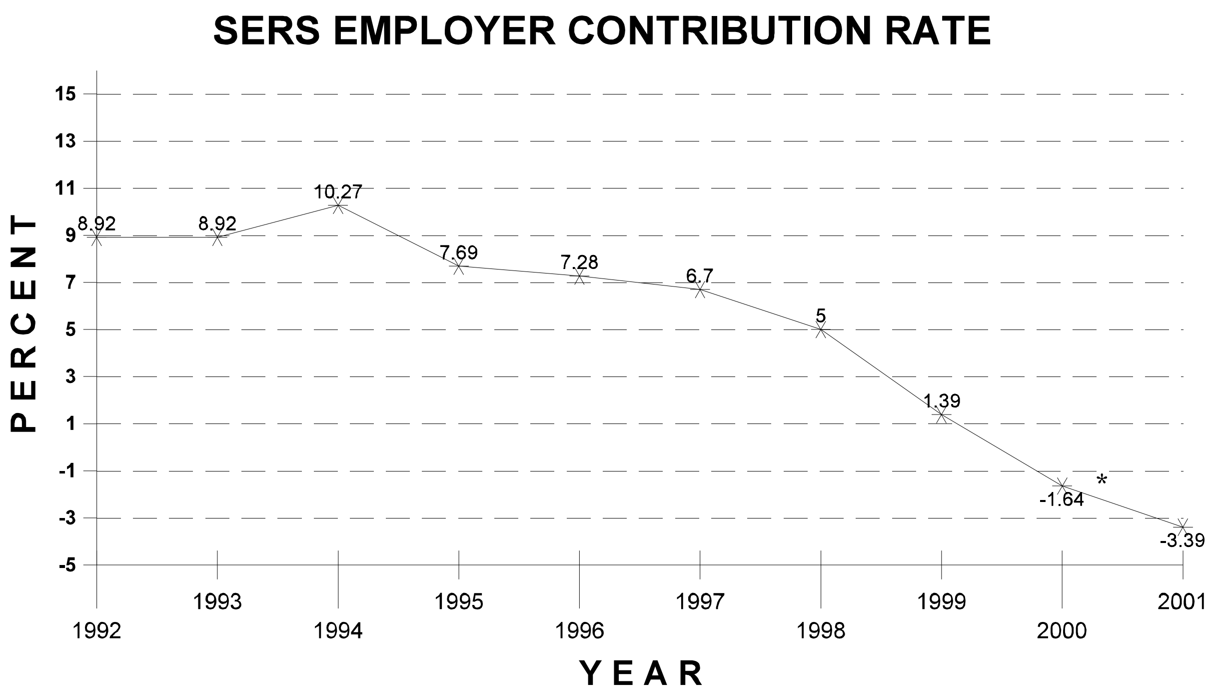

* Negative contribution rates are effectively zero.

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 2002 and their sponsoring organizations were as follows:

MUNICIPAL PENSION ADVISORY COMMITTEE

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

Mr. Jeffrey L. Heishman
PENNSYLVANIA STATE ASSOCIATION OF BOROUGHS

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

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

Mr. Mark K. Keller
COUNTY COMMISSIONERS ASSOCIATION OF PENNSYLVANIA

Ms. Jennifer L. Case
PENNSYLVANIA MUNICIPAL AUTHORITIES ASSOCIATION

MUNICIPAL EMPLOYEE PENSION ADVISORY COMMITTEE

Mr. Carl W. Miers, Chairman
PENNSYLVANIA CHIEFS OF POLICE ASSOCIATION

Mr. Daniel C. Zakraysek, Vice-Chairman
PENNSYLVANIA FRATERNAL ORDER OF POLICE

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

Mr. James R. Weaver
PENNSYLVANIA STATE EDUCATION ASSOCIATION

Mr. George Tomasak
PENNSYLVANIA PROFESSIONAL FIRE FIGHTERS' 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 2002 were:

Conrad M. Siegel, Inc.
Mr. David H. Killick

Milliman USA, Inc.
Mr. William A. Reimert

APPENDIX B

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

I. Implementation by the General Assembly.

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

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

1. Actuarial Note Requests for Committee Approved Bills.-

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

2. Actuarial Note Requests for Floor Amended Bills.-

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

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

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

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

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

II. Response by the Commission.

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

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

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

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

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

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

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

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

Adopted April 10, 1985.

APPENDIX C

BY-LAWS OF THE PUBLIC EMPLOYEE RETIREMENT COMMISSION

Title 4. Administration

Part XII. Public Employee Retirement Commission

Section 401.1. Definitions.

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

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

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

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

Member - a member of the Commission.

Chapter 402. By-Laws

Section 402.1. Meetings

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

Section 402.2. Quorum and Voting.

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

Section 402.3. Open Meetings.

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

Section 402.4. Minutes.

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

Section 402.5. Officers.

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

Section 402.6. Office.

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

Section 402.7. Committees.

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

Section 402.8. Advisory Committees.

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

Section 402.9. Budget.

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

Section 402.10. Miscellaneous.

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

Section 402.11. Amendment.

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

Revised November 17, 1987

APPENDIX D

PUBLIC EMPLOYEE RETIREMENT COMMISSION

COMPREHENSIVE LIST OF 2001-2002 SESSIONS LEGISLATION REGARDING PUBLIC EMPLOYEE RETIREMENT ISSUES
DECEMBER 31, 2002

BILL NUMBER PRINTER'S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 16 P. N. 1842 (Holl)	Municipal Police Pension Law (Act 600); Permitting a surviving spouse to continue to receive a survivor spouse benefit for life even if the surviving spouse remarries on or after the effective date of the bill; permitting a surviving child to continue to receive a survivor benefit until reaching age 23, if the child is attending college on or after the effective date of the bill, rather than stopping the benefit at age 18 as is presently required; mandating payment to the surviving spouse or surviving child or children, if no spouse survives, of a survivor benefit of no less that 50 percent of the pension the deceased member was entitled to receive or was receiving if an active police officer dies, if an officer who was eligible for a pension but had not begun collecting the pension dies, or if a retiree dies on or after the effective date of the bill; mandating a disability pension benefit for members permanently injured in service of no less than 50 percent of the member's salary at the time the disability was incurred; mandating an offset or reduction in the disability benefit that is equal to the amount of the Social Security disability benefit received by the member in the event the disabled member is also eligible to receive a Social Security disability benefit for the same injuries; and mandating a survivor death benefit equal to 100 percent of the member's salary at the time of death for the families of members killed-in-service on or after the effective date of the amended bill.	Referred to Senate Finance Committee **Actuarial Note** (P. N. 10) Reported as amended First consideration Re-referred to Appropriations **Commission Letter** (P. N. 1039) Reported as amended **Commission Letter** (P. N. 1217) Second consideration Third consideration and final passage (49-0) In the House Referred to House Local Government Committee **Advisory Note** (A. 4381) Reported as amended First consideration **Actuarial Note** (A. 4381) **Actuarial Note** (A. 4542) **Commission Letter** (P. N. 1585) Second consideration Third Consideration and final passage (192-01) In the Senate Referred to Rules and Executive Nominations Committee Re-reported on concurrence, as amended Senate concurred in House amendments, as amended by the Senate (49-0) **Commission Letter** (P. N. 1842) House concurred in Senate amendments to House amendments To Governor for signature Signed by Governor – Act 30 of 2002	01/22/01 03/14/01 05/22/01 05/22/01 06/04/01 06/08/01 06/18/01 06/18/01 06/19/01 06/20/01 06/22/01 12/04/01 12/05/01 12/05/01 12/06/01 12/06/01 12/07/01 12/10/01 12/11/01 12/12/01 03/26/02 03/26/02 04/08/02 04/08/02 04/10/02 04/17/02
S. B. 44 P. N. 42 (Bell)	Tax Reform Code of 1971 (Act 2 of 1971), requiring that the taxes paid by Pennsylvania fire insurance companies under the act be deposited into the Fire Insurance Tax Fund.	Referred to Senate Finance Committee	01/22/01

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 80 P. N. 73 (Holl)	Volunteer Firefighters' Relief Association Act (Act 84 of 1968), permitting volunteer firefighters' relief associations to provide for financial assistance to volunteer firefighters who have actively participated in the fire service for 20 years and who have attained the age of 65.	Referred to Senate Finance Committee	01/23/01
S. B. 89 P. N. 97 (Holl)	SERS, permitting qualified veterans with 20 years of State service who are 50 years of age or older to enroll in the health insurance plan for state retirees upon termination from service.	Referred to Senate Finance Committee	01/29/01
S. B. 93 P. N. 101 (Holl)	PSERS, providing for indexing of the earnings limitation threshold used to calculate reductions in disability annuities caused by earned income of the annuitant, and in effect, to ensure that the annuitant suffers no reduction in benefits.	Referred to Senate Finance Committee	01/29/01
S. B. 117 P. N. 134 (Tilghman)	Municipal Police Pension Law (Act 600 of 1955), mandating rather than permitting municipal governing body to prescribe regulations for its police officer retirement system, mandating rather than permitting survivor benefits for surviving spouse or surviving children, and permitting surviving spouse to receive survivor pension for life regardless of remarriage.	Referred to Senate Finance Committee First consideration Re-referred to Appropriations **Commission Letter** (P. N. 134)	01/29/01 05/22/01 06/04/01 06/12/01
S. B. 129 P. N. 136 (Corman)	SERS, granting prison security officers Class P service credit for all past and future prison security officer and military service with the pension for less than 10 years of service calculated as 2% of final average salary multiplied by the years of service credit, for 10 to 20 years of service calculated as 2% of the highest annual salary multiplied by the years of service, for 20 to 25 years of service calculated as 50% of the highest annual salary, for 25 or more years of service calculated as 75% of the highest annual salary and with the pension for those who terminate service, return to Class P service, and retire again with the pension for less than 10 years or less than 25 years if the member already had more than but less than 25 years of service before	Referred to Senate Finance Committee **Actuarial Note** (P. N. 136)	01/29/01 04/26/01

Bill Number Printer s Number (Prime Sponsor)	Subject	Concise History and Status	Date
	returning to service or 25 or more years of service before returning to service calculated as 2% of final average salary during the member's entire period of service multiplied by years of subsequent prison security officer service, 10 or more but less than 20 years calculated as 2% of the member's highest annual salary during the member's entire period of service multiplied by years of subsequent prison security officer service, 20 or more but less than 25 years calculated as 2.5% of the member's highest annual salary during the member's entire period of service multiplied by years of subsequent prison security officer service, and 25 or more years calculated as 5% of the member's highest annual salary during the member's entire period of service multiplied by years of subsequent prison security officer service, with the amortization payments for the resulting increase in unfunded actuarial accrued liability being paid by the Department of Corrections.		
S. B. 142 P. N. 147 (Musto)	Enforcement Officer Disability Benefits Law (Act 193 of 1935), extending benefits to county corrections officers in counties of the third class.	Referred to Senate Labor and Industry Committee	01/29/01
S. B. 172 P. N. 178 (Bell)	PMRS, prohibiting investments by the pension trust fund in stocks, securities, or other obligations of a corporation that is incorporated in a state that prohibits investment of its state funds or public employee pension trust funds in corporations incorporated in Pennsylvania.	Referred to Senate Local Government Committee	01/30/01
S. B. 173 P. N. 179 (Bell)	PSERS and SERS, prohibiting investments by the pension trust fund in stocks, securities, or other obligations of a corporation that is incorporated in a state that prohibits investment of its state funds or public employee pension trust funds in corporations incorporated in Pennsylvania.	Referred to Senate Finance Committee	01/30/01
S. B. 186 P. N. 194 (O'Pake)	PMRS, reducing the requirement for disability retirement for police officers only from being unable to engage in any gainful employment to being un-	Referred to Senate Finance Committee	01/30/01

Bill Number Printer s Number (Prime Sponsor)	Subject	Concise History and Status	Date
	able to perform the regular and routine duties of that office.		
S. B. 190 P. N. 197 (Rhoades)	PSERS, permitting active members or active multiple service members to purchase up to three years of service credit at the rate of one year of non-school service credit for every two years of work experience used by the member to obtain certification as a vocational teacher under a nonbaccalaureate program, excluding time served in an apprenticeship calculated on the basis of the average of the first three years of school service following the creditable work experience, and precluding the withdrawal of the contributions for such service as a lump sum under Option 4.	Referred to Senate Finance Committee **Actuarial Note** (P. N. 197)	01/30/01 03/14/01
S. B. 192 P. N. 199 (Rhoades)	PSERS, permitting a retiring active or active multiple service member to purchase service credit for unused sick leave by contributing the sum of the member's basic contribution plus the employer's normal contribution rate.	Referred to Senate Finance Committee	01/30/01
S. B. 210 P. N. 218 (Rhoades)	PSERS and SERS, reopening the "30 and Out" special early retirement incentive from July 1, 2001 until June 30, 2004.	Referred to Senate Finance Committee **Actuarial Note** (P. N. 218)	01/31/01 03/14/01
S. B. 274 P. N. 276 (Mellow)	PSERS, providing for the purchase of up to two years of Peace Corps service.	Referred to Senate Finance Committee **Actuarial Note** (P. N. 276)	02/05/01 10/04/01
S. B. 281 P. N. 287 (Greenleaf)	PSERS and Public School Retirees' Health Insurance Act, providing for the sponsorship and administration of a group health insurance program for certain public school retirees and other individuals, providing for the powers and duties of the PSERS Board under the Act, establishing the Public School Retirees' Health Insurance Fund, providing for health insurance premium assistance to the affected individuals, and providing for funding.	Referred to Senate Finance Committee	02/05/01
S. B. 283 P. N. 289 (Greenleaf)	PSERS and SERS, reopening of the "30 and Out" early retirement incentive. For PSERS, from April 1, 2001 through June 30, 2001; and from April 1, 2002 through June 30, 2002. For SERS,	Referred to Senate Finance Committee	02/05/01

	retroactive to July 1, 1999 through June 30, 2002.		
S. B. 284 P. N. 290 (Greenleaf)	Constitution of Pennsylvania, amending § 26 of article 3 to permit the General Assembly to authorize increase of retirement benefits to beneficiaries who are spouses of members of public employee retirement systems.	Referred to Senate Finance Committee	02/05/01
S. B. 315 P. N. 2451 (Gerlach)	PSERS and SERS, permitting an active member of SERS who is an employee of the Delaware River Joint Toll Bridge Commission to purchase service credit for the other ½ of the member's previous service with the former Delaware River Joint Free Bridge Commission during the period after 09/01/73 and before 07/01/87 under certain circumstances; permitting annuitants of PSERS to return to school service in an extracurricular activity without loss of annuity; and empowering the SERS Board to establish a "Benefits Completion Plan" in accordance with IRC Section 415(m).	Referred to Senate Finance Committee Reported as committed First consideration Re-referred to Appropriations **Commission Letter** (P. N. 320) Second Consideration Third Consideration and final passage (50-0) In the House Referred to House State Government First Consideration **Commission Letter** (A.6001) **Commission Letter** (A.6002) **Commission Letter** (A.5935) **Commission Letter** (A.5955) Commission Letter (A. 6001) Commission Letter (A. 6002) Second Consideration Re-referred to Appropriations Reported as amended Third consideration and final passage (194-2) To Governor	02/06/01 12/11/01 12/11/01 01/22/02 01/24/02 06/27/02 06/28/02 07/01/02 11/21/02 11/22/02 11/22/02 11/22/02 11/22/02 11/22/02 11/22/02 11/25/02 11/25/02 11/26/02 11/26/02 12/02/02
S. B. 340 P. N. 352 (Mowery)	Volunteer Firefighters' Relief Association Act, providing for volunteer firefighters' money purchase deferred benefits plans.	Referred to Senate Finance Committee	02/06/01
S. B. 347 P. N. 362 (Mowery)	PSERS, providing for adjustment of the current 6¼ percent employee contribution rate to offset the cost of future benefit enhancements.	Referred to Senate Finance Committee	02/07/01
S. B. 381 P. N. 394 (Conti)	PSERS, permitting annuitants who left school service between 1/1/1984 and 9/1/1988 to purchase up to three years of service in the Cadet Nurse Corps with respect to periods of training as a student or graduate nurse, provided the total period of training was at least one year.	Referred to Senate Finance Committee **Actuarial Note** (P. N. 394)	02/08/01 03/14/01

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 382 P. N. 395 (Conti)	PSERS and Public School Retirees' Health Insurance Act, providing for the sponsorship and administration of a group health insurance program for certain public school retirees and other individuals, providing for the powers and duties of the PSERS Board under the Act, establishing the Public School Retirees' Health Insurance Fund, providing for health insurance premium assistance to the affected individuals, and providing for funding.	Referred to Senate Finance Committee	02/08/01
S. B. 383 P. N. 396 (Conti)	PSERS and SERS, providing for the amortization of COLAs commencing 6/30/1998 or later through annual level dollar installments over a period of 10 years.	Referred to Senate Finance Committee	02/08/01
S. B. 387 P. N. 400 (Kukovich)	PSERS and SERS, permitting retroactive payment of the 1998 ad hoc post-retirement adjustment (COLA) to eligible survivor beneficiaries.	Referred to Senate Finance Committee	02/08/01
S. B. 388 P. N. 401 (Rhoades)	PSERS and SERS, effective July 1, 2001, granting an ad hoc post-retirement adjustment (COLA).	Referred to Senate Finance Committee	02/08/01
S. B. 422 P. N. 430 (Armstrong)	PSERS and SERS, reducing 10-year cliff vesting to five-year cliff vesting, and reducing eight-year cliff vesting to five-year cliff vesting.	Referred to Senate Finance Committee	02/12/01
S. B. 485 P. N. 1236 (Armstrong)	Public School Code of 1949, providing various non-pension amendments to the Code – school voucher program, testing, aid to distressed districts, etc; and permitting school employees to participate in a private "alternative retirement plan" as an alternative to membership in PSERS, SERS or TIAA-CREF.	Referred to Senate Finance Committee Reported as committed First consideration Re-referred to Senate Appropriations Committee **Actuarial Note** (P. N. 512) Second consideration with amendments Third Consideration and Final Passage (49-0) In the House Referred to House Committee on Finance Reported as committed First consideration Second consideration Re-referred to Appropriations **Commission Letter** (P. N. 1089) **Commission Letter** (A. 2777) Third Consideration and final passage (194-0)	02/15/01 03/27/01 03/27/01 04/02/01 05/07/01 06/04/01 06/05/01 06/11/01 06/12/01 06/12/01 06/13/01 06/13/01 06/15/01 06/18/01 06/19/01

		In Senate	
		Re-reported on concurrence as committed	06/20/01
		Senate non-concurred in House amendments	06/20/01
		Conference committee report presented and adopted in Senate	06/20/01
		In House	
		House insists on its amendments – non-concurred in Senate	06/20/01
		Conference Committee report presented in the House	06/20/01
		Conference Committee adopted by House	06/21/01
		Signed in Senate	06/21/01
		Signed in House	06/22/01
		Signed by Governor (Act 35 of 2001)	06/22/01
S. B. 486 P. N. 513 (Armstrong)	SERS, permitting certain state employees to participate in a private defined contribution alternative retirement plan as an alternative to membership in SERS; providing for membership eligibility, employee contributions, and powers and duties of the SERS board.	Referred to Senate Finance Committee Reported as committed First consideration Re-referred to Senate Appropriations Committee **Actuarial Note** (P. N. 513)	02/15/01 03/27/01 03/27/01 04/02/01 05/07/01
S. B. 487 P. N. 514 (Armstrong)	PSERS, permitting certain school employees to participate in a private defined contribution alternative retirement plan as an alternative to membership in PSERS, SERS or TIAA-CREF; providing for membership eligibility, employee contributions, and powers and duties of the PSERS board.	Referred to Senate Finance Committee Reported as committed First consideration Re-referred to Senate Appropriations Committee **Actuarial Note** (P. N. 514)	02/15/01 03/27/01 03/27/01 04/02/01 05/07/01
S. B. 494 P. N. 521 (Armstrong)	Second Class County Code, reducing the age and service at which an Allegheny County deputy sheriff may retire and receive a full retirement allowance from age 55 or older with 20 or more years of service, to either age 50 or older with 25 or more years of service, or age 55 or older with 20 or more years of service.	Referred to Senate Finance Committee	02/15/01
S. B. 582 P. N. 608 (Tilghman)	Emergency and Law Enforcement Death Benefits Act (Act 101 of 1976), providing a death benefit for the spouse or beneficiary of a fire marshal killed in the performance of duty.	Referred to Senate Labor and Industry Committee	03/06/01
S. B. 608 P. N. 738 (Stout)	SERS, permitting an active member or an active multiple service member to purchase service credit for previous	Referred to Senate Finance Committee **Actuarial Note** (P. N. 738)	03/20/01 04/26/01

Bill Number / Printer's Number (Prime Sponsor)	Subject	Concise History and Status	Date
	nonstate service as an employee of a Pennsylvania municipality or an employee of the Federal Government, provided that: the election is made from July 1, 2001, through June 30, 2003; the member was a member of or was eligible to join as a member of a Pennsylvania municipal retirement system, to include the retirement system of any county, city, borough, incorporated town or township; the member was a member of or was eligible to join as a member of a Federal retirement system; the member could not, upon leaving municipal or Federal service, have drawn any type of retirement benefit, excluding the return of employee contributions and interest; the nonstate service credit purchased does not exceed the lesser of five years or one-half of the member's state service at the time of application for the credit; and the member's purchase contribution for the service credit is determined in the same manner as nonintervening military service under section 5505(b).		
S. B. 632 P. N. 615 (Tilghman)	SERS, fiscal year 2001-2002 appropriations bill for $20,078,000.	Referred to Senate Appropriations Committee	03/09/01
		Reported as committed	03/12/01
		First consideration	03/12/01
		Second Consideration	03/14/01
		Third Consideration and final passage (47-0)	03/20/01
		In House	
		To House Appropriations Committee	03/21/01
		First Consideration	04/30/01
		Second Consideration	05/01/01
		Re-referred to Appropriations	05/02/01
S. B. 633 P. N. 616 (Tilghman)	PSERS, fiscal year 2001-2002 appropriations bill for $34,297,000.	Referred to Senate Appropriations Committee	03/09/01
		Reported as committed	03/12/01
		First consideration	03/12/01
		Second Consideration	03/14/01
		Third Consideration and final passage(47-0)	03/20/01
		In House	
		To House Appropriations Committee	03/21/01
		First Consideration	04/30/01
		Second Consideration	05/01/01
		Re-referred to Appropriations	05/02/01

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 673 P. N. 710 (Schwartz)	Creating the Tobacco Free Investment and Divestiture Act, requiring divestiture of tobacco company stocks and holdings by all Commonwealth funds	Referred to Senate Finance Committee	03/19/01
S. B. 687 P. N. 746 (Rhoades)	PSERS, granting additional retirement benefits of up to 3 years of service credit, entitled “enhanced-year service credit” to certain administrative employees who work longer than the normal 180 day school year	Referred to Senate Finance Committee **Commission Letter** (P. N. 746)	03/21/01 03/28/01
S. B. 690 P. N. 751 (Schwartz)	PSERS, extending from 95 to 120 days the period during which an annuitant may return to school service in an emergency; permitting an annuitant to return to school service under a separate contract during non-emergency conditions if the service provided is service as a substitute teacher on a less than full-time basis; if the contracted period does not exceed 120 days; and if the contract stipulates that the annuitant will receive no additional service credit nor make employee contributions to PSERS during the contracted period.	Referred to Senate Finance Committee	03/22/01
S. B. 711 P. N. 852 (Hughes)	PSERS and SERS, changing the formula used in the calculation of the standard single life annuity from 2% x Years of Service x Final Average Salary to 3% x Years of Service x Final Average Salary.	Referred to Senate Finance Committee	04/03/01
S. B. 748 P. N. 827 (Schwartz)	Third Class City Code, increasing the limit on the service increment payable to a retired police officer from $100 per month to $500 per month; and providing for a $5 per month employee contribution to be made to the pension fund in addition to the normal monthly employee contribution.	Referred to Senate Local Government Committee	03/29/01
S. B. 757 P. N. 2121 (Piccola)	PSERS, permitting members to purchase service credit for work experience as a school employee, teacher or instructor of an accredited Pennsylvania nonpublic or private school, provided the member bears the full actuarial cost of the service to be purchased and is precluded from withdrawing the contributions made to purchase the prior service as a lump sum under Option 4.	Referred to Senate Finance Committee Reported as amended First consideration Re-reported to Appropriations **Commission Letter** (P. N. 2121)	04/02/01 06/19/02 06/24/02 09/24/02

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
S. B. 830 P. N. 936 (Mellow)	PSERS and SERS, providing for the establishment of the "30 and Out" early retirement incentive as a permanent benefit enhancement.	Referred to Senate Finance Committee	04/30/01
S. B. 865 P. N. 1008 (Logan)	Second Class County Code, mandating age 50 retirement benefits for Allegheny County Detectives	Referred to Senate Finance Committee	05/17/01
S. B. 867 P. N. 1010 (Wozniak)	Third Class City Code, increasing the limit on the service increment payable to a retired police officer from $100 per month to $500 per month; and providing for a $5 per month employee contribution to be made to the pension fund in addition to the normal monthly employee contribution.	Referred to Senate Urban Affairs Committee	05/17/01
S. B. 908 P. N. 1069 (Orie)	Second Class County Code, mandating formula-based retirement allowance increases for retired members; and establishing a 3-year election period during which county employees may purchase retirement service credit for service with the former Allegheny County Redevelopment Authority.	Referred to Senate Finance Committee First Consideration Referred to Senate Appropriations Committee	05/29/01 06/11/01 06/12/01
S. B. 963 P. N. 1211 (Kasunic)	PSERS and SERS, providing an automatic COLA for annuitants of both systems based upon and equal to the annual CPI, and providing for amortization of the additional unfunded liability through annual installments over a period of 20 years increasing 5% per year.	Referred to Senate Rules and Executive Nominations Committee	06/15/01
S. B. 973 P. N. 1212 (Logan)	PSERS and SERS, effective January 1, 2001, and annually thereafter, providing an annual minimum 3% COLA to annuitants of both systems who have been retired for at least 24 months.	Referred to Senate Rules and Executive Nominations Committee	06/15/01
S. B. 981 P. N. 1194 (Boscola)	PSERS, permitting active members and active multiple service members to purchase up to 3 years of service credit at the rate of 1 year for every 2 years of previous nonschool service work experience used to obtain certification as a vocational teacher under a nonbaccalaureate program.	Referred to Senate Finance Committee	06/14/01
S. B. 988 P. N. 1199 (D. White)	PSERS, permitting active members and active multiple service members to purchase up to four years of nonschool	Referred to Senate Finance Committee **Actuarial Note** (P. N. 1199)	06/14/01 11/15/01

	service credit for service as an elected county official of the Commonwealth		
S. B. 1092 P. N. 1373 (Piccola)	Municipal Police Pension Law (Act 600), reducing the minimum age and service requirement for eligibility for full retirement from age 55 to age 50 and from 25 years to 20 years service; and authorizing payment of service increments to members serving longer than 20 years, with the amount of such service increments limited to a maximum of 25% of the member's monthly average salary.	Referred to Senate Finance Committee	10/09/01
S. B. 1151 P. N. 1433 (Kukovich)	PSERS and SERS, providing an ad hoc COLA to all annuitants of both systems equal to 25% of the member's annuity beginning July 1, 2001; the amount of the additional liability is to be amortized over 10-years using level dollar payments beginning July 1, 2005.	Referred to Senate Rules and Executive Nominations Committee	10/15/01
S. B. 1170 P. N. 1481 (Bell)	PSERS, beginning with the first monthly annuity payment after July 1, 2002, providing a COLA to annuitants equal to the greater of 25% of the gross monthly annuity in effect on June 30, 2001; or an amount calculated by the PSERS board that is necessary to restore the purchasing power of annuitants' monthly annuities that annuitants' earned at the time of retirement.	Referred to Senate Rules and Executive Nominations Committee	10/29/01
S. B. 1224 P. N. 1640 (Dent)	Third Class City Code, increasing the pension benefit calculation from one-half to no less than one-half of a member's annual salary.	Referred to Senate Finance Committee	12/21/01
S. B. 1251 P. N. 1635 (Bell)	SERS, beginning July 1, 2001, providing a COLA to all eligible benefit recipients equal to the greater of 25% of the gross monthly annuity in effect on June 30, 2001; or an amount calculated by the Board necessary to restore the purchasing power of annuitants' monthly pensions to the level that annuitants received at the time of retirement. An "eligible benefit recipient" is defined as a superannuation, withdrawal or disability annuitant who is receiving an annuity on January 1, 2002, and whose most recent effective date of retirement is prior to July 2, 2002. Withdrawal annuitants are not	Referred to Senate Rules and Executive Nominations Committee	12/13/01

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	eligible to receive the COLA until the first day of July coincident with or following the attainment of superannuation age. Funding of the COLA will commence July 1, 2006 and will be amortized through level dollar payments over a period of 10 years.		
S. B. 1272 P. N. 2054 (D. White)	PSERS, permitting an annuitant to return to school service in a paid, extracurricular capacity on a contract basis, provided that no additional contributions are made toward the annuitant's pension benefits.	Referred to Senate Finance Committee First Consideration Re-referred to Appropriations **Commission Letter** (P. N. 1839) Re-reported as amended Second consideration Third consideration and final passage (48-0) In the House Referred to House Education Committee	01/23/02 03/26/02 03/26/02 04/15/02 06/10/02 06/12/02 06/17/02 06/19/02
S. B. 1337 P. N. 1769 (Mellow)	SERS, permitting active members to purchase up to three years of nonstate service for periods of furlough, providing that: 1)the member bears the full actuarial cost of the increase in the projected superannuation annuity caused by the additional service credited on account of the service purchase; 2) the member is prohibited from withdrawing the amount paid for the service purchase as a lump sum under Option 4; and 3) the member elects to purchase the service within 3 years of becoming eligible to do so.	Referred to House Finance Committee	03/08/02
S. B. 1359 P. N. 1795 (Thompson)	SERS, making an appropriation in the amount of $20,869,000 from the SERS fund to the SERS Board to provide for expenses of the SERS Board for the fiscal year July 1, 2002, to June 30, 2003.	Referred to Senate Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (49-0) In House Referred to Appropriations	03/13/02 03/18/02 03/20/02 03/25/02 03/27/02
S. B. 1360 P. N. 1796 (Thompson)	PSERS, making an appropriation in the amount of $42,054,000 from the PSERS fund to the PSERS Board to provide for expenses of the PSERS Board for the fiscal year July 1, 2002, to June 30, 2003.	Referred to Senate Appropriations Committee First Consideration Second Consideration Third Consideration and Final Passage (49-0)	03/13/02 03/18/02 03/20/02 03/25/02
S. B. 1394 P. N. 1912 (Orie)	Second Class County Code, permitting members who became employees of the county on or before 01/01/01to receive service credit for prior service	Referred to Senate Finance Committee First consideration **Commission Letter** (P. N. 1912) Second Consideration	04/17/02 06/19/02 09/18/02 11/18/02

	with the former Allegheny County Redevelopment Authority (ACRA), providing the member is not eligible to receive a retirement benefit for the service from any other governmental entity, that the member pays to the retirement system an amount equal to the sum of the employee and county contributions plus 6% interest per annum, as though the member has always been a member of the retirement system, and that the member make the service purchase within one year of becoming eligible to do so.		
S. B. 1395 P. N. 1913 (Orie)	Second Class County Code, permitting an active member of the system to receive up to three years of service credit for prior military service without regard to the minimum age or service requirements currently mandated by the Second Class County Code, and to be exempted from paying statutory interest of 6% per annum for the service purchase provided the member pays the required sum in full within three years of the effective date of the legislation.	Referred to Senate Finance Committee First consideration **Commission Letter** (P. N. 1913) Second Consideration	04/17/02 06/19/02 09/18/02 11/18/02
S. B. 1399 P. N. 1917 (Robbins)	PSERS, amend the PSERS Code to: Create a new class of service in the Public School Employees' Retirement System (PSERS), to be known as Class T-E, requiring all school employees who become members of the system after the effective date of the bill to become members of Class T-E, and extending the option to elect Class T-E to all current Class T-D members; mandate that only those members who become members of Class T-E will be eligible to receive future Cost-of-Living Adjustments (COLAs) enacted by the General Assembly; exclude from eligibility for future COLAs all current active members who fail to elect Class T-E membership within the election period specified in the draft bill; extend the amortization period on the liabilities associated with all prior and future COLAs from 10-year level dollar to 20-year level dollar amortization; provide a COLA, similar in structure to the 1998 COLA, to all current annuitants who retired on or before July 1, 2001;	Referred to Senate Finance Committee	04/17/02

	require the Board to re-certify the employer contribution rate for the fiscal year beginning July 1, 2002, to account for the change in amortization; and insert new definitions and make various other amendments of a technical or administrative nature.		
S. B. 1440 P. N. 2015 (C. Williams)	PSERS, permitting the purchase of an unlimited amount of nonschool service for service as a school teacher or instructor of special education classes in an approved private school, providing the member elects to purchase the service within three years of becoming eligible to do so and that the member pays the full actuarial cost of the increase in the projected superannuation benefit resulting from the service purchase.	Referred to Senate Finance Committee	05/16/02
S. B. 1443 P. N. 2018 (Mellow)	SERS, providing retroactive application of Class AA service credit for certain Class G thru M members transferred from county retirement plans to SERS pursuant to Act 12 of 1999, and requiring the Court Administrator of Pennsylvania to transfer into the SERS Fund an amount equal to the total additional unfunded accrued liabilities resulting from the benefit liberalization.	Referred to Senate Finance Committee	05/16/02
S. B. 1592 P. N. 2410 (Dent)	Municipal Police Pension Law (Act 600), increasing the maximum permissible service increment for each year of service beyond 25 years from $100 to $500; and permitting municipalities or regional police departments operating under a home rule charter which had pension plans in effect prior to the effective date of the bill that provided pensions in excess of one-half of the member's monthly average salary to continue to do so.	Referred to Senate Finance Committee	11/20/02
S. B. 1468 P. N. 2086 (Dent)	Third Class City Code, exempting from the pension benefit limitations of the Code those cities of the third class operating under an optional charter or home rule charter, and that had pension plans in effect prior to the effective date of the bill.	Referred to Senate Urban Affairs Committee	06/12/02
S. B. 1507	PSERS, mandating that the Common-	Referred to Senate Finance Committee	9/11/02

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
P. N. 2215 (Stack)	wealth pay the full amount of any required employer contributions, as set annually by the PSERS Board, that is in excess of 1.15%.		
S. B. 1508 P. N. 2217 (Stack)	PSERS and SERS Codes, beginning July 1, 2004, providing an automatic, annual COLA to annuitants of both systems based upon and equal to the CPI for the immediately preceding 12-month period.	Referred to Senate Finance Committee	9/17/02
S. B. 1535 P N. 2264 (Piccola)	SERS, amending Section 5706(c) of the Code by reducing the interest rate charged to members relating to the elimination of the effect of frozen present value from the actuarial interest rate assumption (currently 8.5%) to statutory interest (4%).	Referred to Senate Finance Committee	10/01/02
S. B. 1563 P. N. 2318 (A. Williams)	PSERS, amending Section 8346 to permit an annuitant who is a certified teacher to return to school service at any time, under any circumstances and for an unspecified time period without the loss of the member's annuity.	Referred to Senate Finance Committee	10/15/02
S. R. 160 P. N. 1706 (O'Pake)	A resolution directing the Joint State Government Commission to create a task force to review state law governing pension fund investments to protect workers and investors from fraudulent and criminal activity of company executives, pension fund investment advisors or their agents, which jeopardizes the retirement assets of Pennsylvanians; and directing that the Commission issue a report on its findings and recommendations to the General Assembly by June 30, 2002.	Referred to Senate Rules and Executive Nominations Committee	02/04/02
S. R. 265 P. N. 2214 (C. Williams)	A resolution urging the SERS, PSERS and PMRS Boards to divest any investments in the tobacco industries.	Referred to Senate Finance Committee	8/30/02
S. R. 286 P. N. 2338 (Mowery)	A resolution directing the Joint State Government Commission to study and recommend potential changes to the current funding and benefit structure of SERS and PSERS, and directing the SERS, PSERS and PERC to provide information and staff assistance as necessary.	Referred to Senate Finance Committee Adopted	10/24/02 11/26/02

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. B. 8 P. N. 611 (Stairs)	PSERS, 1) amending the definition of "eligible annuitant," effective July 1, 2001, to include members with 15 or more eligibility points who are 65 years of age or older; 2) granting additional retirement benefits of up to 3 years of service credit, entitled "enhanced-year service credit" to certain administrative employees who work longer than the normal 180 day school year; 3) permitting active members and active multiple service members to purchase up to 3 years of service credit at the rate of 1 year for every 2 years of previous nonschool service work experience used to obtain certification as a vocational teacher under a nonbaccalaureate program; 4) permitting an annuitant to be employed by a school district, intermediate unit, or area vocational school as a coach, director, or sponsor of a school activity under a separate contract without being subject to cessation of annuity or forfeiture provisions if the contract specifies that no PSERS service credit will be earned and no contributions are made to PSERS; 5) effective July 1, 2001, increasing monthly medical premium assistance payments for "eligible annuitants" from $55 to $150; and 6) providing for a "30 and out" early retirement incentive as a permanent benefit enhancement.	Referred to House Education Committee	01/24/01
		Reported as amended	02/07/01
		First consideration	02/07/01
		Laid on table	06/18/01
		Actuarial Note (P. N. 611)	03/14/01
		Commission Letter (A. 0590)	03/20/01
		Removed from table	10/23/01
		Laid on table	10/23/01
		Removed from table	12/13/01
		Laid on table	12/13/01
		Removed from table	11/25/02
		Laid on table	11/25/02
H. B. 26 P. N. 1905 (Strittmatter)	PSERS and SERS, multiplier/accrual rate increase for members of PSERS and SERS, including members of the General Assembly; reducing vesting to 5-years for all members; changing amortization period from 20 year to 10 years amortization; changing the way the employer contribution is made to PSERS for a charter school; membership eligibility for charter school employees; permitting board members to serve for 30 days past the end of their legislative terms or until appointment of their successors; changing the provisions on permitted venture capital investments; various other benefit changes.	Referred to House State Government Committee	01/31/01
		Reported as amended	02/07/01
		First consideration	02/07/01
		Re-referred to House Appropriations Committee	02/07/01
		Actuarial Note (P. N. 615)	02/08/01
		Re-reported as committed	02/12/02
		Second consideration	02/12/02
		Commission Letter (A. 0546)	03/12/01
		Commission Letter (A. 0622)	03/12/01
		Commission Letter (A. 0598)	03/12/01
		Commission Letter (A. 0599)	03/13/01
		Third consideration, with amendments	03/13/01
		Final passage (196-0)	03/13/01
		Actuarial Note (A. 0426)	03/14/01
		Referred to Senate Finance Committee	03/20/01
		Reported as committed	03/27/01
		First consideration	03/27/01

Bill Number Printer s Number (Prime Sponsor)	**Subject**	**Concise History and Status**	**Date**
		Re-referred to Senate Appropriations	04/02/01
		Committee	04/11/01
		Commission Letter (P. N. 1081)	04/30/01
		Re-reported as amended	
		Third consideration and final passage	05/02/01
		(49-0)	
		In House	05/02/01
		Referred to House Rules Committee	05/07/01
		Actuarial Note (A. 1841)	05/08/01
		Reported as amended	
		House concurred in Senate	
		amendments, as amended by the	05/08/01
		House (176-23)	
		In the Senate	
		Referred to Rules and Executive	05/08/01
		Nominations	
		Re-reported on concurrence,	05/08/01
		as committed	
		Senate concurred in House	
		amendments to Senate amend-	05/08/01
		ments (41-8)	05/08/01
		Signed in House	05/08/01
		Signed in Senate	05/17/01
		Signed by Governor, Act 9 of 2001	
H. B. 27 P. N. 3727 (Herman)	PSERS and SERS, providing a two-step COLA to annuitants of both systems beginning 7/1/02 and 7/1/03 respectively; implementing a 1% minimum employer contribution rate, and for fiscal year 2002-03, not more than 1.15%; mandating five-year smoothing for PSERS, permitting former employees of the Department of Education who were transferred to the Department of Corrections pursuant to Act 15 of 1999 to elect membership in the State Employees' Retirement System (SERS) and receive SERS age 50 retirement credits in connection with their new status as corrections employees; require that the PSERS Board re-certify the employer contribution rate for the fiscal year commencing July 1, 2002, to reflect the impact of the amendments contained in the legislation; permit a former employee of the Shippensburg University of Pennsylvania who was transferred to the Juvenile Court Judges' Commission due to an interagency transfer of staff approved by the Office of Administration and who, while an employee of Shippensburg University, had elected membership in an independent retire-	Referred to House State Government	
		Committee	01/31/01
		Reported as amended	02/07/01
		First consideration	02/07/01
		Re-referred to House Appropriations	
		Committee	02/07/01
		Actuarial Note (P. N. 616)	02/08/01
		Re-reported as committed	02/12/02
		Second consideration	02/12/02
		Final Passage (201-0)	03/12/01
		Actuarial Note (A. 0427)	03/14/01
		Referred to Senate Finance Committee	03/19/01
		Reported as committed	03/27/01
		First consideration	03/27/01
		Referred to Senate Appropriations	
		Committee	04/02/01
		Actuarial Note (Doc. #6931)	12/11/01
		Actuarial Note (Doc. #6932 & 7004)	12/11/01
		Re-reported as committed	12/11/01
		Second consideration	12/11/01
		Re-committed to Senate	
		Appropriations Committee	12/11/01
		Commission Letter (A. 4926)	12/12/01
		Commission Letter (A. 4927)	12/12/01
		Commission Letter (A. 4928)	12/12/01
		Reported as amended	04/17/02
		Commission Letter (A. 1770)	04/17/02
		Third Consideration and Final Passage	
		(50-0)	04/17/02
		In the House	

Bill Number / Printer s Number (Prime Sponsor)	Subject	Concise History and Status	Date
	ment program (TIAA-CREF) approved by the employer, to continue to participate in the alternative retirement program following the administrative transfer, or at the discretion of the employee, to elect membership in the SERS; and make various other changes of a technical, administrative or editorial nature.	House concurred in Senate amendments (193-0) Signed by Governor - Act 38 of 2002	04/17/02 04/23/02
H. B. 28 P. N. 1033 (Lewis)	PSERS and SERS, implementing recommendations of the Public Employee Retirement Commission regarding COLAs issued under Senate Resolution Number 103 of 1999 by providing for partial pre-funding of COLAs and changing the amortization for COLAs from 20-year level percentage of payroll to 10-year level dollar; and extending from 95 to 120 days the period during which an annuitant may return to school service in an emergency without loss of annuity.	Referred to House State Government Committee Reported as committed First consideration Re-referred to House Appropriations Committee **Actuarial Note** (P. N. 436) Re-reported as committed Second consideration **Commission Letter** (P. N. 436) Third consideration, with amendments Final passage (200-1) **Actuarial Note** (A. 0428) Referred to Senate Finance Committee	01/31/01 02/07/01 02/07/01 02/07/01 02/08/01 02/12/01 02/12/01 02/13/01 03/12/01 03/14/01 03/14/01 03/20/01
H. B. 62 (Special Session #1 of 2002) P. N. 54 (Bard)	PSERS, amending the PSERS Code to require the Commonwealth, beginning after June 30, 2003, to make all required contributions on behalf active and retired members necessary to provide reserves on account of prospective annuities and the full amount necessary to provide supplemental annuities and to fund the premium assistance program; and to relieve school employers from the requirement to make contributions on behalf of active members.	Referred to House Education Committee	11/04/02
H. B. 84 P. N. 2913 (Curry)	PSERS, permitting an active member or an active multiple service member to purchase an unlimited amount of service credit for previous nonschool service as a certified professional in an accredited Pennsylvania approved private (special education) school by making a payment of the full actuarial cost of the purchase.	Referred to House Education Committee **Actuarial Note** (P. N. 69) Reported as amended First consideration Laid on Table **Actuarial Note** (P. N. 2913) Removed from Table Laid on Table Second consideration Re-referred to Appropriations **Commission Letter** (A. 1173) **Commission Letter** (A. 1286)	01/23/01 04/26/01 11/19/01 11/19/01 11/19/01 12/06/01 01/23/02 01/23/02 03/12/02 03/12/02 04/08/02 04/09/02
H. B. 97	Police Officer, Firefighter, Correction	Referred to House Education	

Bill Number Printer s Number (Prime Sponsor)	Subject	Concise History and Status	Date
P. N. 82 (Cappabianca)	Employee and National Guard Member Child Beneficiary Education Act (Act 129 of 1998), expanding the scope of the act to cover law enforcement officers of the Pennsylvania Game Commission.	Committee	01/23/01
H. B. 98 P. N. 83 (Cappabianca)	Police Officer, Firefighter, Correction Employee and National Guard Member Child Beneficiary Education Act (Act 129 of 1998), expanding the scope of the act to cover an employee of a public, private, or parochial school and changing the short title of the act to reflect this expansion.	Referred to House Education Committee	01/23/01
H. B. 100 P. N. 84 (McGill)	PSERS and SERS, granting "30 and Out" in PSERS for the April 1 through June 30 quarters of 2001, 2002, and 2003, and in SERS for the two-year period from July 1, 2001, through June 30, 2003.	Referred to House State Government Committee **Actuarial Note** (P. N. 84)	01/23/01 03/14/01
H. B. 148 P. N. 131 (Orie)	Second Class County Code (Act 230 of 1953), reducing the age and service at which an Allegheny County deputy sheriff may retire and receive a full retirement allowance from only age 55 or older with 20 or more years of service to either age 50 or older with 25 or more years of service or age 55 or older with 20 or more years of service.	Referred to House Urban Affairs Committee	01/23/01
H. B. 129 P. N. 988 (Benninghoff)	SERS, granting prison security officers Class P service credit for all past and future prison security officer and military service with the pension for less than 10 years of service calculated as 2% of final average salary multiplied by the years of service credit, for 10 to 20 years of service calculated as 2% of the highest annual salary multiplied by the years of service, for 20 to 25 years of service calculated as 50% of the highest annual salary, for 25 or more years of service calculated as 75% of the highest annual salary and with the pension for those who terminate service, return to Class P service, and retire again with the pension for less than 10 years or less than 25 years if the member already had more than but less than 25 years of service before returning to service or 25 or more years of service before returning to	Referred to House State Government Committee	03/12/01

	service calculated as 2% of final average salary during the member's entire period of service multiplied by years of subsequent prison security officer service, 10 or more but less than 20 years calculated as 2% of the member's highest annual salary during the member's entire period of service multiplied by years of subsequent prison security officer service, 20 or more but less than 25 years calculated as 2.5% of the member's highest annual salary during the member's entire period of service multiplied by years of subsequent prison security officer service, and 25 or more years calculated as 5% of the member's highest annual salary during the member's entire period of service multiplied by years of subsequent prison security officer service, with the amortization payments for the resulting increase in unfunded actuarial accrued liability being paid by the Department of Corrections		
H. B. 223 P. N. 210 (Michlovic)	SERS, reducing the 10-cliff vesting to 6-year cliff vesting and 8-year cliff vesting to 5-year cliff vesting and creating new class, Class AA, with a multiplier of 1.25.	Referred to House State Government Committee **Actuarial Note** (P. N. 210)	01/25/01 04/26/01
H. B. 390 P. N. 407 (Clark)	PSERS, adding maternity leave to the definition of "creditable nonschool service" and limited to those members placed on mandatory maternity leave by their employers during the period October 31, 1978 and July 1, 1979.	Referred to House Education Committee	01/31/01
H. B. 420 P. N. 457 (LaGrotta)	PSERS and SERS, providing for the establishment of the "30 and Out" early retirement incentive as a permanent benefit enhancement.	Referred to House State Government Committee **Actuarial Note** (P. N. 457)	02/05/01 03/14/01
H. B. 433 P. N. 470 (Strittmatter)	SERS, lifting the current two percent cap on venture capital investments.	Referred to House State Government Committee Reported as committed First consideration Re-referred to House Appropriations Committee **Commission Letter** (P. N. 470) **Commission Letter** (A. 0730) **Commission Letter** (A. 0731) Second consideration Third Consideration and Final Passage (200-0)	02/05/01 02/07/01 02/07/01 02/07/01 03/19/01 03/19/01 03/19/01 03/19/01

		In Senate Referred to Senate Finance Committee	04/02/01 04/04/01
H. B. 440 P. N. 477 (Kaiser)	Municipal Police Pension Law (Act 600 of 1955), permitting spouse beneficiaries to continue to receive benefit payments in the event of remarriage.	Referred to House Local Government Committee **Advisory Note** (P. N. 477)	02/05/01 02/28/01
H. B. 456 P. N. 491 (O'Brien)	An act prohibiting a municipal employee retirement system of the City of Philadelphia from denying benefits to surviving spouses of police officers and police employees upon the subsequent remarriage of the surviving spouse.	Referred to House Urban Affairs Committee	02/05/01
H. B. 457 P. N. 492 (O'Brien)	Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147 of 1988), mandating certain additional postretirement adjustments for certain retired municipal public safety officers.	Referred to House Local Government Committee **Advisory Note** (P. N. 492)	02/05/01 03/15/01
H. B. 523 P. N. 566 (O'Brien)	SERS, permitting Bail Commissioners of the Philadelphia Municipal Court to elect class E-2 service within 30 days of the date of employment or within 30 days of the effective date of the act, and setting the class of service multiplier of 1.5 for class E-2 service.	Referred to House Judiciary Committee **Actuarial Note** (P. N. 566)	02/07/01 04/04/02
H. B. 530 P. N. 573 (Casorio)	Municipal Police Pension Law (Act 600 of 1955), increasing the maximum permissible pension benefit from 75% to 80% of final salary, reducing the time period for calculating final average salary from the last 36 months to the last 24 months of service, and increasing the maximum service increment from $100 a month to $600 a month.	Referred to House Local Government Committee **Advisory Note** (P. N. 573)	02/07/01 05/17/01
H. B. 562 P. N. 605 (Colafella)	PSERS, providing for the establishment of the "30 and Out" early retirement incentive as a permanent benefit enhancement.	Referred to House Education Committee	02/07/01
H. B. 638 P. N. 694 (Belfanti)	Municipal Police Pension Law (Act 600), reducing the service required to receive a pension from 25 years to 20 years of service.	Referred to House Local Government Committee	02/12/01
H. B. 657 P. N. 730	PSERS, permitting an annuitant to be employed by a school district,	Referred to House Education Committee	02/13/01

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
(T. Stevenson)	intermediate unit, or area vocational school as a coach, director, or sponsor of a school activity, or on a less-than-full-time basis as an instructor or administrator of an adult education or basic literacy education program under a separate contract without being subject to cessation of annuity or forfeiture provisions if the contract specifies that no PSERS service credit will be earned and no contributions are made to PSERS.		
H. B. 780 P. N. 869 (Bebko-Jones)	County Pension Law (Act 96 of 1971), reducing superannuation age from age 60 or age 55 with 20 years of service to age 60 or age 50 with 15 years of service and reducing minimum eligibility for special early retirement from age 55 with 10 years of service or 30 years of service to age 50 with 10 years of service or 30 years of service.	Referred to House Local Government Committee	02/20/01
H. B. 783 P. N. 872 (Bebko-Jones)	Act 362 of 1974, effecting cities of the third class, mandating post-retirement adjustments for nonuniformed officers and employees based on the CPI and limiting the total allowance to 50% of compensation.	Referred to House Urban Affairs Committee	02/20/01
H. B. 793 P. N. 882 (E. Z. Taylor)	PSERS, providing for the establishment of the "30 and Out" early retirement incentive as a permanent benefit enhancement.	Referred to House Education Committee	02/20/01
H. B. 821 P. N. 913 (O'Brien)	Special Ad Hoc Municipal Police and Firefighter Postretirement Act (Act 147 of 1988), granting an additional special adjustment effective January 1, 2001 to retired public safety employees who retired before January 1, 1996 calculated as ($0.15/month x years of service x years retired) x [1 + (.025 x years retired to 25) + (.075 x years retired over 25)].	Referred to House Local Government Committee **Actuarial Note** (P. N. 913)	02/27/01 03/14/01
H. B. 842 P. N. 936 (Stetler)	PSERS, extending from 95 to 120 days the period during which an annuitant may return to school service in an emergency without loss of annuity.	Referred to House Education Committee	03/06/01
H. B. 869 P. N. 2598	Second Class County Code, mandating formula-based retirement allowance	Referred to House Urban Affairs Committee	03/08/01

(Orie)	increases for retired members; providing for the housing of juvenile offenders, and miscellaneous other non-pension provisions.	First Consideration	04/04/01
		Actuarial Note (P. N. 968)	04/26/01
		Actuarial Note (A. 1257)	05/07/01
		Second consideration	06/05/01
		Referred to Appropriations	06/05/01
		Re-reported as committed	06/11/01
		Third Consideration with amendments	06/12/01
		Final Passage (197-0)	06/12/01
		Commission Letter (P. N. 2188)	06/18/01
		In Senate	
		First Consideration	06/18/01
		Second consideration with amendments	06/19/01
		Re-referred to Appropriations	06/20/01
		Third consideration with amendments	06/21/01
		Final passage (47-0)	06/21/01
		Referred to Rules	06/21/01
		House non-concurred in Senate amendments (100-91)	06/21/01
		Vote on non-concurrence reconsidered (98-89)	06/21/01
		House concurred in Senate Amendments, as amended by the House (201-0)	10/02/01
		In the Senate	
		Referred to Senate Rules Committee	10/09/01
		Re-reported on concurrence as committed	10/09/01
		Senate concurred in House amendments to Senate amendments (47-0)	10/10/01
		Signed in House	10/22/01
		Signed in Senate	10/22/01
		Signed by Governor (Act 80 of 2001)	10/30/01
H. B. 1011 P. N. 1156 (Micozzie)	Mandate Review and Relief Act, mandating legislative review and oversight of the costs of Public School and State employees' health benefit programs by the Legislative Budget and Finance Committee.	Referred to House State Government Committee	03/15/01
H. B. 1015 P. N. 1160 (Evans)	PSERS, reducing the employee contribution rate from 6.25% to 5.25% beginning July 1, 2002.	Referred to House Education Committee	03/15/01
		Commission Letter (P. N. 1160)	03/19/01
H. B. 1016 P. N. 1161 (Nickol)	PSERS and Public School Retirees' Health Insurance Act, providing for the sponsorship and administration of a group health insurance program for certain public school retirees and other individuals, providing for the powers and duties of the PSERS Board under	Referred to House Education Committee	03/15/01
		Actuarial Note (P. N. 1161)	04/26/01

BILL NUMBER **PRINTER S NUMBER** **(PRIME SPONSOR)**	**SUBJECT**	**CONCISE HISTORY AND STATUS**	**DATE**
	the Act, establishing the Public School Retirees' Health Insurance Fund, providing for health insurance premium assistance to the affected individuals, and providing for funding		
H. B. 1042 P. N. 1187 (L. I. Cohen)	Municipal Police Pension Law (Act 600), mandating rather then permitting municipal governing body to prescribe regulations for its police officer retirement system, mandating rather than permitting survivor benefits for surviving spouse or surviving children, permitting surviving spouse to receive survivor pension for life, extending period of payment of survivor pension to surviving child from age 18 to age 23 if the child is attending college, permitting the survivor pension to be 100% rather than 50% of the member's pension if the assets exceed the present value of future benefits, mandating repayment of the member contributions plus interest to the surviving spouse or child of a member who dies prior to vesting unless the member has designated another beneficiary for this purpose, and permitting both a regular retiree's pension and a disability retiree's pension to exceed 50% of the final average salary if the value of assets exceeds the present value of future benefits.	Referred to House Local Government Committee **Advisory Note** (P. N. 1187)	03/15/01 04/30/01
H. B. 1043 P. N. 4717 (Dally)	PSERS and SERS, permitting an active member of SERS who is an employee of the Delaware River Joint Toll Bridge Commission to purchase service credit for the other ½ of the member's previous service with the former Delaware River Joint Free Bridge Commission during the period after 09/01/73 and before 07/01/87 under certain circumstances;) providing for creditable leaves of absence; providing for the crediting of nonintervening military service in the class of service for which the member is eligible at the time of the service purchase election; adding game commission officers to the list of employee types classed as enforcement officers; and permitting active members of PSERS to purchase up to two years of service credit for service as a Peace Corps volunteer.	Referred to House State Government Committee **Actuarial Note** (P. N. 1188) Reported as committed First consideration Laid on table Removed from table Second consideration Re-referred to Appropriations **Commission Letter** (A. 1060) **Commission Letter** (A. 1174) **Commission Letter** (A. 1271 **Commission Letter** (A. 2511) **Commission Letter** (A. 2933) Third Consideration with amendments Final Passage (192-0) In Senate Referred to Senate Finance Committee **Actuarial Note** (A. 3114) Reported as amended First Consideration	03/15/01 10/04/01 01/28/02 01/28/02 01/28/02 02/11/02 02/11/02 02/11/02 04/01/02 04/08/02 04/08/02 06/03/02 06/04/02 06/10/02 06/10/02 06/12/02 09/26/02 11/19/02 11/19/02

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
		Second consideration Re-referred to Appropriations Re-reported as amended	11/21/02 11/21/02 11/26/02
H. B. 1046 P. N. 1200 (E. Z. Taylor)	SERS, permitting an active member to purchase up to 5 years of service credit for previous nonstate service with the American Red Cross.	Referred to House State Government Committee **Advisory Note** (P. N. 1200) **Actuarial Note** (P. N. 1200)	03/19/01 02/26/02 09/26/02
H. B. 1049 P. N. 1203 (Casorio)	Municipal Police Pension Law (Act 600), reducing the age and service at which a municipal police officer may retire and receive a full retirement allowance from age 55 or older with 25 or more years of service, to 20 years of service with no minimum age requirement.	Referred to House Local Government Committee	03/19/01
H. B. 1061 P. N. 1220 (Caltagirone)	SERS, permitting members to purchase up to five years of nonstate service as an employee of any political subdivision of the Commonwealth or as a Federal employee.	Referred to House State Government Committee	03/20/01
H. B. 1062 P. N. 1221 (Caltagirone)	PSERS, permitting members to purchase up to five years of nonstate service as an employee of any political subdivision of the Commonwealth or as a Federal employee.	Referred to House Education Committee	03/20/01
H. B. 1064 P. N. 1223 (Herman)	PMRS, extending the period during which the board may use excess investment earnings of the fund to pay for the system's administrative expenses to 2001through 2005.	Referred to House Local Government Committee **Advisory Note** (P. N. 1223)	03/20/01 07/23/01
H. B. 1116 P. N. 1292 (Hanna)	SERS, providing campus police officers with age 50 superannuation retirement.	Referred to House State Government Committee **Actuarial Note** (P. N. 1292)	03/21/01 12/06/01
H. B. 1156 P. N. 1338 (Nickol)	Act 293 of 1972, requiring municipal pension systems to have an actuarial investigation of the fund, the results of which are to be reported to the Public Employee Retirement Commission; and establishing reporting deadlines and time frames.	Referred to House Local Government Committee	03/23/01
H. B. 1161 P. N. 1347 (Lucyk)	SERS, permitting members to purchase up to five years of nonstate service as a county employee	Referred to House State Government Committee	03/26/01
H. B. 1173 P. N. 1360 (Frankel)	Act 205 of 1984 (Municipal Pension Plan Funding Standard and Recovery Act), further providing for the distribu-	Referred to House Local Government Committee **Actuarial Note** (P. N. 1360)	03/27/01 11/21/02

Bill Number / Printer s Number (Prime Sponsor)	Subject	Concise History and Status	Date
	tion of state aid to distressed municipalities under the Act.		
H. B. 1180 P. N. 1367 (Barley)	PSERS, fiscal year 2001-2002 appropriations bill for $34,297,000.	Referred to House Appropriations Committee	03/27/01
		First Consideration	04/03/01
		Second Consideration	04/04/01
		Third consideration and final passage (198-0)	04/23/01
		In the Senate	
		First consideration	04/30/01
		Second Consideration	05/02/01
		Third Consideration and Final Passage (49-0)	05/07/01
		In hands of the Governor	05/08/01
		Signed by Governor (Act 3A of 2001)	05/17/01
H. B. 1182 P. N. 1369 (Barley)	SERS, fiscal year 2001-2002 appropriations bill for $20,078,000.	Referred to House Appropriations Committee	03/27/01
		First Consideration	04/03/01
		Second Consideration	04/04/01
		Third consideration and final passage (198-0)	04/23/01
		In the Senate	
		First consideration	04/30/01
		Second Consideration	05/02/01
		Third Consideration and Final Passage (49-0)	05/07/01
		In hands of the Governor	05/08/01
		Signed by Governor (Act 2A of 2001)	05/17/01
H. B. 1224 P. N. 1415 (Travaglio)	PSERS, increasing premium assistance under the Health Insurance Premium Assistance Program from $55 to $162 per month, effective retroactively to July 1, 1992.	Referred to House Education Committee	03/29/01
H. B. 1296 P. N. 1526 (C. Williams)	PSERS, permitting an active member or an active multiple service member to purchase an unlimited amount of service credit for previous nonschool service as a special educator in an accredited Pennsylvania approved private (special education) school by making a payment of the full actuarial cost of the purchase, the payment of which begins within 3 years of eligibility.	Referred to House Education Committee	04/09/01
		Actuarial Note (P. N. 1526)	04/26/01
H. B. 1320 P. N. 1549 (Wojnaroski)	Third Class City Code (Act of 1931), increasing the maximum service increment from $100 per month to $500 per month, and increasing the employee service increment contribution	Referred to the House Urban Affairs Committee	04/09/01

	from a maximum of $1 per month to $5 per month.		
H. B. 1322 P. N. 1570 (Flick)	SERS, permitting an active member or an active multiple service member to purchase up to five years of service credit for previous nonstate service as an employee of any county, city, borough, incorporated town or township, the member was a member of or was eligible to join as a member of a local government retirement system, to include the retirement system of any county, city, borough, incorporated town or township.	Referred to House State Government Committee	04/09/01
H. B. 1334 P. N. 1561 (Travaglio)	SERS, permitting the surviving spouse of a deceased PA State Police Officer to purchase nonintervening military service under section 5505(b) if the officer member failed to do so prior to his or her death.	Referred to House State Government Committee	04/12/01
H. B. 1348 P. N. 1579 (Coy)	SERS, granting campus police officers Class P service credit for all campus police officer service with the pension for 20 to 25 years of service calculated as 50% of the member's final average salary, for 25 or more years of service calculated as 75% of the final average salary; granting Class P members age 50 superannuation age; and mandating that the amortization payments for the resulting increase in unfunded actuarial accrued liability be paid by the State System of Higher Education.	Referred to House State Government Committee	04/17/01
H. B. 1354 P. N. 1585 (Belardi)	Constitutional Amendment, permitting the payment of post-retirement adjustments to spouse beneficiaries, providing such payments are found to be actuarially sound.	Referred to House State Government Committee **Actuarial Note** (P. N. 1585)	04/17/01 11/21/02
H. B. 1360 P. N. 4010 (S. Smith)	Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act (Act 147), mandating that municipalities pay an additional post-retirement adjustment to retired municipal firefighters and police officers.	Referred to House Local Government Committee **Commission Letter** (P. N. 1683) First consideration Second consideration Third consideration and Final Passage (196-0) In the Senate Referred to Senate Finance Committee Reported as committed	04/25/01 04/30/01 06/13/01 06/18/01 06/20/01 06/21/01 12/11/01

		First consideration	12/11/01
		Re-referred to Appropriations	12/12/01
		Actuarial Note (A. 1913, A. 2542, A. 2543, and A. 2549)	05/23/02
		Re-reported as amended	06/10/02
		Second consideration	06/10/02
		Commission Letter (A. 3070)	06/11/02
		Amended on third consideration	06/11/02
		Third consideration and final passage (50-0)	06/11/02
		In the House	
		House concurred in Senate amendments (195-0)	06/12/02
		Signed by Governor (Act 64 of 2002)	06/19/02
H. B. 1361 P. N. 2225 (S. Smith)	Act 600, 1) Permitting a surviving spouse to continue to receive a survivor spouse benefit for life even if the surviving spouse remarries on or after the effective date of the bill; 2) permitting a surviving child to continue to receive a survivor benefit until reaching age 23, if the child is attending college on or after the effective date of the bill, rather than stopping the benefit at age 18 as is presently required; 3) mandating payment to the surviving spouse or surviving child or children, if no spouse survives, of a survivor benefit of no less than 50 percent of the pension the deceased member was entitled to receive or was receiving at the time of death; 4)in the case of a deceased member who is not entitled to a retirement benefit at the time of death, mandate the return of the deceased member's employee contributions (plus interest) to the deceased member's spouse or surviving child or children or other designated beneficiary; 5) mandate a disability pension benefit for permanently injured members of no less than 50 percent of the member's salary at the time the disability was incurred in service; 6) mandate the offset or reduction of the disability benefit to prevent the disability benefit from exceeding 100 percent of pre-retirement salary in the event the disabled member is also eligible to receive a Social Security disability benefit for the same injuries; 7) mandate a survivor death benefit equal to 100 percent of the member's salary at the time of death for the families of	Referred to House Local Government Committee	04/25/01
		Commission Letter (P. N. 1684)	04/30/01
		Commission Letter (A. 1804)	05/02/01
		Reported as amended	06/13/01
		First consideration	06/13/01
		Commission Letter (P. N. 2225)	06/14/01
		Second consideration	06/18/01
		Third consideration and Final Passage (196-0)	06/20/01
		In Senate	
		Referred to Senate Finance Committee	06/21/01

Bill Number Printer s Number (Prime Sponsor)	Subject	Concise History and Status	Date
	members killed in service on or after the effective date of the amended bill; and 8) eliminate the conduct of an actuarial study as a precondition for the annual reduction or elimination of member contributions.		
H. B. 1362 P. N. 2226 (S. Smith)	PMRS, liberalizing the standard for qualification for a disability retirement from the inability to engage in any gainful employment to, in the case of a police officer, the inability to perform the regular and routine duties.	Referred to House Local Government Committee	04/25/01
		Actuarial Note (P. N. 1685)	05/07/01
		Actuarial Note (A. 1800)	05/07/01
		Commission Letter (A. 2158)	06/04/01
		Reported as amended	06/13/01
		First consideration	06/13/01
		Commission Letter (P. N. 2226)	06/14/01
		Second consideration	06/18/01
		Third consideration and Final Passage (196-0)	06/20/01
		In Senate	
		Referred to Senate Finance Committee	06/21/01
H. B. 1363 P. N. 3981 (S. Smith)	Third Class City Code, increasing the permissible service increment for police officers and firefighters from $100 to not more than $500 per month and increasing the additional employee contribution from $1 to not more than $5 per month. Permitting cities of the third class that are providing retirement benefits in excess of the 50% of annual compensation limit prescribed by the Code before the effective date of the bill, to continue to do so.	Referred to House Urban Affairs Committee	04/25/01
		Actuarial Note (P. N. 1686)	05/07/01
		Commission Letter (A. 2210)	06/04/01
		Reported as amended	06/12/01
		First consideration	06/12/01
		Re-reported to Rules	06/12/01
		Commission Letter (P. N. 2183)	06/14/01
		Second consideration	06/18/01
		Third consideration and Final Passage (196-0)	06/20/01
		In the Senate	
		Referred to Senate Finance Committee	06/21/01
		Reported as amended	12/11/01
		First consideration	12/11/01
		Re-referred to Appropriations	12/12/01
		Actuarial Note (P. N. 3059)	02/07/02
		Commission Letter (A. 1602)	04/22/02
		Re-reported as amended	06/10/02
		Second consideration	06/10/02
		Third Consideration and final passage In the House	06/11/02
		House concurred in Senate Amendments (195-0)	
		To the Governor	06/12/02
		Signed by Governor (Act 65 of 2002)	06/13/02
			06/19/02
H. B. 1379 P. N. 1609 (Hanna)	SERS, providing age 50 superannuation for campus police officers.	Referred to House State Government Committee	04/23/01
H. B. 1403 P. N. 1649	Second Class City Policemen Relief Law, mandating the continuation of	Referred to House Urban Affairs Committee	04/24/01

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
(Walko)	pension payments to the spouse of a deceased member in the event of remarriage.		
H. B. 1414 P. N. 1660 (Surra)	SERS, adding Game Commission Officers to the definition of "enforcement officer" under section 5102.	Referred to House Game and Fisheries Committee	04/24/01
		First consideration	06/05/01
		Re-referred to Rules	06/05/01
		Re-reported as committed	09/24/01
		Laid on Table	09/24/01
		Actuarial Note (P. N. 1660)	10/04/01
		Removed from table	11/14/01
		Laid on table	11/14/01
		Removed from Table	01/22/02
		Laid on Table	10/21/02
H. B. 1418 P. N. 1664 (Armstrong)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), amending section 706(b)(2) of the Act to mandate that for the first five years following the merger or consolidation of one or more fire companies, the governing body shall distribute funds from the foreign fire insurance premium tax to the various relief associations in the same proportions as the year prior to the merger or consolidation.	Referred to House Local Government Committee	04/24/01
		Commission Letter (P. N. 1664)	05/14/01
		Reported as committed	06/13/01
		First consideration	06/13/01
		Second consideration	06/18/01
		Third consideration and final passage (193-0)	06/21/01
		In Senate	
		Referred to Senate Finance Committee	06/21/01
H. B. 1443 P. N. 2336 (Herman)	PSERS and SERS, mandating an annual COLA for all annuitants of both systems who have been on annuity for at least 24 months, beginning January 1, 2001. The amount of the COLA shall be as may be determined by the respective system boards.	Referred to House Education Committee	04/25/01
		Reported as amended	06/20/01
		First consideration	06/20/01
		Re-committed to Rules	06/20/01
		Re-reported as committed	09/24/01
		Laid on Table	09/24/01
		Actuarial Note (P. N. 2336)	10/04/01
		Removed from table	11/14/01
		Laid on table	11/14/01
		Removed from Table	01/22/02
		Laid on Table	10/21/02
H. B. 1484 P. N. 1803 (Wilt)	PSERS, adding subsection (d) to section 8509 of the Code by permitting eligible annuitants to elect to participate in the health insurance premium assistance program by filing an election to be covered by a health insurance carrier.	Referred to House Education Committee	05/02/01
H. B. 1485 P. N. 1804 (T. Stevenson)	PSERS, permitting members to purchase up to two years of nonschool service for time spent on a leave of	Referred to House Education Committee	05/02/01

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	absence in connection with the adoption of a child or immediately following adoption to provide care to the adoptive child.		
H. B. 1512 P. N. 1836 (Belardi)	PSERS, permitting members to purchase nonschool service for time spent on a maternity leave of absence taken as regular leave due to employer policy, and for time spent on a leave of absence in connection with the adoption of an infant child.	Referred to House Education Committee	05/03/01
H. B. 1513 P. N. 1837 (Michlovic)	PSERS, creating a new class of service, Class T-D with an accrual rate of 2.5%; reducing 10-year cliff vesting to 6-year cliff vesting.	Referred to House Education Committee	05/03/01
H. B. 1525 P. N. 1852 (Coy)	PSERS and SERS, effective July 1, 2001, providing a COLA for all annuitants of both systems whose effective date of retirement is on or before June 30, 2000; the amount of the COLA will be a percentage of the member's current monthly annuity and will be paid based upon the annuitants effective date of retirement.	Referred to House Education Committee	05/07/01
H. B. 1529 P. N. 1856 (McIlhattan)	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.	Referred to House Education Committee	05/07/01
H. B. 1533 P. N. 2288 (Belfanti)	PSERS and SERS, effective July 1, 2001, providing a COLA for all annuitants of both systems whose effective date of retirement is on or before July 1, 2001; the amount of the COLA will be a percentage of the member's current monthly annuity and will be paid based upon the annuitants effective date of retirement.	Referred to House State Government Committee	05/07/01
H. B. 1545 P. N. 1891 (Freeman)	Municipal Police Pension Law (Act 600), authorizing municipalities to pay a rebate of member contributions to retired members in cases where the police pension fund has been certified to be 100% overfunded.	Referred to House Local Government Committee	05/08/01
H. B. 1547 P. N. 2789 (M. Baker)	Pennsylvania Conservation Corps Act (Act 112 of 1984), providing that service as a Pennsylvania Conservation Corps Crew Leader will be treated as	Referred to House Environmental Resources and Energy Committee First consideration Second consideration	05/08/01 10/03/01 10/15/01

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
	state service for the purpose of calculating retirement benefits under both the SERS and PSERS Codes, and that crew leaders will be entitled to state health benefits.	Third consideration with amendments	10/30/01
		Final passage (200-0)	10/30/01
		In Senate	
		Referred to Senate Labor and Industry Committee	11/13/01
		Actuarial Note (P. N. 2789 as amended by A. 4291)	02/07/02
		Reported as committed	11/12/02
		First Consideration	11/12/02
		Re-referred to Appropriations	11/13/02
H. B. 1594 P. N. 1948 (Dally)	Municipal Police Pension Law (Act 600), mandating that full-time police officers receive up to five years of service credit for prior part-time service.	Referred to House Local Government Committee	05/10/01
H. B. 1604 P. N. 1961 (Caltagirone)	SERS, reducing superannuation age for district justices to any age upon accrual of 24 years of service or age 50.	Referred to House State Government Committee	05/17/01
		Advisory Note (P. N. 1961)	02/19/02
		Actuarial Note (P. N. 1961)	05/23/02
H. B. 1606 P. N. 1963 (Tulli)	PSERS, increasing from 95 to 120 days the period during which an annuitant may return to school service in an emergency without loss of annuity.	Referred to House Education Committee	05/17/01
H. B. 1613 P. N. 1970 (Petrone)	Second Class County Code, providing eligibility for full retirement benefits at age 50 with 20 years of service to Allegheny County Detectives.	Referred to House Urban Affairs Committee	05/17/01
H. B. 1618 P. N. 1975 (Sather)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), amending Section 704 of the Act by adding a subsection that sets the minimum distribution to each municipality at $5,000.	Referred to House Finance Committee	05/17/01
H. B. 1648 P. N. 2015 (Lederer)	SERS, permitting members of the judiciary who are active members of SERS to purchase up to 10 years of service credit for former county employment; contributions on account of credit for county service shall be determined in the same manner as provided for nonintervening military service in section 5505(b).	Referred to House State Government Committee	05/22/01
H. B. 1723 P. N. 3650 (Schroder)	PSERS, permitting a member to purchase service nonschool service for time spent on a maternity leave of absence required by the employer prior to November 1, 1978. A member may purchase up to two years of service per leave period commencing	Referred to House Education Committee	06/11/01
		Advisory Note (P. N. 2138)	03/04/02
		Reported as amended	04/10/02
		First Consideration	04/10/02
		Second consideration	04/15/02
		Re-referred to Appropriations	04/15/02

	within one year of the member's eligibility to purchase the creditable nonschool service.		
H. B. 1749 P. N. 2214 (Curry)	Municipal Police Pension Law (Act 600), providing for optional forms of pension benefit payments, each being actuarially equivalent of the form set forth in the actuarial valuation report filed with the Public Employee Retirement Commission applicable to the period; and providing for a late retirement benefit to a member of the police force who terminates employment after reaching normal retirement age.	Referred to House Local Government Committee **Actuarial Note** (P. N. 2214)	06/13/01 11/15/01
H. B. 1784 P. N. 2279 (Bunt)	Second Class County Code, permitting Allegheny County to provide a COLA to retirees that equals or exceeds the CPI.	Referred to House Urban Affairs Committee Reported as committed Re-reported to Local Government	06/19/01 06/20/01 06/20/01
H. B. 1789 P. N. 2304 (Grucela)	Municipal Police Pension Law (Act 600), adding a provision to permit the return of member contributions to former members and annuitants if such action is deemed to be actuarially sound.	Referred to House Local Government Committee	06/19/01
H. B. 1874 P. N. 2436 (Harhai)	PSERS and SERS, beginning January 1, 2001, providing an annual 3% COLA for all annuitants of both systems who have been on annuity for at least 24 months unless the boards of the respective systems determine that such an increase would jeopardize the fully funded status of the system.	Referred to House State Government Committee	08/01/01
H. B. 1886 P. N. 2448 (Frankel)	PSERS, amending section 8304 by requiring that maternity leave be credited as class T-D service.	Referred to House Education Committee	08/20/01
H. B. 1889 P. N. 2451 (Lucyk)	PSERS and SERS, amending section 8302 of the PSERS Code and section 5102 of the SERS Code to provide for the crediting of nonintervening military service purchased by active members as class T-D and class AA respectively.	Referred to House State Government Committee	08/20/01
H. B. 1930 P. N. 2508 (Herman)	Constitution of Pennsylvania, amending § 26 of article 3 to permit the General Assembly to authorize increase of retirement benefits to beneficiaries who are spouses of members of public em-	Referred to House State Government Committee	09/25/01

	ployee retirement systems, provided such increases are deemed to be actuarially sound.		
H. B. 1965 P. N. 2551 (Caltagirone)	SERS, reducing the superannuation age and service requirements for District Justices to any age upon accrual of 24 years credited service or age 50.	Referred to House State Government Committee	09/26/01
H. B. 1977 P. N. 2570 (Costa)	Second Class County Code, mandating formula-based retirement allowance increases for retired members; and permitting employees to purchase service with the county for prior service with the former Allegheny County Redevelopment Authority within three years of the effective date of the bill.	Referred to House Urban Affairs Committee	10/01/01
H. B. 2004 P. N. 2628 (Caltagirone)	Act 362 of 1945, permitting members of any third class city's retirement system to begin to receive the service increment authorized by the Act at any time, provided that the member (contributor) pays to the retirement fund a sum equal to the total contributions that would have been paid into the system plus any required monthly contributions pursuant to the Act.	Referred to House Urban Affairs Committee	10/05/01
H. B. 2025 P. N. 2664 (Wansacz)	PSERS and SERS, adding nonintervening military service to the definition of credited school and credited state service, having the effect of crediting such service as Class AA and T-D for retirement credit purposes.	Referred to House State Government Committee	10/16/01
H. B. 2034 P. N. 2672 (Coy)	PSERS, beginning with the first monthly annuity payment after July 1, 2002, providing a COLA to annuitants equal to the greater of 25% of the gross monthly annuity in effect on June 30, 2001; or an amount calculated by the PSERS board that is necessary to restore the purchasing power of annuitants' monthly annuities that annuitants earned at the time of retirement.	Referred to House Education Committee	10/16/01
H. B. 2035 P. N. 2673 (Schuler)	PSERS, beginning with the first monthly annuity payment after January 1, 2002, providing a COLA to annuitants that is an amount calculated by the PSERS board that is necessary to restore the purchasing power of annuitants' monthly annuities that annuitants earned at the time of retirement,	Referred to House Education Committee	10/16/01

	and beginning July 1, 2002, and annually thereafter, a COLA equal to the increase in the CPI for the immediately preceding calendar year, not to exceed 3%.		
H. B. 2041 P. N. 2691 (DeLuca)	SERS, amending section 5304 of the SERS Code to permit the purchase of up to five years of service credit for service as an officer or employee of a county authority.	Referred to House State Government Committee	10/17/01
H. B. 2043 P. N. 2693 (Nickol)	SERS, excluding from mandatory membership in SERS, those employees of Shippensburg University who are transferred to the Juvenile Court Judges' Commission as a result of an interagency transfer and who had previously elected membership in an independent retirement program approved by the employer. The aforementioned employees may, however, elect to become members of SERS by filing an application for membership within 90 days of becoming employees of the Juvenile Court Judges' Commission. Employees who fail to elect SERS membership within 90 days will remain members of the alternative retirement plan and be precluded from receiving service credit in SERS for service with the Juvenile Court Judges' Commission, should the employee obtain other state employment eligible for membership in SERS at some future date.	Referred to House State Government Committee **Actuarial Note** (P. N. 2693)	10/17/01 11/15/01
H. B. 2103 P. N. 2813 (L. I. Cohen)	PSERS, permitting the purchase of service credits for an unlimited number of years of service as a teacher of special education classes in an approved private school as defined in 22Pa. Code section 171.111.	Referred to House Education Committee	10/31/01
H. B. 2113 P. N. 2826 (Stern)	SERS, permitting the purchase of service credit for up to 10 years of nonstate service as an employee of a state government other than the Commonwealth, providing that the member has accrued ten eligibility points in SERS at the time of purchase, elects to purchase the service within three years of eligibility to do so, bears the full actuarial cost of the service purchase,	Referred to House State Government Committee	11/13/01

	and is precluded from receiving a lump sum distribution under Option 4.		
H. B. 2128 P. N. 2840 (Coy)	SERS, beginning with the first monthly annuity payment after July 1, 2002, providing a COLA to annuitants equal to the greater of 25% of the gross monthly annuity in effect on June 30, 2001; or an amount calculated by the SERS board that is necessary to restore the purchasing power of annuitants' monthly annuities that annuitants earned at the time of retirement.	Referred to House State Government Committee	11/13/01
H. B. 2141 P. N. 2867 (Haluska)	PSERS and SERS, beginning with the first monthly annuity payment after July 1, 2001, providing a COLA to superannuation annuitants equal to the increase in the CPI for the immediately preceding calendar year; and providing that the additional liability for the increase in benefits be amortized over 20 years through annual payments increasing 5% each year.	Referred to House State Government Committee	11/14/01
H. B. 2148 P. N. 2878 (Browne)	Third Class City Code, changing the basis used to determine pension benefits and service increments from one-half of the member's salary to <u>no less than</u> one-half of the member's salary.	Referred to House Urban Affairs Committee	11/15/01
H. B. 2150 P. N. 2971 (Hasay)	SERS, prohibiting investments in entities identified by the U.S. government as sponsors of terrorism.	Referred to House Committee on Commerce and Economic Development	11/15/01
		First consideration	11/19/01
		Second consideration	11/20/01
		Re-referred to House Appropriations	11/20/01
		Reported as amended	12/03/01
		Commission Letter (A. 4400)	12/03/01
		Third consideration and final passage(198-0)	12/04/01
		In the Senate Referred to Senate Finance Committee	12/07/01
H .B. 2151 P. N. 2972 (Hasay)	PSERS, prohibiting investments in entities identified by the U.S. government as sponsors of terrorism.	Referred to House Committee on Commerce and Economic Development	11/15/01
		First consideration	11/19/01
		Second consideration	11/20/01
		Re-referred to House Appropriations	11/20/01
		Reported as amended	12/03/01
		Commission Letter (A. 4401)	12/03/01
		Third consideration and final passage(193-0)	12/04/01
		In the Senate	

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
		Referred to Senate Finance Committee	12/07/01
H. B. 2162 P. N. 2897 (Hanna)	PSERS, amending the definition of superannuation age in section 8102 by reducing the normal retirement age for class T-A, T-B, T-C and T-D members from age 62 to age 60.	Referred to House Education Committee	11/19/01
H. B. 2187 P. N. 2947 (M. Baker and Nickol)	PSERS and SERS, providing for up to 5 years of creditable nonstate or nonschool service for service as a crewleader with the Pennsylvania Conservation Corps rendered prior to July 1, 2002, providing the member elects to purchase the service within three years of eligibility to do so, that the member pays the full actuarial cost of the benefit enhancement and that the member is prohibited from withdrawing contributions for the service purchase under Option 4.	Referred to House State Government Committee **Actuarial Note** (P. N. 2947)	11/26/01 02/07/02
H. B. 2194 P. N. 2959 (Coleman)	PSERS, permitting the purchase of up to four years of nonschool service as an elected county official of any county in the Commonwealth pursuant to a valid leave of absence.	Referred to House Education Committee	12/03/01
H. B. 2200 P. N. 3510 (DeLuca)	Public School Code of 1949, providing for penalties for submitting false information on affidavits; providing for conditional employment of teachers prior to certification; providing for firefighter and emergency service training in high schools; distribution of voter registration forms; and providing for new school construction building costs.	Referred to House Education Committee First consideration Second consideration **Commission Letter** (A. 0902) Third Consideration and final passage with amendments (184-12) In the Senate First Consideration Re-referred to Appropriations	12/03/01 01/30/02 02/11/02 03/18/02 03/26/02 06/11/02 06/17/02
H. B. 2227 P. N. 3051 (Lucyk)	SERS, providing that both intervening and nonintervening military service be credited as the class of service the member is in at the time of the service purchase election.	Referred to House State Government Committee **Actuarial Note** (P. N. 3051)	12/11/01 02/07/02
H. B. 2285 P .N. 3142 (Tigue)	PSERS, requiring that the Commonwealth make contributions into the PSERS fund sufficient to support the entire cost of the benefit increases for active members attributable to Act 9 of 2001.	Referred to House Education Committee	01/22/02
H. B. 2376	PSERS, adding a section to the PSERS	Referred to House Education	

Bill Number Printer s Number (Prime Sponsor)	**Subject**	**Concise History and Status**	**Date**
P. N. 3336 (Markosek)	Code providing for "representative payees," to whom an annuitant's monthly pension benefit would be paid following a determination by the Board that such action is in the best interest of the annuitant.	Committee	02/14/02
H. B. 2392 P. N. 3360 (Hanna)	PSERS, amending the definition of "superannuation age," effectively reducing superannuation age from age 62 (or age 60 with 30 years of service for class T-C and class T-D members) to age 60 or any age with 35 years of service.	Referred to House Education Committee	03/07/02
H. B. 2402 P. N. 4625 (T. Stevenson)	PSERS, permitting an annuitant of the System to be re-employed by a school employer in an extracurricular activity under a separate contract without being subject to the cessation of annuity provisions of the Code.	Referred to House Education Committee	03/11/02
		Reported as amended	04/17/02
		First consideration	04/17/02
		Laid on table	06/12/02
		Second Consideration	06/25/02
		Commission Letter (P. N. 3721)	06/26/02
		Commission Letter (A. 3993)	06/27/02
		Commission Letter (A. 4018)	06/27/02
		Third Consideration and final passage (196-0)	06/27/02
		In Senate	
		Referred to Senate Finance Committee	06/28/02
		Reported as amended	11/19/02
		First Consideration	11/19/02
		Second Consideration	11/21/02
		Commission Letter (P. N. 4625)	11/21/02
		Re-referred to Appropriations	11/21/02
		Re-reported as committed	11/26/02
H. B. 2426 P. N. 3442 (Boyes)	PSERS, adding the definition of "median employer contribution rate," establishing the employer contribution reserve fund and requiring employer school districts to make contributions to this fund and to utilize moneys accumulated in the fund to offset the costs to school districts associated with unexpected increases in the employer contribution rate.	Referred to House State Government Committee	03/14/02
H. B. 2461 P. N. 3498 (Benninghoff)	PSERS and SERS, beginning July 1, 2002, providing a COLA to annuitants of both systems equal to 25% of the gross monthly annuity in effect on June 30, 2001; and beginning July 1, 2003, and annually thereafter, a COLA equal to the increase in the CPI for the immediately preceding calendar year.	Referred to House Education Committee	03/26/02
H. B. 2471	SERS, permitting an annuitant to re-	Referred to House State Government	

Bill Number Printer s Number (Prime Sponsor)	Subject	Concise History and Status	Date
P. N. 3537 (Herman)	turn to state service without cessation of annuity if the annuitant returns as an employee of a university within the SSHE.	Committee	03/27/02
H. B. 2525 P. N. 3603 (Fleagle)	SERS, making an appropriation in the amount of $20,869,000 from the SERS Fund to the SERS Board for administrative expenses of the Board for the fiscal year beginning July 1, 2002.	Referred to House Appropriations Committee	04/08/02
		First consideration	04/09/02
		Second consideration	04/10/02
		Third consideration and final passage (194-0)	04/29/02
		In the Senate	
		Referred to Senate Appropriations Committee	05/01/02
		First consideration	05/06/02
		Second consideration	05/07/02
		Third consideration and final passage (49-0)	05/08/02
		To Governor	06/04/02
		Signed by Governor (Act 5A of 2002)	06/12/02
H. B. 2526 P. N. 3604 (Fleagle)	PSERS, making an appropriation in the amount of $42,054,000 from the SERS Fund to the PSERS Board for administrative expenses of the Board for the fiscal year beginning July 1, 2002.	Referred to House Appropriations Committee	04/08/02
		First consideration	04/09/02
		Second consideration	04/10/02
		Third consideration and final passage (194-0)	04/29/02
		In the Senate	
		Referred to Senate Appropriations Committee	05/01/02
		First consideration	05/06/02
		Second consideration	05/07/02
		Third consideration and final passage (49-0)	05/08/02
		To Governor	06/04/02
		Signed by Governor (Act 4A of 2002)	06/12/02
H. B. 2568 P. N. 3696 (Roberts)	PSERS and SERS, providing a cost-of-living adjustment to annuitants of both systems beginning July 1, 2001, equal to the CPI for the immediately preceding calendar year, and amortizing the additional liability resulting from the COLA over 20 years increasing 5% per year.	Referred to House State Government Committee	04/16/02
H. B. 2582 P. N. 3736 (Harhai)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), providing for the establishment of in service retirement option plans by local governments and making various amendments of a technical, editorial or administrative nature.	Referred to House Local Government Committee	04/18/02
		Actuarial Note (P. N. 3736)	05/23/02

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	**SUBJECT**	**CONCISE HISTORY AND STATUS**	**DATE**
H. B. 2591 P. N. 3878 (Bunt)	County Pension Law (Act 96 of 1971), reducing required service for vesting from eight to five years; and empowering the county retirement board to establish, by rule, additional member classes of 1/50 class and 1/40 class with a required 9% employee contribution for each class, and permitting current members of the retirement system to transfer to these new classes.	Referred to House Local Government Committee	04/18/02
		Reported as amended	05/08/02
		First consideration	05/08/02
		Actuarial Note (P. N. 3878)	05/23/02
		Second consideration	06/04/02
		Commission Letter (A. 3218)	06/11/02
		Third Consideration and final passage (198-0)	06/11/02
		In Senate	
		Referred to Senate Finance	06/12/02
		Reported as committed	10/09/02
		First consideration	10/09/02
		Re-referred to Appropriations	11/12/02
H. B. 2595 P. N. 4633 (Pippy)	Second Class County Code, permitting members who became employees of the county on or before 01/01/01to receive service credit for prior service with the former Allegheny County Redevelopment Authority (ACRA), providing the member is not eligible to receive a retirement benefit for the service from any other governmental entity, that the member pays to the retirement system an amount equal to the sum of the employee and county contributions plus 6% interest per annum, as though the member has always been a member of the retirement system, and that the member make the service purchase within one year of becoming eligible to do so; and permitting an active member of the system to receive up to three years of service credit for prior military service without regard to the minimum age or service requirements currently mandated by the Second Class County Code, and to be exempted from paying statutory interest of 6% per annum for the service purchase provided the member pays the required sum in full within three years of the effective date of the legislation.	Referred to House Urban Affairs Committee	04/18/02
		First consideration	05/08/02
		Second Consideration	06/11/02
		Commission Letter (P. N. 3748)	06/14/02
		Third Consideration and final passage (200-0)	06/25/02
		In Senate	
		Referred to Finance	06/28/02
		Reported as committed	10/09/02
		First consideration	10/09/02
		Re-referred to Appropriations	11/12/02
		Commission Letter (P. N. 3748)	11/13/02
		Re-reported as amended	11/19/02
		Second Consideration	11/21/02
		Commission Letter (P. N. 4633)	11/22/02
		Third Consideration and final passage (49-0)	11/25/02
		In the House	
		Referred to Rules	11/26/02
		Reported as committed	11/26/02
		House concurred in Senate amendments (196-0)	11/26/02
		To the Governor	12/02/02
H. B. 2596 P. N. 3749 (Pippy)	Second Class County Code, permitting an active member of the system to receive up to three years of service credit for prior military service without regard to the minimum age or service requirements currently mandated by the Second Class County Code, and to be exempted from paying statutory interest of 6% per annum for the service purchase provided the member pays the	Referred to House Urban Affairs Committee	04/18/02
		First consideration	05/08/02
		Second Consideration	06/11/02
		Referred to Appropriations	06/11/02
		Actuarial Note (P. N. 3749)	09/26/02

	required sum in full within three years of the effective date of the legislation.		
H. B. 2620 P. N. 3823 (Markosek)	PSERS, permits an active member or an active multiple service member of the Public School Employees' Retirement System (PSERS) to retire during various periods of time with less than 35 eligibility points without the member's annuity being reduced on account of a retirement age that is under superannuation age.	Referred to House Education Committee	05/06/02
H. B. 2630 P. N. 3811 (Daley)	PSERS and SERS, opening a new "30 and Out" special early retirement window beginning, for active members of PSERS, with the effective date of the bill through July 10, 2002, and again from April 1, 2003 through June 30, 2003; and for active members of SERS, from July 1, 2002 through June 30, 2003.	Referred to House State Government Committee	05/01/02
H. B. 2655 P. N. 4563 (Nickol)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), providing for the establishment of in service retirement option plans by local governments and making various amendments of a technical, editorial or administrative nature.	Referred to House Local Government Committee	05/13/02
		Actuarial Note (P. N. 3904)	05/23/02
		Reported as amended	11/12/02
		First Consideration	11/12/02
		Second Consideration	11/13/02
		Re-referred to Appropriations	11/13/02
		Commission Letter (P. N. 4563)	11/14/02
		Commission Letter (A. 5457)	11/18/02
		Commission Letter (A. 5406)	11/19/02
		Commission Letter (A. 5619)	11/19/02
		Re-reported as Committed	11/19/02
		Re-committed to Appropriations	11/26/02
H. B. 2695 P. N. 3996 (Schuler)	PSERS, amending the definition of an "approved leave of absence," to include service as a teacher lecturing, teaching, or conducting research under a Federal grant, and providing for the crediting of same as nonschool service.	Referred to House Education Committee	06/11/02
H. B. 2732 P. N. 4075 (Solobay)	Municipal Pension Plan Funding Standard and Recovery Act (Act 205), requiring firefighter relief associations to annually certify to the Auditor General the amount of funds held in trust and providing for forfeitures; providing for minimum payments to municipalities.	Referred to House Finance Committee	06/20/02
H. B. 2788 P. N. 4210	Third Class City Code, increasing the survivor annuity from 50% to 100% of	Referred to House Urban Affairs Committee	07/01/02

Bill Number Printer s Number (Prime Sponsor)	Subject	Concise History and Status	Date
(Jadlowiec)	the member's pension at death; permitting a surviving spouse to continue to receive a survivor spouse benefit for life even if the surviving spouse remarries; authorizing cities to provide postretirement adjustments to annuitants and survivors at any time based upon the CPI or another uniform scale; providing a formula for the calculation of service increments and corresponding member contributions; and permitting the withdrawal of service increment contributions by members separating from service.		
H. B. 2835 P. N. 4286 (Harhart)	PSERS, establishing a "Supplemental Annuity Reserve Account" from which all future COLAs will be paid; establishing a mechanism for crediting and debiting amounts to the supplemental annuity account; and establishing "set-aside" amounts to be credited annually to the supplemental annuity reserve account based upon the Fund's actuarial assumed rate of return and the Fund's time-weighted rate of return.	Referred to House Education Committee	9/23/02
H. B. 2840 P. N. 4301 (Bard)	PSERS, mandating that the Commonwealth pay the full amount of any required employer contributions, as set annually by the PSERS Board, that is in excess of 1.15%.	Referred to House State Government Committee	9/24/02
H. B. 2844 P. N. 4305 (DeLuca)	PSERS and SERS, prohibiting the Boards of the Systems from investing the assets of the Funds in any stock or obligation of any foreign corporation that has entered into a "foreign expatriation transaction."	Referred to House State Government Committee	9/24/02
H. B. 2995 P. N. 4655 (Lewis)	PSERS and SERS, adding a subsection to both Codes requiring the Boards of both systems to establish policies dealing with proxy voting.	Referred to House State Government Committee	11/20/02
H. R. 123 P. N. 1343 (Tangretti)	Establishing and directing a select committee of the General Assembly to consider issues related to a uniform municipal pension system and portability among municipal police pensions; and directing the Public Employee Retirement Commission to assist the select committee by providing staff and technical expertise.	Referred to House Rules Committee	03/26/01

BILL NUMBER PRINTER S NUMBER (PRIME SPONSOR)	SUBJECT	CONCISE HISTORY AND STATUS	DATE
H. R. 266 P. N. 2371 (Nickol)	Directing the Public Employee Retirement Commission to undertake a study relating to the nature of defined benefit vs. defined contribution retirement plans and to report its findings to the General Assembly by December 31, 2002.	Introduced as non-controversial resolution under Rule 35 Adopted (189-0)	06/21/01 06/21/01
H. R. 405 P. N. 3191 (Thomas)	Directing the House Consumer Affairs Committee to investigate the effects of the financial collapse of Enron Corp. on the economy of the Commonwealth, including any effects on the public pension funds.	Referred to House Rules Committee	01/29/02
H. R. 661 P. N. 4296 (Boyes)	Directing the Public Employee Retirement Commission to undertake a study relating to implementation of a statewide retirement program for volunteer firefighters and to report its findings to the General Assembly.	Referred to House Rules Committee Adopted (199-0)	09/24/02 10/07/02

APPENDIX E

CONCISE INDEX TO ACTUARIAL NOTES