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Commonwealth of Pennsylvania  
Public Employee Retirement Commission

# **SPECIAL REPORT:**

**Study of the Current Structure of Local Government  
Retirement Systems and Recommended Establishment  
of a Statewide Retirement System**

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Retirement Systems and Recommended Establishment  
of a Statewide Retirement System**

Commonwealth of Pennsylvania  
Public Employee Retirement Commission  
Harrisburg, Pennsylvania  
December 1992

## **PUBLIC EMPLOYEE RETIREMENT COMMISSION**

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COMMONWEALTH OF PENNSYLVANIA  
PUBLIC EMPLOYEE RETIREMENT COMMISSION  
HARRISBURG  
17120  
December 1992

To: Governor Casey and Members of the General Assembly

The Public Employee Retirement Commission was created in 1981 and was directed to immediately develop and recommend legislation to remedy the serious problems with municipal retirement plans. After the Commission's report and the subsequent deliberations, the Commonwealth recognized a local government retirement system totally out of control and initiated a basic reform with the enactment of Act 205 of 1984. This basic reform measure required local governments to fund their employee retirement systems on an actuarial basis and averted potential insolvency of multiple local government retirement funds. As a stop-gap measure, Act 205 established a certain degree of order but did not address the fundamental issue of structure. The Commonwealth must now move beyond crisis management efforts and effect a comprehensive, fundamental reform of its local government retirement systems.

The attached report was prepared to assist you in the significant task of reforming the structure of local government retirement systems in Pennsylvania. The report examines the current structure of local government retirement systems, presents the Commission's recommendations for changing that structure, and contains proposed legislation implementing the Commission's recommendations. The proposed legislation will be introduced in both the House and Senate in the near future to provide a focus for subsequent legislative deliberations of the issue.

The report shows that the retirement needs of local government employees can be more efficiently and effectively provided through a statewide retirement system. The proposed statewide local government retirement system would potentially save as much as \$62 million annually while providing enhanced retirement benefits for local government employees. Delay in addressing the issue continues inequities and hardships for local government employees and perpetuates inefficiencies for local governments. Delay also assures that increased costs will be incurred when the proposed reform is ultimately implemented. Considering the consequences, I am hopeful that you will share the Commission's conviction that the structure of Pennsylvania's local government retirement systems must be reformed without delay.

The time is right, the need is evident, and broad based support exists for the proposed restructuring of local government retirement systems. On behalf of the Commission, I am asking for your active assistance and support in this important reform effort.

Sincerely,

A handwritten signature in cursive script that reads "Dale D. Stone".

Dale D. Stone  
Chairman



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## EXECUTIVE SUMMARY

The decentralized administrative structure used in the Commonwealth to provide retirement benefits for local government employees is unique. No other state approaches Pennsylvania in the number of individual retirement systems — some 2,600 and growing. Two-thirds of the State's local government retirement systems have ten or fewer active members.

Long-standing, substantial deficiencies in policy guidance have rendered Pennsylvania's local government retirement system ineffective in meeting the needs of local governments and their employees. The following report documents many serious problems with the current structure of local government retirement systems. The problems include:

- Deficiencies in statutory framework,
- Lack of pension portability,
- Inflated pension costs,
- Administrative inefficiencies and inadequacies, and
- Benefit disparities.

To effectively address these problems, the report recommends:

**That the current decentralized administrative structure for local government retirement systems be replaced with one statewide retirement system;**

**That participation in the statewide retirement system for local government employees be required only where the local government has elected or elects to provide retirement benefits.**

**That the statewide retirement system for local government employees be gradually phased-in over 20 to 30 years by mandating participation only for newly hired employees while providing incentives for local governments to elect participation for current employees; and**

**That the statewide retirement system for local government employees be implemented by expanding the State Employees' Retirement System to provide additional membership classifications designated for local government employees.**

The report shows that full implementation of a centralized local government retirement system, as proposed, represents a potential long-term savings of more than \$62 million annually. While reducing costs through administrative efficiencies, the proposed centralized local government retirement system would effect:

1. Improved quality and uniformity in the retirement-related services provided to municipal employees, and
2. Enhanced retirement benefits for local government employees by implementing varying increases in basic pension benefits as well as statewide pension portability.

Implementing the proposed centralized local government retirement system would also greatly facilitate the Commonwealth's efforts to monitor both the operation of the retirement system and the equity and adequacy of the retirement provisions.

The Commission also reports that the current General Municipal Pension System State Aid Program is not functioning in a manner consistent with sound public pension policy and recommends that the program be modified in conjunction with implementation of the centralized local government retirement system. The recommended modification gradually reduces the limit on the state aid allocations from 100 percent to 75 percent of the pension costs of recipient municipalities and transfers any allocation in excess of the new limit to the individual municipal accounts within the statewide retirement system.

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## INTRODUCTION

Subsequent to the enactment of the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984), the Public Employee Retirement Commission issued reports on the status of the Commonwealth's local government pension plans in 1987, 1989 and 1991. In those reports, the Commission noted the need for continued attention to local government retirement systems and indicated its intent to review and analyze specific local government retirement issues requiring the attention of Commonwealth policymakers. The Commission identified the current structure of local government retirement systems as foremost among the issues needing to be addressed.

Pennsylvania is unique among the states in the degree of decentralization existing in its local government retirement system structure. Under approximately 50 enabling statutes, local governments in Pennsylvania have established more than 2,600 pension plans, four times the number of plans of any other state. Almost all of these plans are small, and many (30%) of them have three or fewer active members. Yet viewed in the aggregate, Pennsylvania's local government retirement systems represent one of the largest public employee pension plans in the nation, providing retirement coverage for over 117,000 active local government employees, maintaining almost \$4.5 billion in assets and responsible for more than \$7.6 billion in actuarial accrued liabilities.

The Commission undertook this study to evaluate the current local government retirement system structure to determine whether it represents the most effective means by which Pennsylvania's local governments can provide retirement coverage for their employees. In initiating the study, the Commission determined to first address the basic question of whether the current structure should be maintained or replaced. The answer to this fundamental question would then determine the focus for the remainder of the study. A determination that the current structure should be maintained would lead to a comprehensive review of all local government pension statutes in order to develop recommended revisions. However, if the Commission's analysis evidenced that the current structure was inadequate and needed to be replaced, the remainder of the study would be directed to the development and recommendation of a replacement structure.

The study presents background information on Pennsylvania's current local government retirement system structure, identifying deficiencies in the statutory framework and describing the number, size and diversity of plans comprising the system. The report

discusses the two basic approaches which may be used to provide retirement system coverage for local government employees and presents information on the prevailing practices in other states. The alternative approaches to local government retirement system administration, centralized and decentralized, are evaluated from various public pension policy, benefit design, administrative and plan membership perspectives. Following this analysis, the Commission presents its findings concerning the structure of Pennsylvania's local government retirement systems. Based on these findings, the Commission recommends a future course for local government retirement system administration and develops detailed recommendations for implementation.

Unless stated otherwise, the statistical information presented throughout the report was derived from the local government pension plan reports submitted to the Commission pursuant to the requirements of Act 205 of 1984 and Act 293 of 1972. The valuation date for the Act 205 reports submitted by municipalities other than counties was January 1, 1989, and the valuation date for the Act 293 reports submitted by counties was January 1, 1988.

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## PART I

### THE CURRENT SITUATION

A basic understanding of any retirement system can be acquired through reviewing its policy framework and administrative structure. An examination of these same two components can therefore provide an understanding of the current situation of local government retirement systems in Pennsylvania. The following discussion examines the State laws which comprise the policy framework for local government retirement systems and describes the administrative structure used to provide pension benefits to local government employees in the Commonwealth. To provide additional understanding of the current situation, the discussion also presents information on problems with the local government retirement system of Pennsylvania.

#### POLICY FRAMEWORK

The policy framework for the operation of local government retirement systems is largely contained in approximately fifty State statutes enacted over the last sixty years. The individual statutes are identified in Appendix I of this report. Because of the large number of statutes and their dissimilar provisions, a comprehensive description of the policy framework for Pennsylvania's local government retirement system is difficult to prepare and has little utility. However, a sense of the policy framework can be obtained through the following description of the number and age of statutes governing local government police pension plans.

Cities of the First Class - There are at least five statutes including: an 1893 act that was amended in 1929, 1937, 1947, 1963, and 1984 and repealed in parts in 1915, 1931, and 1935; a 1915 act that superseded a 1913 act and was amended in 1917, 1923, 1945, 1947, 1949, 1951, 1953, 1956, and 1978; a 1919 act continuing certain provisions of an 1885 act that was repealed; a 1963 act; and a 1969 act.

Cities of the Second Class - There are at least two statutes including a 1917 act that replaced a private arrangement legislatively chartered in 1874 and a 1935 act that was amended in 1947, 1949, 1953, 1955, 1956, 1957, 1959, 1961, 1963, 1965, 1967, 1969, 1970, 1972 and 1974.

Cities of the Third Class - There is one 1931 act that was amended in 1933, 1935, 1943, 1945, 1947, 1949 and 1951 and reenacted and amended in 1951, with subsequent amendments in 1955, 1957, 1958, 1959, 1960, 1961, 1963, 1965, 1969, 1970, 1978, 1980, 1982, 1988 and 1990.

Boroughs and Townships - In boroughs and townships with three or more full time police officers, there is one 1956 act, which repealed in part acts of 1927, 1931, 1933 and 1949, that was amended in 1957, 1961, 1956, 1970, 1971, 1972, 1973, 1974, 1979 and 1990. In boroughs and townships with less than three full time police officers, there is a 1943 act and a 1949 act, which are both generally applicable; a 1966 act amended in 1979, 1982, and 1984 that applies only to boroughs; a 1931 act amended in 1949, 1956, 1967, 1980 1982, and 1985 that applies only to townships of the first class; and a 1933 act amended in 1947, 1949, 1956, 1959, 1980, 1982, and 1988 that applies only to townships of the second class.

The statutory situation for the retirement plans of both firefighters and nonuniformed employees in cities is very similar to the statutory situation for police officers described above. However, there are no statutory provisions specifically applicable to retirement plans for firefighters in boroughs and townships, and the statutory provisions governing retirement plans for nonuniformed employees in boroughs, townships and municipal authorities are extremely limited in scope.

By specifically examining the variation in the scope of the statutory provisions, additional insight on the policy framework for Pennsylvania's various local government retirement plans can be obtained. The diversity in the scope of local government retirement laws can best be demonstrated by contrasting two specific statutes. The six-page statute governing nonuniformed pension plans in cities of the third class: establishes a pension board, defines key terms, specifies mandatory and optional benefits, prescribes age and service requirements and addresses administrative considerations. The statute governing nonuniformed pension plans in boroughs is limited to one sentence in the Section 1202(37) of the Borough Code, relating to insurance, that indicates a borough may "contract with providers . . . for annuities and pensions" and a second sentence in Section 1302(2) of the Borough Code, relating to special tax levies, that indicates a borough may annually levy and collect a tax at a rate of not more than one-half mill "to provide for pensions, retirement, or the purchase of annuity contract for borough employees." With the scope of the statutory provisions ranging from broad with regulatory detail to narrow without regulatory detail, it is clear that the scope of the statutory provisions governing many of Pennsylvania's local government retirement plans is inappropriate.

Additional insight into the policy framework established by the structure of statutes governing local government retirement plans can be acquired by examining the diversity in benefit provisions for local government employees. Because a degree of disparity in the benefit provisions for various employee categories is typical in the public sector, the best way to examine the degree of diversity in benefit provisions is by comparing the benefit provisions provided to employees performing the same function. Due to the assured similarity of function, police employee benefits provide a reliable basis for a comparison. The three principle statutory environments for municipal police pension plans are the Third Class City Code, the Municipal (Borough and Township) Police Pension Law, and the numerous statutes optionally applicable to borough and township police pension plans with less than three members. The following synopsis shows the considerable variation that exists in two selected benefit plan provisions under these statutes.

PLAN TYPE	ELIGIBILITY REQUIREMENTS	MEMBER CONTRIBUTIONS
City	Age 50 with 20 years of service; or Any age with 20 years of service.	5% of salary plus \$12 dollars per year; Contributions refunded without interest upon death or termination prior to retirement eligibility.
Borough/ Township	Age 55 with 25 years of service; or Age 50 with 25 years of service.	8% of salary maximum; 0% of salary minimum; Contributions refunded with interest upon death or termination prior to retirement eligibility.
Optional Borough/ Township	Age 65 with 20 years of service; or Any age with 20 years of service.	4% of salary maximum; 0% of salary minimum; Contributions refunded with or without interest upon death or termination prior to retirement eligibility.

In addition to the examples provided in the above synopsis, there are many other significant variations in the benefit provisions prescribed for local government police pension plans. The extent of diversity in the benefit provisions of local government police pension plans can be measured quantitatively. Under the entry age normal actuarial cost method, the normal cost rate can provide a reliable means of pricing the benefit provisions of multiple pension plans if standard actuarial assumptions and demographic data are employed in the analysis. Using that methodology, the computed costs of the benefit packages authorized under the various statutes for local government police pension plans range from a low of 7.5 percent of payroll to a high of over 25 percent of payroll. Actually, the variation in police pension benefit provisions is even greater than this computed range because of the home rule charters adopted by some local governments, which provide autonomy in the determination of benefit provisions, and the recent trend for the collective bargaining and judicial processes to effect benefit provisions not authorized in the statutes governing local government retirement systems. The extent of the variation in the benefit provisions for local government employees performing the same function is clearly outside of the acceptable range that may be viewed as necessary to accommodate the differing needs and resources of local governments.

Additional understanding of the policy framework for local government retirement systems in Pennsylvania can be acquired through an examination of local government retirement statutes from a technical perspective. Following are brief discussions of selected technical provisions found in various local government retirement statutes.

- In The Municipal Police Pension Law (53 P.S. § 767 et seq.), which governs over 900 police pension plans in boroughs and townships, authorization to take certain actions is conditioned on whether the action will be "actuarially sound." The term "actuarially sound" has no exact meaning to actuaries or the public. "Actuarially sound" may mean a fully funded condition or simply in conformance with an actuarial funding method. As a result, the authority for local government officials to take significant actions is subject to whether the actions adhere to an undefined concept.

- The Third Class City Code and the Municipal Police Pension Law indicate that retired police employees "shall be subject to service, from time to time, as a police reserve until unfitted for such service." The same provisions also exist for firefighters under the Third Class City Code. Compulsory service after retirement is not consistent with the current status of employer/employee relations in the public sector.
- The statutes governing police pension plans in cities (first class, second class and second class A), boroughs and townships prohibit "attachment, execution, levy, garnishment or other legal process" against the pension benefits and indicate that the pension benefits "shall not be subject to assignment or transfer." There is now an exception to these provisions effected through case law and federal statute. The Pennsylvania Superior Court has held that a spouse's interests in pension benefits are a form of marital property subject to equitable distribution, and the Internal Revenue Code of 1986 indicates that a public employee retirement system must honor a qualified domestic relations order.
- The optional retirement law for nonuniformed employees in cities of the third class requires retirement at age 70. The Federal Age Discrimination in Employment Act prohibits mandatory retirement except in instances where physical condition is shown to be a significant factor in job performance.
- The sections of the Third Class City Code governing both police and firefighter pension plans provide for increases in the retirement allowances provided to persons other than retired members. The State Constitution has been interpreted as prohibiting increases in retirement allowances provided to persons other than retired members.

The preceding examples serve to convey the fact that significant technical deficiencies exist in the statutes that comprise the policy framework for local government retirement systems. Technical deficiencies occurred in the past because the initial legislative proposals were drafted without adequate knowledge of or concern for technical requirements, and they have become ubiquitous because of the lack of ongoing, broadly focused attention and the absence of political support for remedial efforts.

The preceding discussion has demonstrated several significant aspects of the policy framework for Pennsylvania's local government retirement systems: multiplicity and complexity of statutes, variable guidance for administrative procedures, inconsistency in benefit provisions and widespread technical deficiencies. The discussion also evidences that the statutes governing local government retirement systems in Pennsylvania do not actually represent a policy framework, since by definition a framework entails an integrated structure. Instead of being developed as an integrated policy framework, the State's local government retirement statutes evolved as an unstructured collection of legislative proposals enacted and amended in a piecemeal fashion over the last sixty years. Because this evolutionary development process lacked coordination, continuity and technical expertise, the current statutes governing local government retirement systems do not provide adequate policy guidance for this complex and costly governmental function.

## **ADMINISTRATIVE STRUCTURE**

Pennsylvania has a complex system of local government comprised of over 4,500 governing units. General purpose local governments — cities, boroughs, towns and townships — total more than 2,600 governing units. Special purpose local governments — municipal authorities — total approximately 1,900 units, and counties total 67 units. General purpose local governments in



Pennsylvania in most instances establish separate pension plans for their police, fire and nonuniformed employees, while counties and municipal authorities generally establish one pension plan for nonuniformed employees. To date, the local governments in the Commonwealth have established approximately 2,600 pension plans. Chart I shows the number of local government pension plans grouped by the type of employee and by the type of local government as of 1989. Pennsylvania's local government pension plans are estimated to comprise more than 25 percent of the total number of public employee pension plans in the United States. Additional perspective on the number of local government pension plans in Pennsylvania can be gained from the fact that only a few states have more than 10 retirement systems for their public employees.

**CHART I**

**Number of Local Government Pension Plans**

	<u>Police</u>	<u>Fire</u>	<u>Nonuniformed</u>	<u>Total</u>
County	1	0	69	70
City	57	46	60	163
Borough	537	21	439	997
Township (1st)	88	5	94	187
Township (2nd)	297	3	470	770
Authority	0	0	395	395
Council of Government	10	0	7	17
<b>Total</b>	<b>990</b>	<b>75</b>	<b>1,534</b>	<b>2,599</b>

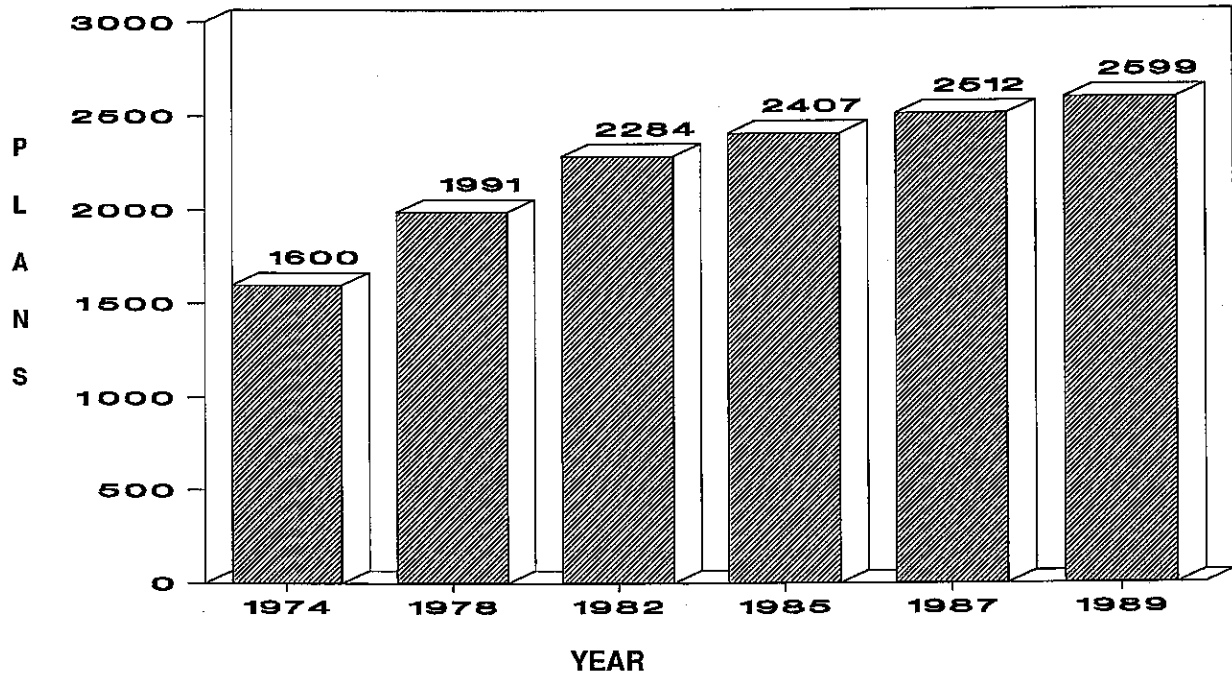
January 1989

The over 4,500 local government units in Pennsylvania have the potential to establish more than 7,000 pension plans. Graph I shows the growth in the number of local government pension plans since state reporting requirements were initiated in 1974. Although reporting irregularities, varying reporting criteria, and a reporting frequency change have impacted on the data, the general trend is clear — the number of local government pension plans in the Commonwealth is continuing to increase.

Generally, pension plans may be categorized as either defined benefit or money purchase depending on how the pension benefits are determined. In defined benefit pension plans, the pension benefit to be payable at retirement is defined in some manner and a resultant actuarial liability is established and funded. Most of the defined benefit pension plans established by municipalities in Pennsylvania are "self-insured" pension plans. In self-insured, defined benefit pension plans, some or all of the risk of providing the pension benefits remains with the municipality. In the few instances where municipalities have established "fully insured", defined benefit pension plans, the assets of the pension plans are allocated to individual members through insurance instruments prior to retirement, and the risk of providing the pension benefits is fully assumed by the insurance

GRAPH I

GROWTH IN NUMBER OF LOCAL GOVERNMENT PENSION PLANS

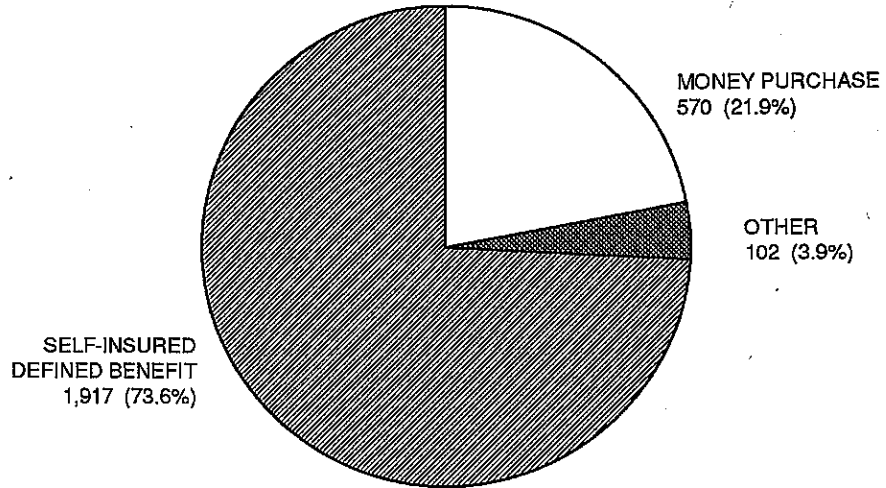


companies. In 1989 the defined benefit pension plans established by local governments in Pennsylvania were comprised of 1,917 self-insured pension plans and 21 fully-insured plans. In addition to these self-insured and fully-insured pension plans, 63 defined benefit pension plans were provided by municipalities through participation in Taft-Hartley Act collectively bargained, jointly trusted, multi-employer pension plans. Graph II shows that approximately 75 percent of the local government pension plans in Pennsylvania were self-insured, defined benefit pension plans, and Graph III conveys the fact that over 90 percent of the State's local government employees with pension benefit coverage were members of self-insured, defined benefit pension plans.

In money purchase pension plans, the pension benefit is determined by the monies accumulated in the retiring employee's account up to the time of retirement. Money purchase pension plans may be funded with defined contributions or less formal funding mechanisms, both of which allocate monies to the individual member accounts prior to retirement. In 1989 the money purchase pension plans established by Pennsylvania's local governments were comprised of 492 defined contribution pension plans and 78 pension plans with no scheduled funding method. Graph II evidences that money purchase pension plans represented approximately 22 percent of the local government pension plans in the Commonwealth, while Graph III shows that the members of money purchase pension plans represented only about 5 percent of the local government employees with pension benefit coverage.

**GRAPH II**

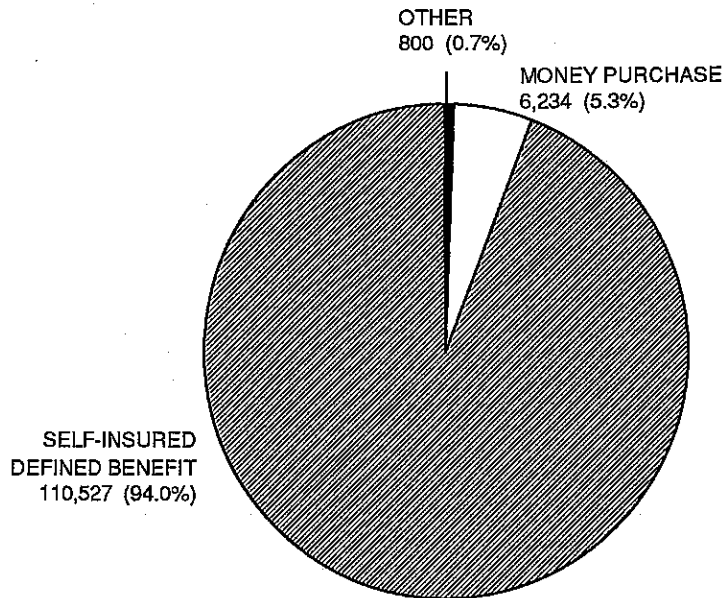
**DISTRIBUTION OF LOCAL GOVERNMENT PENSION PLANS  
BY TYPE OF PENSION PLAN**



January 1989

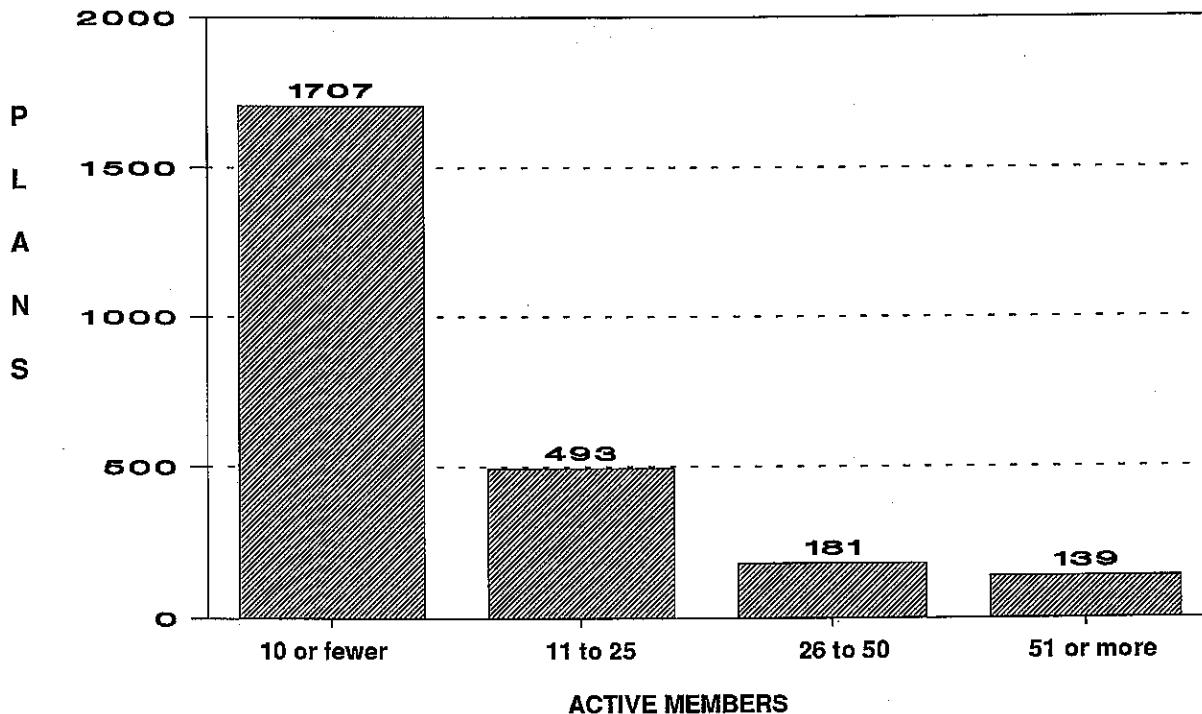
**GRAPH III**

**DISTRIBUTION OF LOCAL GOVERNMENT EMPLOYEES  
BY TYPE OF PENSION PLAN**



January 1989

**GRAPH IV**  
**DISTRIBUTION OF MUNICIPAL PENSION PLANS**  
**BY NUMBER OF ACTIVE MEMBERS**



January 1989

The municipal pension plans in Pennsylvania range in size from plans with one active member to plans with over 5,000 active members. Surveys of public employee pension plans frequently use a threshold of 100 active members to categorize public employee pension plans as either small or large. Using 100 active members as the standard, approximately 95 percent of Pennsylvania's municipal pension plans (2,466) are small. The percentage of municipal pension plans categorized as small remains high (92%) even when the standard is lowered to 50 active members, which is one-half the usual standard. Graph IV shows that only 320 (13%) of the municipal pension plans in the Commonwealth have more than 25 active members. Sixty-eight percent of Pennsylvania's municipal pension plans have ten or fewer active members, and almost half (46%) of the municipal pension plans in Pennsylvania have five or fewer members.

The county pension plans in Pennsylvania range in size from plans with as few as 31 active members to one plan with over 7,000 active members. On average, the county pension plans have approximately 628 active members. Excluding Allegheny County, the average decreases to approximately 527 active members. The following distribution shows that a significant number of county pension plans in Pennsylvania (20%) may be categorized as small using the standard of 100 active members.

## Distribution of County Pension Plans by the Number of Active Members

<u>Number of Members</u>	<u>Number of Plans</u>
100 or fewer	14
101-200	13
201-300	6
301-400	10
401-500	2
501 or more	24

The administration of the 2,600 defined benefit or money purchase local government pension plans in the Commonwealth is accomplished in a variety of ways. In some instances, the municipalities perform almost all of the administrative functions in-house. Other municipalities delegate some or all of the various administrative functions, usually through contracts with one or more service providers. For example, a bank or insurance company may be engaged to provide one administrative function such as investment management, while an insurance company or the Pennsylvania Municipal Retirement System may be engaged to perform almost all of the administrative functions. The administrative functions frequently delegated include: investment management, data and record maintenance, legal, actuarial and technical analysis, benefit eligibility determination, benefit disbursement and membership services. Based on 1989 data submitted for defined benefit municipal pension plans under Act 205 of 1984, the administrative functions of approximately one-third of the municipal pension plans in Pennsylvania are largely performed by the municipalities themselves, while the administrative functions of another one-third of the pension plans are substantially delegated to service providers. The administrative functions of the remaining one-third of the pension plans are partially delegated.

With the exception of the instances where they participate in a private sector, multi-employer pension plan, local governments retain the authority to select the administrative arrangement and to specify the benefit provisions of the pension plans, subject to the constraints of state enabling legislation. In all instances, the local governments retain responsibility for satisfying the financial requirements of the pension plans. Except for counties, all local governments in Pennsylvania are required to adhere to an actuarial funding standard established by Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act. Counties other than Allegheny are required to fund their employee pension plans on an actuarial basis, but there is no actuarial funding standard specified in the County Pension Law (Act 96 of 1971). There are no actuarial funding requirements or standards applicable to the pension plans established by Allegheny County.

The preceding discussion conveys the fact that the administrative structure of the local government retirement system in Pennsylvania is not an integrated structure. Instead, the current administrative structure is a myriad of mostly small, individually-administered retirement plans being operated without prescribed administrative standards. Because of the employment of this decentralized administrative approach to provide retirement benefits for local government employees and the accompanying absence of statewide administrative standards, considerable diversity in administrative practices exists. Some of the pension plans have actuarial funding standards; others do not. Some of the pension plans have pension boards; others do not. Some of the pension plans have professional technical advisors; others do not. Some of the pension plans have well developed

plan documents; others do not. Accordingly, fully detailed information on administrative structures and practices is only available on the individual pension plan level. This condition evidences the most significant fact regarding local government retirement system administration in Pennsylvania — the systems operate within a fully decentralized administrative structure.

**CHART II**  
**Local Government Retirement Systems**  
**Compared with Pennsylvania State Employees' Retirement System**

	<u>Active Members</u>	<u>Actuarial Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>
Local Government Retirement System	117,561	\$4,709,297,584 <sup>2</sup>	\$7,684,636,428	\$3,392,231,678 <sup>3</sup>
State Employees' Retirement System <sup>1</sup>	109,611	\$7,510,933,374	\$9,833,717,374	\$2,322,784,152

<sup>1</sup> Data extracted from 12/31/88 actuarial valuation.

<sup>2</sup> Includes \$203,657,709 in assets of county pension plans that were omitted from actuarial valuations.

<sup>3</sup> Represents total of unfunded actuarial accrued liabilities reported for individual pension plans.

January 1989

**PROBLEMS**

When considered in the aggregate, the local government pension plans in Pennsylvania approximate a very large public employee pension plan. The information presented in Chart II demonstrates that Pennsylvania's local government pension plans compare favorably in size with the State Employees' Retirement System (SERS), which is one of the largest public employee retirement systems in the United States.

Although Pennsylvania's local government retirement system can be considered as being among the largest in the country in terms of members and liabilities, the policy guidelines establishing its features and governing its operation are inadequate. As a means to demonstrate that inadequacy, the following discussion describes several of the many significant problems in the local government retirement system of Pennsylvania including: the absence of pension portability, the disparity of benefits, the inefficiency and inadequacy of administrative practices, the lack of fiscal responsibility, the difficulty of monitoring activity, and the insufficiency of policy guidance.

**Lack of Pension Portability.** Certainly one of the most frequently cited weaknesses of the current structure of local government retirement systems is the absence of statewide provisions for portability of service credits. Generally, portability refers to the ability of an employee to transfer pension rights from one pension plan to another in conjunction with a change in employment. The labor market works most efficiently and to the greatest advantage of both employees and employers when workers are free to move from job to job. Impediments to the free movement of labor, such as the lack of pension portability, make recruitment of qualified employees for positions above the entry level more difficult for employers. In addition, these impediments restrict individual employees in the

development of their full career potentials by making job mobility less feasible. Particularly suited to the public sector because of the numerous common functions of state and local governments, pension portability responds to both employer recruitment and employee mobility needs. Because of the obvious advantages afforded by the free movement of governmental personnel, the reason for the absence of pension portability in Pennsylvania's local government retirement system is significant.

Although the ability to retain current personnel is enhanced when employee mobility is suppressed, there is reason to question the rationale for that policy objective in the current era of labor relations. The continuing absence of pension portability in Pennsylvania, therefore, cannot be attributed to any sound public policy objective. Instead, the absence of pension portability for local government employees is caused by the impracticability of implementing pension portability on a statewide basis given the multiplicity of municipal pension plans operating within a fully decentralized administrative structure. On February 2, 1990, the consulting actuary to the Public Employee Retirement Study Commission, William A. Reimert, conducted a policy review of a legislative proposal to provide authorization for active members of the State Employees' Retirement System to purchase credit for local government service and thereby effect a crude and limited portability mechanism. In his review of that proposal, Mr. Reimert stated:

... It is worth noting that in most other states there is a single statewide system or just a few statewide systems which cover all state and local government employees. Under such circumstances it is much easier to provide some sort of portability or aggregation of service in determining benefits. . . . Obviously, the multitude of local individual systems in Pennsylvania makes such an arrangement almost impossible.

It is apparent that an equitable and efficient pension portability mechanism to facilitate the free movement of all governmental personnel — local to local, local to state and state to local — can only be established in Pennsylvania if the administrative structure for local government pension plans is modified.

With the exception of local government employees, public employees in Pennsylvania enjoy considerable pension portability by virtue of the centralized administration of their retirement systems. The employees of the Commonwealth have statewide pension portability within the State Employees' Retirement System (SERS). Likewise, employees of local school districts and other public educational employers have statewide pension portability within the Public School Employees' Retirement System (PSERS). Because of statutory provisions authorizing the transfer of service credits between SERS and PSERS, the pension portability provided to State and public school employees is greatly enhanced. However, the intrastate pension portability afforded to State and public school employees does not accommodate local government employment. In other words, there is no potential for a continuity of pension coverage if a State or public school employee is employed by a local government.

The pension portability provided to local government employees is restricted to inter-municipal pension portability, and its availability is limited. The pension portability available to local government employees is incidentally provided through several of the administrative mechanisms for local government pension plans. The principal examples are: retirement programs sponsored by professional associations such as the International City/County Management Association, retirement plans established and administered by employee unions, or retirement plans administered by the Pennsylvania Municipal Retirement System. In each of these cases, pension portability is available only if both the prior and prospective local government employers participate in the same

administrative mechanism. Perhaps even more surprising than the absence of statewide pension portability among municipalities is the absence of pension portability among the pension plans within individual municipalities. In accordance with the provisions of state law, municipalities typically establish three pension plans and provide for no intramunicipal pension portability. As a result of these arbitrary and outmoded provisions, a municipal employee in Pennsylvania can change jobs within a municipality and still forfeit substantial pension rights.

**Benefit Disparity.** Another problem with the retirement system for local government employees is the disparity of pension benefits. Comparing the cost of the aggregate benefit provisions is one way to convey the degree of variation in pension benefits provided to similar types of local government employees. Normal cost rates may be used to gauge the relative benefit levels of municipal pension plans if they are calculated with the entry age normal actuarial cost method using standard actuarial assumptions and demographic data. For the purposes of demonstrating the disparity of benefits provided under selected municipal pension statutes, a comparison showing the variation among police pension plans is the most valid because of the high probability of similar job functions. The normal cost rates for borough and township police pension plans governed by the Municipal Police Pension Law (Act 600 of 1955, as amended) and the normal cost rates for city police pension plans governed by the Third Class City Code are presented below.

#### NORMAL COST RATES

	<u>Employee</u>	<u>Employer</u>	<u>Total</u>
<b>Borough and Township Plans</b>			
Basic w/ Social Security Offset	2.7 %	4.8 %	7.5 %
Basic w/o Social Security Offset	5.0 %	5.2 %	10.2 %
Optional	0.0 %	17.7 %	17.7 %
<b>Third Class City Plans</b>			
Basic	5.0 %	9.1 %	14.1 %
Optional	5.0 %	20.1 %	25.1 %

The total normal cost rates evidence a range of more than 10 percent of payroll in the case of borough and township pension plans and a range of more than 11 percent of payroll in the case of city pension plans. Viewed in the aggregate, the spread in total normal cost rates computed for local government police pension plans in Pennsylvania exceeds 17 percent of payroll. While a moderate degree of variation in the level of pension benefits provided to municipal police officers is predictable in a decentralized administrative structure, providing pension benefits to some municipal police officers that are over 200 percent greater than those provided to other municipal police officers is clearly not equitable.

The substantial disparity in the provision of retirement benefits for municipal police officers discussed above is exacerbated by the fact that federal Social Security coverage is optional for municipal police officers. In 1989, approximately 343 (57%) of the 592 borough and township police pension plans governed by the Municipal Police Pension Law (Act 600) provided Social Security coverage, while 249 (43%) of those police pension plans did not provide Social Security coverage. In



that same year, approximately four (8%) of the 49 city police pension plans governed by the Third Class City Code provided Social Security coverage, while 45 (92%) of those police pension plans did not. Combining the data for these two groups of police pension plans results in the finding that approximately one-half of the local government police pension plans are augmented by Social Security coverage, while the other half are not. Because the provision of Social Security coverage is discretionary, a municipality providing a relatively high level of pension benefits may provide Social Security coverage, while another municipality providing a relatively lower level of pension benefits may not provide Social Security coverage. Consequently, there are extremely wide disparities in the employer-financed retirement benefits provided to municipal police officers in Pennsylvania.

The variable level of employee contributions to municipal pension plans is another source of benefit disparity in the retirement system for local government employees. Continuing the use of police pension plans for purposes of illustration, the 592 borough and township police pension plans governed by the Municipal Police Pension Law (Act 600 of 1955) may or may not provide for employee contributions. Approximately 45 percent of these plans require employee contributions, typically 5 percent of payroll, while the remaining 55 percent of these plans do not require employee contributions. In the 51 city police pension plans governed by the Third Class City Code, 100 percent require employee contributions of approximately 5 percent of payroll. In effect, some municipal police officers contribute 5 percent of their career salaries to receive the same pension benefits as other municipal police officers who make no contributions to their pension plans. Because employee contribution levels are not related to pension benefit levels, the variation in employee contributions that pervades the local government retirement system in Pennsylvania results in significant inequity in the provision of pension benefits to municipal employees.

In addition to general sources of benefit disparity, such as those discussed above involving aggregate benefit levels, provisions for Social Security coverage and provisions for employee contributions, there is a multitude of specific pension benefit provisions that also demonstrate the benefit disparity in the Commonwealth's municipal retirement system. One example involves the years of service required to vest or retain rights to pension benefits. Some municipal pension plans provide vesting on a graded basis such as 10 percent per year, while other municipal pension plans provide for immediate 100 percent vesting. Vesting is also provided in many municipal pension plans on a cliff basis, which provides 100 percent vesting after a fixed number of years. Perhaps the best example of the inequity in vesting provisions is found in the retirement plans governed by the Third Class City Code. In third class city police pension plans, vested pension benefits may be provided to members after 12 years of service. In third class city pension plans for firefighters and nonuniformed employees, vested pension benefits are provided to members after 20 years of service, which is the service requirement for normal retirement eligibility. Other specific provisions of municipal pension plans that can be used to demonstrate the disparity in benefit levels include: disability benefits, retirement age, service requirements, survivor benefits and cost-of-living adjustments.

Much of the disparity in the pension benefits provided to municipal employees is attributable to the State laws governing municipal pension plans. As previously discussed, municipal pension statutes were enacted and amended over an extended period of time with little policy coordination in response to diverse interest groups. The municipal pension statutes developed in that process mandated specific benefit provisions for municipal employees in some situations and entirely omitted specification of benefit provisions for municipal employees in other situations. Even where current municipal pension statutes mandate specific benefit provisions, the recent trend for the collective bargaining and judicial processes to award pension benefits that are not authorized in State enabling legislation has deteriorated the standardization of pension benefits and the associated equity that

was previously evident among the pension plans governed by those statutes. The unbridled environment for the specification of municipal employee pension benefits has produced extremes in the levels of pension benefits, and it has encouraged "leapfrogging" competition between employee groups for pension benefits. Although it arguably accommodates the diversification of municipal employers, the potential for variation in pension benefits within Pennsylvania's local government retirement system represents a serious weakness because of the resultant degree of benefit disparity.

**Inefficiency and Inadequacy of Administration.** Another major problem with the local government retirement system in Pennsylvania is the inefficiency and inadequacy of administrative practices. A significant portion of the inefficiency in the administration of Pennsylvania's local government retirement system is caused by the duplication of functions associated with the system's decentralized administrative structure. A large majority of the 2,600 municipal retirement plans individually perform administrative functions such as: asset management and investment, membership services, benefit determination and disbursement, accounting and auditing operations, legal and actuarial analysis, data and record maintenance, and office management. Some perspective on the aggregate cost incurred in duplicating administrative functions can be gained by examining the specific experience in one of the administrative functions.

The cost associated with the provision of actuarial services to local government retirement plans is disclosed in the local government pension plan reports submitted to the Commission under Act 205 of 1984. The actuarial fees reported to have been charged for preparation of the 1989 Act 205 actuarial valuations total approximately \$2.8 million, which is equivalent to an annual expenditure of \$1.4 million due to the biennial filing requirement. Because the fees for actuarial services beyond preparation of the Act 205 actuarial valuations are not reflected and because there are instances of the reported actuarial fees being unrealistically low, the \$1.4 million annual expenditure represents the low end of the potential range in the annual cost for the provision of actuarial services to the Commonwealth's local government retirement systems. Nevertheless, the following comparison demonstrates that the 1989 costs for actuarial services to the local government retirement systems (\$1.4 million), expressed in terms of the 67,246 active members, greatly exceeded the 1989 cost for actuarial services to the State Employees' Retirement System (\$95,000), expressed in terms of the 109,611 active members.

Comparison of Per Member Cost for Actuarial Services in 1989

Pennsylvania Local Government Retirement Systems	\$ 20.82
Pennsylvania State Employees' Retirement System	\$ .87

The comparison of the per member cost of actuarial services in 1989 evidences that the annual cost of providing actuarial services to the decentralized structure of local government retirement systems was more than 23 times greater than the annual cost of providing similar services to the centralized retirement system for State employees. Although variable factors such as data availability influence the cost of actuarial services, the absence of economies of scale is the principal reason for the significantly higher actuarial service cost incurred by local government retirement systems.

Investment management is another administrative function that can be examined to demonstrate the inefficiency of the decentralized structure of local government retirement systems. Investment of the more than \$4.5 billion held in local government pension funds is certainly more expensive when performed by 2,600 entities rather than coordinated by one. In addition to inflating the direct costs attributable to the investment function, the dispersed investment activity indirectly increases pension system costs in two ways. First, it precludes the investment diversification

appropriate for public pension fund assets. Investment diversification serves to increase expected earnings and to reduce the risks of adverse investment experience. Second, the total assets available for investment, in many cases, do not satisfy the threshold level required to access certain types of desirable investment vehicles. To the extent that the lack of investment diversification or the limited access to investment vehicles diminishes earnings, the dispersed investment activity inherent in the current decentralized structure of local government retirement systems increases the pension costs that must be financed with tax revenues. Comparing the investment performance of the local government retirement systems and the State Employees' Retirement System (SERS) is a means to assess the extent of the impact that decentralized investment management has on local governments.

Financial data for local government retirement systems other than county retirement systems are available for even numbered years. In 1984, 1986, and 1988, the aggregate rates of return for these municipal retirement systems were 8.34%, 9.97% and 7.35% respectively, while the corresponding rates of return for SERS were 9.4%, 15.2% and 12.8%. Applying the difference between the municipal rate of return and the SERS rate of return to the assets of municipal retirement systems in each of the three years shows investment losses of \$22,100,000 in 1984, \$150,400,000 in 1986 and \$182,400,000 in 1988. The average of these annual investment losses is approximately \$118,300,000. To compensate for potential distortion due to market fluctuations, an average SERS rate of return may be used to compute the average annual investment loss for the period 1984 through 1988. The average rate of return experienced by SERS for the period from 1984 through 1988 was 12.76%, which compares favorably to the 12.50% ten year average SERS rate of return calculated for the years 1981 through 1990. Applying the difference between the municipal rate of return and the five year average SERS rate of return to the assets reported for municipal pension plans develops the annual investment losses presented below in tabular form. Based on the data presented in the following table, an average annual investment loss of \$117,900,000 was experienced by municipal pension plans for the years 1984, 1986 and 1988.

Development of Approximate Average Annual Investment Loss  
Attributable to the Decentralized Investment Practices  
of Municipal Retirement Systems

	<u>1984</u>	<u>1986</u>	<u>1988</u>	<u>Total</u>
Investment Income Applying SERS Average Rate of Return	\$266,700,000	\$367,400,000	\$426,900,000	\$1,061,000,000
Actual Investment Income	\$174,400,000	\$287,200,000	\$245,800,000	\$ 707,400,000
Approximate Investment Loss	\$ 92,300,000	\$ 80,200,000	\$181,100,000	\$ 353,600,000
Approximate Average Investment Loss for the years 1984, 1986 and 1988	\$ 117,900,000			

Financial data for county retirement systems are available for odd numbered years. Analyzing the data of county retirement systems for the years 1985, 1987 and 1989, using the same methodology as employed in the analysis of the investment performance of municipal retirement systems, shows an average annual investment loss of \$31.8 million. Therefore, the average investment loss for all local government retirement systems was approximately \$150 million annually in the mid to late 1980's.

To gain a perspective on the aggregate cost of the inefficiency resulting from the duplication of administrative services and the absence of economies of scale, the total cost of all of the administrative functions of the local government retirement system can be examined. Based on information extracted from the 1989 Act 205 pension plan reports, the administrative expenses for local government pension systems totalled approximately \$14.6 million in 1988. With 117,561 active members, the per member administrative cost for local government retirement systems was \$124.26. The following comparison shows considerable disparity between this cost and the per member administrative cost of the State Employees' Retirement System (SERS).

Comparison of Per Member Administrative Cost in 1988

Pennsylvania Local Government Retirement Systems	\$ 124.26
Pennsylvania State Employees' Retirement System	\$ 49.18

To approximate the hypothetical administrative costs that would have been incurred had the local government pension systems been centrally administered, utilization of the administrative expense experience of the State Employees' Retirement System is appropriate because of the similar number of active members in both systems. With total administrative expenses of approximately \$5.4 million in 1988 and 109,611 active members as of December 31, 1988, the per member administrative cost of the State Employees' Retirement System can be computed as \$49.18. Applying that per member expenditure to the total active membership of the local government retirement systems produces the hypothetical administrative costs for the local government retirement systems if they had been centrally administered — \$5.8 million. The following chart presents the data in tabular form that develops the estimated cost of the administrative inefficiency in the local government retirement systems.

Development of Approximate Annual Cost of Administrative Inefficiency

Actual Annual Cost of Current Decentralized Administration of Local Government Retirement Systems	\$14,600,000
Hypothetical Annual Cost of Centralized Administration of Local Government Retirement Systems	<u>5,800,000</u>
Approximate Annual Cost of Administrative Inefficiency of Local Government Retirement Systems	\$ 8,800,000

The \$8.8 million difference between the hypothetical and the actual administrative costs is a crude approximation of the aggregate annual cost of the inefficiency inherent in the decentralized administrative structure of the Commonwealth's local government retirement system. Because of

the prevalent practices of paying administrative expenses directly from investment earnings, loading administrative charges in insurance premiums and reporting only direct administrative expenses, the actual administrative costs reported for local government retirement plans under the Act 205 reporting program are substantially underreported. As a result, there is a high probability that the \$8.8 million approximation of the aggregate annual cost of the administrative inefficiency of local government retirement systems is not overestimated.

In addition to the inefficiency directly associated with administrative operations, the local government retirement systems in Pennsylvania are inefficient because of the absence of normal management incentives to control costs. Two factors cause this absence. One factor is the long-term nature of retirement systems that results in the actual expenditures being required many years after the commitment is made to pay the pension benefits. Because of this delayed fiscal impact, local government officials generally do not exhibit the same degree of concern in administering pension systems as they do in addressing more short-term priorities. Accordingly, neither the long-term costs of pension benefits nor the self-funded administrative costs of pension plans receive the attention necessary to ensure efficiency. The second factor which causes the absence of normal incentives to control retirement system costs is State aid availability. The State aid provided to municipalities to offset employee pension costs is capped at 100 percent of the annual pension costs incurred by each recipient municipality. Because of exceptional and unanticipated growth in the State aid allocation, from \$62.3 million in 1985 to \$121.7 in 1989, the State aid provided fully covers the annual pension costs of approximately 90 percent of the recipient municipalities. As a result, almost all municipalities in the Commonwealth are assured that they will incur no pension costs, even if costs attributable to benefit changes or administrative functions are increased. In fact, some marketing efforts have successfully convinced municipal officials that they should increase annual pension costs in order to get more State aid. Because of the absence of the normal cost constraints resulting from both of these factors, the operation of local government retirement systems is generally less efficient than it would be otherwise.

A degree of inefficiency in the operation of any governmental function can be tolerated if it is necessary or results in improved service. However, the inefficiency of the local government retirement system does not result in improved service. To the contrary, the administrative functions of local government retirement systems are inadequate in many instances. For example, one of the basic elements of retirement system administration is the production and availability of a plan document that fully describes the plan's operation and benefit provisions. Frequently, there is no plan document available for local government retirement plans, or the plan document is actually a composite of multiple documents such as an ordinance, amendments to the ordinance, a collective bargaining agreement and a group insurance contract. As a result, it is difficult for plan administrators, plan members, service providers and other interested persons to ascertain the provisions of many of the State's local government pension plans. The absence of plan documents creates hardships for members, produces administrative errors, increases administrative costs and precludes outside assistance in resolving problems.

The inadequacy of the administrative practices of local government retirement systems is also evidenced by the large number of instances where records are absent or insufficient. The accuracy, availability and reliability of demographic data on members of local government retirement plans is becoming increasingly important as local governments seek to comply with State laws, federal laws and regulations, and professional accounting standards. For each employee, the data that must be compiled and then maintained over the life of the employee include: name, address, date of birth, sex, social security number, date(s) of employment, occupational classification(s), rates of pay, employee contributions, accumulated interest on employee contributions, final average salary, date of

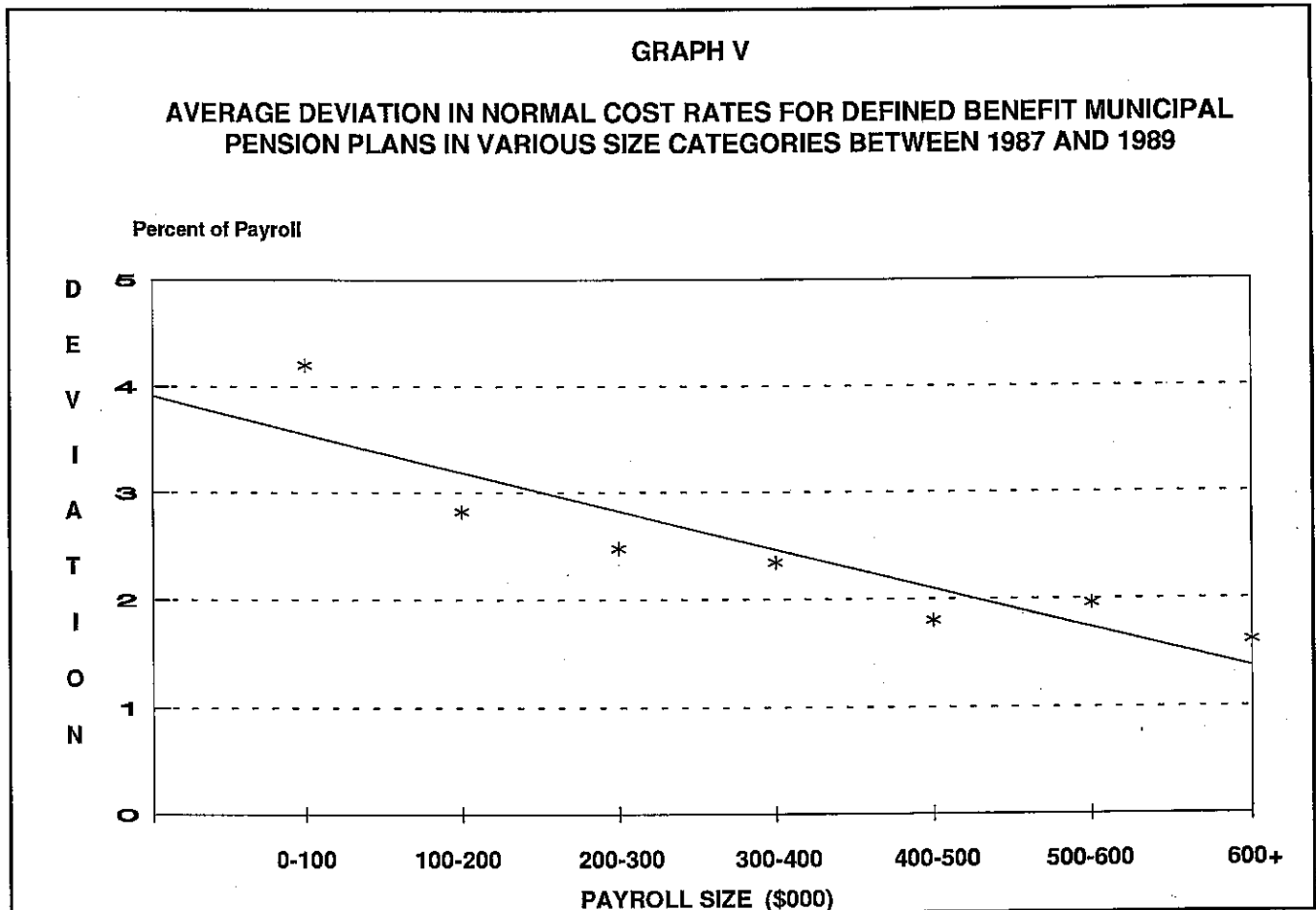
retirement, benefit payments and beneficiary designation(s). Deficiencies in the record keeping function occur most frequently in small local government retirements plans. For example, when a recently enacted State law mandated the provision of cost-of-living adjustments to the pensions of certain retired municipal employees, many current local governments were unable to identify eligible retirees because annuities were purchased years ago to make the pension payments and records were therefore not maintained. Unless the current local government officials had personal knowledge of the retirees, the absence of records resulted in nonpayment of the State-mandated benefit. Albeit less frequently, deficiencies in the record keeping function also occur in the larger local government retirement plans. A recent actuarial valuation prepared for one of the State's largest local government pension plans disclosed that data were not available for annual salaries, member contributions, and credited interest. To perform the valuation, the actuary was required to "create" these data by applying the salary scale assumption in reverse to approximate annual salary histories, applying the historic member contribution rates to calculate series of probable contributions for individual members, and applying appropriate interest rates to calculate the cumulative interest to be credited to those probable contributions.

Both of the administrative inadequacies discussed above, the absence of plan documents and deficient record keeping, are symptomatic of a general problem with the decentralized structure of local government retirement systems — limited administrative capacity. Retirement system administration is much more complex and technical than many of the other functions performed by local governments in the Commonwealth. Without the applicable training and experience, many local government officials are frustrated and overwhelmed by the increasingly complex responsibilities associated with retirement system administration. In the case of many small local governments, the execution of the administrative functions of employee pension plans is one of the many responsibilities of part time officials or employees. In all local governments, the performance of the administrative functions of employee pension plans is hampered by the absence of a long-term perspective attributable to the high turnover rate for local government officials and employees. Besides fostering a short-term perspective for administrative functions, the high turnover rate for personnel engaged in the administration of local government retirement systems precludes the continuity necessary to develop administrative capacity beyond a basic level. As a result, an acceptable level of administrative capacity is achieved only in a small percentage of fully self-administered local government retirement systems. In instances where outside administrative agencies are engaged, the level of administrative capacity is increased in varying degrees.

**Incongruity with Actuarial Cost Methodology.** Another problem with the Commonwealth's local government retirement systems is the fact that they are typically too small to be reliably funded using actuarial cost methodology. Actuarial cost methodology is used in the administration of a retirement system to determine a total cost that is systematically funded in advance of the actual pension benefit payments. One of the most important reasons for using actuarial cost methodology is the predictability and manageability of the ongoing funding requirements of the retirement system. The broad base of demographic experience afforded by a pension plan with a large membership allows greater accuracy in the choice of actuarial assumptions and consequently improves the reliability of the actuarial cost determinations. However, when actuarial cost calculations are performed for a pension plan with a small membership, there is frequently a limited base of demographic experience upon which to base the choice of actuarial assumptions. In the absence of an adequate experience base, the selection of accurate actuarial assumptions is difficult, and the reliability of the actuarial cost determinations is reduced.

For example, in determining the funding requirements for a municipal pension plan with disability benefits, the actuary must use an assumption to predict the probable disabilities. Because

actuarial assumptions are largely based on statistical averages, the size of the plan directly affects the probability of the predicted events being realized. If the plan has several thousand members, the number of disabilities and the associated costs can be predicted with a high degree of reliability using a probability-based assumption. If the plan has one member, there is no reliable means to predict the number of disabilities because the group is not large enough to experience the normal incidence pattern. The number of disabilities can be predicted to be one, which generates high costs, or none, which generates no costs. When the prediction matches the actual experience, the plan's funding



is equal to its liabilities. However, if one disability occurs when none was predicted, the pension plan experiences a large funding deficiency. Conversely, if no disability occurs when one was predicted, the plan experiences a large funding surplus. To ameliorate the risk of extreme funding deviations, the actuary may adopt procedures to generate moderate costs which result in the plan experiencing either a moderate funding deficiency or a moderate funding surplus, depending on whether or not disability occurs. In other words, the actuarial funding options available to pension plans with small memberships entail either high risk with the potential of either minimal or large funding deviations or low risk with assured moderate funding deviations.

Another example of the increased potential for funding deviations in municipal pension plans with small memberships may be helpful. The risk of adverse mortality experience is significantly lower for a pension plan with a large membership. If unexpected, additional costs are incurred due

to longer retirement periods of some retirees, the costs may be offset by savings experienced due to shorter retirement periods of other retirees. Because a pension plan with a small membership is likely to have very few retirees, there is a reduced probability that the cost of adverse mortality experience will be offset by favorable mortality experience and a corresponding increased probability that the local government will incur unanticipated costs attributable to adverse mortality experience.

Approximately 64 percent of the 1,917 defined benefit municipal pension plans in Pennsylvania have ten or fewer active members. For these and the other relatively small local government pension plans, the cost stabilizing function of actuarial cost methodology is severely impaired. To evaluate the degree of impairment, the normal cost rates for municipal pension plans, which are computed using the standard entry age normal actuarial cost method, can be examined for deviation. By design, the entry age normal actuarial cost method produces a normal cost rate which represents the level, annual cost of the pension plan, but many factors such as benefit modifications, actuarial assumption changes, and membership demographics may cause deviations in normal cost rates. Because of the various reasons for deviations in normal cost rates, the experience of individual pension plans is not an appropriate basis for conclusions regarding the relationship between pension plan size and deviations in normal cost rates. However, the aggregate experience of similarly sized pension plans is a valid means to gauge the influence that the size of pension plans has on the deviations in normal cost rates. Graph V demonstrates that the size of municipal pension plans is directly related to the ability of actuarial cost methodology to produce stable annual costs.

In preparing the data for Graph V, the Act 205 records of the 1,740 defined benefit municipal pension plans that reported in 1987 and 1989 were examined. For the 708 pension plans with annual payrolls of less than \$100,000, the average absolute deviation in the normal cost rates between 1987 and 1989 was 4.2 percent of payroll. For the 222 pension plans with payrolls greater than \$600,000, the average absolute deviation in the normal cost rates in the same two-year period was 1.6 percent of payroll. This information clearly shows that smaller pension plans are subject to more extreme deviations in normal cost rates than larger pension plans. Because of the frequent extreme volatility in the normal cost rates of small pension plans, many local governments are confronted with recurring wide variations in the tax revenues needed to support their employee pension plans, which is the antithesis of fiscal planning and actuarial funding goals. This fiscal management problem is inherent with small pension plans because their memberships are too small to adhere to the normal statistical patterns that enable actuarial cost methodology to function properly.

**Difficulty of Monitoring.** Since the early 1970's, the Commonwealth has monitored the condition of its local government retirement systems through periodic reports. The Commonwealth's reporting programs for municipal pension plans involve interacting with approximately 4,500 local governments to solicit submission of more than 2,600 pension plan reports. The pension plan reports contain demographic, financial and actuarial data that are analyzed by the Public Employee Retirement Commission. Through the analysis of the reported data, the Commission monitors compliance with the actuarial funding standard and certifies individual municipal pension cost figures used in the allocation of State municipal pension aid. The printing, postage and personnel costs attributable to municipal pension reporting programs are estimated to cost the State more than \$175,000 annually, and the preparation of the biennial pension plan reports costs local governments more than \$1.4 million each year.

The Commonwealth also expends considerable resources to audit the 2,600 local government pension plans. Required by The Fiscal Code of Pennsylvania, the audits of local government pension plans are in most cases prepared every two years by the Department of the Auditor General. In the past the frequency of the audits has been as long as once every three years. The infrequency of the



audits is due to the magnitude of the work load and the difficulty of performing the compliance review aspect of governmental audits in an environment where laws and regulations are not standard. The Bureau of Municipal Pension and Fire Relief Audits of the Department of the Auditor General currently expends more than \$2.5 million annually to conduct audits of municipal pension plans.

Despite the annual expenditure of approximately \$4 million, the Commonwealth's efforts to effectively monitor municipal pension plans are frustrated by the decentralized structure of the local government retirement systems, the limited administrative capacity of local governments and the complexity of retirement plan administration. As a result, committing the resources that would be required to ensure more accurate and complete reporting and more timely audits would not be cost effective. The Commonwealth must therefore be content with having limited knowledge about the operation of its local government retirement systems — a condition conducive to the inefficiencies and inequities previously discussed.

**Difficulty of Complying with Federal Statutes.** Pennsylvania local government employee retirement systems must comply with a number of federal statutes and their implementing regulations. While almost all of systems are not covered by the Employee Retirement Income Security Act of 1974, they must all operate in conformance with civil rights statutes such as the Age Discrimination Act of 1967, the Americans with Disabilities Act, and the Civil Rights Act of 1964; national defense statutes such as the Military Selective Service Act and the Veterans' Reemployment Rights Act; securities statutes such as the Securities Act of 1933 and the securities Exchange Act of 1934; old age, survivors, disability, and health insurance statutes such as the Social Security Act and the Internal Revenue Code of 1986. Because these federal statutes are periodically amended, individual local government retirement systems must continually review their pension plan documents for possible conflicts with federal law.

The Internal Revenue Code contains very detailed requirements regarding such things as purpose of a plan, exclusive benefit, nondiscrimination, annual participation and quarterly coverage testing, distributions, maximum benefit limitations, annual compensation limitations, permitted disparity in plan contributions and benefits, nondiscrimination test for matching contributions and employee contributions, definition of compensation, and identification of highly compensated employees. Compliance with these requirements can involve a great amount of bookkeeping and administration. Limitations on contributions and benefits must be monitored, and contributions must be identified and categorized. Distributions must be carefully examined for compliance with the number of different rules that apply depending upon the nature and timing of the distributions. In addition, the pension plan must be reviewed by skilled tax counsel for compliance with the Internal Revenue Code.

It can be extremely difficult for a small system to comply with some Internal Revenue Service requirements. An anomaly involving only one or a few employees can be so large, on a percentage basis, that it will be almost impossible to rectify in a small plan; while the same situation in a large plan will be so small, on a percentage basis, that no change in the plan will be needed. In a worst case situation, if a local government employee retirement system violates the Internal Revenue Code, the contributions made by the local government to the system on behalf of its employees will become currently taxable to the employees rather than taxable as received in retirement.

## **CONCLUSION**

The situation of the local government retirement system in the Commonwealth is not good. The long-standing deficiency in policy guidance and the fully decentralized administrative structure have combined to produce a multitude of serious problems ranging from benefit inadequacies to administrative inefficiencies. Because the current situation is untenable, Part II of this report discusses the options available to change the situation of Pennsylvania's local government retirement system.

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**PART II**

**REMEDIAL ALTERNATIVES**

Part I of this report discusses the serious deficiencies existing in the current system under which Pennsylvania local governments provide retirement coverage for their employees. The absence of adequate policy guidelines precludes the effective operation of the system, while the administrative structure of the system results in costly inefficiency. The conclusion that this important employee benefit cannot continue to be provided under the current system without significant remedial action is unavoidable. In determining the most appropriate remedial action to address the situation, two alternatives approaches may be considered.

The most obvious approach for remedying the situation would be to undertake a comprehensive and detailed review of all of the current laws governing municipal retirement systems in order to develop a package of corrective, curative and technical amendments. Albeit laborious, the process to develop and enact a remedial legislative package may resolve some of the problems discussed in Part I of this report. A remedial legislative package offers the opportunity to correct errors, to develop legislation to fill gaps where language governing plans for certain types of municipal employees is deficient or absent, to resolve conflicts and inconsistencies among and within the various statutes, and to simplify, modernize and clarify the difficult language found in many municipal employee retirement statutes. However, there are several drawbacks to limiting the remedy for the current situation to attempting to fix what currently exists. First, many of the most basic problems discussed in Part I, because they are inherent with the administrative structure of the current system, cannot be resolved through an effort to fix the current system. Another significant drawback to a remedial approach is the high probability that the necessary reforms may be impossible to fully realize in a political environment. And finally, perhaps the biggest drawback to a remedial approach is that it does not allow for a full examination of the policy issues to determine the optimal means of delivering this important benefit to local government employees in Pennsylvania.

An alternative to the remedial approach for correcting the serious deficiencies existing in the current local government retirement system would be replacement of the current system. By allowing for consideration of the full range of replacement options, a local government retirement system may be specifically designed to address all of the deficiencies of the current system. The decision to replace the current system avoids the serious pitfall of attempting to improve the existing system by building on the unsound policy foundation established in current local government retirement laws. The

replacement approach assures that the remedy for the current situation will be supported by a sound policy framework developed in a deliberative manner and contained in one statute. Because the replacement approach entails consideration of only one legislative proposal, a thorough and simultaneous review of all the policy issues concerned with the provision of retirement benefits for local government employees is more likely, and the probability of effecting the necessary reform is increased. Therefore, replacing the current local government retirement system is the more viable approach to resolving the system's problems.

To establish a new system under which local governments provide employee pension benefits, the Commonwealth must address both the local government employee need for equitable and adequate retirement benefits and the local government employer need for an efficient and reliable administrative structure for the delivery of employee retirement benefits. Although there is a myriad of policy issues involved in an effort to address these two needs, the fundamental issue is the appropriate structural arrangement for the new local government retirement system.

### **ADMINISTRATIVE STRUCTURE ALTERNATIVES**

The various states have employed two basic approaches in establishing the structural arrangement for the provision of retirement coverage for employees of local government units. In many states, retirement system coverage for local government employees is centralized, or consolidated, at the state level with all local government employees belonging to a single statewide retirement system. In other states, the local government retirement system structure is decentralized, consisting merely of a framework of laws and regulations governing the establishment and maintenance of separate retirement systems by individual government employers. A combination of these two approaches may also be used. A combined approach may involve a consolidated system covering employees of most local governments, but with some local governments, typically the larger cities, maintaining locally-administered plans. Another form of combined approach may involve a consolidated system in which participation by local governments is voluntary, with those not electing to participate in the centralized system maintaining locally-administered plans. The following generally describes the characteristics of centralized and decentralized local government retirement system administration.

**Centralized Administration of Consolidated Retirement Systems.** Across the nation, retirement coverage for public school employees is almost universally centralized at the statewide level. Many states have completely consolidated retirement system coverage for local government employees, and almost all states have achieved some degree of consolidation. Under a consolidated local government retirement system, all of the various functions associated with retirement system administration, such as actuarial, accounting and legal services, asset management, maintenance of membership records, benefit calculations, payment of retirement benefits and the provision of information and services to members, are centralized in a single, professional administrative structure serving both the local governments and their employees.

A consolidated retirement system usually is governed by a single, codified state law and benefit changes are made on a system-wide basis by the state legislature. As a result, a consolidated system typically exhibits a high degree of benefit uniformity among employees of different local governments. Within a consolidated system, separate benefit provisions for nonuniformed employees and public safety employees are common. Universal retirement coverage for local government employees is more likely in a state with a consolidated local government retirement system than in a state authorizing the creation and maintenance of employee retirement systems at the option of individual local

governments. A consolidated system is characterized by a high degree of pension portability, with service credits accumulating regardless of employment mobility within the limits of the system.

Under a consolidated retirement system, actuarial cost calculations are done on a consistent basis using uniform, system-wide actuarial assumptions. The broad base of demographic experience afforded by the large membership typical of a consolidated system allows greater accuracy in the choice of assumptions, consequently improving the reliability of cost determinations. The cost to participating local government units may be uniform as a percentage of payroll or varied depending on the method employed for allocating cost. In a consolidated system, the risk of adverse mortality experience is spread among all participating local government units.

**Decentralized Administration of Multiple Individual Retirement Systems.** In a decentralized local government retirement system, individual local governments are empowered to create and administer separate retirement systems. Within a municipality, separate retirement systems usually exist for public safety and nonuniformed employees. Although most states had a decentralized system when retirement coverage first began to be provided for local government employees, many have subsequently moved toward greater centralization in retirement system administration. Pennsylvania, however, retains a completely decentralized local government retirement system structure.

Under a decentralized local government retirement system, the administrative tasks associated with maintenance of a retirement system are performed at the level of the individual retirement plan and are the ultimate responsibility of the local government which established the plan. Each plan has its own separate administrative structure. Actuarial services for each plan are performed by an actuary selected and compensated by the governing board of the plan or by the governing body of the municipality. Legal services may be performed by the municipal solicitor or by legal counsel retained and compensated by the retirement system. Investment of assets may be handled directly by the retirement system or by financial management professionals retained and compensated by the system. Maintenance of membership records, benefit calculations, payment of retirement benefits and the provision of membership services may be performed by a municipal employee or official, by an employee or officer of the retirement board or by an employee benefit services company retained and compensated by the board. All of the administrative functions associated with maintenance of an individual retirement plan may be performed by the same entity, such as occurs when a municipality enters into a deposit administration contract with an insurance company, or may be spread among a combination of outside consultants, municipal employees who perform retirement system functions along with other tasks for the municipality and, in the case of some larger municipal retirement systems, professional administrators employed by the retirement system.

A decentralized local government retirement system usually is governed by a non-codified set of state laws, with different laws governing different types of employees in different classes of municipalities. The degree of specificity in the governing legislation may vary widely between employee type and municipal classification, and governing legislation may be absent in the case of some types of employees in some municipal classes. Benefit changes may be made at the local level within the confines of the allowable benefit levels which may be specified in the governing legislation or at the state level, usually on a piecemeal basis applicable to specific employee types in specific municipal classifications. Benefit uniformity is lacking and competitive pressures among different employee groups to catch up and surpass one another in benefits are common in a decentralized local government retirement system. Where state law does not mandate that retirement coverage be provided for certain types of municipal employee, gaps in coverage may exist. Because of the wide variation in plan design and benefit levels, a decentralized local government retirement system

typically offers little opportunity for portability of pension service credits. A change in employment from one local government to another often results in forfeiture of all previously earned service credits. The long vesting requirement characteristic of many public safety employee benefit plans, where an employee does not earn entitlement to a benefit until superannuation retirement, means that the amount of service forfeited in association with a change in employment may be substantial.

### ADMINISTRATIVE STRUCTURE USED IN OTHER STATES

For a variety of reasons, accurate information on the degree and extent of centralization of retirement coverage for local government employees within each of the other states is not accessible without conducting a detailed nationwide survey. However, an actual survey is not necessary to convey the fact that Pennsylvania's fully decentralized local government retirement system repre-

#### CHART III

#### Distribution of Public Employee Pension Funds by State

<u>State</u>	<u>No. of Plans</u>	<u>State</u>	<u>No. of Plans</u>
Pennsylvania	2,365	West Virginia	70
Minnesota	824	New York	69
Florida	610	Arizona	64
Illinois	589	Washington	64
Michigan	502	Oklahoma	57
Texas	385	Wisconsin	43
Arkansas	360	Montana	34
California	286	North Dakota	33
Colorado	209	Rhode Island	31
Indiana	201	Mississippi	29
Connecticut	197	Alaska	28
Missouri	183	New Hampshire	28
Georgia	177	New Mexico	28
Tennessee	148	South Carolina	27
Oregon	131	Kansas	25
Iowa	123	District of Columbia	23
North Carolina	115	Ohio	23
Massachusetts	113	Utah	23
Virginia	99	Delaware	22
Louisiana	98	Vermont	22
Kentucky	93	Maine	18
Alabama	89	Nevada	16
Nebraska	87	Idaho	14
Maryland	80	Wyoming	13
New Jersey	74	South Dakota	11
		Hawaii	8

Source: *Directory of Public Employee Retirement Funds, 1988, Corporate Profiles, Inc.*

sents a glaring anomaly. A general sense of the degree of centralization in other states can be gained from an assessment of the relative number of retirement systems in each state. Chart III, based on information published in *The Directory of Public Employee Retirement Funds, 1988* by Corporate Profiles, Inc., evidences that the Commonwealth's decentralized public employee pension plans represent more than one-quarter of the national total (8,961) and three times the number reported in the state with the second highest number.

The information presented in Chart III reflects a broad definition of public employee retirement system that includes federal pension plans, deferred compensation plans and non-pension trust funds, in addition to state and local government pension plans. As a result, the actual degree of centralization in public employee pension systems in other states is not readily apparent from viewing the data presented in Chart III. Reviewing additional information compiled using a more conservative definition of retirement system makes the degree of centralization in the administration of public employee retirement systems more clear. The following table, based on a recent telephone survey conducted by the Commission, shows the number of public employee retirement systems in Pennsylvania and contiguous states.

<u>State</u>	<u>System Structure</u>	
Delaware	20	systems
Maryland	42	systems
New Jersey	5	systems
New York	8	systems
Ohio	5	systems
<b>Pennsylvania</b>	<b>2,600</b>	<b>systems</b>
West Virginia	5	systems

The information in the above table suggests that, with the exception of Pennsylvania, the administration of public employee retirement systems is centralized to a great extent. The prevalence of centralized administration of local government retirement systems is documented by comprehensive national surveys. In *Finances of Employee-Retirement Systems of State and Local Governments in 1985-86* issued in July of 1987, the United States Bureau of the Census reported, "Retirement systems administered by State governments in 1986 accounted for 87.2 percent of the membership . . . of State and locally administered [retirement] systems." The Bureau of the Census also reported that

About 95 percent of all the persons participating in retirement systems of State and local governments belong to one of the 171 largest systems — those reporting a membership of 5,000 or more.

The Commonwealth's decentralized administration of its local government retirement systems, characterized by a proliferation of small retirement systems, is clearly atypical.

#### **REPLACEMENT OF CURRENT ADMINISTRATIVE STRUCTURE**

The fact that the decentralized administrative structure of the Commonwealth's local government retirement system is unique among the states does not necessarily mean that change is required. However, any analysis of the problems present in the operation of the current local government retirement system yields the conclusion that change is both warranted and inevitable.

There are several major justifications for changing the administrative structure used to provide retirement benefits to local government employees in Pennsylvania. The justifications include:

Saving more than \$11 million annually by eliminating the administrative inefficiency of the current decentralized administrative structure;

Increasing investment income of pension fund assets by approximately \$150 million annually through both efficiencies and increased earnings characteristic of centralized investment management;

Ensuring an adequate and consistent level of membership services for local government employees and retirees;

Improving the potential to monitor the administration and actuarial condition of the local government retirement system and facilitating disclosure of retirement related information to local government employees and the public;

Ensuring portability, equity, adequacy and security of the retirement benefits provided to local government employees; and

Permitting actuarial cost methodology to be uncompromised in the determination of the funding requirements of the local government retirement system.

Because the justification for change is so overwhelming, there is no credible reason to defer replacement of the Commonwealth's decentralized local government retirement system. The policy decisions now confronting the Commonwealth involve the design and implementation of a replacement retirement system for local government employees.

There are numerous policy issues involved with the design and implementation of a replacement retirement system for local government employees in Pennsylvania. These issues include: the basic administrative structure, the design and placement of the administrative mechanism, the level and variability of retirement benefits, the requirements for retirement eligibility, the funding methodology and goals and the transition for the existing systems. The complexity of these major policy issues, as well as the technical considerations involved, is sufficient to warrant extended deliberations on each of the issues. However, because of the time that would be required for deliberating the individual policy issues, the Commission believes deliberations on a specific proposal are likely to be the most effective means for the Commonwealth to fashion the reform legislation necessary to implement a centralized retirement system for local government employees. Accordingly, Part III of this report presents the specific recommendations of the Commission regarding the establishment of a statewide retirement plan for local government employees, and Appendix V of this report contains draft legislation implementing the Commission's recommendations.



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## **PART III**

# **RECOMMENDED STATEWIDE PENSION PLAN**

### **INTRODUCTION**

The prevalence of centralized administration of public employee retirement systems in other states suggests that a centralized administrative structure is a viable means to provide retirement benefits to the local government employees of Pennsylvania. Establishing a statewide retirement system is clearly the most effective and efficient remedy available to address the problems that pervade the current decentralized retirement system. The fundamental policy issues involved in establishing a centralized retirement system for local government employees are implementation, administration and benefit structure. In fashioning its specific recommendations on each of these issues, the Commission considered feasibility and acceptability to be important determinants.

### **IMPLEMENTATION**

A gradual transition from the current decentralized structure of local government pension plans to a centralized retirement system for all local government employees with pension coverage is desirable. By mandating that the retirement benefits of all newly hired local government employees be provided only through the centralized retirement system, the transition to the centralized retirement system will be spread over 30 to 40 years. As a result, the private sector agencies currently engaged in administration of local government pension plans will experience no dramatic reduction in the demand for their services, and the new centralized retirement system will experience a gradual increase in its administrative responsibilities. Additionally, the phase-in approach will permit the Commonwealth to avoid the difficult technical problems and policy deliberations entailed with consolidation of existing retirement systems.

Giving local governments the option to provide pension coverage for current employees through the centralized retirement system will permit current employees to participate in the advantages of the centralized retirement system. In addition, the option to cover current employees in the centralized retirement system will allow local governments with retirement plans to significantly reduce the responsibilities and the costs associated with their administration of employee pension systems. Permitting local governments to exercise the option to cover current employees in the centralized retirement system only for entire groups of employees (i.e., police, fire or nonuniformed) that have agreed to transfer to the centralized retirement system will ensure equity within employee groups and facilitate administrative procedures at the state and local levels.

Because the coverage of current employees will involve costs for service rendered prior to participation in the centralized retirement system, local governments providing for the coverage of current employees will be required to fully pre-fund the aggregate actuarial accrued liability attributable to those employees in the statewide retirement system. Where the assets of a local government pension plan exceed the amount required to provide for the coverage of current employees in the centralized retirement system, the local government will be permitted to retain and use the excess assets for any municipal purpose, including the partial or total refund of member contributions. Ensuring that the centralized retirement system incurs no unfunded actuarial accrued liability in conjunction with the coverage of current employees will negate the potential for shifting liabilities from one local government to other local governments and the Commonwealth.

**RECOMMENDATION: The Commission recommends that the Commonwealth implement a gradual transition to a centralized retirement system for local government employees by requiring that all retirement benefits for local government employees hired on or after January 1, 1994, except postretirement medical benefits, be provided through participation in the centralized retirement system and that all retirement benefits for local government employees hired before January 1, 1994, except postretirement medical benefits, be provided either through a local government retirement system established before January 1, 1994, or through participation in the centralized retirement system.**

**RECOMMENDATION: The Commission recommends that participation in the centralized retirement system be made available to local governments as an optional means to provide retirement benefits for entire groups of local government employees hired prior to January 1, 1994, that agree by a two-thirds majority vote to participate and that the actuarial accrued liability attributable to such participation be fully funded as of the effective date of the local government's participation in the centralized retirement system.**

## **ADMINISTRATION**

Utilization of an existing state agency as the administrative vehicle for the centralized retirement system is preferable to the establishment of a new state agency for several reasons. Concerns about the effective operation of the centralized retirement system will be ameliorated if a state agency already engaged in the administration of an employee pension plan is selected to administer the centralized retirement system. Use of an existing state agency to administer the centralized retirement system will also reduce administrative costs by avoiding the duplication of processing operations and support functions that are already established. There are three existing state agencies in the Commonwealth that are involved in the administration of employee retirement systems.

With over \$17 billion in assets and more than 200,000 active members, the Public School Employees' Retirement System (PSERS) represents one of the 25 largest retirement systems in the nation. This fact alone demonstrates that PSERS has the capacity to administer the statewide retirement system for local government employees due to the scope of the current administrative functions and technical knowledge currently in place. The system currently administers a unified retirement plan with participation by multiple employers, and there is a widespread perception that an acceptable level of proficiency in the administrative functions is maintained. However, the current size of PSERS, relative to the size of other retirement systems in the nation, also indicates that

substantial expansion of PSERS may be unwarranted because of the potential for decreased administrative efficiencies attributable to the diminishment of the economies of scale. Also, because the predominate function of the membership of PSERS is teaching in the public schools system, the administration of the statewide local government retirement system by PSERS is not compatible with current operations of that system due to the diversification of both employee functions and employers involved with local government. Because diversity in employee functions and employer types within a retirement system complicate administrative and actuarial procedures, the potential effectiveness of PSERS as the administrative agency for the statewide local government retirement system is diminished.

The State Employees' Retirement System (SERS) administers a centralized retirement program for diversified employers, and the membership of the system is engaged in the various functions of government operations. Accordingly, there is considerable compatibility between the current operation of SERS and the administration of the statewide local government retirement system. With the assumption of the administrative responsibilities for the centralized retirement system for local government employees, a unified retirement system for all governmental employees would be constituted in the Commonwealth. Many other states employ this unified approach to provide retirement coverage for state and local government employees. With assets exceeding \$9 billion and more than 111,000 active members, SERS currently represents one of the 50 largest retirement systems in the nation. If a unified retirement system for all governmental employees in Pennsylvania were fully implemented and administered by SERS, it would be approximately the same size as Pennsylvania's Public School Employees' Retirement System. Accordingly, SERS is large enough to have the necessary capacity to administer the statewide local government retirement system, but small enough to accommodate expansion without raising concern about diminished administrative efficiencies due to inordinate size. SERS currently administers a unified retirement plan with participation by multiple employers, and there is a widespread perception that an acceptable level of proficiency in administrative functions is maintained.

Local governments may elect to use the Pennsylvania Municipal Retirement System (PMRS) as an administrative agency for one or more of their employee retirement plans. As of December 30, 1990, PMRS served as the administrative agency for 502 (19%) of the 2,650 retirement plans established and maintained by individual local governments. The 7,018 active members of the pension plans administered by PMRS represent approximately six percent of the total active membership of local government pension plans. With assets of approximately \$300 million, PMRS is about three percent as large as SERS in terms of assets. The small size of PMRS serves to evidence that the administrative capacity of PMRS would have to be expanded substantially to administer the statewide local government retirement system. The extent of the necessary expansion of PMRS's administrative capacity would negate, to a great extent, the advantages of utilizing an existing state agency for the administration of the statewide local government retirement system. Although the diversification of the employee functions and employers inherent with the statewide local government retirement system is compatible with the current administrative operations of PMRS, the role and orientation of PMRS as an administrative agency for individual local government retirement systems are by design not consistent with the administration of a unified retirement system. Commensurate with its function, PMRS individually determines annual pension costs for each municipal retirement plan it administers, and the specifications of each participating retirement plan are determined by the respective local government employer. In a unified retirement system, the annual pension costs are determined in the aggregate and applied to each of the participating employers, and the specifications of the retirement plan are standardized. This clear distinction between the function of PMRS and the role of administering a unified retirement system makes the assumption of both functions by one agency difficult and may impede the ability of PMRS to perform its presently mandated role.

In view of the above discussion of the three alternatives, the most appropriate existing state agency to administer the centralized retirement system for local government employees is the State Employees' Retirement System. Due to its expanded scope, the proposed unified retirement system would appropriately be named the Government Employees' Retirement System (GERS). The administration of GERS will entail integration of common or shared functions such as: asset management, actuarial funding determinations, retirement counseling, records management, and benefit determination and payment. Some accommodation of the administrative functions uniquely required by the participation of multiple local government employers in GERS will also be required. For example, segregation of billing and data collection activity will be necessary in the multi-employer environment of GERS. Because local government participation in GERS will entail the integration of certain processing functions and the segregation of others, the current SERS staff will be augmented with specialized executive and support staff responsible for the execution and coordination of the processing operations related to local government participation.

The financial support for the local government component of the GERS will be provided by local governments and local government employees. The annual funding provided by local government employees will be equal to the specified contribution rate, and it will be paid through payroll deductions. The employer contribution requirements will be paid by local governments using their allocations under the existing General Municipal Pension System State Aid program and local tax revenues. The aggregate employer contribution requirement will be equal to the total employer financial requirements of GERS excluding the amortization cost for unfunded actuarial accrued liabilities existing as of December 31, 1993. Payment of the amortization cost for the current unfunded actuarial accrued liabilities of SERS by the State prevents local government employers from inappropriately participating in the payment of SERS costs accrued prior to the creation of GERS. The segregated payment of pre-existing unfunded actuarial accrued liabilities permits the ongoing financial requirements of GERS to be equitably determined on a uniform basis for all participating employers, with a separate employer cost rate developed for each membership classification.

Utilizing a uniform, or aggregated, cost approach to develop employer cost rates for GERS, as opposed to the variable cost approach, is desirable for several reasons. First, a uniform cost approach reduces administrative expenses because there is no need to maintain separate accounts and perform separate actuarial valuations for thousands of employers. Because the application of actuarial calculations to the extremely small employing units is not likely to produce reliable costs due to the reasons discussed in Part I of this report, the increased costs attributable to separate actuarial valuations is unwarranted. Second, the common methodology employed under a uniform cost approach precludes the potential inequity and technical difficulty of pension portability calculations when a variable cost approach is utilized. And finally, the fact that the major source of funding for GERS will be State revenues, either direct contributions for State employee costs or indirect contributions (General Municipal Pension System State Aid) for municipal employee costs, significantly lessens the justification for a variable cost approach to provide equity among employing units. Although there is some risk that a uniform cost approach will permit inter-employer shifting of costs, plan design considerations are either in place or available to negate the risk within GERS.

**RECOMMENDATION: The Commission recommends that the administrative functions of the centralized retirement system for local government employees be fully integrated with those of the State Employees' Retirement System and that the combined entity be named the Government Employees' Retirement System.**

**RECOMMENDATION:** The Commission recommends that the total employer financial requirements of the Government Employees' Retirement System be set annually for State and local government employers, using uniform contribution rates for each membership classification and excluding the amortization costs for the unfunded actuarial accrued liabilities of the State Employees' Retirement System as of December 31, 1993, and that the amortization cost for the unfunded actuarial accrued liabilities existing as of December 31, 1993, be expressed as a percentage of State government payroll and added to the applicable employer contribution rates as a surcharge for State government employers.

## **BENEFIT STRUCTURE**

**Specification of Provisions.** In *Pension Portability and Preservation for State and Local Governments*, published by the Government Finance Officers Association and the National Association of State Retirement Administrators in 1989, Marta V. Goldsmith indicated that pension plans with defined benefits "cover 93 percent of all employees in state and local retirement systems." The preponderance of defined benefit pension plans for public employees is also evident in Pennsylvania where approximately 98 percent of all state and local government employees were covered by defined benefit pension plans as of January 1, 1989. Accordingly, the Commission concluded that a defined benefit pension plan was the only viable approach for implementing a centralized retirement system for local government employees.

The appropriate design of the benefit structure of the centralized retirement system for local government employees is central to the success of the reform effort. In other states where statewide local government retirement systems have been established, experience evidences that the process required to fashion a uniform benefit structure from the diverse elements of multiple local government pension plans is extremely difficult. The multiplicity of local government pension plans in Pennsylvania combined with the absence of legislative benefit guidelines for those plans has produced a divergence in benefit structures that is unique. This degree of divergence would impede, if not preclude, any effort to fabricate a benefit structure for the centralized retirement system from elements of existing local government retirement plans.

Because the centralized retirement system will be administered by SERS, adopting the SERS benefit structure as a base is a practical means to design a benefit structure without extended deliberations and controversy. Since the SERS benefit structure has been in place for a number of years, there is little probability that administrative problems or technical deficiencies are extant. There is also a widely held perception that the SERS benefit structure represents a well developed set of provisions for retirement coverage. However, some modification of the SERS benefit structure is appropriate to accommodate the diversity among local government employers. Local government employers are diverse in terms of their size, labor needs and economic conditions. Expanding the current SERS membership classifications to establish a broader range of primary pension benefits would provide the flexibility necessary to meet the needs of local government employers. The proposed benefit classifications applicable to municipal employees are identified in the following chart along with the benefit accrued rates, the retirement eligibility provisions and the member contribution rates.

Classification	Benefit Accrual Rate	Retirement Eligibility	Member Contribution Rate
<i>Nonuniformed Employees</i>			
Class N1	2.00%	Retirement Age 60 or 35 years of service	5.000%
Class N2	1.75%	Retirement Age 60 or 35 years of service	4.375%
Class N3	1.50%	Retirement Age 60 or 35 years of service	3.750%
Class N4	1.25%	Retirement Age 62 or 35 years of service	3.125%
<i>Public Safety Employees</i>			
Class P1	2.50% for 1st 20 years; 2.00% there- after.	Retirement at Age 50 or 20 years of service	6.250% 5.000%
Class P2	2.25%	Retirement Age 50	5.625%
Class P3	2.00%	Retirement Age 50	5.000%
Class P4	1.75%	Retirement Age 55	4.375%

With the exception of the above provisions for the primary pension benefit unique to each municipal membership classification, the retirement benefits provided to municipal employees will be the same as those provided to state employees. Appendix III provides a description of the retirement benefit provisions applicable to general state employees. The flexibility in primary pension benefit, combined with the statewide parity in ancillary pension benefits, will effectively eliminate the potential for the benefit structure issue to impede establishment of the centralized retirement system.

To ensure the equitable treatment of local government employees, provisions will be put in place to regulate the membership classifications initially designated for individual groups of local government employees (police officers, firefighters or nonuniformed employees). Initiating coverage in the statewide retirement system for any individual group of current employees with retirement coverage will require approval by two-thirds of the active employees. If a local government employer presently providing retirement coverage for an individual group of employees seeks to cover both current employees and newly hired employees or only newly hired employees in the statewide retirement system, the local government employer will not be permitted to designate a membership classification for current employees that provides lower aggregate benefits than the pre-existing benefit structure; and, unless a collectively bargained agreement provides otherwise, the local government employer will be permitted to designate any membership classification for newly hired employees. In instances where a pre-existing benefit structure provides higher aggregate benefits than any of the available membership classifications, the highest applicable membership classification may be designated for a group of current employees if the required two-thirds of the affected

employees approve coverage in the centralized retirement system. The evaluation of pre-existing benefit structures will be conducted by the centralized retirement system using standard methodology to determine the actuarial present values of the benefit structures. If a local government employer not presently providing retirement coverage for an individual group of employees seeks to cover both current employees and newly hired employees or only newly hired employees, the local government employer will have discretion in the designation of the applicable membership classification. The membership classification designated for an individual group of employees may be subsequently upgraded.

The administrative integration of the centralized retirement system for local government employees and the State Employees' Retirement System will be simplified because the difference between the proposed benefit structure and the current SERS benefit structure will be limited to the addition of several benefit classifications to provide flexibility in the amount of the primary pension benefit. By facilitating the integration of administrative functions, a uniform benefit structure will result in reduced administrative costs. One benefit structure for State and local government employees will also contribute to an improved understanding of the available benefits by all interested parties and eliminate the "leapfrogging" competition for benefit improvements that occurs within the present local government retirement system.

In recognition of current practice of providing non-pension benefits after retirement, the centralized retirement system for local government employees will provide for the maintenance of a supplemental benefit accumulation account for each member to accommodate the provision of non-pension post retirement benefits. Financing for the accounts will be discretionary and provided through matching employer and employee contributions. Monies accumulated in the accounts will be distributed to members when they retire or terminate employment without vesting. The recipients will be permitted to use the distributed monies for: financing indexed increases in retirement earnings, medical insurance expenses, retirement savings, or any other purpose.

Due to administrative and design considerations, participation in the centralized local government retirement system will be restricted to full-time employees. Because local governments in Pennsylvania operate with a large number of permanent part-time employees, an appropriate means to provide retirement benefits for permanent part-time local government employees will be necessary. Utilization of individual retirement accounts (SEP-IRA) for this purpose is desirable because the administrative mechanisms are already well established in the private sector. Another advantage of using individual retirement accounts is the fact that the plan provisions, which are contained in federal regulations, are both commonly known and uniform. With provisions for contributions to be made as a percentage of compensation, individual retirement accounts represent an equitable and administratively simple way to provide retirement benefits to the permanent part-time employees of Pennsylvania's local governments. Provisions authorizing local governments to utilize individual retirement accounts to provide retirement benefits for part-time employees will be a component of the reform establishing the centralized retirement system for full-time local government employees.

**Cost Considerations.** One of the primary determinants of the benefit structure of a retirement plan is the cost of financing the specified pension benefits. Accordingly, an examination of the cost of the proposed benefit structure for the centralized retirement system for local government employees is appropriate to determine whether the proposed level of pension benefits is affordable. The affordability of the proposed level of pension benefits for local government employees can be assessed by comparing the actual funding requirement of the existing local government retirement systems with the estimated funding requirement of the proposed statewide retirement system in a

given year, assuming full implementation of the proposed system. In other words, by comparing the amount local governments are currently paying for employee pension benefits with the amount they would be paying to provide the proposed employee pension benefits through the centralized retirement system, the affordability of the proposed benefit structure can be ascertained.

To permit a valid comparison of the funding requirements for the existing and the proposed local government retirement systems, the comparison must examine the employer normal costs, which represent the levels of financial support from local government employers required to fund prospective employee pension benefits. The Commission solicited and received the assistance of Edwin C. Husted of the Hay/Huggins Company, Inc., who serves as the State Employees' Retirement System's actuary, in producing employer normal cost data appropriate for the comparison. The following approach was used to calculate the data presented in Chart IV.

1. To calculate the actual funding requirements for the existing local government retirement systems, cost data was extracted from the 1991 Act 205 reports submitted by municipalities and the 1990 Act 293 reports submitted by counties. For defined benefit plans, the total normal costs for the individual local government retirement systems were adjusted by adding the administrative expenses and subtracting the member contributions to produce the total employer normal costs. For defined contribution municipal pension plans, the total employer normal cost was computed as the sum of the employer contribution and state aid allocation. The weighted average total employer normal cost rates were then calculated by expressing the total employer normal costs as a percentage of the respective payrolls.
2. To calculate the estimated funding requirements for the proposed local government retirement system, the weighted average employer normal cost rates calculated for the existing system were actuarially adjusted to reflect the changes in the employee contribution rates, the benefit accrual rates and the investment return that would be attributable to the proposed system. Unlike the changes in employee contribution rates and benefit accrual rates which are a fixed component of the proposed plan, the investment return change is subject to actuarial discretion based on experience. The Commission's analysis of investment earnings presented in Part I of this report evidences that the local government retirement systems experienced a rate of return that was 3.6% less than that of the State Employees' Retirement System from the mid to late 1980's. Therefore, to accommodate the potential range of the investment return change, the calculation of the estimated funding requirements for the proposed retirement system was performed using one, two and three percent increases in the investment return. Appendix II provides detailed information regarding the methodology and the results.

Chart IV shows the change in the cost to local governments if the proposed local government retirement system were implemented. The estimated funding requirements for the proposed local government retirement system presented in Chart IV reflect the significant impact of the change in investment return. As discussed in Part I of this report, the investment return of the existing local retirement systems would increase by as much as 3.6 percent by participating in the proposed statewide retirement system. However, even an investment return increase of one percent results in funding requirements for the proposed local government retirement system which are 1.25 percent of payroll, or \$34.7 million, less than the funding requirements of the current local government retirement systems. The funding requirements for the proposed local government retirement system are 3.21 percent of payroll, or \$89.3 million, less than the current retirement system with a two percent change in investment earnings. Because there is high probability that the increase in



**CHART IV**

**Comparison of the Funding Requirements  
For the Existing and Proposed Local Government Retirement Systems  
Expressed as Percentages of Payroll**

	Existing Local Government Retirement Systems	Proposed Local Government Retirement System	
		With 1% Increase In Investment Return	With 2% Increase In Investment Return
Nonuniformed Employees	5.85%	5.04%	3.26%
Public Safety Employees	10.16%	7.71%	5.23%
<b>All Employees Combined</b>	<b>7.00%</b>	<b>5.75%</b>	<b>3.79%</b>

investment return will be between one and two percent, potential annual savings to local governments can be estimated to be the midpoint of the savings calculated for these two increases in investment return, or \$62 million annually. This not only shows that the proposed level of benefits is affordable, but also that implementation of the proposed local government retirement system will sharply reduce local government retirement expense even after paying for improved benefits and generally reduced employee contributions.

The aggregate savings potential discussed in the preceding paragraph was calculated to ascertain the long-term affordability of the proposed benefit structure of the statewide retirement system for local government employees. Accordingly, the calculation assumed full and immediate implementation of the statewide retirement system. Because full implementation of the statewide retirement system will require twenty to thirty years, the aggregate savings potential should not be used to assess the short-term fiscal impact of the statewide retirement system. Although current benefit levels, demographics and other factors will determine whether an individual municipality experiences increased or reduced costs in the long-term, the fiscal impact of the statewide retirement system on local governments in the short-term will largely depend on the degree of participation elected by the individual local governments. If a municipality chooses to cover only new employees in the statewide retirement system, the fiscal impact, whether it be reduced or increased costs, will be moderated because the impact will be spread over an extended period of time. If a municipality elects to cover both new and current employees in the statewide retirements system, the fiscal impact will be experienced more rapidly. Due to the variables involved, a quantified assessment of the short-term fiscal impact of the statewide retirement system can only be made at the level of the individual municipality. However, there is a high probability that the aggregate short-term fiscal impact on local governments will be favorable. Because municipalities will have discretion in covering current employees, the frequency of municipalities experiencing sudden increases in annual pension costs due to implementation of proposed statewide retirement system will be much lower than the frequency of municipalities experiencing sudden decreases in annual pension costs.

**RECOMMENDATION:** The Commission recommends that the benefit structure for the centralized retirement system for local government employees be the benefit structure of the State Employees' Retirement System modified to provide membership classifications for local government employees.

**RECOMMENDATION:** The Commission recommends that the membership classifications for local government employees within the centralized retirement system be N1, N2, N3 and N4 for nonuniformed employees and P1, P2, P3 and P4 for public safety employees and that the provisions applicable to each membership classification be as follows:

*Nonuniformed Employees*

Class N1	2.00% Accrual Rate, Retirement Age 60 or 35 years of service
Class N2	1.75% Accrual Rate, Retirement Age 60 or 35 years of service
Class N3	1.50% Accrual Rate, Retirement Age 60 or 35 years of service
Class N4	1.25% Accrual Rate, Retirement Age 62 or 35 years of service

*Public Safety Employees*

Class P1	2.50% Accrual Rate for 1st 20 years and 2.00% thereafter, Retirement at age 50 or 20 years of service.
Class P2	2.25% Accrual Rate, Retirement Age 50
Class P3	2.00% Accrual Rate, Retirement Age 50
Class P4	1.75% Accrual Rate, Retirement Age 55

**RECOMMENDATION:** The Commission recommends that the centralized retirement system for local government employees provide for the maintenance of a discretionary supplemental benefit accumulation account for each member as the mechanism for the provision of non-pension postretirement benefits and that contributions to the supplemental benefit accumulation accounts be restricted to matching employer and employee contributions.

**RECOMMENDATION:** The Commission recommends that authorization for local governments to utilize individual retirement accounts (SEP-IRA) as the means to providing retirement benefits to part-time employees be provided in conjunction with the establishment of the centralized retirement system for full-time employees and that the local government contributions to those individual retirement accounts be restricted to a percentage of the compensation of participating part-time employees.

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**PART IV**

**RECOMMENDED REVISION  
OF CURRENT STATE AID PROGRAM**

**BACKGROUND**

In addition to initiating an actuarial funding standard for all municipal pension plans, Act 205 of 1984 revised the allocation formulas for the state aid provided to offset municipal pension costs. The nature, inequity and inefficiency of the prior allocation formulas were discussed in the reports entitled Recommendation of Actuarial Funding Standards and a Recovery Program for Municipal Pension Plans and Act 293 Report, which were published by the Commission in 1983 and 1984 respectively. Act 205 replaced the prior allocation formulas with a single allocation formula which annually distributes the Commonwealth monies available to aid municipalities in meeting their employee pension costs.

The state aid provided under Act 205, General Municipal Pension System State Aid, is allocated to municipalities based on the number of employee units. Accordingly, the amount of state aid provided to the municipalities is directly related to their employee pension costs. To avoid the substantial inefficiency of the prior allocation formulas, the Act 205 formula limits the state aid allocations to 100 percent of the annual pension costs payable by the municipalities. The limit or "cost cap" on the annual allocations is necessary because of the wide variation in municipal pension costs. In situations where municipal pension costs are low, the allocation of state aid in excess of the annual municipal pension costs would provide funding where none is required and reduce the funding available for other municipalities. Therefore, the "cost cap" in the Act 205 allocation formula functions to ensure the efficient use of the available state aid and supports the program's purpose — offsetting municipal pension costs.

**OPERATION OF THE NEW ALLOCATION FORMULA**

The amount of state aid allocated under the General Municipal Pension System State Aid Program increased considerably since the initial allocation in 1985. With the increases in the total state aid, the amount of aid allocated for each employee unit also increased. Chart V shows that during the first four years, the total state aid allocated under Act 205 almost doubled (95% increase), and the employee unit value, which is used to determine the individual allocations, increased by approximately 140 percent. As a result of the unanticipated escalation in the amount of state aid,

**CHART V**

**General Municipal Pension System State Aid**

Year	Total Allocation	Unit Allocation	Approximate Percentage of Allocations Fully Funding Pension Costs of Recipient Municipalities
1985	\$ 62.3 million	\$ 1,146	75%
1986	\$ 78.4 million	\$ 1,624	87%
1987	\$ 97.2 million	\$ 2,173	88%
1988	\$ 109.0 million	\$ 2,746	93%
1989	\$ 121.7 million	\$ 3,268	95%
1990	\$ 115.9 million	\$ 2,500	87%
1991	\$ 119.3 million	\$ 2,489	87%

the percentage of municipalities receiving allocations equal to 100 percent of their pension costs increased from 75 percent in 1985 to more than 90 percent in 1988 and 1989. The approximate percentage of municipal recipients whose pension costs were fully funded with state aid is presented in Chart V for each year since the Act 205 formula was implemented.

Because the state aid allocations are now fully funding the municipal pension obligations of most recipient municipalities, the orientation of municipal officials to their employee pension plans is changing. Although the "cost cap" in the GMPSSA allocation formula was intended as an efficiency safeguard to address extraordinary situations where municipal pension costs were low, it has become an all but universally applied mechanism to determine the annual allocations. As a result, the GMPSSA allocations are now being viewed by many municipal officials and others as grant monies that can be increased by raising the employer costs of the pension plans. The employer pension costs — the total annual costs less member contributions — can be increased by increasing administrative expenses, granting benefit increases or by reducing or eliminating member contributions. Accordingly, municipal officials are actually encouraged to grant increased pension benefits as an alternative to other forms of compensation that must be funded with local tax revenues, and there is no fiscal inducement for local government officials to be concerned with the efficiency of administrative functions. Clearly, the substantial increase in the state aid being provided to municipalities to offset their employee pension costs has fundamentally changed the municipal pension plan environment in the Commonwealth. Although the GMPSSA program has successfully redressed the inequities and inefficiencies of the prior allocation formulas for the State aid provided to municipalities to offset employee pension costs, the continued operation of the GMPSSA program, as modified by the unanticipated increases in revenues available for distribution, is not consistent with sound public pension policy.

Fiscal responsibility in the management of Pennsylvania's local government pension plans will occur only if local governments share in providing the required financial support. The most direct and effective way to accomplish this objective is to establish the maximum level of the State's financial support for local government pension plans at a level below 100 percent. To provide that the individual allocations of State aid (GMPSSA) be limited to 75 percent of the total annual pension costs of the recipient local governments is reasonable from an equity standpoint, and a 25 percent local funding requirement is sufficient to reestablish fiscal responsibility in municipal pension plan management within the Commonwealth. To avoid any disruptive budgetary impact, scheduling modest reductions in the maximum level of State aid allocations over a number of years is necessary. A distribution of the unallocated State aid amounts to municipal accounts within the Government Employees' Retirement System will permit continued use of State aid to finance employee pension benefits and ensure that no municipality experiences a reduction in State aid as a result of the lower allocation limit.

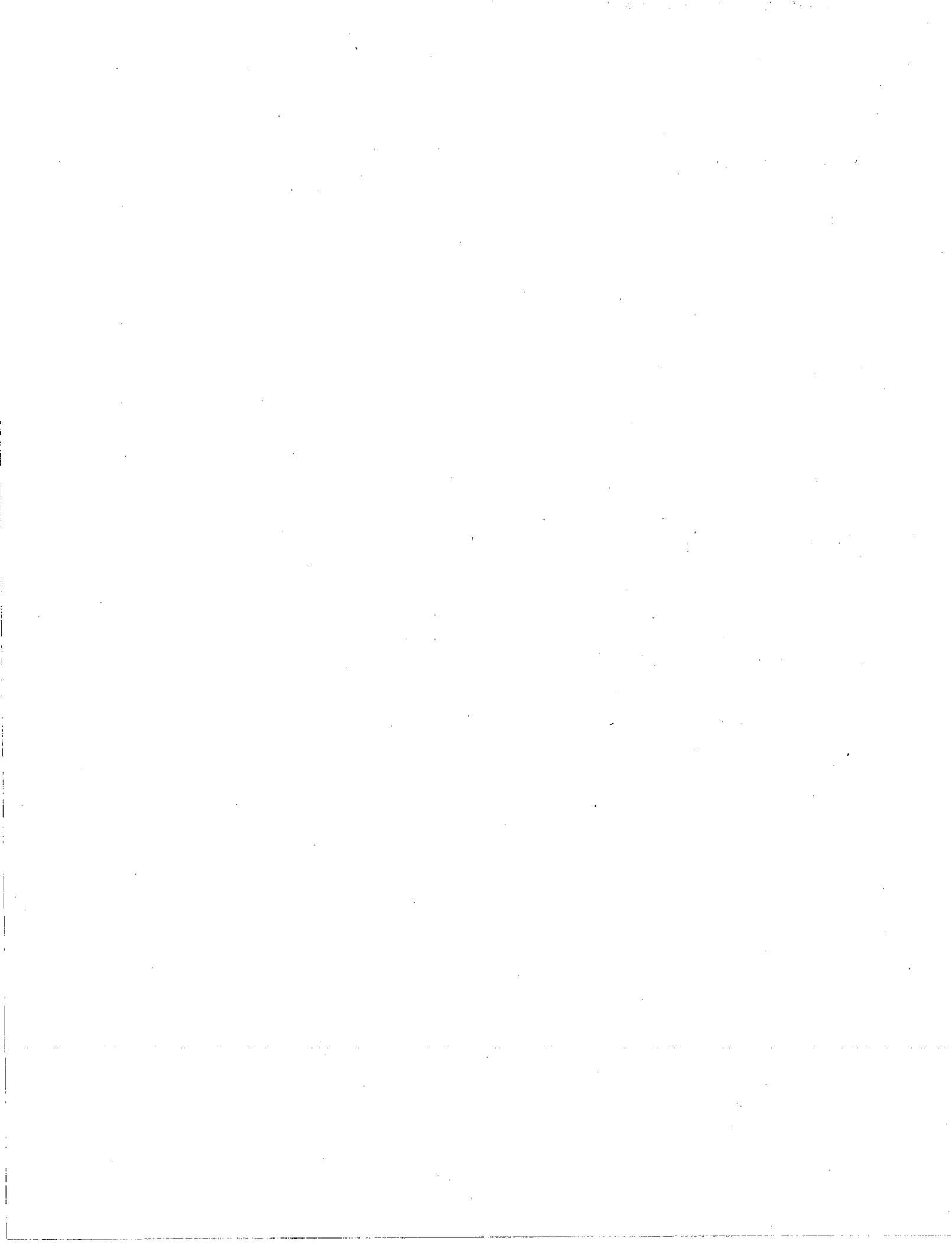
Implementing the lower limit on State aid (GMPSSA) allocations as the final step in the current allocation formula is appropriate for two reasons. First, it ensures that the lower allocation limit does not function within the allocation formula to alter the present distribution of State aid among the various municipal classes. Second, application of the lower allocation limit as the final step in the formula permits identification and segregation of the monies not allocated because of the lower allocation limit.

**RECOMMENDATION: The Commission recommends that the allocation limit under the General Municipal Pension System State Aid Program be reduced from 100 percent to 75 percent of employer pension costs over a five year period commencing with the 1994 allocation.**

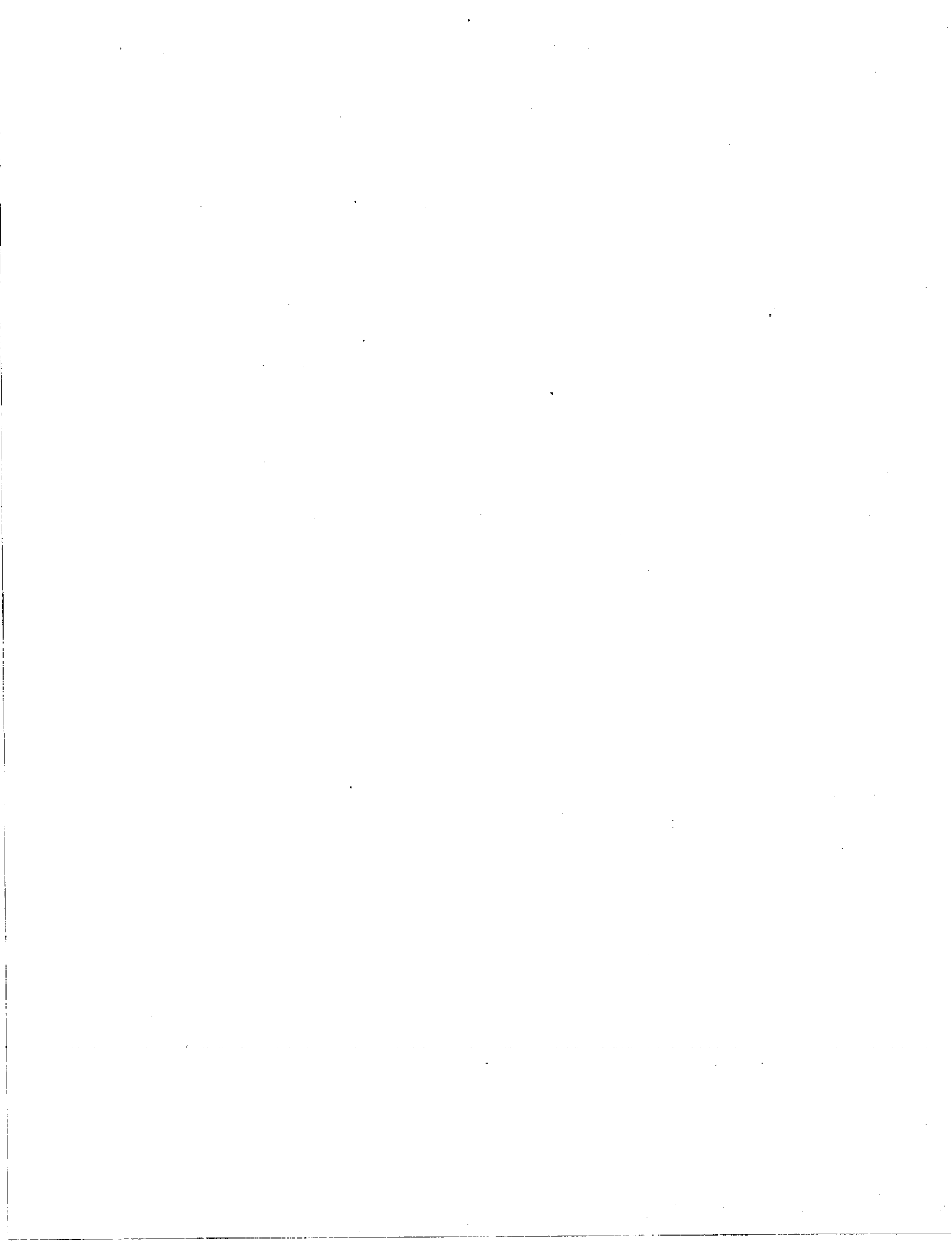
**RECOMMENDATION: The Commission recommends that the reduced allocation limits be imposed as a final step in the allocation formula for General Municipal Pension System State Aid to permit a determination of the monies not allocated because of the reduced allocation limits.**

**RECOMMENDATION: The Commission recommends that the aggregate amount of General Municipal Pension System State Aid monies not allocated to individual municipalities because of the reduced allocation limits be paid to the Government Employees' Retirement System and that the individual amounts be credited to the accounts of the individual municipalities established within the Government Employees' Retirement System.**

**RECOMMENDATION: The Commission recommends that the General Municipal Pension System State Aid monies allocated to individual municipal accounts by the Government Employees' Retirement System be credited against the future annual financial obligations of the municipalities to the Government Employees' Retirement System.**



**APPENDICES**





## APPENDIX I

### LISTING OF STATUTES GOVERNING LOCAL GOVERNMENT EMPLOYEE RETIREMENT SYSTEMS

#### A. GENERALLY APPLICABLE

##### Financial and Actuarial Reporting

1. Act of December 6, 1972, P.L. 1383, No. 293, referred to as Act 293, 53 P.S. § 730.1-730.5.
2. Act of December 18, 1984, P.L. 1005, No. 1984-205, known as the Municipal Pension Plan Funding Standard and Recovery Act, 53 P.S. § 895.101-895.803.

##### State Aid Distribution

3. Act of May 12, 1943, P.L. 259, No. 120, referred to as the Foreign Casualty Insurance Premium Tax Allocation Law, 72 P.S. § 2263.1-2263.3.
4. Section 402, relating to the General Municipal Pension System State Aid Program, section 403, relating to general municipal pension system state aid moneys, and chapter 7, known as the Foreign Fire Insurance Tax Distribution Law, of the act of December 18, 1984, P.L. 1005, No. 1984-205, known as the Municipal Pension Plan Funding Standard and Recover Act, 53 P.S. § 895.402, 895.403, & 895.701- 895.707.

##### State Auditing Function

5. Section 403, relating to audits of agencies receiving state aid, of the act of April 9, 1929, P.L. 343, No. 176, known as The Fiscal Code, 72 P.S. § 403.

##### Fiduciaries and Investments

6. Chapter 73, relating to fiduciaries investments, of the act of June 30, 1972, P.L. 508, No. 164, known as the Probate, Estates and Fiduciaries Code, 20 Pa.C.S. § 7301-7319.

##### Insurance

7. Act of June 22, 1931, P.L. 844, No. 274, relating to group insurance, annuities, and pensions, 40 P.S. § 535-537.

##### Military Code

8. Section 7306, relating to retirement rights, of the act of August 1, 1975, P.L. 233, No. 92 known as the Military Code, 51 Pa.C.S. § 7306.

Public Employee Pension Forfeiture

9. Act of July 8, 1978, P.L. 752. No. 1978-140, known as the Public Employee Pension Forfeiture Act, 43 P.S. § 1311-1315.

Coverage Under Federal Social Security Act

10. Act of January 5, 1952, P.L. (1951) 1833, No. 491, relating to coverage of certain officers and employees of the Commonwealth and its political subdivisions under the old-age and survivor insurance provisions of Title II of the Federal Social Security Act, 65 P.S. § 201-209.

Pennsylvania Municipal Retirement System

11. Act of February 1, 1974, P.L. 34, No. 15, known as the Pennsylvania Municipal Retirement Law, 53 P.S. § 881.101-881.501.

**B. APPLICABLE TO MUNICIPAL POLICE OFFICER RETIREMENT SYSTEMS**

Counties of the Second Class, Cities, Boroughs, Towns, and Townships

12. Act of December 14, 1988, P.L. 1192, No. 1988-147, known as the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, 53 P.S. § 896.101-896.1103.

Counties of the Second Class

13. Article 17, relating to employees' retirement system, of the act of July 28, 1953, P.L. 723, No. 230, known as the Second Class County Code, 16 P.S. § 4701-4716.

Counties of the Second Class A through Eighth Class

14. Act of August 31, 1971, P.L. 398, No. 96, known as the County Pension Law, 16 P.S. § 11651-11682.

Cities of the First Class

15. Act of May 24, 1893, P.L. 129, No. 82, relating to police pension funds in cities, 53 P.S. § 761-764.
16. Act of May 20, 1915, P.L. 566, No. 242, relating to creation of pension funds for employees of cities of the first class, 53 P.S. § 13431-13447.
17. Section 8, relating to pension plans continued, of the act of June 25, 1919, P.L. 581, No. 274, relating to government of cities of the first class, 53 P.S. § 12198.
18. Act of August 14, 1963, P.L. 1117, No. 473, authorizing cities of the first class to provide for payment of retirement benefits to retired employees without reduction on account of social security benefits, 53 P.S. § 13448.

19. Act of June 19, 1969, P.L. 85, No. 30, relating to increasing retirement allowances or pensions of its retired employees following termination of employment, 53 P.S. § 13449.
20. Section 705, relating to emergency payment deferral of employer contributions to public employee retirement systems, of the act of June 5, 1991, P.L. \_\_, No. 1991-61, known as the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, \_\_ P.S. § \_\_\_\_.

Cities of the Second Class

21. Act of April 5, 1917, P.L. 39, No. 20, relating to police officers' relief and pension fund, 53 P.S. § 23641-23643.
22. Act of May 22, 1935, P.L. 233, No. 99, referred to as the Second Class City Policeman Relief Law, 53 P.S. § 23644-23666.

Cities of the Second Class A

23. Act of May 24, 1893, P.L. 129, No. 82, relating to police pension funds in cities, 53 P.S. § 761-764.
24. Act of July 3, 1947, P.L. 1242, No. 507, relating to police officers' and firefighters' pension funds, 53 P.S. § 30491-30494.
25. Act of August 17, 1951, P.L. 1254, No. 295, relating to the minimum pensions of police officers and firefighters, 53 P.S. § 30495-30498.
26. Act of November 10, 1965, P.L. 835, No. 351, relating to surviving spouses, contributions by members, and appropriations by the city to police officers' and firefighters' pension funds, 53 P.S. § 30510.1-30510.5.
27. Act of June 28, 1967, P.L. 122, No. 31, relating to fund for aged widows of police officers and firefighters, 53 P.S. § 30515.1.

Cities of the Third Class

28. Section 1804.1(d)(7), relating to investment of city funds, section 2403.53, relating to insurance, and article 43(a), relating to police pension funds, of the act of June 23, 1931, P.L. 932, No. 317, known as The Third Class City Code, 53 P.S. § 36804.1(d)(7), 37403.53, & 39301-39308.

Boroughs - All

29. Section 1105, relating to compensation to aged employees, section 1134, relating to pensions not to be charged to other funds, section 1202(37), relating to other insurance, section 1302(2), relating to special tax levies for borough pensions, and section 1316(c)(vii), relating to investment of funds, of the act of February 1, 1966, P.L.(1965) 1656, No. 581, known as The Borough Code, 53 P.S. § 46105,46134, 46202(37), 46302(2), & 4631(c)(vii).

**APPENDIX I**

Boroughs, Incorporated Towns, and Townships with  
Three or More Full-Time Police Officers

30. Act of May 29, 1956, P.L. (1955) 1804, No. 600, referred to as the Municipal Police Pension Law (and as Act 600), 53 P.S. § 767-778.

Boroughs, Incorporated Towns, and Townships with  
Less than Three Full-Time Police Officers

31. Act of May 20, 1949, P.L. 1488, No. 444, relating to payments into police pension funds, 53 P.S. § 766.
32. Act of May 29, 1956, P.L. (1955) 1804, No. 600, referred to as the Municipal Police Pension Law (and as Act 600), 53 P.S. § 767-778.

Boroughs with Less Than Three Full-Time Police Officers

33. Article 11(f), relating to police pension funds, of the act of February 1, 1966, P.L. (1965) 1656, No. 581, known as The Borough Code, 53 P.S. § 46131-46137.

Townships of the First Class - All

34. Section 605, relating to compensation to aged employees, section 1502.LXIII, relating to insurance, section 1705.1(d)(vii), relating to investment of township funds, and section 1709, relating to tax levies, of the act of June 24, 1931, P.L. 1206, No. 331, known as The First Class Township Code, 53 P.S. § 55605, 56563, 56705.1(d) (vii), & 56709.

Townships of the First Class with Less Than Three  
Full-Time Police Officers

35. Section 1409 through 1415, relating to police pension funds, of the act of June 24, 1931, P.L. 1206, No. 331, known as The First Class Township Code, 53 P.S. § 56409-56415.

Townships of the Second Class - All

36. Section 702.XIII, relating to insurance, and section 902.1(d)(7), relating to investment of township funds, of the act of May 1, 1933, P.L. 103, No. 69, known as The Second Class Township Code, 53 P.S. § 65713 & 65902.1(d)(7).

Townships of the Second Class with Less Than Three  
Full-Time Police Officers

37. Sections 595-599, relating to police pension funds, of the act of May 1, 1933, P.L. 103, No. 69, known as The Second Class Township Code, 53 P.S. § 65595-65599.

**C. APPLICABLE TO MUNICIPAL FIREFIGHTER RETIREMENT SYSTEMS**

All Counties of the Second Class, Cities, Boroughs,  
Towns, and Townships

38. Act of December 14, 1988, P.L. 1192, No. 1988-147, known as the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, 53 P.S. § 896.101-896.1103.

Counties of the Second Class

39. Article 17, relating to employees' retirement system, of the act of July 28, 1953, P.L. 723, No. 230, known as the Second Class County Code, 16 P.S. § 4701-4716.

Counties of the Second Class A through Eighth Class

40. Act of August 31, 1971, P.L. 398, No. 96, known as the County Pension Law, 16 P.S. § 11651-11682.

Cities of the First Class

41. Act of May 20, 1915, P.L. 566, No. 242, relating to creation of pension funds for employees of cities of the first class, 53 P.S. § 13431-13447.
42. Section 8, relating to pension plans continued, of the act of June 25, 1919, P.L. 581, No. 274, relating to government of cities of the first class, 53 P.S. § 12198.
43. Act of August 14, 1963, P.L. 1117, No. 473, authorizing cities of the first class to provide for payment of retirement benefits to retired employees without reduction on account of social security benefits, 53 P.S. § 13448.
44. Act of June 19, 1969, P.L. 85, No. 30, relating to increasing retirement allowances or pensions of its retired employees following termination of employment, 53 P.S. § 13449.
45. Section 705, relating to emergency payment deferral of employer contributions to public employee retirement systems, of the act of June 5, 1991, P.L. \_\_, No. 1991-61, known as the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, \_\_ P.S. § \_\_\_\_.

Cities of the Second Class

46. Act of May 25, 1933, P.L. 1050, No. 242, referred to as the Second Class City Firemen Relief Law, 53 P.S. § 2360-23620.

Cities of the Second Class A

47. Act of July 3, 1947, P.L. 1242, No. 507, relating to police officers' and firefighters' pension funds, 53 P.S. § 3049-30494.
48. Act of August 17, 1951, P.L. 1254, No. 295, relating to minimum pensions of police officers and firefighters, 53 P.S. § 30495-30498.
49. Act of November 10, 1965, P.L. 835, No. 351, relating to surviving spouses, contributions by members, and appropriations by the city to police officers' and firefighters' pension funds, 53 P.S. § 30510.-30510.5.
50. Act of June 28, 1967, P.L. 122, No. 31, relating to fund for aged widows of police officers and firefighters, 53 P.S. § 30515.1.

APPENDIX I

Cities of the Third Class

51. Section 1804.1(d)(7), relating to investment of city funds, section 2403.53, relating to insurance, and article 43(b), relating to firefighters pension funds, of the act of June 23, 1931, P.L. 932, No. 317, known as the Third Class City Code, 53 P.S. § 36804.1(d)(7), 37403.52, & 39320-39326.

Boroughs

52. Section 1105, relating to compensation to aged employees, section 1134, relating to pensions not to be charged to other funds, section 1202(37), relating to other insurance, section 1302(2), relating to special tax levies for borough pensions, and section 1316(c)(vii), relating to investment of funds, of the act of February 1, 1966, P.L. (1965) 1656, No. 581, known as The Borough Code, 53 P.S. § 46105, 46134, 46202(37), 46302(2), 46316(c)(vii).

Townships of the First Class

53. Section 605, relating to compensation to aged employees, section 1502.LXIII, relating to insurance, section 1705.1(d)(vii), relating to investment of township funds, and section 1709, relating to tax levies, of the act of June 24, 1931, P.L. 1206, No. 331, known as The First Class Township Code, 53 P.S. § 55605, 56563, 56705.1(d)(vii), & 56709.

Townships of the Second Class

54. Section 702.XIII, relating to insurance, and section 902.1(d)(7), relating to investment of township funds, of the act of May 1, 1933, P.L. 103, No. 69, known as The Second Class Township Code, 53 P.S. § 65713 & 65902.1(d)(7).

**D. APPLICABLE TO MUNICIPAL NONUNIFORMED EMPLOYEE RETIREMENT SYSTEMS**

Counties of the Second Class

55. Article 17, relating to employees' retirement system, of the act of July 28, 1953, P.L. 723, No. 230, known as the Second Class County Code, 16 P.S. § 4701-4716.

Counties of the Second Class A through Eighth Class

56. Act of August 31, 1971, P.L. 398, No. 96, known as the County Pension Law, 16 P.S. § 11651-11682.

Cities of the First Class

57. Act of May 20, 1915, P.L. 566, No. 242, relating to creation of pension funds for employees of cities of the first class, 53 P.S. § 13431-13447.
58. Section 8, relating to pension plans continued, of the act of June 25, 1919, P.L. 581, No. 274, relating to government of cities of the first class, 53 P.S. § 12198.
59. Act of August 14, 1963, P.L. 1117, No. 473, authorizing cities of the first class to provide for payment of retirement benefits to retired employees without reduction on account of social security benefits, 53 P.S. § 13448.

- 60. Act of June 19, 1969, P.L. 85, No. 30, relating to increasing retirement allowances or pensions of its retired employees following termination of employment, 53 P.S. § 13449.
- 61. Section 705, relating to emergency payment deferral of employer contributions to public employee retirement systems, of the act of June 5, 1991, P.L. \_\_\_\_, No. 1991-61, known as the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, \_\_ P.S. § \_\_\_\_.

Cities of the Second Class

- 62. Act of May 28, 1915, P.L. 596, No. 259, referred to as the Second Class City Employee Pension Law, 53 P.S. § 23561-23575.
- 63. Act of August 1, 1975, P.L. 169, No. 87, relating to pensions for employees of the City of Pittsburgh employed on or after January 1, 1975, 53 P.S. § 23581-23592.

Cities of the Second Class A

- 64. Act of September 23, 1959, P.L. 970, No. 400, referred to as the Second Class A City Employee Pension Law, 53 P.S. § 30551-30579.
- 65. Act of May 7, 1965, P.L. 48, No. 38, relating to pension fund for city employees, 53 P.S. § 30591-30594.

Cities of the Third Class

- 66. Section 1804.1(d)(7), relating to investment of city funds, section 2403.53, relating to insurance, and article 43(c), relating to pension fund for nonuniformed employees, of the act of June 23, 1931, P.L. 932, No. 317, known as The Third Class City Code, 53 P.S. § 36804.1(d)(7), 37403.53, & 39340-39353.
- 67. Act of May 23, 1945, P.L. 903, No. 362, relating to optional retirement system for nonuniformed employees, 53 P.S. § 3937-39384.

Boroughs

- 68. Section 1105, relating to compensation to aged employees, section 1134, relating to pensions not to be charged to other funds, section 1202(37), relating to other insurance, section 1302(2), relating to special tax levies for borough pensions, and section 1316(c)(vii), relating to investment of funds, of the act of February 1, 1966, P.L. (1965) 1656, No. 581, known as The Borough Code, 53 P.S. § 46105, 46134, 46202(37), 46302(2), & 46316(c)(vii).

Townships of the First Class

- 69. Section 605, relating to compensation to aged employees, section 1502.LXIII, relating to insurance, section 1705.1(d)(vii), relating to investment of township funds, and section 1709, relating to tax levies, of the act of June 24, 1931, P.L. 1206, No. 331, known as The First Class Township Code, 53 P.S. § 55605, 56563, 56705.1(d)(vii), & 56709.

Townships of the Second Class

70. Section 702.XIII, relating to insurance, and section 902.1(d)(7), relating to investment of township funds, of the act of May 1, 1933, P.L. 103, No. 69, known as The Second Class Township Code, 53 P.S. § 65713 & 65902.1(d)(7).

**E. AUTHORITY, COMMISSION, AND CORPORATION EMPLOYEES RETIREMENT SYSTEMS**

The Delaware River Port Authority

71. Article IV(e), relating to employment of employees and fixing and determining their compensation, of the Agreement between the Commonwealth of Pennsylvania and the State of New Jersey Creating the Delaware River Joint Commission, approved by the act of June 12, 1931, P.L. 575, No. 200, 36 P.S. § 3503.

Housing Authorities

72. Section 7, relating to organization of an authority, and section 10, relating to the powers of an authority, of the act of May 28, 1937, P.L. 955, No. 265, known as the Housing Authorities Law, 35 P.S. § 1546 & 1550.

Municipality Authorities

73. Section 4.B(q), relating to insurance and employee retirement systems, of the act of May 2, 1945, P.L. 382, No. 164, known as the Municipality Authorities Act of 1945, 53 P.S. § 306.B(q).

Parking Authorities

74. Section 5(b)(16), relating to group insurance and employee retirement systems, of the act of June 5, 1947, P.L. 458, No. 208, known as the Parking Authority Law, 53 P.S. § 345(b)(16).

Pennsylvania Intergovernmental Cooperation  
Authorities for Cities of the First Class

75. Section 203(b)(19), relating to group insurance and retirement plans, of the act of June 5, 1991, P.L. \_\_, No. 1991-61, known as the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class, \_\_ P.S. § \_\_\_\_.

Philadelphia Regional Port Authority

76. Section 6(b)(16)(ii), relating to enrolling employees in retirement systems, of the act of July 10, 1989, P.L. 291, No. 1989-50, known as the Philadelphia Regional Port Authority Law, 55 P.S. § 697.6(b)(16)(ii).

Port Authorities in Counties of the Second Class

77. Section 3(17), relating to group insurance, retirement systems, and other benefits, of the act of April 6, 1956, P.L. (1955) 1414, No. 465, known as the Second Class County Port Authority Act, 55 P.S. § 553(17).



Port of Pittsburgh Commission and Pittsburgh  
Regional Intermodal Freight Corporation

78. Section 5(a)(12), relating to group insurance and retirement or other employee benefit arrangements, of the act of December 19, 1990, P.L. 827, No. 1990-197, known as the Port of Pittsburgh Commission Act, 55 P.S. § 698.5(a)(12).

Public Auditorium Authorities

79. Section 5.B(o), relating to group insurance and employee retirement systems, of the act of July 29, 1953, P.L. 1034, No. 270, known as the Public Auditorium Authorities Law, 53 P.S. § 23845.B(o).

Third Class City Port Authorities

80. Section 3(b)(17), relating to group insurance, retirement systems, and other benefits, of the act of December 6, 1972, P.L. 1392, No. 298, known as the Third Class City Port Authority Act, 55 P.S. § 573(b)(17).



**APPENDIX II**

**ESTIMATED EMPLOYER SHARE OF NORMAL COST  
COMMONWEALTH OF PENNSYLVANIA - PUBLIC EMPLOYEE RETIREMENT COMMISSION PROPOSAL**

The following tables show the estimated average employer normal cost for local government retirement systems under a variety of assumptions. Each estimate began with the sum of the weighted average employer cost and employee contribution of the current systems. This total normal cost was adjusted for the difference between the current accrual rate and that proposed by the Commission. The proposed accrual rate would be the current rate rounded up to the next higher .25 percent.

The reduction in total cost if the actuarial interest assumption was increased by one, two or three percent was determined. If, as the Commission expects, the investment return on the funds held for local government employees will be higher if their proposal is enacted, the normal cost of the local government benefits will decrease. While actuarial assumption changes typically lag actual earnings, it is reasonable to estimate the effect of a higher interest rate by an increase in the actuarial assumption. The three increase assumptions were selected by the Commission.

Costs are presented separately for nonuniformed and public safety employees. The costs assume a contribution rate of 5 percent for employees entitled to a 2 percent annual accrual rate. The employee contribution would increase or decrease proportionately to the accrual rate. For instance, an employee with a 1.5 percent accrual rate would pay an employee contribution of 3.75 percent (5 percent times 1.5 divided by 2.0).

The estimate considers the effect of known or assumed changes in the benefit and funding structure of the system while leaving all other aspects unchanged. For instance, the method assumes that there would be no change in the composition of the characteristics of new entrants or rates of termination from the work force.

<i>Non Uniformed Employees Graded Employee Contribution Rate</i>	<i>Estimated Employer Normal Cost Rates</i>
Current Rate	5.85%
Increase in Interest Rate	
One Percent	5.04%
Two Percent	3.26%
Three Percent	1.82%

<i>Public Safety Employees Graded Employee Contribution Rate</i>	<i>Estimated Employer Normal Cost Rates</i>
Current Rate	10.16%
Increase in Interest Rate	
One Percent	7.71%
Two Percent	5.23%
Three Percent	3.23%



### **APPENDIX III**

## **SYNOPSIS OF SELECTED BENEFIT AND CONTRIBUTION PROVISIONS OF THE STATE EMPLOYEES' RETIREMENT SYSTEM**

The State Employees' Retirement System is the administrator of a cost-sharing multiple-employer retirement system established by the Commonwealth of Pennsylvania under the State Employees' Retirement Code to provide certain retirement, disability, and death benefits for employees of state government, certain commissions and authorities, state-owned educational institutions, and the Pennsylvania State University. The pension plan includes the following benefit and contribution provisions for Class A members.

#### Eligible Employees

All regular employees who become members or who rejoin the retirement system after February 28, 1974.

#### Age and Service Requirements for Normal Retirement (full formula benefits)

A member may retire at age 60 with three years of service.

A member who is a member of the General Assembly, an enforcement officer, a correction officer, a psychiatric security aide, or a police officer of the Delaware River Port Authority may retire at age 50 with three years of service.

A member who is an officer of the Pennsylvania State Police may retire at age 50 or with 20 years of service.

A member may retire at any age with 35 or more years of service.

#### Formula for Normal Retirement Annuity

The standard single-life annuity is equal to two percent of the highest three year average salary of the member multiplied by the years and fractions of credited service multiplied by the class of service multiplier of one.

The applicable single-life annuity for an officer of the Pennsylvania State Police is a minimum of 50 percent of highest calendar year salary of the member if the member has 20 or more but less than 25 years of service. With 25 or more years of service, the benefit is a minimum of 75 percent of the highest calendar year salary. The highest calendar year salary excludes the year in which the officer retires and school service is not counted in this calculation.

## APPENDIX III

The maximum benefit is one hundred percent of the highest earnings. The minimum benefit is \$84.50 for each full year of credited service.

### Age and Service Requirements for Early Retirement

A member is eligible for early retirement after ten years of service.

### Early Retirement Benefit

A member receives the actuarial equivalent of the annuity payable at normal retirement age.

### Age and Service Requirements for Disability Retirement

A member is eligible for disability retirement if the member is unable to perform the member's current job prior to normal retirement age and has at least five years of service.

An officer of the Pennsylvania State Police or an enforcement officer is eligible for disability retirement without a service requirement.

### Disability Retirement Benefit

For members with over 16 2/3 years of service, the disability pension is two percent of final average salary multiplied by years of service (that is, the same as for normal retirement).

For members with under 16 2/3 years of service, the disability pension is the smaller of:

- the benefit calculated as for normal retirement based on service projected to normal retirement date, or;
- 33 1/3 percent of final average salary at time of disability.

If a member is eligible for a disability annuity because of a service connected disability, the member receives a supplement equal to 70% of the member's highest three year average salary less the sum of the SERS annuity and payments under The Pennsylvania Workmen's Compensation Act, The Pennsylvania Occupational Disease Act, and the Federal Social Security Act.

### Eligibility for Vested Benefit

A member is eligible for a vested benefit after ten years of service.

### Vested Benefit

The vested benefit is calculated as for normal retirement but deferred until normal retirement age or paid as an actuarially reduced early retirement benefit beginning at the date of separation.

### Eligibility for Death Benefit Prior to Retirement

A death benefit is payable upon the death of a member who is under normal retirement age with at least ten years of service.

A death benefit is payable upon the death of a member who is normal retirement age or older with at least three years of service.

### Death Benefits Before Retirement

An eligible beneficiary receives the full reserve value of the benefits to which the member would have been entitled had the member retired the day before the member died assuming the member had elected a life annuity.

### Death Benefits After Retirement

A member may elect one of several optional reduced pensions in lieu of the single-life annuity provided by the formula. If the member elects the single-life annuity, however, there is a provision for a modified cash refund without actuarial reduction of the unpaid balance of the member's accumulated contributions and interest at the time of retirement.

### Rate of Member Contribution

Member contributions are six and one quarter percent of total salary for all those hired after July 21, 1983.

### Interest Credited on Member Contribution

A rate calculated quarterly to yield four percent stipulated as the statutory rate of interest is credited on member contributions and vests immediately.

### Refund of Accumulated Member Contributions

On the death of a member not qualifying for death benefits, the accumulated member contributions and interest are paid to the beneficiary.

Any member terminating service who is not eligible for another form of benefit is paid a refund of the accumulated contributions and interest.

Any other terminating member may elect the refund of accumulated contributions and interest in lieu of a retirement allowance.

Accumulated member contributions and interest may be refunded at retirement if the member elects the annuity option providing for the refund and the associated adjustment to the retirement benefits.

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This synopsis is not intended to be either a summary plan document of the pension plan or of all employee benefits. The plan contains other benefit and contribution provisions both for active members and, particularly, for members of other classes and for employees who became members before March 1, 1974, and July 22, 1983. Certain other benefits for active employees, such as group life insurance and workers' compensation, may be provided to certain active employees under arrangements outside of the code. Certain other retirement benefits, such as post retirement medical insurance and conversion of group life insurance to individual policies, may be provided to certain retirees under arrangements outside of the code.



## APPENDIX IV

### GLOSSARY

- Accrue** - When actuaries say that pension benefits, actuarial costs and actuarial liabilities have accrued, they ordinarily mean that the amounts are associated, either specially or by a process of allocation, with years of employee service before the date of a particular valuation of the pension plan.
- Actuarial Accrued Liability** - The actuarial accrued liability of a pension plan at any time is the excess of the present value of the total prospective benefits of the pension plan over the present value of future normal cost accruals, determined by the actuarial cost method in use. The actuarially determined liability for past service.
- Actuarial Assumptions** - Factors used by the actuary for forecasting uncertain future events affecting pension cost including: interest and investment earnings, mortality rates, turnover, salary growth, etc.
- Actuarial Cost Method** - System for determining the contributions to be made under a retirement plan. A recognized technique for establishing the amount and incidence of the actuarial cost of pension benefits and the related actuarial liabilities. (See also Entry Age Actuarial Cost Method.)
- Actuarial Present Value** - The value of an amount or series of amounts payable at various times, determined as of a given date by application of a particular set of actuarial assumptions.
- Actuary** - A person professionally trained in the technical and mathematical aspects of insurance, pensions and related fields. The actuary estimates how much money must be contributed to a pension fund each year in order to support the benefits that will become payable in the future.
- Amortization** - Paying off an interest bearing liability by gradual reduction through a series of installments as opposed to paying it off by one lump sum payment. Liquidation of a debt on an installment basis.
- Ancillary Benefits** - Benefits provided by a pension plan in addition to normal retirement benefits. Supplemental benefits vary according to the terms of the plan and included such items as the payment of benefits in the event of terminations, death, disability or early retirement.
- Defined Benefit Plan** - Under a defined benefit plan, there is a definite formula by which the employee's benefits will be determined. This formula may provide for a flat monthly payment; it may provide that benefits be a particular percentage of the employee's average compensation; or it may provide a definite amount for each year of service, expressed either as a percentage or his or her compensation for each year of service or a flat dollar amount for each year of service. In plans of this type, the employer's contributions are determined actuarially.

**Entry Age Actuarial Cost Method** - (Also called entry age normal actuarial cost method.) A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at the valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.

**Funding** - The process of setting aside money to pay retirement benefits based on an actuarial cost method.

**Leapfrogging** - The practice of two or more retirement systems (often in the same state) obtaining in rotation better benefits for its members than those of the other systems.

**Mortality Experience** - The rate at which participants in a pension plan actually die.

**Normal Cost** - The cost assigned under the actuarial cost method to a given year subsequent to the inception of a pension plan. That portion of the actuarial present value of pension plan benefits which is allocated to a valuation year by the actuarial cost method employed. The ongoing annual cost of the pension plan determined using actuarial cost methodology.

**Portability** - Any provision for retaining pension rights when changing from one employer to another. Vested rights are nonforfeitable. The retention of nonvested rights depends upon remaining within the scope of a multiemployer plan, or its reciprocating plan under a reciprocal agreement.

**Service** - Employment taken into consideration under a pension plan.

**Turnover Assumption** - An actuarial assumption involving the probability of termination of employment for a reason other than death or retirement.

**Unfunded Actuarial Accrued Liability** - The excess of the actuarial accrued liability over the actuarial value of assets.

**Vest or Vesting** - An employee's right to receive a present or future pension benefit vests when it is no longer contingent upon his or her remaining in the service of the employer.

Source: *Employee Benefit Plans: A Glossary of Terms*, 6th ed., Brookfield, Wisconsin: International Foundation of Employee Benefit Plans, Inc., 1987.

**APPENDIX V**

**PROPOSED LEGISLATION IMPLEMENTING CENTRALIZED RETIREMENT SYSTEM  
FOR LOCAL GOVERNMENT EMPLOYEES**

**AN ACT**

Amending Title 24 (Education) and 71 (State Government) of the Pennsylvania Consolidated Statutes, amending certain definitions; adding and amending certain definitions relating to local governments, local government employees, local government retirement systems, local government service, government employees, head of department, regular accumulated deductions, and superannuation age; prohibiting creation of new local government employee retirement systems; providing for mandatory membership of new local government employees; providing for the optional transfer of certain local government employee retirement system members, beneficiaries, assets, and liabilities, and the and disposal of the remaining assets and the dissolutions of the systems; revising and continuing general municipal pension system State aid; providing for supplemental local government benefit accumulation plans; and providing for local government contributions and guarantees.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Short title.—This act shall be known and may be cited as the Government Employees' Retirement System Act.

Section 2. Findings of fact.—The General Assembly finds that:

(a) A number of public employee retirement systems established and administered by local governments in this Commonwealth are encountering serious problems of rising costs caused, in part, by the lack of sufficient members to provide a sound basis for computing contribution requirements and levels of benefits over an extended period of time;

(b) Divergent provisions among these systems preclude the opportunity of local government employees to transfer from one local government employer to another;

(c) Similarly situated local government employees are eligible for dissimilar retirement benefits;

(d) There are substantial inefficiencies in the administration of local government employee retirement systems;

(e) The great number of local government employee retirement systems make adequate monitoring difficult and expensive; and

Section 3. Declaration of purpose.—It is the purpose of this act to provide for the systematic transition to a single state-administered system of a size, scope, and structure that will assure:

(a) Fiscal and actuarial stability;

(b) An adequate, uniform, and certain level of financial security protections for public employees;

(c) A properly funded public employee retirement system;

(d) An economy of scale in administrative costs;

(e) Improved public employee mobility;

(f) A pooled and prudent investment of assets; and

(g) An adequate and consistent level of membership services for local government employees.

Section 4. The definitions of “eligibility points,” “inactive member”, “multiple service,” “State Employees’ Retirement System,” and State service” in section 8102 of Title 24 of the Pennsylvania Consolidated Statutes are amended to read:

§ 8102. Definitions.

The following words and phrases when used in this part shall have, unless the context clearly indicates otherwise, the meanings given to them in this section.

\* \* \*

“Eligibility points.” Points which are accrued by an active member or a multiple service member who is an active member of the [State] Government Employees’ Retirement System for credited service and are used in the determination of eligibility for benefits as provided in section 8306 (relating to eligibility points).

\* \* \*

“Inactive member.” A member for whom no pickup contributions are being made, who has accumulated deductions standing to his credit in the fund and for whom contributions have been made within the last two school years or a multiple service member who is active in the [State] Government Employees’ Retirement System.

\* \* \*

“Multiple service.” Credited service of a member who has elected to combine

his credited service in both the Public School Employees' Retirement System and the [State] Government Employees' Retirement System.

\* \* \*

"[State] Government Employees' Retirement System." The retirement system established by the act of June 27, 1923 (P.L. 858, No. 3310 and codified by the act of June 1, 1959 (P.L. 392, No. 78) and by Part XXV of Title 71 (relating to retirement for State employees and officers), added March 1, 1974 (P.L. 125, No. 31), and previously known, as the State Employees' Retirement System.

\* \* \*

"[State] Government service." Service rendered as a [State] government employee and credited as service in the [State] Government Employees' Retirement System.

Section 5. Sections 8301(a)(1), 8303(c), and 8306 of Title 24 are amended to read:

§ 8301. Mandatory and optional membership.

(a) Mandatory membership.—Membership in the system shall be mandatory as of the effective date of employment for all school employees except the following:

(1) An officer or employee of the Department of Education, State-owned educational institutions, community colleges, area vocational-technical schools, technical institutes, or the Pennsylvania State University and who is a member of the [State] Government Employees' Retirement System or a member of another retirement program approved by the employer.

\* \* \*

§ 8303. Eligibility points for retention and reinstatement of service credits.

\* \* \*

(c) Purchase of previous creditable service.—Every active member of the system or a multiple service member who is an active member of the [State] Government Employees' Retirement System on or after the effective date of this part may purchase credit and receive eligibility points as a member of Class T-C for previous school service or creditable nonschool service upon written agreement by the member and the board as to the manner of payment of the amount due for credit for such service; except, that any purchase for reinstatement of service credit shall be for all service previously credited.

\* \* \*

§ 8306. Eligibility points.

An active member of the system shall accrue one eligibility point for each year

APPENDIX V

of credited service as a member of the school or [State] government retirement system. A member shall accrue an additional two-thirds of an eligibility point for each year of Class D-3 credited service under the [State] Government Employees' Retirement System. In the case of a fractional part of a year of credit service, a member shall accrue the corresponding fractional portion of an eligibility point.

\* \* \*

Section 6. Sections 8501(d), 8503(c), 8504, 8505(b), and 8506(d), 8506(e), 8506(g), 8506(h), 8507(a), 8507(c), and 8507(d) of Title 24 are amended to read:

§ 8501. Public School Employees' Retirement Board.

\* \* \*

(d) Compensation and expenses.—The members of the board who are members of the system shall serve without compensation. Members of the board who are members of the system and who are employed by a governmental entity shall not suffer loss of salary or wages through serving on the board. The board, on request of the employer of any member of the board who is an active professional or nonprofessional member of the system, may reimburse such employer for the salary or wages of the member, or for the cost of employing a substitute for such member, while the member is necessarily absent from employment to execute the duties of the board. The members of the board who are not members of either the school system or the [State] Government Employees' Retirement System may be paid \$100 per day when attending meetings and all board members shall be reimbursed for any necessary expenses. However, when the duties of the board as mandated are not executed, no compensation or reimbursement for expenses of board members shall be paid or payable during the period in which such duties are not executed.

\* \* \*

§ 8503. Duties of board to advise and report to employers and members.

\* \* \*

(c) Purchase of credit for previous service.—Upon receipt of an application from an active member or a [State] government employee with multiple service credit to purchase credit for previous school or creditable nonschool service, the board shall determine and certify to the member the amount required to be paid by the member. When necessary, the board shall certify to the proper employer the amount which would have been paid together with statutory interest into the State accumulation account had such employee been an active member in the system during said period.

\* \* \*

§ 8504. Duties of board to report to [State] Government Employees' Retirement Board.

(a) Multiple service membership of school employees.—Upon receipt of an application for membership in the system of a school employee who is a former [State] government employee and who has elected multiple service membership, the board shall advise the [State] Government Employees' Retirement Board accordingly.

(b) Multiple service membership of [State] government employees.— Upon receipt of notification from the [State] Government Employees' Retirement Board that a former school employee has become an active member in the [State] Government Employees' Retirement System and has elected to receive credit for multiple service, the board shall certify to the [State] Government Employees' Retirement Board and concurrently to the member:

(1) The total credited service in the system and the number of years and fractional part of a year of service credited in each class of service.

(2) The annual compensation received each school year by the member for credited school service.

(c) Applications for benefits for [State] government employees.—Upon receipt of notification and the required data from the [State] Government Employees' Retirement Board that a former school employee who elected multiple service has applied for a [State] government employee's retirement benefit or, in the event of his death, his legally constituted representative has applied for such benefit, the board shall:

(1) Certify to the [State] Government Employees' Retirement Board:

(i) The salary history as a member of the Public School Employees' Retirement System and the final average salary as calculated on the basis of the compensation received as a [State] government and school employee.

(ii) The annuity or benefit which the member or his beneficiary is entitled to receive under this part and modified according to the option selected.

(2) Transfer to the [State] Government Employees' Retirement Fund the accumulated deductions standing to such member's credit and the actuarial reserve required on account of the member's years of credited service in the school system and his final average salary determined on the basis of his compensation in both systems.

§ 8505. Duties of board regarding applications and elections of members.

\* \* \*

(b) [State] Government employees electing multiple service status.—Upon receipt of notification from the [State] Government Employees' Retirement Board that a former school employee has become an active member in the [State] Government Employees' Retirement System and has elected to become a member with multiple service status, the board shall:

(1) In case of a member who is receiving an annuity from the system, discontinue payments, transfer the present value, at that time, of the member's annuity from the annuity reserve account to the members' savings account and resume crediting of statutory interest on the amount restored to his credit and transfer the balance of the present value of the total annuity from the annuity reserve account to the State accumulation account.

(2) In the case of a member who is not receiving an annuity from the system and who has not withdrawn his accumulated deductions, continue or resume the crediting of statutory interest on his accumulated deductions.

(3) In the case of a member who is not receiving an annuity from the system and his accumulated deductions were withdrawn, certify to the member the accumulated deductions as they would have been at the time of his separation had he been a full coverage member together with statutory interest for all periods of subsequent [State] government and school service to the date of repayment. Such amount shall be restored by him and shall be credited with statutory interest as such payments are restored.

\* \* \*

§ 8506. Duties of employers.

\* \* \*

(d) New employees subject to mandatory membership.—Upon assumption of duties of each new school employee whose membership in the system is mandatory, the employer shall no later than 30 days thereafter cause an application for membership, which application shall include the employee's home address, birthdate certified by the employer, previous school or [State] government service and any other information requested by the board, and a nomination of beneficiary to be made by such employee and filed with the board and shall make pickup contributions from the effective date of school employment.

(e) New employees subject to optional membership.—The employer shall inform any eligible school employee whose membership in the system is not mandatory of his opportunity to become a member of the system provided that he elects to purchase credit for all such continuous creditable service. If such employee so elects, the employer shall no later than 30 days thereafter cause an application for membership which application shall include the employee's home address, birthdate certified by the employer, previous school or [State] government service and any other information requested by the board, and a nomination of beneficiary to be made by him and filed with the board and shall cause proper contributions to be made from the date of election of membership.



\* \* \*

(g) Former [State] government employee contributions.—The employer shall, upon the employment of a former member of the [State] Government Employees' Retirement System who is not an annuitant of the [State] Government Employees' Retirement System, advise such employee of his right to elect multiple service membership within 30 days of entry into the system and, in the case of any such employee who so elects has withdrawn his accumulated deductions, require him to restore his accumulated deductions as they would have been at the time of his separation had he been a full coverage member, together with statutory interest for all periods of subsequent [State] government and school service to date of repayment. The employer shall advise the board of such election.

(h) Former [State] government employee annuitants.—The employer shall upon the employment of an annuitant of the [State] Government Employees' Retirement System who applies for membership in the system, advise such employee that he may elect multiple service membership within 30 days of entry into the system and that if he so elects his annuity from the [State] Government Employees' Retirement System will be discontinued and, upon termination of school service and application for an annuity, the annuity will be adjusted in accordance with section 8346 (relating to termination of annuities). The employer shall advise the board of such election.

\* \* \*

§ 8507. Rights and duties of school employees and members.

(a) Information on new employees.—Upon his assumption of duties, each new school employee shall furnish his employer with a complete record of his previous school or [State] government service, or creditable nonschool service, proof of his date of birth, his home address, his current status in the system and in the [State] Government Employees' Retirement System and such other information as the board may require. Willful failure to provide the information required by this subsection to the extent available or the provision of erroneous information upon entrance into the system shall result in the forfeiture of the right of the member to subsequently assert any right to benefits based on erroneous information or on any of the required information which he failed to provide. In any case in which the board finds that a member is receiving an annuity based on false information, the additional amounts received predicated on such false information together with statutory interest doubled and compounded shall be deducted from the present value of any remaining benefits to which the member is legally entitled and such remaining benefits shall be correspondingly decreased.

\* \* \*

(c) Multiple service membership.—Any active member who was formerly an active member in the [State] Government Employees' Retirement system may elect to become a multiple service member. Such election shall occur no later than 30 days after becoming an active member in this system.

(d) Credit for previous service or change in membership status.—Any active member or multiple service member who is a [State] government employee who desires to receive credit for his previous school service or creditable nonschool service to which he is entitled, or a member of Class T-A or Class T-B who desires to become a member of Class T-C, or a joint coverage member who desires to become a full coverage member shall so notify the board. Upon written agreement by the member and the board as to the manner of payment of the amount due, the member shall receive credit for such service as of the date of such agreement subject to the provisions of section 8325 (relating to incomplete payments).

Section 7. Section 5101 of Title 71 is amended to read:

§ 5101. Short title.

This part shall be known and may be cited as the ["State] Government Employees' Retirement Code.["]

Section 8. The definitions of "active member," "additional accumulated deductions," "board," "class of service multiplier," "compensation," "correction officer," "creditable nonstate service," "final average salary," "fund," "head of department," "intervening military service," "multiple service," "previous state service," "psychiatric security aide," "regular accumulated deductions," "regular member contributions," "retirement counselor," "service connected disability," "superannuation age," "system" and "vestee" in section 5102 of Title 71 are amended and the section is amended by adding definitions to read:

§ 5102. Definitions.

The following words and phrases as used in this part, unless a different meaning is plainly required by the context, shall have the following meanings:

\* \* \*

"Active member." A [State] government employee, or a member on leave without pay, for whom pickup contributions are being made to the fund.

\* \* \*

"Additional accumulated deductions." The total of the additional member contributions paid into the fund on account of current service or previous [State]

government service or creditable nonstate service together with the statutory interest credited thereon until the date of termination of service. In the case of a vestee, statutory interest shall be credited until the effective date of retirement. A member's account shall not be credited with statutory interest for more than two years during a leave without pay.

\* \* \*

"Board." The [State] Government Employees' Retirement Board [or the State Employees' Retirement Board], previously known as the State Employees' Retirement Board or the State Employees' Retirement Board.

"Class of service multiplier."

Class of Service	Multiplier
A	1
B	.625
C	1
D-1 Prior to January 1, 1973	1.875
D-1 On and subsequent to January 1, 1973	1.731
D-2 prior to January 1, 1973	2.5
D-2 on and subsequent to January 1, 1973	1.731
D-3 prior to January 1, 1973	3.75
D-3 on and subsequent to January 1, 1973	1.731 except prior to December 1, 1974 as applied to any additional legislative compensation as an officer of the General Assembly 3.75
E, E-1 prior to January 1, 1973	2 for each year of the first ten years of

	judicial service, and 1.5 for each subsequent year of judicial service
E, E-1 on and subse- quent to January 1, 1973	1.50 for each of the first ten years of judicial service and
	1.125 for each subse- quent year of judicial service
E-2 prior to September 1, 1973	1.5
E-2 on and subsequent to September 1, 1973	1.125
T-C (Public School Em- ployees' Retirement Code)	1
<u>N-1</u>	<u>1 for each year of local government service</u>
<u>N-2</u>	<u>0.875 for each year of local government service</u>
<u>N-3</u>	<u>0.75 for each year of local government service</u>
<u>N-4</u>	<u>0.625 for each year of local government service</u>

<u>P-1</u>	<u>1.25 for each of the first 20 years of local government public safety service, and</u> <u>1 for each subsequent year of local government public safety service</u>
<u>P-2</u>	<u>1.125 for each year of local government public safety service</u>
<u>P-3</u>	<u>1 for each year of local government public safety service</u>
<u>P-4</u>	<u>0.875 for each year of local government public safety service</u>

“Compensation.” Pickup contributions plus remuneration actually received as a [State] government employee excluding refunds for expenses, contingency and accountable expense allowances, and excluding any severance payments or payments for unused vacation or sick leave: Provided, however, That compensation received as a State employee prior to January 1, 1973 shall be subject to the limitations for retirement purposes in effect December 31, 1972, if any.

\* \* \*

“Correction officer.” Any State employee whose principal duty is the care, custody and control on inmates of a penal or correctional institution or community treatment center operated by the Bureau of Correction.

“Creditable nonstate service.” Service other than service as a [State] government employee for which an active member may obtain credit.

“Credited service.” [State] Government or creditable nonstate service for which the required contributions have been made or for which salary deductions or lump sum payments have been agreed upon in writing.

\* \* \*

"Department." Department, agency, authority, independent board or commission, or local government.

\* \* \*

"Final average salary." The highest average compensation received as a member during any three nonoverlapping periods of four consecutive calendar quarters during which the member was a [State] government employee, with the compensation for part-time service being annualized on the basis of the fractional portion of the year for which credit is received; except if the employee was not a member for three nonoverlapping periods of four consecutive calendar quarters, the total compensation received as a member, annualized in the case of part-time service, divided by the number of nonoverlapping periods of four consecutive calendar quarters of membership; and in the case of a member with multiple service, the final average salary shall be determined on the basis of the compensation received by him as a [State] government employee or as a school employee, or both.

\* \* \*

"Fund." The [State] Government Employees' Retirement Fund, previously known as the State Employees' Retirement Fund.

"Government employee." A local government employee or a State employee.

"Government service." Service rendered as a local government employee or as a State employee.

"Head of department." The chief administrative officer of the department, the chairman or executive director of the agency, authority, or independent board or commission, the chief administrative officer of a local government, the Court Administrator of Pennsylvania, and the Chief Clerk of the Senate, or the Chief Clerk of the House of Representatives.

\* \* \*

"Intervening military service." Active military service of a member who was a [State] government employee immediately preceding his induction into the armed services or forces of the United States in order to meet a military obligation excluding any voluntary extension of such service and who becomes a [State] government employee within 90 days of the expiration of such service.

\* \* \*

"Local Government." A local authority; a municipality, however constituted, whether operating under a legislative charter, municipal code, optional charter, home rule charter, optional plan, or other arrangement; an association of these local authorities, or these municipalities, or both cooperating under the act of July 12, 1972 (P.L. 762,

No. 180), referred to as the Intergovernmental Cooperation Law; or a Commonwealth created authority or governmental entity whose employees are not members of the Public School Employees' Retirement System or were not members of the Government Employees' Retirement System before January 1, 1994.

"Local Government Employee." Any individual employed in any capacity by a local government or holding a local government office or position, except an independent contractor or an individual compensated on a fee basis.

"Local Government Employee Retirement System." An entity, whether a separate entity or part of a local government entity, that collects retirement and other employee benefit contributions from local government employees and local governments; holds and manages the resulting assets as reserves for present and future retirement benefit payments; and makes provision for these payments to qualified retirees and beneficiaries. The phrase does not include a plan, program, or arrangement that is financed solely with local government employee earnings or compensation reported to the Internal Revenue Service, United States Department of the Treasury, as local government employee earnings or compensation on Form W-2, Wage and Tax Statement, or established under sections 8.1 or 8.2 and 8.3 of the act of March 30, 1811 (P.L. 145, Sm.L. 228), or established under section 408 or 457 of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 408 or 457)).

"Local government public safety employee." A local government employee who holds a full-time position in the firefighting service of a local government or a local government employee who holds full-time position in the police service of a local government and who is a peace officer vested with police power.

"Local government public safety service. Service rendered as a local government public safety employee.

"Local government service." Service rendered as a local government employee. \* \* \*

"Multiple service." Credited service of a member who has elected to combine his credited service in both the [State] Government Employees' Retirement System and the Public School Employees Retirement System.

\* \* \*

"Previous [State] government service." Service rendered as a [State] government employee prior to his most recent entrance in the system.

"Psychiatric security aide." Any State employee whose principal duty is the care, custody and control of the criminally insane inmates of a maximum security institution for the criminally insane or detention facility operated by the Department of Public Welfare.

"Regular member contributions." The product of the basic contribution rate, the class of service multiplier [if greater than one] and the compensation of the member.

\* \* \*

"Regular accumulated deductions." The total of the regular or joint coverage member contributions paid into the fund on account of current service or previous [State] government or creditable nonstate service together with the statutory interest credited thereon until the date of termination of service. In the case of a vestee, statutory interest shall be credited until the effective date of retirement. A member's account shall not be credited with statutory interest for more than two years during a leave without pay.

\* \* \*

"Retirement counselor." The [State] Government Employees' Retirement System employee whose duty it shall be to advise each employee of his rights and duties as a member of the system.

\* \* \*

"Service connected disability." A disability resulting from an injury arising in the course of [State] government employment, and which is compensable under the applicable provisions of the act of June 2, 1915 (P.L. 736, No. 338), known as "The Pennsylvania Workmen's Compensation Act," or the act of June 21, 1930 (P.L. 566, No. 284), known as "The Pennsylvania Occupational Disease Act."

\* \* \*

"Superannuation age." Any age upon accrual of 35 eligibility points or age 60, except for:

(1) a member of the General Assembly, an enforcement officer, a correction officer, a psychiatric security aide, a Delaware River Port Authority policeman, a Class P-2 or P-3 local government public safety employee or an officer of the Pennsylvania State Police, age 50;

(2) a Class P-1 local government public safety employee, any age upon accrual of 20 eligibility points or age 50;

(3) a Class P-4 local government public safety employee, age 55; or

(4) a Class N-4 local government employee, age 62.

\* \* \*

"System." The [State] Government Employees' Retirement System of Pennsylvania as established by the act of June 27, 1923 (P.L. 858, No. 331), and codified by the act of June 1, 1959 (P.L. 392, No. 78) and the provisions of this part, previously known as the State Employees' Retirement System.



\* \* \*

“Vestee.” A member with ten or more eligibility points who has terminated [State] government service and has elected to leave his total accumulated deductions in the fund and to defer receipt of an annuity.

Section 9. Sections 5301(a.1), (b), and (d), 5302(a), 5303(b) and (c), 5304(a), 5305(b), 5306(a), 5307, 5308, 5308.1, and 5309 of Title 71 are amended to read:

§ 5301. Mandatory and optional membership.

\* \* \*

(a.1) Mandatory membership for certain full time local government employees.—Membership in the system shall be mandatory as of the effective date of employment for all full time local government employees whose effective dates of local government employment are after December 31, 1993, and for whom retirement benefits are provided except those in a particular group who are covered by a collective bargaining agreement in effect on December 31, 1993, that requires all full-time local government employees hired during the period of the agreement to become members of the existing local government retirement system on their effective dates of local government employment. For all full-time local government employees in that particular group who are hired after the termination date of the collective bargaining agreement in effect on December 31, 1993, membership in the system shall be mandatory as of the effective date of employment.

(b) Optional membership.—

(1) The State employees listed in subsection (a)(1) through (11) shall have the right to elect membership in the system; once such election is exercised, membership shall continue until the termination of State service.

(2) Full-time local government employees whose effective dates of local government employment were before January 1, 1994, shall have the right to elect membership in the system only as provided in chapter 54 (relating to local government retirement benefits, intergovernmental revenue, and benefit accumulation plans).

\* \* \*

(d) Return to service.—An annuitant who returns to service as a [State] government employee shall resume active membership in the system as of the effective date of employment, except as otherwise provided in section 5706(a) (relating to termination of annuities), regardless of the optional membership category of the position.

§ 5302. Credited [State] government service.

(a) Computation of credited service.—

(1) In computing credited State service of a member for the determination of benefits, a full-time salaried State employee including any member of the General Assembly, shall receive credit for service in each period for which contributions as required are made but in no case shall he receive more than one year's credit for any 12 consecutive months or 26 consecutive biweekly pay periods. A per diem or hourly State employee shall receive one year of credited service for each nonoverlapping period of 12 consecutive months or 26 consecutive biweekly pay periods in which he is employed and for which contributions are made for at least 220 days or 1,650 hours of employment. If the member was employed and contributions were made for less than 220 days or 1,650 hours, he shall be credited with a fractional portion of a year determined by the ratio of the number of days or hours of service actually rendered to 220 days or 1,650 hours, as the case may be. A part-time salaried employee shall be credited with the fractional portion of the year which corresponds to the number of hours or days of service actually rendered in relation to 1,650 hours or 220 days, as the case may be.

(2) In computing credited local government service of a member for determination of benefits, a full-time salaried local government employee shall receive credit for service in each period for which contributions as required are made but in no case shall he receive more than one year's credit for any 12 consecutive months, 26 consecutive biweekly pay periods, or 52 weekly pay periods. A per diem or hourly local government employee shall receive one year of credited service for each nonoverlapping period of 12 consecutive months, 26 consecutive biweekly pay periods, or 52 consecutive weekly pay periods in which he is employed and for which contributions are made for at least 1,820 hours of employment.

(3) In no case shall a member who has elected multiple service receive an aggregate in the two systems of more than one year of credited service for any 12 consecutive months.

\* \* \*

§ 5303. Retention and reinstatement of service credits.

\* \* \*

(b) Eligibility points for prospective credited service. Every active member of the system or multiple service member who is a school employee and a member of the Public School Employees' Retirement System on or after the effective date of this part shall receive eligibility points in accordance with section 5307 for current [State] government service, previous [State] government service, or creditable nonstate service upon compliance with sections 5501 (relating to regular member contributions for current service), 5504 (relating to member contributions for the purchase of credit for

previous [State] government service or to become a full coverage member), 5505 (relating to contributions for the purchase of creditable for nonstate service), 5505.1 (relating to additional member contributions) or 5506 (relating to incomplete payments). The class or classes of service in which the member may be credited for previous [State] government service prior to the effective date of this part shall be the class or classes in which he was or could have at any time elected to be credited for such service. The class of service in which a member shall be credited for service subsequent to the effective date of this part shall be determined in accordance with section 5306 (relating to classes of service).

(c) Election for purchase of certain creditable service.—Every active member of the system or a multiple service member who is a school employee and a member of the Public School employees' Retirement System who was employed by the Applied Research Laboratory of The Pennsylvania State University prior to June 3, 1984, and did not receive or is not receiving a retirement or pension benefit as a result of that service may elect to have the period of employment with the Applied Research Laboratory treated as previous State service upon compliance with sections 5504 and 5506 upon waiver in writing of any benefit that he is entitled to under any other pension or retirement plan by virtue of that service. If a member elects to receive this previous State service credit, The Pennsylvania State University shall make employer contributions equal to the amount that would have been contributed had employer contributions been made to the system concurrently with the rendering of the service, plus valuation interest to the day of the crediting of the service. Notwithstanding the provisions of section 5504, the amount due as member contributions and interest for an employee who is employed by the Applied Research Laboratory on June 3, 1984, who elects to purchase this credit with the [State] Government Employees' Retirement System shall not exceed the amount of contributions and interest certified as having been made to the pension plan administered by the Applied Research Laboratory during his employment with the applied Research Laboratory. The Pennsylvania State University shall pay as member contributions the difference between this amount and the amount otherwise due under sections 5504 and 5506. The additional contributions paid by The Pennsylvania State University shall not be considered compensation for purposes of this part.

\* \* \*

§ 5304. Creditable nonstate service.

(a) Eligibility.—

(1) An active member who is a State employee or a multiple service member who is a school employee and an active member of the Public School Employees' Retirement System shall be eligible for Class A service credit for creditable nonstate

service as set forth in subsections (b) and (c) except that intervening military service shall be credited in the class of service for which the member was eligible at the time of entering into military service and for which he makes the required contributions.

(2) An active member who is a local government employee shall be eligible for service credit for creditable nonstate service as set forth in subsections (b) and (c)(1) provided that the intervening military service shall be credited in the class of service for which the member was eligible at the time of entering into military service and for which he makes the required contributions.

\* \* \*

§ 5305. Social security integration credits.

\* \* \*

(b) Accrual of subsequent credits.—Any member who has social security integration accumulated deductions to his credit or is receiving a benefit on account of social security integration credits may accrue one social security integration credit for each year of service as a State employee on or subsequent to March 1, 1974 and a fractional credit for a corresponding fractional year of service provided that contributions are made in accordance with section 5502 (relating to social security integration member contributions), and he:

(1) continues subsequent to March 1, 1974 as an active member in either the [State] government or school system;

(2) terminates such continuous service in the [State] government or school system and returns to active membership in the [State] government system within six months; or

(3) terminates his status as a vestee or an annuitant and returns to State service.

\* \* \*

§ 5306. Classes of service.

(a) Class A membership.—A State employee who is a member of Class A on the effective date of this part or who becomes a member of the system subsequent to the effective date of this part shall be classified as a Class A member and receive credit for Class A service upon payment of regular and additional member contributions for Class A service.

(b) Other State employee class membership.—A State employee who is a member of a class of service other than Class A on the effective date of this part shall retain his membership in that class until such service is discontinued; any service thereafter shall be credited as Class a service.

(c) Local government employee class membership.—A local government employee who is a member of a local government employee retirement system on the date that system is transferred to the system or who becomes a member of the system after December 31, 1993, shall be classified as a Class N-1, N-2, N-3, N-4, P-1, P-2, P-3, or P-4 member as provided in section 5404 (relating to designation of class of service multiplier) and receive credit for that class of service upon payment of regular member contributions for that class of service.

\* \* \*

§ 5307. Eligibility points.

An active member of the system shall accrue one eligibility point for each year of credited service as a member of the [State] Government or the Public School Employees' Retirement System. A member shall accrue an additional two-thirds of an eligibility point for each year of Class D-3 credited service. In the case of a fractional part of a year of credited service, a member shall accrue the corresponding fractional portion of eligibility points to which the class of service entitles him.

§ 5308. Eligibility for annuities.

(a) Superannuation annuity.—Attainment of superannuation age by an active member or an inactive member on leave without pay with three or more years of credited [State] government or school service shall entitle him to receive a superannuation annuity upon termination of [State] government service and compliance with section 5907(f) (relating to rights and duties of [State] government employees and members).

(b) Withdrawal annuity.—Any vestee or any active member or inactive member on leave without pay who terminates [State] government service having ten or more eligibility points, upon compliance with section 5907(f), (g) or (h) shall be entitled to receive an annuity.

(c) Disability annuity.—An active member or inactive member on leave without pay who has credit for at least five years of service or any active member or inactive member on leave without pay who is a local government public safety employee, an officer of the Pennsylvania State Police or an enforcement officer shall, upon compliance with section 5907(k), be entitled to a disability annuity if prior to attainment of superannuation age he becomes mentally or physically incapable of continuing to perform the duties for which he is employed and qualifies in accordance with the provisions of section 5905(c)(1) (relating to duties of the board regarding applications and elections of members).

§ 5308.1. Eligibility for special early retirement.

Notwithstanding any provisions of this title to the contrary, the following

special early retirement provisions shall be applicable to specified eligible members who are State employees as follows:

(1) During the period of July 1, 1985, to September 30, 1991, an active member who is a State employee and has attained the age of at least 53 years and has accrued at least 30 eligibility points shall be entitled, upon termination of State service and compliance with section 5907(f) (relating to rights and duties of [State] government employees and members), to receive a maximum single life annuity calculated under section 5702 (relating to maximum single life annuity) without a reduction by virtue of an effective date of retirement which is under the superannuation age.

(2) During the period of July 1, 1985, to September 30, 1991, an active member who is a State employee and has attained the age of at least 50 years but not greater than 53 years and has accrued at least 30 eligibility points shall be entitled, upon termination of State service and compliance with section 5907(f), to receive a maximum single life annuity calculated under section 5702 with a reduction by virtue of an effective date of retirement which is under the superannuation age of a percentage factor which shall be determined by multiplying the number of months, including a fraction of a month as a full month, by which the effective date of retirement precedes the attainment of age 53 by 0.25%.

(3) During the period of October 1, 1991, to June 30, 1993, a member who is a State employee and has credit for at least 30 eligibility points shall be entitled, upon termination of service and filing of a proper application, to receive a maximum single life annuity calculated pursuant to section 5702 without any reduction by virtue of an effective date of retirement which is under the superannuation age.

§ 5309. Eligibility for vesting.

Any member who terminates [State] government service with ten or more eligibility points shall be eligible until attainment of superannuation age to vest his retirement benefits.

Section 10. Title 71 is amended by adding a chapter to read:

CHAPTER 54

LOCAL GOVERNMENT RETIREMENT BENEFITS.

INTERGOVERNMENTAL REVENUE, AND BENEFIT ACCUMULATION PLANS

SUBCHAPTER A

LOCAL GOVERNMENT EMPLOYEE RETIREMENT BENEFITS

§ 5401. Provision of local government employee retirement benefits.—

(a) Limitations.—After December 31, 1993, a local government shall not provide retirement benefits to its local government employees except as provided in this part.

(b) Definitions.—As used in this section the following words and phrases shall have the meanings given to them in this subsection:

"Retirement benefits." An annuity, pension, health or welfare benefit, insurance coverage, retirement allowance, or other retirement benefit provided to an annuitant or beneficiary after the retirement of the annuitant except benefits provided through participation in a post employment hospital, medical, surgical, or major medical insurance program or a deferred compensation program under sections 8.1 or 8.2 and 8.3 of the act of March 30, 1811 (P. L. 145, Sm.L. 228), relating to the settlement of the public accounts and the payment of the public monies.

§ 5402. Establishment of local government retirement systems restricted.

(a) Establishment of new retirement systems for full-time local government employees prohibited.—After December 31, 1993, a local government shall not establish any retirement or pension fund, plan, or system for its full-time employees except through participation in the system as provided by this part.

(b) Establishment of simplified employee pension individual retirement account plans for part-time local government employees permitted.—After December 31, 1993, a local government shall not establish any retirement or pension fund, plan or system for its part-time employees except through the establishment of a simplified employee pension individual retirement account plan as provided under section 5409 (relating to provision of retirement benefits for part-time local government employees).

§ 5403. Continuation of existing local government employee retirement systems.

A local government employee retirement system established and maintained by a local government and created before January 1, 1994, may continue to operate until or unless all its members and beneficiaries have been transferred into the system under the terms and conditions set forth in sections 5404 (relating to designation of class of service multiplier) and 5405 (relating to optional transfer of members and beneficiaries) and its remaining liabilities satisfied, its fund balance paid to the local government, and its existence terminated under section 5405(c).

§ 5404. Designation of class of service multiplier.

(a) Local government employee retirement system with defined benefits exists.—Where a local government employee retirement system for the firefighters, nonuniformed employees, or police officers of a local government exists on December 31, 1993, the local government shall designate the class of service multiplier as follows:

(1) If the local government transfers the members and beneficiaries of local government employee retirement system to the system under section 5405, the local government shall designate a class of service multiplier in the system for the transferred members and beneficiaries and for employees entering local government service as firefighters, nonuniformed employees, or police officers after December 31, 1993, that provides aggregate benefits not less than those provided under the local government employee retirement system as determined under subsection (d), except as provided in paragraph (3).

(2) If the local government does not transfer the members and beneficiaries of the local government employee retirement system to the system under section 5405, the local government may designate any class of service multiplier in the system for employees entering local government service as firefighters, nonuniformed employees, or police officers after December 31, 1993, unless a collective bargaining agreement, mediation agreement, or arbitration award between the local government and its employees in that particular group or their collective bargaining representatives restricts the class of service multiplier that may be designated for employees entering local government service after December 31, 1993, in that particular group.

(3) If the aggregate benefits provided under the local government employee retirement system exceed the highest applicable class of service multiplier for firefighters, nonuniformed employees, or police officers, the local government shall designate the highest applicable class of service multiplier in the system for employees entering local government service in that particular group of employees after December 31, 1993 and for any members and beneficiaries in that particular group transferred to the system under section 5405.

(b) No local government employee retirement system or a local government employee retirement system without defined benefits, exists.—Where a local government employee retirement system for the firefighters, nonuniformed employees, or police officers of a local government has no defined benefits or does not exist on December 31, 1993:

(1) The local government may designate any of the four class of service multipliers in the system for employees entering local government service in that particular group after December 31, 1993; and

(2) If individuals who are active, full-time employees of the local government in that particular group on December 31, 1993, later become members of the system as employees in that particular group of that local government, the local government shall designate the same class of service multiplier in the system for those



employees as it designated for employees entering local service in that particular group after December 31, 1993 under paragraph 1.

(c) Subsequent modification of designation of class of service multiplier.—After the designation of a class of service multiplier under subsection (a) or (b), a local government may designate a higher class of service multiplier for that particular group effective on any subsequent January 1, subject to any collective bargaining agreement, mediation agreement, or arbitration award between the local government and its employees in that particular group or their collective bargaining representatives, provided that the local government agrees to pay an amount equal to the increase in the actuarial accrued liability over a twenty-year period based on a level dollar amortization schedule. The amortization payments so incurred shall be added to the employer contributions of the individual local government determined under section 5508 (a.1).

(d) Before the January 1 transfer date of full-time local government employees under subsections (a)(1) and (a)(2), the board shall cause its actuary to value both the benefit structure of the local government employee retirement system and the benefit structure of the system using the system's standard methodology and the demographic data for the prospective members to determine actuarial present value of future benefits under each system. The resulting values shall determine the lowest class of service multiplier that may be designated by the local government.

§ 5405. Optional transfer of members and beneficiaries.

(a) Optional transfer of members and beneficiaries permitted.—On any January 1 after December 31, 1994, a local government may transfer all of the members and beneficiaries of one or more of its local government employee retirement systems to the system under the conditions provided in subsection (b) and (c).

(b) Conditions for optional transfer.—The optional transfer of members and beneficiaries of a local government employee retirement system shall require, among other conditions, all of the following:

(1) approval by a two-thirds majority of active members of the local government employee retirement system in an election conducted by the board;

(2) a duly passed resolution of the governing body of the local government under which the local government employee retirement system is operating, declaring the governing body's desire and intent to transfer all of the members and beneficiaries to and to participate in the system;

(3) prepayment to the system by the local government of the amount equal to the actuarial accrued liabilities attributable to the members and beneficiaries of the local government employee retirement system on the January 1 the transfer is

effective as determined by the actuary;

(4) agreement by the local government to pay to the system the pickup contributions and employer contributions under chapter 55; and

(5) approval by the board of an application for transfer of the members and beneficiaries to and participation of the local government and its full-time employees in the system.

The board may establish any other conditions as it deems appropriate.

(c) Six months limitation of time for civil actions and proceedings.—A civil action or proceeding at law or in equity seeking to prohibit or rescind the optional transfer to or subsequent participation in the system of one or more members or beneficiaries of a local government employee retirement system must be commenced within six months of the January 1 the transfer is to be or was effective.

(1) If, as a result of a civil action or proceeding, the transfer to or participation in the system of one or more members or beneficiaries of the local government employee retirement system is prohibited or rescinded before the January 1 the transfer is to be effective, the transfer to and participation in the system by all members and beneficiaries of the local government employee retirement system shall not occur.

(2) If, as a result of a civil action or proceeding, the transfer to or participation in the system of one or more members or beneficiaries of the local government employee retirement system is prohibited or rescinded on or after the January 1 the transfer was effective, the transfer to and participation in the system by all members and beneficiaries of the local government employee retirement system shall be permanently rescinded and the assets transferred and contributed by the local government and the members of the local government retirement system shall be refunded with statutory interest to the public employee pension trust fund of the local government employee retirement system.

(3) If a civil action or proceeding at law or in equity seeking to prohibit or rescind the optional transfer to or subsequent participation in the system of one or more members or beneficiaries of a local government employee retirement system is not commenced within six months of the January 1 the transfer is effective, any civil action or proceeding commenced against the local government, the local government retirement system, the system, the Commonwealth, or their officers or employees shall be dismissed and the person to whom any such cause of action accrued for any injury shall be forever barred from proceeding further thereon within this Commonwealth or elsewhere. As used in this paragraph, the word "commenced" shall have the meaning

given it under 42 Pa. C.S. §5503 (relating to commencement of matters).

(d) Termination of local government employee retirement system and reversion of assets.—After the local government employee retirement system has paid the amount required under subsection (b)(3), and transferred all its members and beneficiaries to the system, the local government employee retirement system shall pay any remaining liabilities, pay the remaining fund balance to the local government, and be terminated. The local government may use the monies received under this subsection for any governmental purpose including the refund of member contributions not credited to the members' savings account of the fund under section 5408 (b).

§ 5406. Optional election of membership for certain existing employees.

(a) Optional election of membership for certain existing employees permitted.—On any January 1 after December 31, 1994, a local government may elect membership in the system for all of its full-time employees of a particular group who, on December 31, 1993, were active, full-time employees of the local government and were not members of the local government's local government employee retirement system or for whom the local government had no local government employee retirement system.

(b) Conditions for optional election of membership.—The optional election of membership in the system by a local government for all the full-time employees of a particular group shall require, among other conditions, all of the following:

(1) a duly passed resolution of the governing body of the local government declaring the governing body's desire and intent to elect membership in the system for all of the affected employees;

(2) designation of the class of service multiplier for that particular group of employees under sections 5404(b);

(3) prepayment to the system by the local government of the amount equal to the actuarial accrued liabilities attributable to the employees on the January 1 the transfer is effective as determined by the actuary;

(4) agreement by the local government to pay to the system the pickup contributions and employer contributions under chapter 55; and

(5) approval by the board of an application for participation of the local government and its full-time employees in the system.

The board may establish any other conditions as it deems appropriate.

§ 5407. Service credit for prior government service.

(a) New local government employees.—A full-time local government employee who enters local government service and joins the system after December 31, 1993, shall only receive service credit in the system for local government service from the

date of membership in the system.

(b) Existing local government employee retirement system members.—A full-time local government employee whose retirement system membership is transferred from a local government employee retirement system to the system under section 5405 (relating to optional transfer of members and beneficiaries) shall only receive service credit in the system for the service credit the employee had in the local government retirement system on the date of transfer.

(c) Existing local government employees not members of a local government employee retirement system.—A local government electing membership in the system under section 5406 (relating to optional election of membership for certain existing employees) for a particular group of employees may permit members of the particular group to receive service credit in the system only for full-time local government service the employees had with the local government on the December 31 immediately before joining the system, provided the local government prepays the system the amount of the resulting actuarial accrued liabilities as required under section 5406(b)(3).

§ 5408. Board actions preceding transfer of members and beneficiaries to the system.

—Before the January 1 transfer date of members and beneficiaries of the local government employee retirement system under section 5405 (relating to optional transfer of members and beneficiaries) or under section 5406 (relating to optional election of membership for certain existing employees), the board shall:

(a) Cause its actuary to value the actuarial accrued liabilities that are attributable to members and beneficiaries to be transferred as of the transfer date; and

(b) Determine the amount of accumulated member contributions and interest for each active member, together with statutory interest during all periods of subsequent local government service to the date of transfer, and credit the resulting amounts to the members' savings account of the fund on the transfer date unless the local government uses reverted assets to refund, in whole or in part, member contributions under section 5405 (c).

§ 5409. Provision of retirement benefits for part-time local government employees.

(a) Establishment of simplified employee pension individual retirement account plans for part-time employees permitted.—A local government may establish eligible simplified employee pension individual retirement account plans under section 408 of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 408) for part-time employees who perform services for the local government.

(b) Definitions.—The following words and phrases when used in this section shall have, unless the context clearly indicates otherwise, the meanings given to

them in this subsection:

(1) “Compensation.” Remuneration actually received as a local government employee excluding refunds for expenses, contingency and accountable expense allowances, and severance payments or payments for unused vacation or sick leave.

(2) “Part-time local government employee.” Any individual employed and compensated for less than 1,820 hours of employment for each nonoverlapping period of 12 consecutive months, 26 bi-weekly pay periods, or 52 weekly pay periods. The term shall not mean an independent contractor or any individual compensated on a fee basis.

(c) Administration.—Any simplified employee pension individual retirement account plans established for the local government employees performing part-time services for a local government shall be established and administered by the governing body of the local government and shall provide for contributions by the local government to be specified as a uniform percentage of compensation.

SUBCHAPTER C

REVISION AND CONTINUATION OF INTERGOVERNMENTAL REVENUE

§ 5421. Revision of general municipal pension system State aid program.

Notwithstanding any applicable provisions of section 402 of the act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, the maximum allocation of general municipal pension system State aid payable to an eligible local government under that section shall not exceed the following percentages of the aggregate employer financial requirements of its local government retirement systems:

<u>Calendar</u>	<u>Maximum Allocation</u>
<u>Year</u>	<u>as a Percentage of</u>
	<u>Employer Pension Costs</u>
<u>1994</u>	<u>95%</u>
<u>1995</u>	<u>90%</u>
<u>1996</u>	<u>85%</u>
<u>1997</u>	<u>80%</u>
<u>1998</u>	
<u>or</u>	
<u>after</u>	<u>75%</u>

The amounts not distributed to a local government under the maximum allocation limit

established in this section shall be deposited by the State Treasurer in the local government's individual subsidiary account in the supplemental local government contribution account of the fund under section 5939.1 (relating to supplemental local government contribution account).

§ 5422. Continuation of supplemental State assistance program.

Nothing in section 5421 shall be construed to repeal any of the provisions of chapters 5 and 6 of the act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act.

#### SUBCHAPTER E.

#### SUPPLEMENTAL LOCAL GOVERNMENT BENEFIT ACCUMULATION PLAN

§ 5441. Provision of supplemental local government retirement benefit accumulation plan.

(a) Establishment of supplemental local government retirement benefit accumulation plan.—The board shall establish and administer a supplemental local government retirement benefit accumulation plan for members who are local government employees.

(b) Definition.—When used in this section, the word "compensation" unless the context clearly indicates otherwise, means remuneration actually received as a local government employee excluding refunds for expenses, contingency and accountable expense allowances, and severance payments or payments for unused vacation or sick leave.

(c) Powers and duties of the board.—In order to establish and administer the supplemental local government retirement benefit accumulation plan, the powers and duties of the board shall include, but not be limited to:

(1) Entering into written agreements with one or more financial or other organizations to administer the supplemental local government retirement benefit accumulation plan for employees of the local government and to invest funds under such plans. Any such written agreement and supplemental local government retirement benefit accumulation plan shall conform with the provisions of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 1 et seq.)

(2) Promulgating rules and regulations establishing procedures whereby local governments may elect to participate in the plan for all eligible individuals or, as the result of a collective bargaining agreement, mediation agreement, or arbitration award between the local government and its employees in that particular group or their collective bargaining representatives, agree to participate in the plan for all eligible individuals, whereby eligible individuals may elect to change their investment choices on

a quarterly basis, whereby local governments may elect to cease participation entirely at any time with reasonable notice, not to exceed four weeks, and whereby such local governments may designate the amount of compensation to be withheld and contributed; arranging for a deduction from the compensation of eligible individuals of the amounts to be contributed under the plan; establishing standards or criteria for the selection by the board of financial institutions, insurance companies or other organizations that may be qualified as managers on behalf of the board, of funds contributed under a plan on behalf of any eligible individual; establishing standards and criteria for the providing of options to eligible individuals concerning the method of investing amounts contributed under the plan and of informing eligible individuals of specific options offered by qualified managers; establishing standards and criteria for the disclosure to eligible individuals of the anticipated and actual income attributable to such amounts, property and rights and all fees, costs and charges to be made against such amounts contributed to cover the costs of administering and managing the funds.

(3) Annually reviewing any qualified fund manager for the purpose of making certain it continues to meet all standards and criteria established.

(d) Contributions.—The contributions to the supplemental local government retirement benefit accumulation plan shall be expressed and implemented as a percentage of compensation and be paid by all eligible individuals and matched by the local government. The contributions of eligible individuals shall not be less than one percent of compensation. The contributions of a local government to the supplemental local government retirement benefit accumulation plan shall not be included in the financial requirements of the local government that are certified by the system for use in the allocation of general municipal pension system State aid.

(e) Contributions taxable.—All amounts contributed by eligible individuals under the supplemental local government retirement benefit accumulation plan shall constitute taxable income for purposes of the act of March 4, 1971 (P.L. 6, No. 2), known as the Tax Reform Code of 1971, and shall constitute taxable income for State and local earned income taxes.

(f) Losses, expenses, and obligations.—Neither the Commonwealth, the board nor any local government shall be responsible for any investment loss incurred in the plan, or for the failure of any investment to earn any specific or expected return or to earn as much as any other investment opportunity, whether such other investment opportunity was offered to participants in the plan. The expenses arising from allowing individuals to elect to participate in the supplemental local government retirement benefit accumulation plan to choose a fund manager, to deduct from compensation

amounts contributed under a plan and to transfer to the fund manager amounts to contributed shall be borne by the participating local government. All other expenses arising from the administration of the supplemental local government retirement benefit accumulation plan shall be assessed against the accounts created on behalf of participating individuals either by the fund managers or by the participating local governments. The obligation of the local government officer or employee shall be a contractual obligation only with no preferred or special interest in contributed funds to such officer or employee.

(g) Prompt investment.—Investment of contributed funds by any corporation, institution, insurance company or custodial bank that the board has approved shall not be unreasonably delayed, and in no case shall the investment of contributed funds be delayed more than thirty days from the date of payroll deduction or local government contribution to the date that funds are invested. Any interest earned on such funds pending investment shall be allocated to the board and credited to the accounts of employees who are then participating in the plan unless such interest is used to defray administrative costs and fees that would otherwise be required to be borne by employees who are then participating in the plan.

(h) No assignment or alienation.—No officer or employee participant or beneficiary shall have the right to commute, sell, assign or otherwise transfer or convey the rights to receive any payments under agreements entered into under this section, and such payments and rights are expressly declared to be nonassignable and nontransferable.

(i) Withdrawals.—A participating local government may cease participation in the plan by notice in accordance with procedures adopted by the board, and such withdrawal shall discontinue future withholdings from the participants' compensation by the local government and future contributions by the local government, but shall not operate to withdraw any funds theretofore contributed.

(j) Eligible individuals.—Every full-time officer or employee of a local government who, upon the effective date of the local government's participation in the plan, either is in office or employed by the local government shall immediately be eligible for participation in the supplemental local government retirement benefit accumulation plan. Thereafter, every full-time officer or employee of a local government shall become eligible upon employment by a participating local government.

(k) Qualified fund managers, payment of commissions.—For the purposes of this section only, notwithstanding the provisions of the act of September 26, 1961, (P.L. 1661, No. 692) known as the "State Employees Group Life Insurance Law," the act of



January 27, 1966 (1965 P.L. 1624, No. 577), entitled "An act amending the act of April 9, 1929 (P.L. 177, No. 175), entitled 'An act providing for and reorganizing the conduct of the executive and administrative work of the Commonwealth by the Executive Department thereof and the administrative departments, boards, commissions, and officers thereof, including the boards of trustees of State Normal Schools, or Teachers Colleges; abolishing, creating, reorganizing or authorizing the reorganization of certain administrative departments, boards, and commissions; defining the powers and duties of the Governor and other executive and administrative officers, and of the several administrative departments, boards, commissions, and officers; fixing the salaries of the Governor, Lieutenant Governor, and certain other executive and administrative officers; providing for the appointment of certain administrative officers, and of all deputies and other assistants and employes in certain departments, boards, and commissions; and prescribing the manner in which the number and compensation of the deputies and all other assistants and employes of certain departments, boards and commissions shall be determined,' authorizing the Secretary of Property and Supplies to transact business as an insurance broker for the purpose of contracting insurance and surety bonds for any department, board, agency or commission of the Commonwealth and for any State authority established by law," or the act of July 31, 1968 (P.L. 691, No. 229), entitled "An act providing for group life insurance for State employes; establishing a schedule; providing for payment; providing for reduction of insurance upon retirement; authorizing the Secretary of Property and Supplies to act as exclusive agent for the purpose of contracting for insurance; and providing for administration and advisory services by the Department of Property and Supplies, providing for contributions by the State, increasing the amounts of insurance provided under the schedule, reducing the period of continuous service required for eligibility, deleting the provision relating to insurance coverage for retired employes and consulting services and extending coverage to permanent part-time employes," insurance companies selected as qualified fund managers by eligible individuals may pay commissions to agents or brokers licensed to transact business in the Commonwealth in accordance with their standard practice followed in other similar plans as if the premium had been paid by such eligible individual.

§ 5442. Eligibility for vesting.

Any participant who terminates local government service with ten or more eligibility points shall be eligible until attainment of superannuation age to vest his supplemental local government benefit accumulation plan benefits.

§ 5443. Benefits.

A participant shall receive his total account value upon termination of service or retirement as his total benefit.

Section 11. Sections 5504, 5505(c) and (e), 5506, 5507(a), and 5508(a) of Title 71 are amended to read:

§ 5504. Member contributions for the purchase of credit for previous [State] government service or to become a full coverage member.

(a) Amount of contributions.—The contributions to be paid by an active member or eligible school employee for credit for total previous [State] government service or to become a full coverage member shall be sufficient to provide an amount equal to the regular and additional accumulated deductions which would have been standing to the credit of the member for such service had regular and additional member contributions been made with full coverage in the class of service and at the rate of contribution applicable during such period of previous service and had his regular and additional accumulated deductions been credited with statutory interest during all periods of subsequent [State] government and school service up to the date of purchase.

\* \* \*

§ 5505. Contributions for the purchase of credit for creditable nonstate service.

\* \* \*

(c) Intervening military service.—Contributions on account of credit for intervening military service shall be determined by the member's contribution rate, the additional contribution rate which shall be applied only to those members who began service on or after the effective date of this amendatory act and compensation at the time of entry of the member into active military service, together with statutory interest during all periods of subsequent [State] government and school service to date of purchase. Upon application for such credit the amount due shall be certified in the case of each member by the board in accordance with methods approved by the actuary, and contributions may be made by:

- (1) regular monthly payments during active military service; or
- (2) a lump sum payment within 30 days of certification; or
- (3) salary deductions in amounts agreed upon by the member and

the board.

\* \* \*

(e) Philadelphia magisterial service.—Contributions on account of credit for service as a magistrate of the City of Philadelphia shall be determined by the board

to be equal to the amount he would have paid as employee contributions together with statutory interest to date of purchase had he been a State employee during his period of service as a magistrate of the City of Philadelphia. The amount so determined by the [State] Government Employees' Retirement Board to be paid into the [State] Government Employees' Retirement System shall be the obligation of the judge who requested credit for previous service as a magistrate of the City of Philadelphia; in no event shall such amount be an obligation of the City of Philadelphia or the City of Philadelphia retirement system.

\* \* \*

§ 5506. Incomplete payments.

In the event that a member terminates [State] government service before the agreed upon payments for credit for previous [State] government service, creditable nonstate service, social security integration, or full coverage membership have been completed, the member shall have the right to pay within 30 days of termination of [State] government service the balance due, including interest, in a lump sum and the annuity shall be calculated including full credit for the previous [State] government service, creditable nonstate service, social security integration, or full coverage membership. In the event a member does not pay the balance due within 30 days of termination of [State] government service and before the agreed upon payments have been completed, the present value of the benefit otherwise payable shall be reduced by the balance due, including interest, and the benefit payable shall be calculated as the actuarial equivalent of such reduced present value.

§ 5507. Contributions by the Commonwealth and other employers.

(a) Contributions on behalf of active members.—The Commonwealth and other employers whose employees are members of the system shall make contributions to the fund on behalf of all active members in such amounts as shall be certified by the board as necessary to provide, together with the members' total accumulated deductions, annuity reserves on account of prospective annuities other than those provided in section 5708 in accordance with the actuarial cost methods provided in section 5508(a), (a.1), (b), (c) and (d).

\* \* \*

§ 5508. Actuarial cost method.

(a) Employer contribution rate on behalf of active members in State service.—The amount of the Commonwealth and other employer contributions on behalf of all active members in State service shall be computed by the actuary as a percentage of the total compensation of all active members during the period for which the amount

is determined and shall be so certified by the board. The total employer contribution rate on behalf of all active members in State service shall consist of the employer normal contribution rate, as defined in subsection (b), and the accrued liability contribution rate as defined in subsection (c). The total employer contribution rate for the Commonwealth and other employers except for local governments shall be modified by the experience adjustment factor as calculated in subsection (f) but in no case shall it be less than zero.

Section 12. Section 5508 of Title 71 is amended by adding a subsection to read:

§ 5508. Actuarial cost method.

\* \* \*

(a.1) Employer contribution rate on behalf of active members in local government service.—The amount of the local government employer contributions on behalf of all active members in local government service shall be computed by the actuary as a percentage of the total compensation of all active members during the period for which the amount is determined and shall be so certified by the board. The total employer contribution rate on behalf of all active members in local government service shall consist of the employer normal contribution rate, as defined in subsection (b). The total employer contribution rate for local governments shall be modified by the experience adjustment factor as calculated in subsection (f) for amortization payments beginning after June 30, 1995, but in no case shall it be less than zero.

Section 13. Sections 5508(b) and 5509(c) of Title 71 are amended to read:

§ 5508. Actuarial cost method.

\* \* \*

(b) Employer normal contribution rate.—The employer normal contribution rate shall be determined after each actuarial valuation on the basis of an annual interest rate and such mortality and other tables as shall be adopted by the board in accordance with generally accepted actuarial principles. The employer normal contribution rate shall be determined as a level percentage of the compensation of the average [new] active member, which percentage, if contributed on the basis of his prospective compensation through his entire period of active State service, would be sufficient to fund the liability for any prospective benefit payable to him, except for the supplemental benefits provided for in sections 5708 (relating to supplemental annuities), 5708.1 (relating to additional supplemental annuities) and 5708.2 (relating to further additional supplemental annuities), in excess of that portion funded by his [prospective] member contributions.

\* \* \*

§ 5509. Appropriations and assessments by the Commonwealth.

\* \* \*

(c) Contributions from funds other than General Fund.—The amounts assessed other employers except for local governments who are required to make the necessary contributions out of funds other than the General Fund shall be paid by such employers into the fund in accordance with requisitions presented by the board. The General Fund of the Commonwealth shall not be held liable to appropriate the moneys required to build up the reserves necessary for the payment of benefits to employees of such other employers. In case any such employer shall fail to provide the moneys necessary for such purpose, then the service of such members for such period for which money is not so paid shall be credited and pickup contributions with respect to such members shall continue to be credited to the members' savings account. The annuity to which such member is entitled shall be determined as actuarially equivalent to the present value of the maximum single life annuity of each such member reduced by the amount of employer contributions payable on account and attributable to his compensation during such service.

Section 14. Chapter 55 of Title 71 is amended by adding sections to read:

§ 5510. Payments by local governments.

(a) General rule.—Each local government shall make payments to the fund each quarter in an amount equal to the percentages, as determined under section 5508 (relating to actuarial cost method), applied to the total compensation during the pay periods in the preceding quarter of all its employees who were members of the system during such period.

(b) Deduction from intergovernmental revenue.—To facilitate the payment of amounts due from any local government to the fund through the State Treasurer and to permit the exchange of credits between the State Treasurer and any local government, the board and the State treasurer shall cause to be deducted and paid into the fund from any moneys due to any local government from the Commonwealth such amount due to the fund adjusted at the valuation interest rate as certified by the board and as remains unpaid for a period of 90 days on the date such intergovernmental revenue would otherwise be paid to the local government, and such amount shall be credited to the local government's account in the fund. The General Fund of the Commonwealth shall not be held liable to appropriate the moneys required to build up the reserves necessary for the payment of benefits to employees of such local governments.

(c) Exceptions to the deductions from Commonwealth intergovernmental

revenue.—Notwithstanding the provisions of subsection (b), deductions shall not be made from the following intergovernmental revenues due to a local government.

(1) Capital projects under contract in progress.

(2) Moneys received by a local government from an agency of the Commonwealth or the Federal Government under a declaration of a disaster resulting from a catastrophe.

§ 5511. Enforcement of local government contributions or payments by mandamus action.

(a) Legislative finding and declaration.—The General Assembly finds and declares that any actual or potential failure by a local government to make contributions or payments established by sections 5404 (relating to designation of class of service multiplier), 5405 (relating to optional transfer of members and beneficiaries permitted), 5406 (relating to optional election of membership for certain existing employees), 5501 (relating to regular member contributions for current service), 5502 (relating to social security integration member contributions), 5503 (relating to joint coverage member contributions), 5503.1 (relating to pickup contributions), 5504 (relating to member contributions for the purchase of credit for previous State service or to become a full coverage member), 5505 (relating to contributions for the purchase of credit for creditable nonstate service), 5505.1 (relating to additional member contributions), 5507 (relating to contributions by the Commonwealth and other employers), 5508 (relating to actuarial cost method), 5509 (relating to appropriations and assessments by the Commonwealth), or 5510 (relating to payments by local governments) threatens serious injury to the affected local government employees, the system, and the Commonwealth itself. By expressly authorizing the remedy of mandamus in this section, the General Assembly intends to assist all persons with a beneficial or special interest in the system, in addition to all persons or entities with a special responsibility or duty in relation to the system, in securing that compliance.

(b) Generally. —In the event that a local government fails to comply with its duty to pay the full amount of the contributions or payments as specified in chapter 54 or this chapter, the failure may be remedied by the institution of legal proceedings for mandamus. Every local government is by this part on notice as to its duty to make its contributions or payments to the system. The provisions of this part shall be deemed to be sufficient demand to the local government for it to comply with its duty and the failure by the local government to pay the full amount of the contribution or payment to the system shall be deemed to be sufficient refusal by the local government to comply with its duty antecedent to the commencement of the action. No other remedy at law shall be

deemed to be sufficiently adequate and appropriate to bar the commencement of this action. The system shall be deemed to have been injured by the failure of the local government to comply with its legal duty to make its contribution or payment to the system and that injury shall be deemed to be immediate. No issuance of mandamus in connection with the legal duty of a local government to make its contribution or payment to the system shall be deemed to threaten the creation of confusion, disorder, or excessive burden on the local government or to threaten a result that is detrimental to the public interest.

(c) Board beneficially interested. —The board is beneficially interested in the affairs of the system and shall have standing to institute a legal proceeding for mandamus as provided for in this section.

(d) Scope of remedy. —Any mandamus under this section shall compel the payment of any delinquent contribution or payment to the system with interest at the applicable compound rate.

Section 15. Sections 5702(a)(1), 5704(a), (c)(i), and (e), 5705(a), 5706, and 5707(c) of Title 71 are amended to read:

§ 5702. Maximum single life annuity.

(a) General rule.—Any full coverage member who is eligible to receive an annuity pursuant to the provisions of section 5308(a) or (b) (relating to eligibility for annuities) shall be entitled to receive a maximum single life annuity attributable to his credited service and equal to the sum of the following single life annuities beginning at the effective date of retirement:

(1) A standard single life annuity multiplied by the sum of the products, determined separately for each class of service, obtained by multiplying the appropriate class of service multiplier by the ratio of years of service credited in that class to the total credited service. In case the member on the effective date of retirement is under superannuation age for any service, a reduction factor calculated to provide benefits actuarially equivalent to an annuity starting at superannuation age shall be applied to the product determined for that service. The class of service multiplier for any period of concurrent service shall be multiplied by the proportion of total [State] government and school compensation during such period attributable to [State] government service. In the event a member has two multipliers for one class of service the class of service multiplier to be used for calculating benefits for that class shall be the average of the two multipliers weighted by the proportion of compensation attributable to each multiplier during the three years of highest annual compensation in that class of service; Provided, That in the case of a member of Class E-1, a portion but not all of whose three

years of highest annual judicial compensation is prior to January 1, 1973, two class of service multipliers shall be calculated on the basis of his entire judicial service, the one applying the judicial class of service multipliers effective prior to January 1, 1973 and the second applying the class of service multipliers effective subsequent to January 1, 1973. The average class of service multiplier to be used for calculating benefits for his judicial service shall be the average of the two calculated multipliers weighted by the proportion of compensation attributable to each of the calculated multipliers during the three years of highest annual compensation in that class of service.

\* \* \*

§ 5704. Disability annuities.

(a) Amount of annuity.—A member who has made application for a disability annuity and has been found to be eligible in accordance with the provisions of section 5905(c)(1) (relating to duties of the board regarding applications and elections of members) shall receive a disability annuity payable from the effective date of disability as determined by the board and continued until a subsequent determination by the board that the annuitant is no longer entitled to a disability annuity. The disability annuity shall be equal to a standard single life annuity multiplied by the class of service multiplier applicable to the class of service at the time of disability if the product of such class of service multiplier and the total number of years of credited service is greater than 16.6667, otherwise the standard single life annuity shall be multiplied by the lesser of the following ratios:

$$MY^*/Y \text{ or } 16.667/Y$$

where Y = number of years of credited service, Y\* = total years of credited service if the member were to continue as a [State] government employee until attaining superannuation age as applicable at the time of disability, and M = the class of service multiplier as applicable at the time of disability. a member of Class C shall receive, in addition, any annuity to which he may be eligible under section 5702(a)(3) (relating to maximum single life annuity). The member shall be entitled to the election of a joint and survivor annuity on that portion of the disability annuity to which he is entitled under section 5702.

\* \* \*

(c) Reduction on account of earned income.—Subsequent to January 1, 1972, payments on account of disability shall be reduced by that amount by which the earned income of the annuitant, as reported in accordance with section 5908(b) (relating to rights and duties of annuitants) for the preceding calendar quarter together with the disability annuity payments provided in this section other than subsection (b), for the quarter, exceeds the product of:



(i) the greater of \$1,250 or one-quarter of the last year's salary of the annuitant as a [State] government employee;

\* \* \*

(e) Termination of [State] government service.—Upon termination of disability annuity payments in excess of an annuity calculated in accordance with section 5702, a disability annuitant who does not return to [State] government service may file an application with the board for an amount equal to the excess, if any, of the sum of the regular and additional accumulated deductions standing to his credit at the effective date of disability over one-third of the total disability annuity payments received. If the annuitant on the date of termination of service was eligible for an annuity as provided in section 5308(b) (relating to eligibility for annuities), he may file an application with the board for an election of an optional modification of his annuity.

\* \* \*

§ 5705. Member's options.

(a) General rule.—Any vestee having ten or more eligibility points or any other eligible member upon termination of [State] government service who has not withdrawn his total accumulated deductions as provided in section 5701 (relating to return of total accumulated deductions) may apply for and elect to receive either a maximum single life annuity, as calculated in accordance with the provisions of section 5702 (relating to maximum single life annuity), or a reduced annuity certified by the actuary to be actuarially equivalent to the maximum single life annuity and in accordance with one of the following options: except that no member shall elect an annuity payable to one or more survivor annuitants other than his spouse of such a magnitude that the present value of the annuity payable to him for life plus any lump sum payment he may have elected to receive is less than 50% of the present value of his maximum single life annuity:

\* \* \*

§ 5706. Termination of annuities.

(a) General rule.—If the annuitant returns to [State] government service or enters school service and elects multiple service membership, any annuity payable to him under this part shall cease and in the case of an annuity other than a disability annuity the present value of such annuity, adjusted for full coverage in the case of a joint coverage member who make the appropriate back contributions for full coverage, shall be frozen as of the date such annuity ceases. An annuitant who is credited with an additional 10% of Class A and Class C service as provided in section 5302(c) (relating to credited [State] government service) and who returns to [State] government service shall forfeit such

credited service and shall have his frozen present value adjusted as if his 10% retirement incentive had not been applied to his account. In the event that the cost-of-living increase enacted December 18, 1979 occurred during the period of such [State] government or school employment, the frozen present value shall be increased, on or after the member attains superannuation age, by the percent applicable had he not returned to service. This subsection shall not apply in the case of any annuitant who may render services to the Commonwealth or a local government in the capacity of an independent contractor or as a member of an independent board or commission or as a member of departmental administrative or advisory board or commission when such members of independent or departmental boards or commission are compensated on a per diem basis for not more than 100 days per calendar year.

(a.1) Return to [State] government service during emergency.—When, in the judgment of the employer, an emergency creates an increase in the work load such that there is serious impairment of service to the public, an annuitant may be returned to [State] government service for a period not to exceed 95 days in any fiscal year without loss of his annuity. In computing the number of days an annuitant has returned to [State] government service, any amount of time less than one-half of a day shall be counted as one-half of a day. For agencies, boards and commissions under the Governor's jurisdiction, the approval of the Governor that an emergency exists shall be required before an annuitant may be returned to State service.

(b) Subsequent discontinuance of service.—Upon subsequent discontinuance of service, such member other than a former disability annuitant shall be entitled to an annuity which is actuarially equivalent to the sum of the present value as determined under subsection (a) and the present value of a maximum single life annuity based on years of service credited subsequent to reentry in the system and his final average salary computed by reference to his compensation during his entire period of [State] government and school service.

§ 5707. Death benefits.

\* \* \*

(c) Disability annuitants eligible for withdrawal annuity.—In the event of the death of a disability annuitant who has elected to receive a maximum disability annuity before he has received in annuity payments an amount equal to the present value, on the effective date of disability of the benefits to which he would have been entitled under subsection (a) had he died while in [State] government service, the balance of such amount shall be paid to his designated beneficiary.

\* \* \*

Section 16. Sections 5901, 5902(a), (h), and (m), 5903(a), 5904, 5905(c.1), and 5906(a), (d), (e), (h), and (j) of Title 71 are amended to read:

§ 5901. The [State] Government Employees' Retirement Board.

(a) Status and membership.—The board shall be an independent administrative board and consist of 11 members: the State Treasurer, exofficio, two Senators, two members of the House of Representatives and six members appointed by the Governor, one of whom shall be an annuitant of the system, for terms of four years, subject to confirmation by the Senate. At least five board members shall be active members of the system, and at least two shall have ten or more years of credited [State] government service. The chairman of the board shall be designated by the Governor from among the members of the board.

\* \* \*

§ 5902. Administrative duties of the board.

(a) Employees.—The secretary, clerical, and other employees of the board and their successors whose positions on the effective date of this part are under the classified service provisions of the act of August 5, 1941 (P.L. 752, No. 286), known as the Civil Service Act, shall continue under such provisions. Notwithstanding any other provisions of law, the compensation shall be established by the board for the secretary, the assistant secretary, investment professionals and other professionals designated by the board who are not covered by a collective bargaining agreement. The secretary shall act as chief administrative officer for the board. In addition to other powers and duties conferred upon and delegated to the secretary by the board, the secretary shall:

- (1) Serve as the administrative agent of the board.
- (2) Serve as liaison between the board and applicable legislative committees, the Treasury Department, the Department of the Auditor General, and between the board and the investment counsel and the mortgage supervisor in arranging for investments to secure maximum returns to the fund.
- (3) Review and analyze proposed legislation and legislative developments affecting the system and present finding to the board, legislative committees, and other interested groups and individuals.
- (4) Direct the maintenance of files and records and preparation of periodic reports required for actuarial evaluation studies.
- (5) Receive inquiries and requests for information concerning the system from the press, Commonwealth officials, local government officials, State employees, local government employees, the general public, research organizations, and

officials and organizations from other states, and provide information as authorized by the board.

(6) Supervise a staff of administrative, technical, and clerical employees engaged in record-keeping and clerical processing activities in maintaining files of members, accounting for contributions, processing payments to annuitants, preparing required reports, and retirement counseling.

\* \* \*

(k) Certification of employer contributions.—The board shall, each year in addition to the itemized budget required under section 5509 (relating to appropriations and assessments by the Commonwealth), certify to the Commonwealth, local governments, and other employers, as a percentage of the members' payroll, the employers' contributions as determined pursuant to section 5508 (relating to actuarial cost method) necessary for the funding of prospective annuities for active members and the annuities of annuitants and certify the rates and amounts of the employer's normal contributions as determined pursuant to section 5508(b), accrued liability contributions as determined pursuant to section 5508(c), supplemental annuities contribution rate as determined pursuant to section 5508(e), and the experience adjustment factor, as determined pursuant to section 5508(f), which shall be paid to the fund and credited to the appropriate accounts. These certifications shall be regarded and final and not subject to modification by the Budget Secretary or local governments.

\* \* \*

(m) The board shall prepare and have published, on or before July 1 of each year, a financial statement as of the calendar year ending December 31 of the previous year showing the condition of the fund and the various accounts and setting forth such other facts, recommendations, and data as may be of use in the advancement of knowledge concerning annuities and other benefits provided by this part. The board shall submit said financial statement to the Governor and shall file copies with the head of each department for the use of the [State] government employees and the public.

\* \* \*

§ 5903. Duties of board to advise and report to heads of departments and members.

(a) Manual of regulations.—The board shall, with the advice of the Attorney General and the actuary, prepare and provide, within ninety days of the effective date of this part, or, in the case of a local government, within ninety days of a local government employee becoming a member, a manual incorporating rules and regulations consistent with the provisions of this part to the heads of departments who shall make the information contained therein available to the general membership. The board

shall thereafter advise the heads of departments within ninety days of any changes in such rules and regulations due to changes in the law or due to changes in administrative policies.

\* \* \*

§ 5904. Duties of the board to report to the Public School Employees' Retirement Board.

(a) Multiple service membership of [State] government employees.—Upon receipt of an application for membership in the system of a [State] government employee who is a former public school employee and who has elected multiple service membership, the board shall advise the Public School Employees' Retirement Board accordingly.

(b) Multiple service membership of school employees.—Upon receipt of notification from the Public School Employees' Retirement Board that a former [State] government employee has become an active member in the Public School Employees' Retirement System and has elected to receive credit for multiple service, the board shall certify to the Public School Employees' Retirement Board and concurrently to the member:

(1) the total credited service in the system and the number of years and fractional part of a year of service credited in each class of service;

(2) the annual compensation received each calendar year by the member for credited [State] government service; and

(3) the social security integration credited service to which the member is entitled and the average noncovered salary upon which the single life annuity attributable to such service will be computed.

(c) Application for benefits for school employees.—Upon receipt of notification and the required data from the Public School Employees' Retirement Board that a former [State] government employee who elected multiple service has applied for a public school employees' retirement benefit or, in the event of his death, his legally constituted representative has applied for such benefit, the board shall:

(1) certify to the Public School Employees' Retirement Board:

(i) the salary history as a member of the [State] Government Employees' Retirement System and the final average salary as calculated on the basis of the compensation received as a [State] and school employee; and

(ii) the annuity or benefit to which the member or his beneficiary is entitled as modified according to the option selected; and

(2) transfer to the Public School Employees' Retirement Fund the total accumulated deductions standing to such member's credit and the actuarial reserve

required on account of years of credited service in the [State] government system, final average salary determined on the basis of his compensation in both systems and the average noncovered salary to be charged to the State accumulation account, the State Police benefit account or the enforcement officers' benefit account, as each case may require.

\* \* \*

§ 5905. Duties of the board regarding applications and elections of members.

\* \* \*

(c.1) Termination of service.—The board shall, in the case of any member terminating [State] government service who is entitled to an annuity, advise such member in writing of any benefits to which he may be entitled under the provisions of this part and shall have the member prepare, on or before the date of termination of [State] government service one of the following three forms, a copy of which shall be given to the member and the original of which shall be filed with the board:

(1) an application for the return of total accumulated deductions;

(2) an election to vest his retirement rights, and if he is a joint coverage member and so desires, elect to become a full coverage member and agree to pay within 30 days of the date of termination of service the lump sum required; or

(3) an application for an immediate annuity, and if he desires:

(i) if he is a State employee, an election to convert his medical, major medical and hospitalization insurance coverage to the plan for State annuitants; and

(ii) if he is a joint coverage member, an election to become a full coverage member and an agreement to pay within 30 days of date of termination of service the lump sum required.

\* \* \*

§ 5906. Duties of heads of departments.

(a) Status of members.—The head of department shall, at the end of each pay period, notify the board in a manner prescribed by the board of salary changes effective during that period for any members of the department, the date of all removals from the payroll, and the type of leave of any members of the department who have been removed from the payroll for any time during that period, and:

(1) if the removal is due to leave without pay, he shall furnish the board with the date of beginning leave and the date of return to service, and the reason for leave; or

(2) if the removal is due to a transfer to another department, he shall

furnish such department and the board with a complete [State] government service record, including past [State] government service in other departments or agencies, or creditable nonstate service; or

(3) if the removal is due to termination of [State] government service, he shall furnish the board with a complete [State] government service record, including service in other departments or agencies, or creditable nonstate service and;

(i) in the case of death of the member the head of the department shall so notify the board;

(ii) in the case of a service connected disability the head of department shall, to the best of his ability, investigate the circumstances surrounding the disablement of the member and submit in writing to the board information which shall include but not necessarily be limited to the following: date, place and time of disablement to the extent ascertainable; nature of duties being performed at such time; and whether or not the duties being performed were authorized and included among the member's regular duties. In addition, the head of department shall furnish in writing to the board all such other information as may be related to the member's disablement.

\* \* \*

(d) New employees subject to mandatory membership.—Upon the assumption of duties of each new [State] government employee whose membership in the system is mandatory, the head of department shall cause an application for membership and a nomination of beneficiary to be made by such employee and filed with the board and shall make pickup contributions from the effective date of [State] government employment.

(e) New employees subject to optional membership.—The head of department shall, upon the employment or entering into office of any [State] government employee whose membership in the system is not mandatory, inform such employee of his opportunity to become a member of the system. If such employee so elects, the head of department shall cause an application for membership and a nomination of beneficiary to be made by him and filed with the board and shall cause proper contributions to be made from the effective date of membership.

\* \* \*

(h) Former school employee annuitants age.—The head of department shall, upon the employment of an annuitant of the Public School Employees' Retirement System who applies for membership in the system, advise such employee that he may elect multiple service membership within 30 days of entry into the system and if he so elects his public school employee's annuity will be discontinued and, upon termination

of [State] government service and application for an annuity, the annuity will be adjusted in accordance with section 5706 (relating to termination of annuities). The head of department shall advise the board of such election.

\* \* \*

(j) Termination of service.—The head of department shall, in the case of any member terminating [State] government service who is ineligible for an annuity, advise such member in writing of any benefits to which he may be entitled under the provisions of this part and shall have the member prepare, on or before the date of termination of [State] government service, an application for the return of total accumulated deduction.

\* \* \*

Section 17. Sections 5931(f) and (o), 5932, 5935(b), 5936(b), and 5937(b) of Title 71 are amended to read:

§ 5931. Management of fund and accounts.

\* \* \*

(f) Name for transacting business.—By the name of [“The State Employees’ Retirement System” or “The State Employees’ Retirement System”] the Government Employees’ Retirement System all of the business of the system shall be transacted, its fund invested, all requisitions for money drawn and payments made, and all of its cash and securities and other property shall be held, except that any other law to the contrary notwithstanding, the board may establish a nominee registration procedure for the purpose of registering securities in order to facilitate the purchase, sale or other disposition of securities pursuant to the provisions of this law.

\* \* \*

(o) Holding entities for authorized investments.—The board may make any investments authorized by this part or other law by becoming a limited partner in partnership that will hold such investments, or by acquiring shares or units of participation or otherwise participating beneficially in bank collective trusts or in separate accounts of any insurance company authorized to do business in this Commonwealth, or by acquiring stocks or shares of units of participation or otherwise participating beneficially in the fund of any corporation or trust organized or existing under the laws of the United States or of any state, district or territory thereof which fund is maintained for and consists of assets of employees’ benefit trusts including governmental plans as defines in section 414(d) of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 414(d)), or which meet the requirements for qualification under



section 401 of the Internal Revenue Code of 1986, provided that, in any such case, the liability of the [State] Government Employees' Retirement Fund shall be limited to the amount of its investment. In the case of authorized investments in real estate or interests therein, the board's acquisition of the stock or shares of or its other participation beneficially in the fund of any such vehicle, including any entity organized and maintained as a vehicle for an investment or investments of the board exclusively, shall not be deemed an investment in the common stock as defined in subsection (i) of any corporation as defined in subsection (j) for the purposes of any limitation on investment in corporate stocks set forth in subsection (h) of this section. Nothing in this subsection shall be deemed to supersede the limitation on investment in institutional real estate funds as set forth in subsection (l).

\* \* \*

§ 5932. [State] Government Employees' Retirement Fund.

The fund shall consist of all balances in the several separate accounts set apart to be used under the direction of the board for the benefit of members of the system; and the Treasury Department shall credit to the fund all moneys received from the Department of Revenue arising from the contributions required under the provisions of Chapter 55 (relating to contributions), and any income earned by the investments or moneys of said fund. There shall be established and maintained by the board the several ledger accounts specified in sections 5933 (relating to member's savings account), 5934 (relating to State accumulation account), 5395 (relating to annuity reserve account), 5936 (relating to State Police benefit account), 5938 (relating to supplemental annuity account) and 5939 (relating to interest reserve account).

\* \* \*

§ 5935. Annuity reserve account.

\* \* \*

(b) Transfers from account.—Should an annuitant other than a member who was retired as an officer of the Pennsylvania State Police or an enforcement officer be subsequently restored to active service, the present value of his member's annuity at the time of reentry into [State] government service shall be transferred from the annuity reserve account and placed to his individual credit in the members' savings account. In addition, the actuarial reserve for his annuity less the amount transferred to the members' savings account shall be transferred from the annuity reserve account to the State accumulation account.

\* \* \*

§ 5936. State Police benefit account.

\* \* \*

(b) Transfers from account.—Should the said annuitant be subsequently restored to active service, the present value of the member's annuity at the time of reentry into [State] government service shall be transferred from the State Police benefit account and placed to his individual credit in the members' savings account. In addition, the actuarial reserve for his annuity calculated as if he had been a member of Class A less the amount transferred to the members' savings account shall be transferred from the State Police benefit account to the State accumulation account. Upon subsequent retirement other than as an officer of the Pennsylvania State Police the actuarial reserve remaining in the State Police benefit account shall be transferred to the appropriate reserve account.

\* \* \*

§ 5937. Enforcement officers' benefit account.

\* \* \*

(b) Transfers from account.—Should the said annuitant be subsequently restored to active service, the present value of the member's annuity at the time of reentry into [State] government service shall be transferred from the enforcement officers' benefit account and placed to his individual credit in the members' savings account. In addition, the actuarial reserve for his annuity calculated as if he had been a member of Class A less the amount transferred to the members' savings account shall be transferred from the enforcement officers' benefit account to the State accumulation account. Upon subsequent retirement other than as an enforcement officer the actuarial reserve remaining in the enforcement officers' benefit account shall be transferred to the appropriate reserve account.

\* \* \*

Section 18. Title 71 is amended by adding a section to read:

§ 5939.1 Supplemental local government contribution account.

(a) Credits to account.—The supplemental local government contribution account shall be the ledger account to which shall be credited general municipal pension system State aid under section 5401 (relating to revision of general municipal pension system State aid). The supplemental local government contribution account shall be credited with the required interest.

(b) Charges to account.—Any amount in a local government's individual subsidiary account in the supplemental local government contribution reserve account of the fund shall be used by the local government as the primary source of revenue to pay

the local government's financial obligations to the system.

(c) Annual statement.—The board shall issue an annual statement to each local government showing the balance in the local government's supplemental local government contribution account at the beginning of the calendar year, increases and decreases in the account during the calendar year aggregated by general sources and applications, and the balance in the account at the end of the calendar year.

Section 19. Sections 5951, 5953(a) and 5955(a) of Title 71 are amended to read:

§ 5951. [State] Employer guarantee.

(a) State guarantee.—The required interest charges payable, the maintenance of reserves in the fund, and the payment of all annuities and other benefits granted by the board under the provisions of this part, as to State service in accordance with this part, are hereby made obligations of the Commonwealth.

(b) Local government guarantee.—The required interest charges payable, the maintenance of reserves in the fund, and the payment of all annuities and other benefits granted by the board under the provisions of this part, as to local government service in accordance with this part, are hereby made obligations of the local government.

(c) Use of income, interest, and dividends.—All income, interest, and dividends derived from deposits and investments authorized by this part shall be used for the payment of the said obligations of the Commonwealth and local governments.

\* \* \*

§ 5953. Taxation, attachment and assignment of funds.

(a) General rule.

(1) Except as provided in paragraph (2), the right of a person to any benefit or right accrued or accruing under the provisions of this part and the moneys in the fund are hereby exempt from any State or municipal tax, levy and sale, garnishment, attachment, spouse's election, or any other process whatsoever except for a set-off by the Commonwealth in the case provided in subparagraph (i), a local government in the case provided in subparagraph (iii), and shall be unassignable except:

(i) To the Commonwealth in the case of a member who is terminating State service and has been determined to be obligated to the Commonwealth for the repayment of money owed on account of his employment or to the fund on account of a loan from a credit union which has been satisfied by the board from the fund.

(ii) To a credit union as security for a loan not to exceed \$750 and interest not to exceed 6% per annum discounted and/or fines thereon if the credit union

is now or hereafter organized and incorporated under the laws of this Commonwealth and the membership of such credit union is limited solely to officers and employees of the Commonwealth or the officers and employees of a local government and if such credit union has paid to the fund \$3 for each such assignment.

(iii) To a local government in the case of a member who is terminating local government service and has been determined to be obligated to the local government for the repayment of money owed on account of his employment or to the fund on account of a loan from a credit union which has been satisfied by the board from the fund.

\* \* \*

§ 5955. Construction of part.

(a) Regardless of any other provision of law, pension rights of [State] government employees shall be determined solely by this part or any amendment thereto, and no collective bargaining agreement nor any arbitration award between the Commonwealth and its employees or their collective bargaining representatives or between a local government and its employees or their collective bargaining representatives shall be construed to change any of the provisions herein, to require the board to administer pension or retirement benefits not set forth in this part, or otherwise require action by any other government body pertaining to pension or retirement benefits or rights of [State] government employees. Notwithstanding the foregoing, an pension or retirement benefits or rights previously so established by or as a result of an arbitration award shall remain in effect after the expiration of the current collective bargaining agreement between the State employees so affected and the Commonwealth. The provisions of this part insofar as they are the same as those of existing law are intended as a continuation of such laws and not as new enactments. The provisions of this part shall not affect any act done, liability incurred, right accrued or vested, or any suit or prosecution pending or to be instituted to enforce any right or penalty or to punish any offense under the authority of any repealed laws.

Section 20. This act shall take effect in 60 days.

