

**PUBLIC EMPLOYEE RETIREMENT COMMISSION****ACTUARIAL NOTE TRANSMITTAL**

Bill ID: House Bill Number 84, Printer's Number 2913

System: Public School Employees' Retirement System

Subject: Purchase of Service Credit for Service as a  
Certified Professional in an Approved Private School

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**SYNOPSIS**

House Bill Number 84, Printer's Number 2913, would amend the Public School Employees' Retirement Code to permit an active member or an active multiple service member of the Public School Employees' Retirement System (PSERS) to purchase an unlimited amount of service credit at the rate of one year for every year of previous nonschool service as a certified professional employed in an approved private school as defined in 22 PA. Code section 171.11, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered and pays the full actuarial present value of the increase in the superannuation benefit resulting from the purchase.

**DISCUSSION**

The Public School Employees' Retirement System (PSERS) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of PSERS is to provide retirement allowances and other benefits, including disability and death benefits, to public school employees. As of June 30, 2000, there were 695 participating units, generally school districts, area vocational-technical schools, and intermediate units in PSERS. Membership in PSERS is mandatory for most public school employees. Certain other employees are not required, but are given the option, to participate. As of June 30, 2000, there were 234,210 active members of PSERS.

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

## **DISCUSSION (Cont'd)**

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

The bill would expand the list of purchasable nonschool service to include an unlimited amount of service credit for service as a certified professional in an approved private school as defined in 22 PA. Section 171.11, if the member was entitled to a provisional or professional certificate to teach in the public schools of Pennsylvania at the time the service was rendered and pays the actuarial present value of the increase in the superannuation benefit resulting from the purchase.

Special education includes clinical, remedial, and guidance services for exceptional children, that is, both gifted children and children with severe disabilities. For example, an individual holding a certificate endorsed in one of the four special education areas is qualified to teach students with disabilities how to understand, overcome, compensate for and/or adjust to their disabilities through the use of adaptive instructional strategies, instructional accommodations, individualized learning activities, and specially designed services. Data provided by the Department of Education show that in 1999-2000 there were 14,547 public school teachers certified in special education plus 1,918 certified as speech correctionists.

The bill would restrict the service that could be purchased to service in a Pennsylvania-approved private school. In the Department of Education, the term “approved private school” is a term of art defined in 22 PA. Code Section 171.11, describing a private school, the mission of which, is to provide special education to children with exceptional needs. There are about 31 of these schools that are licensed by the State Board of Private Academic Schools and also approved by the Bureau of Special Education of the Department of Education. Educators in the “approved private schools” must hold public school certification.

The bill would permit not only members of PSERS who held provisional or permanent teaching certificates but also members who only were eligible for such certificates to purchase service credit. This eligibility criterion will require an after-the-fact determination of whether a member would have been eligible for certification at some previous time. The responsibility for evaluating candidates for professional educator certification is part of the mission of the Bureau of Teacher Certification and Preparation of the Department of Education. The Bureau

## DISCUSSION (Cont'd)

has indicated to the staff of the Commission that evaluating an individual's eligibility for certification under standards that existed some years ago is an arduous task, requiring several hours of research through the appropriate standards. The current fee established for an application is \$15, which probably would not cover the administrative cost of an evaluation which required that degree of attention.

## SUMMARY OF ACTUARIAL COST IMPACT

The consulting actuary of the Commission prepared an actuarial note dated November 28, 2001, and determined that the increase in the unfunded actuarial accrued liability will depend on the method selected by the PSERS Board of Trustees, based on the advice of the PSERS actuary, to determine the full actuarial cost paid by the member and that there will be no increase in the unfunded actuarial accrued liability if the full actuarial cost is determined using the same methodology and assumptions used by the PSERS consulting actuary for the PSERS annual valuation.

Although there will be no direct actuarial cost to the employers for the increased PSERS benefits under the bill, there may be other retirement benefit costs incurred by the employers. By purchasing service credit in PSERS for nonschool service, a member either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility when the member could not otherwise do so. Such benefits might include special early retirement or employer-subsidized postretirement medical insurance.

## POLICY CONSIDERATIONS

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

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

*Inequity of Certain Service Purchase Authorizations.* (-) The Commission recommended that service credit purchase authorizations not be employed as

**POLICY CONSIDERATIONS (Cont'd)**

a means of recognizing the past education, training, or work experience of public employees. Recognition of these preemployment and inter-employment activities represents a departure from the conventional role of a public employee retirement system as an employment-related benefit maintained principally in the interest of those devoting a substantial career to service for the public employer. The use of service credit purchase authorizations on an ad hoc basis to recognize past education, training, or experience requires policy makers to make arbitrary determinations concerning what types of past service should be purchasable and results in inequitable treatment of public employees.

*Appropriateness of Credit for Service as a Certified Professional Teacher in a Private School.* (-) The specific situations for which the Commission considered the use of service purchase authorizations to be appropriate were limited to those involving military service, transfers of governmental function, the reinstatement of service credits following a break in service, and remedying inequalities caused by employer actions. The bill would permit purchase of service for a situation that is not among the situations which the Commission views as warranting service credit purchase authorizations.

*Adequacy of Purchase Payments.* (+) The bill appears to require payment by a member of the full actuarial cost of the increased benefit obtained by virtue of the service credit purchase thus preventing an actuarial cost to the public school employers.

*Absence of Time Limit on Exercise of Purchase Option.* (-) For service credit purchase authorizations of this type, the Commission has recommended that employees be required to exercise the purchase option within three years of becoming eligible to do so. The language in the bill does not impose such a restriction.

*Absence of Limit on Amount of Service Purchased.* (-) A limit on the length of service which may be purchased in connection with a service purchase authorization serves to assure that a public employee's retirement benefit will be based principally on the amount of time served with the employer providing the benefit. In the absence of any such limit, some public employees may be able to purchase virtually all of the service credit required for vesting or for superannuation retirement and become eligible to receive a retirement benefit from an employer to whom they provided an insignificant period of service. The

## **POLICY CONSIDERATIONS (Cont'd)**

bill contains no restriction on the amount of service that may be purchased by an employee.

*Prohibition on Option 4 Withdrawal of Purchase Contribution.* (+) A service credit purchase transaction that favors a member at the expense of the retirement system is viewed by the Commission as appropriate only where necessary for the purpose of equity. For the service credit purchase authorizations to be at the full actuarial cost, the bill must prohibit a lump sum withdrawal of the purchase contribution under Retirement Option 4 by the member upon retirement. The bill contains such a prohibition.

Potential for Other Ancillary Benefit Costs. ( ) Although there may be no direct actuarial cost to the employers for the increased benefits under the bill, there may be other retirement benefit costs incurred by the employers. By purchasing service credit in PSERS for nonschool service, a member either may become eligible for other postretirement benefits sooner than otherwise or may achieve eligibility when the member could not otherwise do so. Such benefits might include special early retirement, early vesting or employer-subsidized postretirement medical insurance.

Cost of Eligibility Determinations. (-) Considerable administrative complexity and expense will be caused for both members and the Department of Education in determining whether a member who was not certified was eligible for certification.

## **COMMISSION RECOMMENDATION**

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

## **ATTACHMENTS**

Actuarial note prepared by William A. Reimert and Katherine A. Warren of Milliman USA.

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