COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT COMMISSION
P. O. BOX 1429, HARRISBURG, PA 17105-1429

April 16, 2015

The Honorable William F. Adolph, Jr.
Majority Chairman
House Appropriations Committee
House of Representatives
245 Main Capitol Building
Harrisburg, PA 17120

Re: House Bill Number 239, Printer's Number 1238

Dear Representative Adolph:

I am writing in response to your request concerning an actuarial note for the above referenced bill. House Bill Number 239, Printer's Number 1238, would amend the act of August 31, 1971, P. L. 398, No. 96, known as the County Pension Law (Act 96 of 1971), to clarify that cost-of-living adjustments, if given to retired county employees, would not need to be calculated retroactively to the date of the previous cost-of-living increase and would not need to apply the cost-of-living index change for each year since the previous cost-of-living increase. The bill would require that prior to approving any cost-of-living adjustment, the county retirement board shall have an actuarial note prepared regarding the proposed adjustment.

The bill would further restrict the provision of cost-of-living adjustments by the affected county pension plans to those plans that have attained a funded ratio, based upon the entry age normal actuarial cost method, of eighty percent or greater, less the actuarial cost of providing the cost-of-living adjustment. Any county retirement system that does not utilize the entry age normal actuarial cost method to calculate a funded ratio must utilize the entry age normal cost method to calculate a funded ratio to determine if the pension plan meets the eighty percent or higher funding level. The funding level calculation must be reported to the Public Employee Retirement Commission.

Historically, many county pension plans in the Commonwealth have utilized an actuarial cost method known as the "Aggregate Actuarial Cost Method." Under the aggregate cost method, any unfunded accrued liability of a pension plan is included as a component of the plan's normal cost calculation. As such, pension plans utilizing the aggregate cost method will not show a separate unfunded liability. It should be noted that the Governmental Accounting Standards Board (GASB) recently issued new reporting guidelines that will require government pension plans to report their funded statuses using the "Entry Age Normal Actuarial Cost Method," an actuarial cost method that does require the disclosure of the unfunded liability. However, this disclosure is merely a reporting requirement, not a funding requirement. For these reasons, House Bill Number 239, Printer's Number 1238, will have no meaningful impact upon the affected county pension plans.

Under the Public Employee Retirement Commission Act (Act 66 of 1981), the Commission has a mandated responsibility to review any legislative changes that affect public employee retirement systems. At my direction, the Commission staff has reviewed the provisions of House Bill Number 239, Printer's Number 1238, and determined that: 1) on February 25, 2015, the Commission voted to attach an actuarial note to Senate Bill Number 129, Printer's Number 265; 2) the Commission's actuarial note on Senate Bill Number 129, Printer's Number 265, applies to House Bill Number 239, Printer's Number 1238; and 3) House Bill Number 239, Printer's Number 1238, will have no additional actuarial cost impact beyond that described in the Commission's actuarial note on Senate Bill Number 129, Printer's Number 265.

Based upon the determination that House Bill Number 239, Printer's Number 1238, will have no actuarial cost impact beyond that described in the Commission's actuarial note on Senate Bill Number 129, Printer's Number 265, I am informing you, on behalf of the Commission, that the bill will not require an actuarial note prior to further consideration by the General Assembly.

I trust this letter adequately responds to your request. If I may be of any further assistance, please feel free to contact me by telephoning (717) 783-6100.

Sincerely,

John T. Durbin

John T. Durbin
Chairman

Enclosure

cc: The Honorable Mike Turzai
The Honorable David Reed
The Honorable Frank Dermody
The Honorable Bryan Cutler
The Honorable Michael K. Hanna
The Honorable Sandra Major
The Honorable Dan Frankel
The Honorable Joseph Markosek
The Honorable Bernie O'Neill
The Honorable Jake Wheatley, Jr.
The Honorable Michael Tobash
The Honorable R. Ted Harhai
The Honorable Keith J. Greiner
The Honorable Kate Harper
The Honorable Robert L. Freeman
The Honorable Scott A. Petri
The Honorable Thomas R. Caltagirone
Ms. Karen Coates
Mr. Clancy Myer
Mr. Anthony F. Barbush
Mr. Bernard Gallagher
Ms. Lisa Taglang

PRIOR PRINTER'S NOS. 239, 1055, 1073 PRINTER'S NO. 1238

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 239 Session of 2015

INTRODUCED BY GREINER, TOPPER, GROVE, GINGRICH, MURT, WHEELAND, A. HARRIS, EVERETT, KAUFFMAN, PYLE, GOODMAN, HELM, DIAMOND, ZIMMERMAN, HICKERNELL, MOUL, PHILLIPS-HILL, NESBIT, RADER, SAINATO AND HEFFLEY, JANUARY 28, 2015

AS AMENDED ON SECOND CONSIDERATION, HOUSE OF REPRESENTATIVES, APRIL 15, 2015

AN ACT

Amending the act of August 31, 1971 (P.L.398, No.96), entitled "An act providing for the creation, maintenance and operation of a county employes' retirement system, and imposing certain charges on counties and providing penalties," further providing for definitions and for supplemental benefits.

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

Section 1. Section 2 of the act of August 31, 1971 (P.L.398, No.96), known as the County Pension Law, is amended by adding a definition to read:

Section 2. Definitions.--As used in this act:

* * *

<u>(5.1) "Cost-of-living index" means the Consumer Price Index for All Urban Consumers (CPI-U) for the Pennsylvania, New Jersey, Delaware and Maryland area.</u>

* * *

Section 2. Section 30(b) of the act, amended July 18, 1986

(P.L.1410, No.126), is amended to read:

Section 30. Supplemental Benefits.--* * *

(b) (1) The cost-of-living increase shall be reviewed at least once in every three years by the board which may adjust the current monthly benefit by the percentages in accordance with cost-of-living index at the time of review[.], provided that the adjustment need not be calculated retroactively to the date of the previous cost-of-living increase approved by the board under this section and need not apply the cost-of-living index change for each year since the previous cost-of-living increase.

(2) Before approving any cost-of-living adjustment, the board shall have an actuarial note prepared regarding the proposed adjustment. A COST-OF-LIVING ADJUSTMENT SHALL ONLY BE <-- PROVIDED IF THE COUNTY RETIREMENT SYSTEM CALCULATES A FUNDED RATIO BASED UPON AN ENTRY AGE NORMAL METHODOLOGY OF EIGHTY PER CENT OR HIGHER AFTER THE ACTUARIAL COST OF THE ADJUSTMENT IS DETERMINED. ANY COUNTY RETIREMENT SYSTEM THAT UTILIZES AN ACCOUNTING METHOD THAT DOES NOT DETERMINE A FUNDED RATIO BASED UPON AN ENTRY AGE NORMAL METHODOLOGY SHALL, EACH YEAR, USE AN ENTRY AGE NORMAL ACTUARIAL COST METHODOLOGY TO CALCULATE A FUNDED RATIO IN ORDER TO DETERMINE IF THE FUND MEETS THE EIGHTY PER CENT OR HIGHER FUNDING LEVEL. THE FUNDING LEVEL CALCULATION SHALL BE REPORTED TO THE PUBLIC EMPLOYEE RETIREMENT COMMISSION IN CONJUNCTION WITH ESTABLISHED REPORTING REQUIREMENTS.

Section 3. This act shall take effect in 60 days.