



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

October 24, 2013

The Honorable Michael W. Brubaker
Majority Chairman
Senate Finance Committee
Senate of Pennsylvania
168 Main Capitol Building
Harrisburg, PA 17120

Re: House Bill Number 546, Printer's Number 2595

Dear Senator Brubaker:

I am writing with regard to the above referenced bill. House Bill Number 546, Printer's Number 2595, would amend the act of July 28, 1953, P.L. 723, No. 230, known as the Second Class County Code (Code), by establishing a new mandatory benefit tier applicable to county employees hired on or after the effective date of the bill. The bill would also amend Section 1703 of the Code by altering the membership composition of the Allegheny County Retirement Board, and would make technical amendments to the plan intended to ensure that the Allegheny County Employees' Retirement System is maintained as tax qualified under the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 401 (c)).

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

- 1) For nonuniformed employees, increase the length of service required to receive normal retirement benefits from 20 years to 25 years, while retaining age 60 normal retirement age;
- 2) For public safety employees, increase the length of service required to receive normal retirement benefits from 20 years to 25 years, while retaining age 50 normal retirement age for police officers and firefighters, and age 55 normal retirement age for the county sheriff, deputy sheriffs, prison guards and probation officers;
- 3) Increase the service required for vesting from 8 years to 10 years for all classes of employees;
- 4) Amend Section 1701 by altering the definition of "compensation" to exclude overtime compensation in excess of 10% of pay from the retirement benefit calculation; and

- 5) For retirement benefit purposes, extend the period over which the final average salary is calculated from the highest 24 months of the last four years of employment to the highest 48 months of the last eight years of employment, or the last four years of employment if compensated on a bi-weekly basis.

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 546, Printer's Number 2595, and determined that: 1) on September 18, 2013, the Commission voted to attach an actuarial note to Senate Bill Number 791, Printer's Number 812 (copy enclosed); 2) the Commission's actuarial note on Senate Bill Number 791, Printer's Number 812, applies to House Bill Number 546, Printer's Number 2595; and 3) House Bill Number 546, Printer's Number 2595, will have no actuarial cost impact beyond that described in the Commission's previous actuarial note on Senate Bill Number 791, Printer's Number 812.

Based upon the determination that House Bill Number 546, Printer's Number 2595, will have no actuarial cost impact beyond that described in the Commission's previous actuarial note on Senate Bill Number 791, Printer's Number 812, 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,



Anthony W. Salomone
Chairman

Enclosures

cc: The Honorable Joseph B. Scarnati, III
The Honorable Dominic F. Pileggi
The Honorable Jay Costa, Jr.
The Honorable Patrick M. Browne
The Honorable Anthony H. Williams
The Honorable Michael L. Waugh
The Honorable Richard A. Kasunic
The Honorable Jake Corman
The Honorable Vincent J. Hughes

The Honorable John P. Blake
The Honorable Daylin B. Leach
The Honorable David G. Argall
The Honorable James R. Brewster
The Honorable Mike Turzai
Mr. Megan Consedine
Mr. C. J. Hafner
Ms. Stacey Connors
Mr. Gregory K. Jordan

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 546 Session of
2013

INTRODUCED BY TURZAI, DERMODY, CALTAGIRONE, SACCONI, ROZZI,
MUSTIO, D. COSTA, GINGRICH, DeLUCA, RAVENSTAHL, READSHAW,
DEASY, WHITE, MOUL, GROVE, GABLER, FABRIZIO, DENLINGER AND
EVERETT, FEBRUARY 5, 2013

SENATOR BRUBAKER, FINANCE, IN SENATE, AS AMENDED,
OCTOBER 23, 2013

AN ACT

1 Amending the act of July 28, 1953 (P.L.723, No.230), entitled,
2 as amended, "An act relating to counties of the second class
3 and second class A; amending, revising, consolidating and
4 changing the laws relating thereto," in employees' retirement
5 system, further defining "compensation"; further providing
6 for retirement board; providing for tax qualification; and
7 further providing for employees eligible for retirement
8 allowances and for amount of retirement allowances.

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

11 Section 1. The definition of "compensation" in section 1701
12 of the act of July 28, 1953 (P.L.723, No.230), known as the
13 Second Class County Code, amended July 6, 1984 (P.L.638, No.
14 131), is amended to read:

15 Section 1701. Definitions.--The following words and phrases
16 as used in this article shall be construed to have the following
17 meaning:

18 * * *

19 "Compensation," [pickup] (1) Pickup contributions plus

1 salary or wages received per day, weekly, bi-weekly, semi-
2 monthly, monthly, annually, or during an official term year.

3 (2) For employes hired on or after the effective date of
4 this paragraph, the term shall not include overtime pay IN AN <--
5 AMOUNT IN EXCESS OF TEN PER CENTUM OF BASE PAY.

6 * * *

7 Section 2. Section 1703 of the act is amended to read:

8 Section 1703. Retirement Board.--The retirement system shall
9 be under the sole direction of a board, which shall consist of
10 the county [commissioners, the treasurer, the controller,] chief
11 executive; one member, who shall be a member of the retirement
12 system, appointed by the chief executive with the consent of
13 county council; one member, who shall be a member of the
14 retirement system, appointed by county council; the controller;
15 the treasurer; and two persons elected by ballot from among the
16 members of the retirement system[, one to serve for two years
17 and one for four years. Following the completion of the initial
18 terms, the stated]. The terms of such members shall be four
19 years. Ballots shall be mailed to each member of the retirement
20 system at least twenty (20) days prior to the date of the
21 election. A vacancy occurring during the term of any member of
22 the board shall be filled for the unexpired term by the
23 appointment or election of a successor in the same manner as his
24 predecessor. A majority of the members of the board shall
25 constitute a quorum for the transaction of any business.

26 Section 3. The act is amended by adding a section to read:

27 Section 1704.1. Tax Qualification.--The board may make such
28 technical changes to the retirement plan as are necessary in
29 order to qualify the retirement system and fund under section
30 401(a) of the Internal Revenue Code of 1986 (Public Law 99-514,

1 26 U.S.C. § 401(c).

2 Section 4. Section 1710(a), (b) and (h) of the act, amended
3 January 27, 1998 (P.L.1, No.1) and June 18, 1998 (P.L.693,
4 No.89), are amended to read:

5 Section 1710. Employes Eligible for Retirement Allowances.--

6 (a) (1) Every [present or future] county employe hired prior
7 to the effective date of paragraph (2), who has reached the age
8 of sixty years or upwards and who has to his or her credit a
9 period of service of eight years, but less than twenty years
10 shall, upon application to the board, be eligible for retirement
11 from service, and shall thereafter receive, during life, except
12 as hereinafter provided, a retirement allowance computed on a
13 service period of twenty (20) years which shall equal one
14 twentieth (1/20) of such amount as he or she may be eligible to
15 receive in accordance with the provisions of subsection (a) of
16 section 1712, for each year's service which such county employe
17 may have to his or her credit during the aforesaid period of
18 time. The time spent in the employ of the county or county
19 institution district need not necessarily have been continuous.
20 The aforesaid retirement allowance shall be subject to a
21 suspension thereof in accordance with the provisions of
22 subsection (h) of this section 1710 and subsection (c) of
23 section 1712.

24 (2) Every county employe hired on or after the effective
25 date of this paragraph who has reached the age of sixty years or
26 upwards and who has to his or her credit a period of service of
27 ten years, but less than twenty-five years shall, upon
28 application to the board, be eligible for retirement from
29 service, and shall thereafter receive, during life, except as
30 hereinafter provided, a retirement allowance computed on a

1 service period of twenty-five years which shall equal one
2 twenty-fifth of such amount as he or she may be eligible to
3 receive in accordance with the provisions of subsection (a) of
4 section 1712, for each year's service which such county employe
5 may have to his or her credit during the aforesaid period of
6 time. The time spent in the employ of the county or county
7 institution district need not necessarily have been continuous.
8 The aforesaid retirement allowance shall be subject to a
9 suspension thereof in accordance with the provisions of
10 subsection (h) of this section 1710 and subsection (c) of
11 section 1712.

12 (b) (1) Every [present or future] county employe hired
13 prior to the effective date of paragraph (2), other than a
14 member of the police force or the fire department or a fire
15 inspector or a sheriff or deputy sheriff, has reached the age of
16 sixty years or upwards and who has to his or her credit a period
17 of service of twenty years or more, and every county employe who
18 is a member of the police force or the fire department or a fire
19 inspector, and who shall have been a county employe during a
20 period of twenty or more years and has reached the age of fifty
21 years or upwards shall, upon application to the board, be
22 eligible for retirement from service, and shall thereafter
23 receive, during life, except as hereinafter provided, a
24 retirement allowance plus a service increment if any, in
25 accordance with the provisions of section 1712. Every county
26 officer or employe who is a sheriff, deputy sheriff, prison
27 guard or probation officer who shall have been a county officer
28 or employe during a period of twenty or more years and has
29 reached the age of fifty-five years or upward, shall, upon
30 application to the board, be eligible for retirement from

1 service and shall thereafter receive, during life, except as
2 hereafter provided, a retirement allowance in accordance with
3 section 1712. The time spent in the employ of the county or
4 county institution district need not necessarily have been
5 continuous: Provided, That when any county employe has twenty or
6 more years service, not necessarily continuous, and has not
7 reached the age of sixty years or upwards, and shall be
8 separated from the service of the county or county institution
9 district by reason of no cause or act of his or her own, upon
10 application to the board he or she shall thereafter receive,
11 during life, except as hereinafter provided, a retirement
12 allowance plus a service increment if any, in accordance with
13 the provisions of section 1713. The aforesaid retirement
14 allowance plus a service increment if any, shall be subject to a
15 suspension thereof in accordance with the provisions of
16 subsection (h) of this section 1710 and subsection (c) of
17 section 1712.

18 (2) Every county employe hired on or after the effective
19 date of this paragraph, other than a member of the police force
20 or the fire department or a fire inspector or a sheriff or
21 deputy sheriff, prison guard or probation officer, who has
22 reached the age of sixty years or upwards and who has to his or
23 her credit a period of service of twenty-five years or more, and
24 every county employe who is a member of the police force or the
25 fire department or a fire inspector, and who shall have been a
26 county employe during a period of twenty-five or more years and
27 has reached the age of fifty years or upwards shall, upon
28 application to the board, be eligible for retirement from
29 service, and shall thereafter receive, during life, except as
30 hereinafter provided, a retirement allowance plus a service

1 increment if any, in accordance with the provisions of section
2 1712. Every county officer or employe who is a sheriff, deputy
3 sheriff, prison guard or probation officer who shall have been a
4 county officer or employe during a period of twenty-five or more
5 years and has reached the age of fifty-five years or upwards,
6 shall, upon application to the board, be eligible for retirement
7 from service and shall thereafter receive, during life, except
8 as hereafter provided, a retirement allowance in accordance with
9 section 1712. The time spent in the employ of the county or
10 county institution district need not necessarily have been
11 continuous: Provided, That when any county employe has twenty-
12 five or more years service, not necessarily continuous, and has
13 not reached the age of sixty years or upwards, and shall be
14 separated from the service of the county or county institution
15 district by reason of no cause or act of his or her own, upon
16 application to the board he or she shall thereafter receive,
17 during life, except as hereinafter provided, a retirement
18 allowance plus a service increment if any, in accordance with
19 the provisions of section 1713. The aforesaid retirement
20 allowance plus a service increment if any, shall be subject to a
21 suspension thereof in accordance with the provisions of
22 subsection (h) of this section 1710 and subsection (c) of
23 section 1712.

24 * * *

25 (h) (1) Option I. Any [present or future] county employe
26 hired prior to the effective date of paragraph (1.1) who has not
27 reached sixty years of age, and who has to his or her credit a
28 period of at least the minimum number of years of service
29 specified in subsection [(a)] (a)(1) of this section but less
30 than twenty years of service, shall upon application to the

1 board be eligible to receive at age sixty years a retirement
2 allowance computed on a service period of twenty years, which
3 shall equal one-twentieth of such amount as he or she may be
4 eligible to receive in accordance with the provisions of
5 subsection (a) of section 1712 for each year's service which
6 such county employe may have to his or her credit during the
7 aforesaid period of time. The time spent in the employ of the
8 county or county institution district need not necessarily have
9 been continuous.

10 (1.1) Option I-A. Any county employe hired on or after the
11 effective date of this paragraph who has not reached sixty years
12 of age, and who has to his or her credit a period of at least
13 the minimum number of years of service specified in subsection
14 (a) (2) of this section but less than twenty-five years of
15 service, shall upon application to the board be eligible to
16 receive at age sixty years a retirement allowance computed on a
17 service period of twenty-five years, which shall equal one-
18 twenty-fifth of such amount as he or she may be eligible to
19 receive in accordance with the provisions of subsection (a) of
20 section 1712 for each year's service which such county employe
21 may have to his or her credit during the aforesaid period of
22 time. The time spent in the employ of the county or county
23 institution district need not necessarily have been continuous.

24 (2) Option II. Any [present or future] county employe hired
25 prior to the effective date of paragraph (2.1) who has not
26 reached sixty years of age, and who has to his or her credit a
27 period of the minimum number of years of service specified in
28 subsection [(a)] (a) (1) of this section but less than twenty
29 years of service, shall upon application to the board be
30 eligible to receive thereafter, a retirement computed on a

1 service period of twenty years, which shall equal one-twentieth
2 of such amount as he or she may be eligible to receive in
3 accordance with the provisions of subsection (a) of section 1712
4 for each year's service which such county employe may have to
5 his or her credit during the aforesaid period of time. Further,
6 the above retirement allowance shall be subject to a reduction
7 of one-half of one per centum for each month under the age of
8 sixty years. In no event shall a retirement allowance be paid
9 until the age of fifty-five years is attained. The time spent in
10 the employ of the county or county institution district need not
11 necessarily have been continuous. The aforesaid retirement
12 allowance elected under Option I shall become null and void if
13 said county or county institution district employe is reemployed
14 prior to age sixty in accordance with the provisions of
15 subsection (c) of section 1712.

16 (2.1) Option II-A. Any county employe hired on or after the
17 effective date of this paragraph who has not reached sixty years
18 of age, and who has to his or her credit a period of the minimum
19 number of years of service specified in subsection (a)(2) of
20 this section but less than twenty-five years of service, shall
21 upon application to the board be eligible to receive thereafter,
22 a retirement computed on a service period of twenty-five years,
23 which shall equal one-twenty-fifth of such amount as he or she
24 may be eligible to receive in accordance with the provisions of
25 subsection (a) of section 1712 for each year's service which
26 such county employe may have to his or her credit during the
27 aforesaid period of time. Further, the above retirement
28 allowance shall be subject to a reduction of one-half of one per
29 centum for each month under the age of sixty years. In no event
30 shall a retirement allowance be paid until the age of fifty-five

1 years is attained. The time spent in the employ of the county or
2 county institution district need not necessarily have been
3 continuous. The aforesaid retirement allowance elected under
4 Option I-A shall become null and void if said county or county
5 institution district employe is reemployed prior to age sixty in
6 accordance with the provisions of subsection (c) of section
7 1712.

8 * * *

9 Section 5. Section 1712(a), (b.1), (e), (f) and (i) of the
10 act, amended December 10, 1970 (P.L.919, No.291), June 1, 1973
11 (P.L.37, No.19), February 9, 1984 (P.L.12, No.6), January 27,
12 1998 (P.L.1, No.1) and October 30, 2000 (P.L.616, No.85), are
13 amended to read:

14 Section 1712. Amount of Retirement Allowances.--(a) (1)
15 [The] For employes hired prior to the effective date of
16 paragraph (2), the retirement allowance paid under the
17 provisions of this article shall equal fifty per centum of the
18 amount which would constitute the average monthly compensation
19 as received by the county employe during the highest twenty-four
20 months of the last four (4) years of his employment or two years
21 on a bi-weekly pay basis in which period of time the said county
22 employe made monthly or bi-weekly contributions into the
23 retirement fund prior to his or her retirement.

24 (2) For employes hired after the effective date of this
25 paragraph, the retirement allowance paid under the provisions of
26 this article shall be equal to fifty per centum of the amount
27 which would constitute the average monthly compensation as
28 received by the county employe during the highest forty-eight
29 months of the last eight (8) years of his employment or four (4)
30 years on a bi-weekly pay basis in which period of time the

1 county employe made monthly or bi-weekly contributions into the
2 retirement fund prior to his or her retirement.

3 (3) Such average monthly compensation shall include the
4 compensation which any county employe would have been entitled
5 to and would have received except for deduction from
6 compensation due to time spent in serving as an elected State
7 official: Provided, That the county and the employe shall make
8 monthly contributions based on the last compensation equal to
9 the amount the county and he or she would have paid into the
10 retirement fund had such compensation been paid by the county.
11 In the event an employe, on the effective date of employment
12 termination, shall have less than a full year of service for the
13 purpose of computing the employe's servicetime, then the amount
14 of the retirement allowance, which would have been computed had
15 the employe completed a full twelve-month period for the year of
16 the termination of employment, shall be prorated upon a full
17 completed month basis for said last year of service. No
18 retirement allowance shall be computed on a monthly compensation
19 in excess of four thousand three hundred thirty-three dollars
20 and thirty-three cents (\$4,333.33) (referred to in this
21 subsection as "excess compensation") unless the employe and the
22 county have made contributions on all excess compensation
23 received by the employe during the five-year period preceding
24 the employe's retirement: Provided, That the required
25 contribution is paid into the retirement system within ninety
26 (90) days of the date of retirement. An employe who retires
27 within five (5) years of the effective date of the compensation
28 cap removal may elect to satisfy the contribution requirement by
29 making a lump sum contribution that is calculated by applying
30 the applicable contribution percentage rate to all excess

1 compensation received by the employe during the prior five-year
2 period on which contributions were not made. Within ninety (90)
3 days of such contribution by an employe, contributions shall
4 also be made by the county in an amount equal to the amount
5 contributed by the employe. The effective date of the cap
6 removal is December 31, 1999.

7 (4) After the effective date of this amendment, certain
8 former county employes who are now receiving a retirement
9 allowance shall receive an increase of a certain per centum of
10 such retirement allowance, which sum shall be computed on the
11 average monthly retirement allowance as heretofore authorized by
12 the board.

13 (5) The per centum of increase in said monthly retirement
14 allowance shall be a flat 10 per centum increase with the
15 maximum amount not to exceed forty-five dollars (\$45.00) per
16 month.

17 (6) Any employe who earns in excess of ten thousand eight
18 hundred dollars (\$10,800) per annum and shall retire during the
19 period from January 1, 1973 to December 31, 1981 shall pay, as a
20 condition to the payment of any benefits hereunder a lump sum
21 contribution into the retirement fund, which contribution shall
22 be computed as follows:

23 (i) The difference between ten thousand eight hundred
24 dollars (\$10,800) and the annual salary of the employe
25 multiplied by the number of years during which he was not an
26 employe of the county for the period aforesaid and upon that
27 amount the sum of two per centum which shall be the lump sum
28 contribution as required herein.

29 (ii) No person who is reemployed as a county employe shall
30 be eligible to receive the benefit of a retirement allowance

1 plus a service increment, if any, until he or she shall have
2 made at least twenty-four monthly or fifty-two bi-weekly
3 contributions into the retirement fund subsequent to his or her
4 reemployment. The foregoing provisions shall not have a
5 retroactive application and shall apply only to present and
6 future county employees. The rate required to be paid in
7 accordance with this provision shall apply to present county
8 employees notwithstanding the rate of contribution that the
9 present county employe has made into the retirement fund.

10 (b.1) (1) In addition to the retirement allowance which is
11 authorized by this article and notwithstanding the limitations
12 therein placed upon retirement allowances, any [present or
13 future] county employe hired prior to the effective date of
14 paragraph (2) who upon retirement shall be eligible to receive
15 payment of a retirement allowance and who has been employed as
16 such for twenty or more years during which period of time he or
17 she shall have made monthly contributions into the retirement
18 fund, shall also be eligible to the payment in addition to a
19 retirement allowance a service increment of two per centum per
20 year computed upon the annual retirement allowance to which he
21 or she is entitled. Said service increment shall be the sum
22 obtained by computing the number of full years, and any portion
23 of a year, in excess of twenty years during which period of time
24 he or she shall have made monthly or bi-weekly contributions
25 into the retirement fund. No service increment shall be paid for
26 more than twenty (20) such excess service years. Effective as of
27 January 1, 1989, in the event an employe, on the effective date
28 of employment termination, shall have less than a full year of
29 service for the purpose of computing the employe's service
30 increment, then the amount of the service increment which would

1 have been computed had the employe completed a full twelve-month
2 period for the year of the termination of employment shall be
3 prorated upon a full completed month basis for said last year of
4 service increment.

5 (2) In addition to the retirement allowance which is
6 authorized by this article and notwithstanding the limitations
7 therein placed upon retirement allowances, any county employe
8 hired on or after the effective date of this paragraph who upon
9 retirement shall be eligible to receive payment of a retirement
10 allowance and who has been employed as such for twenty-five or
11 more years during which period of time he or she shall have made
12 monthly or bi-weekly contributions into the retirement fund,
13 shall also be eligible to the payment in addition to a
14 retirement allowance a service increment of two per centum per
15 year computed upon the annual retirement allowance to which he
16 or she is entitled. Said service increment shall be the sum
17 obtained by computing the number of full years, and any portion
18 of a year, in excess of twenty-five years during which period of
19 time he or she shall have made monthly or bi-weekly
20 contributions into the retirement fund. No service increment
21 shall be paid for more than twenty (20) such excess service
22 years. In the event an employe, on the effective date of
23 employment termination, shall have less than a full year of
24 service for the purpose of computing the employe's service
25 increment, then the amount of the service increment which would
26 have been computed had the employe completed a full twelve-month
27 period for the year of the termination of employment shall be
28 prorated upon a full completed month basis for said last year of
29 service increment.

30 * * *

1 (e) Any present or future married county employe covered
2 under the provisions of this article may receive retirement
3 benefits in accordance with the provisions of this section to
4 which such county employe may be entitled or he or she may elect
5 at anytime before retirement, to receive in lieu thereof
6 benefits under the option as hereinafter set forth.

7 The option shall consist of retirement benefits in accordance
8 with the provisions of [subsections (a) and (b)] subsection (a)
9 of this section but reduced at age fifty-five, or on
10 commencement of retirement benefits if later, by ten per centum
11 plus one per centum for each full year in excess of five years
12 by which the spouse is younger than the married county employe,
13 with a maximum reduction to seventy per centum of such
14 retirement benefits, and minus one-half of one per centum for
15 each year by which the spouse is older, with a maximum increase
16 to ninety-five per centum of such retirement benefits. The
17 reduced amount of such retirement benefits shall commence at the
18 time of retirement, but not before age fifty-five, and shall be
19 paid to the employe subject to the provisions of subsection (d)
20 of this section.

21 (f) (1) The election by said county employe of the option
22 as provided in subsection (e) of this section shall be final on
23 attainment of age fifty or on later election prior to
24 retirement, and no further election shall be permitted:
25 Provided, That the election shall automatically be cancelled if
26 the county employe shall either be divorced or if his or her
27 spouse shall die, in each case before retirement benefits under
28 the option shall commence. In the event the designated spouse
29 shall predecease, or if a legal separation occurs, while on
30 retirement, the reduced retirement option benefit shall be

1 reinstated to the full amount had there been no option
2 exercised. Said reinstated amount to commence immediately upon
3 the death of the spouse so designated or upon satisfactory proof
4 of legal separation.

5 (2) All [present and future] employes hired prior to the
6 effective date of paragraph (3) may elect to provide
7 survivorship option benefits for a spouse in the following
8 classifications if the following conditions are satisfied:

9 Class I. The deceased employe shall have attained the age of
10 fifty years and had completed between the minimum number of
11 years of service specified in subsection (a) of section 1710 and
12 nineteen years of service and dies before reaching the age of
13 fifty-five years. The reduced retirement option benefit to
14 commence to the survivor at the time the deceased employe would
15 have attained the age of fifty-five years. Said benefits to be
16 paid in accordance with the provisions set forth under
17 subsection (d), Option II, of section 1713.

18 Class II. All [present and future] employes hired prior to
19 the effective date of paragraph (3), who after completion of
20 twenty or more years of service and shall die before reaching
21 the age of fifty years, his or her spouse shall be eligible to
22 receive the reduced retirement option immediately, in accordance
23 with the provisions set forth under subsection (d), Option II of
24 section 1713.

25 (3) All employes hired on or after the effective date of
26 this paragraph may elect to provide survivorship option benefits
27 for a spouse in the following classifications if the following
28 conditions are satisfied:

29 Class I-A. The deceased employe shall have attained the age
30 of fifty years and had completed between the minimum number of

1 years of service specified in subsection (a) of section 1710 and
2 twenty-four years of service and dies before reaching the age of
3 fifty-five years. The reduced retirement option benefit to
4 commence to the survivor at the time the deceased employe would
5 have attained the age of fifty-five years. Said benefits to be
6 paid in accordance with the provisions set forth under
7 subsection (d), Option II, of section 1713.

8 Class II-A. All employes hired on or after the effective
9 date of this paragraph, who after completion of twenty-five or
10 more years of service and shall die before reaching the age of
11 fifty years, his or her spouse shall be eligible to receive the
12 reduced retirement option immediately, in accordance with the
13 provisions set forth under subsection (d), Option II of section
14 1713.

15 * * *

16 (i) (1) Any county employe hired prior to the effective
17 date of paragraph (2) retiring under disability retirement
18 benefits shall qualify for survivorship option benefits if he or
19 she shall have reached the age of fifty-five years and having
20 twenty or more years of service credit will be eligible for same
21 benefits had he retired under the normal retirement provided for
22 in this act. Any county employe retiring under disability
23 retirement and having [fifteen] twelve years but less than
24 twenty years of service credit, upon reaching age fifty-five
25 will be eligible for survivorship option benefits and his or her
26 spouse shall receive the maximum amount of seventy-five dollars
27 (\$75.00) per month upon his or her death under the option
28 benefit clause as set forth under subsection (e) of this
29 section.

30 (2) Any county employe hired on or after the effective date

1 of this paragraph retiring under disability retirement benefits
2 shall qualify for survivorship option benefits if he or she
3 shall have reached the age of fifty-five years and having
4 twenty-five or more years of service credit will be eligible for
5 same benefits had he retired under the normal retirement
6 provided for in this act. Any county employe retiring under
7 disability retirement and having twelve years but less than
8 twenty-five years of service credit, upon reaching age fifty-
9 five will be eligible for survivorship option benefits and his
10 or her spouse shall receive the maximum amount of seventy-five
11 dollars (\$75.00) per month upon his or her death under the
12 option benefit clause as set forth under subsection (e) of this
13 section.

14 Section 6. This act shall take effect in 60 days.

PUBLIC EMPLOYEE RETIREMENT COMMISSION**ACTUARIAL NOTE TRANSMITTAL**

Bill ID: Senate Bill Number 791, Printer's Number 812

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

Subject: New Benefit Tier

SYNOPSIS

Senate Bill Number 791, Printer's Number 812, would amend the act of July 28, 1953, P. L. 723, No. 230, known as the Second Class County Code (Code), by establishing a new mandatory benefit tier applicable to county employees hired on or after the effective date of the bill. The bill would also amend Section 1703 of the Code by altering the membership composition of the Allegheny County Retirement Board, and would make technical amendments to the plan intended to ensure that the Allegheny County Employees' Retirement System is maintained as tax qualified under the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 401 (c)).

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

- 1) For nonuniformed employees, increase the length of service required to receive normal retirement benefits from 20 years to 25 years, while retaining age 60 normal retirement age;
- 2) For public safety employees, increase the length of service required to receive normal retirement benefits from 20 years to 25 years, while retaining age 50 normal retirement age for police officers and firefighters, and age 55 normal retirement age for the county sheriff, deputy sheriffs, prison guards and probation officers;
- 3) Increase the length of service required for vesting from 8 years to 10 years for all classes of employees;
- 4) For retirement benefit purposes, extend the period over which the final average salary is calculated from the highest 24 months of the last four years of employment to the highest 48 months of the last eight years of employment, or the last four years of employment if compensated on a bi-weekly basis; and

SYNOPSIS (CONT'D)

- 5) Increase the length of service required to receive service increment benefits from 20 years to 25 years;
- 6) Increase the length of service required to be eligible for early retirement from eight years to ten years;
- 7) Increase the length of service required to be eligible for survivor benefits from eight years to ten years;
- 8) Increase the length of service required to be eligible for survivor benefits under disability retirement from 20 years to 25 years;
- 9) Amend Section 1701 by altering the definition of “compensation” to exclude overtime compensation in excess of 10% of pay from the retirement benefit calculation.

DISCUSSION

Article 17 of the Second Class County Code (Code) provides the pension plan for employees of Allegheny County. The Allegheny County Retirement System (System) is a governmental, defined benefit pension plan. Membership in the System is mandatory for county employees. As of January 1, 2012, there were 7,408 active members of the System with an annual payroll of approximately \$329 million. Under the Code, the normal retirement benefit is equivalent to 50 percent of the member’s final average salary. The final average salary is calculated as the monthly average of the highest 24 months of compensation earned during the last 48 months of service prior to retirement.

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

Under the actuarial cost method used by the System, the System’s consulting actuary employs a variety of demographic and economic assumptions that are used to determine the funding requirements of the retirement plan. Among these are assumptions for salary and salary

DISCUSSION (CONT'D)

growth applicable to the various groups of county employees. If actual plan experience differs significantly from the actuarial assumptions, for example, if the compensation used to calculate members' benefits is significantly greater than what the actuary assumed it would be, then the retirement system will suffer an actuarial loss. The bill would amend the definition of compensation applicable to all county employees hired on or after the effective date of the bill, to preclude overtime in excess of 10% of base pay from the calculation of a member's retirement benefit.

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

Only newly hired employees of Allegheny County would be subject to the benefit modifications mandated by the bill. All current employees of the county who are members of the System will continue to have the current final average salary calculation applied to the retirement benefit formula. If enacted, the bill's elimination of overtime compensation in excess of 10% of pay from the retirement benefit formula combined with the implementation of a less generous final average salary calculation would have the effect of functioning as a reduced benefit tier applicable to all new employees of the county.

Special retirement benefit coverage is provided to the various types of public safety employees who are employed by Allegheny County. The special coverage provided to the county sheriff, deputy sheriffs, prison guards and probation officers employed by the county is to retire voluntarily and receive a normal retirement benefit if the employee has attained age 55 and has accumulated at least 20 years of service. The special coverage provided to firefighters and police officers is to retire voluntarily and receive a normal retirement benefit if the employee has attained age 50 and has at least 20 years of service. The regular coverage provided to all other employees of the county is to retire voluntarily and receive a normal retirement benefit if the employee has attained age 60 and has at least 20 years of service. The bill would amend the requirements to receive normal retirement benefits by increasing the length of service required to receive normal retirement benefits from 20 years to 25 years of service, while retaining age 50 normal retirement age for police officers and firefighters, age 55 normal retirement age for the county sheriff, deputy sheriffs, prison guards and probation officers, and age 60 normal retirement age for all other employees.

DISCUSSION (CONT'D)

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

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

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

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

DISCUSSION (CONT'D)

and died before reaching age 50, the surviving spouse would be eligible to immediately receive a reduced retirement option.

Currently, a county employee retiring under disability retirement can qualify for survivor benefits if the employee has reached age 55 and completed 20 or more years of service. The employee would be eligible for the same benefits as if retiring under normal retirement. A county employee retiring under disability with at least twelve, but less than 20, years of service is eligible upon reaching age 55 for survivor benefits. The surviving spouse receives a maximum amount of \$75 per month upon the deceased spouse's death. Under the bill, any county employee hired on or after the effective date of the bill and retiring under disability retirement would qualify for survivor benefits if the employee has reached age 55 and completed 25 or more years of service. The employee would be eligible for the same benefits as if retiring under normal retirement. Any county employee retiring under disability retirement with at least twelve, but less than 25, years of service would be eligible upon reaching age 55 for survivor benefits. The surviving spouse would receive a maximum amount of \$75 per month upon the deceased spouse's death.

Comparison of Benefits for Current Employees and Future Employees
After the Effective Date of the Bill

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

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed the bill, the demographic data provided by the Allegheny County Employees' Retirement System, and the calculations performed by the System's consulting actuary with respect to the impact of including overtime up to 10% of base pay for purposes of computing retirement benefits. Because the benefit modifications mandated by the bill would apply only to employees hired on or after the effective date of the bill, the Commission's consulting actuary determined there would be no change to the System's current actuarial accrued liability. However, future normal cost will gradually decline as new employees subject to the reduced benefit provisions of the bill are hired and current employees gradually leave service. The following table shows the estimated decrease in future annual normal cost in time increments of 5, 10, 15 and 20 years after the effective date of the bill.

**Estimated Decrease in Future Annual Normal Cost
 After the Effective of the Bill**

| Years After Effective Date of Senate Bill No. 791 | Decrease in Normal Cost | Decrease in Normal Cost as Percentage of Estimated Active Payroll |
|--|-------------------------|---|
| 5 | \$ 2,067,000 | 0.54% |
| 10 | \$ 4,993,000 | 1.13% |
| 15 | \$8,841,000 | 1.72% |
| 20 | \$14,036,000 | 2.36% |

Under current law, a typical county employee retiring at age 60 with 20 years of service would receive a monthly retirement benefit of \$1,844. Under the bill, a typical future county employee working the same number of years and retiring at the same age would receive a monthly retirement benefit of \$1,425. This would amount to a benefit reduction of 22.7% for future employees. However, if a future county employee was to work five years longer, for a total of 25 years of service and retire at age 60, the monthly retirement benefit would improve to \$1,781 (compared to \$2,028 for a current county employee), a benefit reduction of 12.2% compared to a current county employee.

POLICY CONSIDERATIONS

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

Reduction in Normal Cost. The bill would amend the definition of compensation applicable to all county employees hired on or after the effective date of the bill, to preclude overtime in excess of 10% of pay in the calculation of a member's retirement benefit. The bill would also mandate a less generous final average salary calculation applicable to newly hired county employees. Although these changes would do nothing to reduce the liabilities attributable to the benefit accruals of current active members, together they would have the effect of reducing the normal cost associated with the retirement benefit accruals of future employees.

Reduced Benefit Tier. If enacted, the bill's exclusion of overtime compensation in excess of 10% of pay from the retirement benefit formula combined with the implementation of a less generous final average salary calculation would have the effect of functioning as a reduced benefit tier applicable to new employees of the county.

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

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

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 David H. Killick of Conrad Siegel Actuaries.

Senate Bill Number 791, Printer's Number 812.



PUBLIC EMPLOYEE
JUL 24 2013
RETIREMENT COMMISSION



July 23, 2013

Mr. James L. McAneny
Executive Director
Public Employee Retirement Commission
P.O.Box 1429
Harrisburg, PA 17105-1429

Re: Senate Bill No. 791, Printer's No. 812

Dear Jim:

Pursuant to engagement, I have reviewed Senate Bill No. 791 and am hereby providing an actuarial note on such bill. The bill would amend the Second Class County Code by changing the benefit provisions applicable to county employees hired on or after the effective date of the bill.

The changes in the benefit provisions applicable to new employees include the following:

1. The definition of "compensation" for purposes of computing retirement benefits shall not include overtime pay in excess of 10% of base pay.
2. The benefit formula for normal retirement would be changed to an amount equal to 50% of the amount which would constitute the average monthly compensation received by the member during the highest 48 months of the last 8 years of employment or 4 years of employment on a bi-weekly pay basis during the period of time the member made monthly or bi-weekly contributions into the retirement fund prior to the member's retirement.
3. The service requirement for normal retirement for all employees would be increased from 20 years to 25 years while maintaining the existing age requirements for normal retirement.
4. The service requirement for vesting would be increased from 8 years to 10 years for all employees.
5. Service increment benefits shall be provided for service in excess of 25 years instead of the current 20 years.

Exhibit A indicates a comparison of benefits for employees of the System hired before versus after the effective date of the bill.

The actuarial study has been prepared as of January 1, 2012, on the basis of 7,408 employees of Allegheny County who are active members in the retirement system. The total annual payroll for these 7,408 employees is \$329,177,609. For purposes of the study, I have used actuarial assumptions that are consistent with the assumptions used

Mr. James L. McAneny
July 23, 2013
Page 2

by the plan actuary in the preparation of the January 1, 2012, actuarial valuation of the plan. Specifically, I have used 7.75% interest, salary increases grading from 5.75% per year for ages under 25 down to 3.25% per year for ages 40 and above, and the RP2000 Mortality Table. I have also used turnover and retirement rates similar to those used by the plan actuary. I have also reviewed the plan actuary's calculations with respect to the impact of including overtime up to 10% of base pay in the definition of "compensation" for purposes of computing retirement benefits.

Since the benefit changes included in Senate Bill No. 791 apply to employees hired on or after the effective date of the bill, there would be no change in the actuarial accrued liability as of the date of passage of the bill. Future normal costs would gradually decrease as new employees are hired with benefits subject to the changes specified by the bill.

In order to provide an estimate of the decreases in normal cost in future years associated with the passage of Senate Bill No. 791, I have assumed that during each future year, the current group of active members would decrease by 300 with such 300 employees being replaced by new employees subject to the benefit changes specified by the bill. The breakdown of the 300 employees would be in the same proportion as the proportion of the employee groups to the total membership as of January 1, 2012. New non-uniformed employees would be hired at age 35 with an annual salary of \$35,000 in 2012, new police and fire employees would be hired at age 30 with an annual salary of \$50,000 in 2012, and new probation officers, sheriffs, and guards would be hired at age 30 with an annual salary of \$35,000 in 2012. During future years, the annual entry salaries for new employees would increase from the 2012 levels at the rate of 3.0% per year.

The following chart indicates the estimated decrease in the annual normal cost of the plan during years 5, 10, 15, and 20 after the effective date of the bill:

| <u>Year After Effective Date of Senate Bill No. 791</u> | <u>Decrease in Normal Cost</u> | <u>Decrease in Normal Cost as Percentage of Estimated Active Payroll During Year</u> |
|---|------------------------------------|--|
| 5 | \$ 2,067,000 | 0.54% |
| 10 | \$ 4,993,000 | 1.13% |
| 15 | \$ 8,841,000 | 1.72% |
| 20 | \$14,036,000 | 2.36% |

Exhibit B indicates a comparison of benefits for 6 sample employees hired before versus after the effective date of the bill. For an employee who retires at age 60 after completion of 40 years of service, the benefit provided if such employee is hired after the effective date of the bill is 89.7% of the benefit such employee would receive from the plan if he was hired before the effective date of the bill. For an employee who retires at age 60



Mr. James L. McAneny
July 23, 2013
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after completion of 20 years of service, the benefit he receives if he is hired after the effective date of the bill is only 77.3% of the benefit he would receive under the plan if he was hired before the effective date of the bill.

With best regards,

Yours sincerely,

A handwritten signature in cursive script that reads "Dave".

David H. Killick, F.S.A.
Consulting Actuary

DHK:smf
Encl.

Exhibit A

Senate Bill No. 791, Printer's No. 812

Comparison of Benefits for Employees Hired Before and After Effective Date of Bill

| | Benefits for Current Employees | Benefits for Future Employees |
|---|--|--|
| Eligibility Requirements for Normal Retirement | Non-Uniformed Employees: Age 60 and 20 years of service Police Officers and Firefighters: Age 50 and 20 years of service Sheriffs, Deputy Sheriffs, Prison Guards and Probation Officers: Age 55 and 20 years of service | Non-Uniformed Employees: Age 60 and 25 years of service Police Officers and Firefighters: Age 50 and 25 years of service Sheriffs, Deputy Sheriffs, Prison Guards and Probation Officers: Age 55 and 25 years of service |
| Benefit Accrual Per Year of Service | 1/20 th of normal retirement benefit | 1/25 th of normal retirement benefit |
| Service Increment Benefit | 1.0% of average monthly compensation for years of service between 20 and 40 years | 1.0% of average monthly compensation for years of service between 25 and 45 years |
| Vesting | 100% after 8 years of service | 100% after 10 years of service |
| Early Retirement | After 8 years but less than 20 years of service | After 10 years but less than 25 years of service |
| Compensation | Includes overtime pay | Excludes overtime pay in excess of 10% of base pay |
| Average Monthly Compensation for Benefit Purposes | Highest 24 months of the last 4 years of employment or 2 years of employment on a bi-weekly pay basis | Highest 48 months of the last 8 years of employment or 4 years of employment on a bi-weekly pay basis |

Exhibit B

Senate Bill No. 791, Printer's No. 812

Comparison of Benefits for Employees Hired Before and After Effective Date of Bill

| A Age at Retirement | B Service at Retirement | C Salary During Final 4 Years | D Monthly Benefit for Current Employee | E Monthly Benefit for Future Employee | F E/D |
|-------------------------------|-----------------------------------|--|--|---|-----------------|
| 60 | 40 | \$45,000 (Age 59) \$43,500 (Age 58) \$42,000 (Age 57) \$40,500 (Age 56) | \$2,581 | \$2,316 | 89.7% |
| 60 | 35 | \$45,000 (Age 59) \$43,500 (Age 58) \$42,000 (Age 57) \$40,500 (Age 56) | \$2,397 | \$2,138 | 89.2% |
| 60 | 30 | \$45,000 (Age 59) \$43,500 (Age 58) \$42,000 (Age 57) \$40,500 (Age 56) | \$2,213 | \$1,959 | 88.5% |
| 60 | 25 | \$45,000 (Age 59) \$43,500 (Age 58) \$42,000 (Age 57) \$40,500 (Age 56) | \$2,028 | \$1,781 | 87.8% |
| 60 | 20 | \$45,000 (Age 59) \$43,500 (Age 58) \$42,000 (Age 57) \$40,500 (Age 56) | \$1,844 | \$1,425 | 77.3% |
| 60 | 15 | \$45,000 (Age 59) \$43,500 (Age 58) \$42,000 (Age 57) \$40,500 (Age 56) | \$1,383 | \$1,069 | 77.3% |

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE BILL

No. 791 Session of 2013

INTRODUCED BY COSTA AND FONTANA, APRIL 1, 2013

REFERRED TO FINANCE, APRIL 1, 2013

AN ACT

1 Amending the act of July 28, 1953 (P.L.723, No.230), entitled,
 2 as amended, "An act relating to counties of the second class
 3 and second class A; amending, revising, consolidating and
 4 changing the laws relating thereto," in employees' retirement
 5 system, further defining "compensation"; further providing
 6 for retirement board; providing for tax qualification; and
 7 further providing for employees eligible for retirement
 8 allowances and for amount of retirement allowances.

9 The General Assembly of the Commonwealth of Pennsylvania

10 hereby enacts as follows:

11 Section 1. The definition of "compensation" in section 1701
 12 of the act of July 28, 1953 (P.L.723, No.230), known as the
 13 Second Class County Code, amended July 6, 1984 (P.L.638,
 14 No.131), is amended to read:

15 Section 1701. Definitions.--The following words and phrases
 16 as used in this article shall be construed to have the following
 17 meaning:

18 * * *

19 "Compensation," [pickup] (1) Pickup contributions plus
 20 salary or wages received per day, weekly, bi-weekly, semi-
 21 monthly, monthly, annually, or during an official term year.

1 (2) For employes hired on or after the effective date of
2 this paragraph, the term shall not include overtime pay in an
3 amount in excess of ten per centum of base pay.

4 * * *

5 Section 2. Section 1703 of the act is amended to read:

6 Section 1703. Retirement Board.--The retirement system shall
7 be under the sole direction of a board, which shall consist of
8 the county [commissioners, the treasurer, the controller,] chief
9 executive; one member, who shall be a member of the retirement
10 system, appointed by the chief executive with the consent of
11 county council; one member, who shall be a member of the
12 retirement system, appointed by county council; the controller;
13 the treasurer; and two persons elected by ballot from among the
14 members of the retirement system[, one to serve for two years
15 and one for four years. Following the completion of the initial
16 terms, the stated]. The terms of such members shall be four
17 years. Ballots shall be mailed to each member of the retirement
18 system at least twenty (20) days prior to the date of the
19 election. A vacancy occurring during the term of any member of
20 the board shall be filled for the unexpired term by the
21 appointment or election of a successor in the same manner as his
22 predecessor. A majority of the members of the board shall
23 constitute a quorum for the transaction of any business.

24 Section 3. The act is amended by adding a section to read:

25 Section 1704.1. Tax Qualification.--The board may make such
26 technical changes to the retirement plan as are necessary in
27 order to qualify the retirement system and fund under section
28 401(a) of the Internal Revenue Code of 1986 (Public Law 99-514,
29 26 U.S.C. § 401(c)).

30 Section 4. Section 1710(a), (b) and (h) of the act, amended

1 January 27, 1998 (P.L.1, No.1) and June 18, 1998 (P.L.693,
2 No.89), are amended to read:

3 Section 1710. Employes Eligible for Retirement Allowances.--

4 (a) (1) Every [present or future] county employe hired prior
5 to the effective date of paragraph (2), who has reached the age
6 of sixty years or upwards and who has to his or her credit a
7 period of service of eight years, but less than twenty years
8 shall, upon application to the board, be eligible for retirement
9 from service, and shall thereafter receive, during life, except
10 as hereinafter provided, a retirement allowance computed on a
11 service period of twenty (20) years which shall equal one
12 twentieth (1/20) of such amount as he or she may be eligible to
13 receive in accordance with the provisions of subsection (a) of
14 section 1712, for each year's service which such county employe
15 may have to his or her credit during the aforesaid period of
16 time. The time spent in the employ of the county or county
17 institution district need not necessarily have been continuous.
18 The aforesaid retirement allowance shall be subject to a
19 suspension thereof in accordance with the provisions of
20 subsection (h) of this section 1710 and subsection (c) of
21 section 1712.

22 (2) Every county employe hired on or after the effective
23 date of this paragraph who has reached the age of sixty years or
24 upwards and who has to his or her credit a period of service of
25 ten years, but less than twenty-five years shall, upon
26 application to the board, be eligible for retirement from
27 service, and shall thereafter receive, during life, except as
28 hereinafter provided, a retirement allowance computed on a
29 service period of twenty-five years which shall equal one
30 twenty-fifth of such amount as he or she may be eligible to

1 receive in accordance with the provisions of subsection (a) of
2 section 1712, for each year's service which such county employe
3 may have to his or her credit during the aforesaid period of
4 time. The time spent in the employ of the county or county
5 institution district need not necessarily have been continuous.
6 The aforesaid retirement allowance shall be subject to a
7 suspension thereof in accordance with the provisions of
8 subsection (h) of this section 1710 and subsection (c) of
9 section 1712.

10 (b) (1) Every [present or future] county employe hired
11 prior to the effective date of paragraph (2), other than a
12 member of the police force or the fire department or a fire
13 inspector or a sheriff or deputy sheriff, has reached the age of
14 sixty years or upwards and who has to his or her credit a period
15 of service of twenty years or more, and every county employe who
16 is a member of the police force or the fire department or a fire
17 inspector, and who shall have been a county employe during a
18 period of twenty or more years and has reached the age of fifty
19 years or upwards shall, upon application to the board, be
20 eligible for retirement from service, and shall thereafter
21 receive, during life, except as hereinafter provided, a
22 retirement allowance plus a service increment if any, in
23 accordance with the provisions of section 1712. Every county
24 officer or employe who is a sheriff, deputy sheriff, prison
25 guard or probation officer who shall have been a county officer
26 or employe during a period of twenty or more years and has
27 reached the age of fifty-five years or upward, shall, upon
28 application to the board, be eligible for retirement from
29 service and shall thereafter receive, during life, except as
30 hereafter provided, a retirement allowance in accordance with

1 section 1712. The time spent in the employ of the county or
2 county institution district need not necessarily have been
3 continuous: Provided, That when any county employe has twenty or
4 more years service, not necessarily continuous, and has not
5 reached the age of sixty years or upwards, and shall be
6 separated from the service of the county or county institution
7 district by reason of no cause or act of his or her own, upon
8 application to the board he or she shall thereafter receive,
9 during life, except as hereinafter provided, a retirement
10 allowance plus a service increment if any, in accordance with
11 the provisions of section 1713. The aforesaid retirement
12 allowance plus a service increment if any, shall be subject to a
13 suspension thereof in accordance with the provisions of
14 subsection (h) of this section 1710 and subsection (c) of
15 section 1712.

16 (2) Every county employe hired on or after the effective
17 date of this paragraph, other than a member of the police force
18 or the fire department or a fire inspector or a sheriff or
19 deputy sheriff, prison guard or probation officer, who has
20 reached the age of sixty years or upwards and who has to his or
21 her credit a period of service of twenty-five years or more, and
22 every county employe who is a member of the police force or the
23 fire department or a fire inspector, and who shall have been a
24 county employe during a period of twenty-five or more years and
25 has reached the age of fifty years or upwards shall, upon
26 application to the board, be eligible for retirement from
27 service, and shall thereafter receive, during life, except as
28 hereinafter provided, a retirement allowance plus a service
29 increment if any, in accordance with the provisions of section
30 1712. Every county officer or employe who is a sheriff, deputy

1 sheriff, prison guard or probation officer who shall have been a
2 county officer or employe during a period of twenty-five or more
3 years and has reached the age of fifty-five years or upwards,
4 shall, upon application to the board, be eligible for retirement
5 from service and shall thereafter receive, during life, except
6 as hereafter provided, a retirement allowance in accordance with
7 section 1712. The time spent in the employ of the county or
8 county institution district need not necessarily have been
9 continuous: Provided, That when any county employe has twenty-
10 five or more years service, not necessarily continuous, and has
11 not reached the age of sixty years or upwards, and shall be
12 separated from the service of the county or county institution
13 district by reason of no cause or act of his or her own, upon
14 application to the board he or she shall thereafter receive,
15 during life, except as hereinafter provided, a retirement
16 allowance plus a service increment if any, in accordance with
17 the provisions of section 1713. The aforesaid retirement
18 allowance plus a service increment if any, shall be subject to a
19 suspension thereof in accordance with the provisions of
20 subsection (h) of this section 1710 and subsection (c) of
21 section 1712.

22 * * *

23 (h) (1) Option I. Any [present or future] county employe
24 hired prior to the effective date of paragraph (1.1) who has not
25 reached sixty years of age, and who has to his or her credit a
26 period of at least the minimum number of years of service
27 specified in subsection [(a)] (a)(1) of this section but less
28 than twenty years of service, shall upon application to the
29 board be eligible to receive at age sixty years a retirement
30 allowance computed on a service period of twenty years, which

1 shall equal one-twentieth of such amount as he or she may be
2 eligible to receive in accordance with the provisions of
3 subsection (a) of section 1712 for each year's service which
4 such county employe may have to his or her credit during the
5 aforesaid period of time. The time spent in the employ of the
6 county or county institution district need not necessarily have
7 been continuous.

8 (1.1) Option I-A. Any county employe hired on or after the
9 effective date of this paragraph who has not reached sixty years
10 of age, and who has to his or her credit a period of at least
11 the minimum number of years of service specified in subsection
12 (a) (2) of this section but less than twenty-five years of
13 service, shall upon application to the board be eligible to
14 receive at age sixty years a retirement allowance computed on a
15 service period of twenty-five years, which shall equal one-
16 twenty-fifth of such amount as he or she may be eligible to
17 receive in accordance with the provisions of subsection (a) of
18 section 1712 for each year's service which such county employe
19 may have to his or her credit during the aforesaid period of
20 time. The time spent in the employ of the county or county
21 institution district need not necessarily have been continuous.

22 (2) Option II. Any [present or future] county employe hired
23 prior to the effective date of paragraph (2.1) who has not
24 reached sixty years of age, and who has to his or her credit a
25 period of the minimum number of years of service specified in
26 subsection [(a)] (a) (1) of this section but less than twenty
27 years of service, shall upon application to the board be
28 eligible to receive thereafter, a retirement computed on a
29 service period of twenty years, which shall equal one-twentieth
30 of such amount as he or she may be eligible to receive in

1 accordance with the provisions of subsection (a) of section 1712
2 for each year's service which such county employe may have to
3 his or her credit during the aforesaid period of time. Further,
4 the above retirement allowance shall be subject to a reduction
5 of one-half of one per centum for each month under the age of
6 sixty years. In no event shall a retirement allowance be paid
7 until the age of fifty-five years is attained. The time spent in
8 the employ of the county or county institution district need not
9 necessarily have been continuous. The aforesaid retirement
10 allowance elected under Option I shall become null and void if
11 said county or county institution district employe is reemployed
12 prior to age sixty in accordance with the provisions of
13 subsection (c) of section 1712.

14 (2.1) Option II-A. Any county employe hired on or after the
15 effective date of this paragraph who has not reached sixty years
16 of age, and who has to his or her credit a period of the minimum
17 number of years of service specified in subsection (a) (2) of
18 this section but less than twenty-five years of service, shall
19 upon application to the board be eligible to receive thereafter,
20 a retirement computed on a service period of twenty-five years,
21 which shall equal one-twenty-fifth of such amount as he or she
22 may be eligible to receive in accordance with the provisions of
23 subsection (a) of section 1712 for each year's service which
24 such county employe may have to his or her credit during the
25 aforesaid period of time. Further, the above retirement
26 allowance shall be subject to a reduction of one-half of one per
27 centum for each month under the age of sixty years. In no event
28 shall a retirement allowance be paid until the age of fifty-
29 five years is attained. The time spent in the employ of the
30 county or county institution district need not necessarily have

1 been continuous. The aforesaid retirement allowance elected
2 under Option I-A shall become null and void if said county or
3 county institution district employe is reemployed prior to age
4 sixty in accordance with the provisions of subsection (c) of
5 section 1712.

6 * * *

7 Section 5. Section 1712(a), (b.1), (e), (f) and (i) of the
8 act, amended December 10, 1970 (P.L.919, No.291), June 1, 1973
9 (P.L.37, No.19), February 9, 1984 (P.L.12, No.6), January 27,
10 1998 (P.L.1, No.1) and October 30, 2000 (P.L.616, No.85), are
11 amended to read:

12 Section 1712. Amount of Retirement Allowances.--(a) (1)
13 [The] For employes hired prior to the effective date of
14 paragraph (2), the retirement allowance paid under the
15 provisions of this article shall equal fifty per centum of the
16 amount which would constitute the average monthly compensation
17 as received by the county employe during the highest twenty-four
18 months of the last four (4) years of his employment or two years
19 on a bi-weekly pay basis in which period of time the said county
20 employe made monthly or bi-weekly contributions into the
21 retirement fund prior to his or her retirement.

22 (2) For employes hired after the effective date of this
23 paragraph, the retirement allowance paid under the provisions of
24 this article shall be equal to fifty per centum of the amount
25 which would constitute the average monthly compensation as
26 received by the county employe during the highest forty-eight
27 months of the last eight (8) years of his employment or four (4)
28 years on a bi-weekly pay basis in which period of time the
29 county employe made monthly or bi-weekly contributions into the
30 retirement fund prior to his or her retirement.

1 (3) Such average monthly compensation shall include the
2 compensation which any county employe would have been entitled
3 to and would have received except for deduction from
4 compensation due to time spent in serving as an elected State
5 official: Provided, That the county and the employe shall make
6 monthly contributions based on the last compensation equal to
7 the amount the county and he or she would have paid into the
8 retirement fund had such compensation been paid by the county.
9 In the event an employe, on the effective date of employment
10 termination, shall have less than a full year of service for the
11 purpose of computing the employe's service time, then the amount
12 of the retirement allowance, which would have been computed had
13 the employe completed a full twelve-month period for the year of
14 the termination of employment, shall be prorated upon a full
15 completed month basis for said last year of service. No
16 retirement allowance shall be computed on a monthly compensation
17 in excess of four thousand three hundred thirty-three dollars
18 and thirty-three cents (\$4,333.33) (referred to in this
19 subsection as "excess compensation") unless the employe and the
20 county have made contributions on all excess compensation
21 received by the employe during the five-year period preceding
22 the employe's retirement: Provided, That the required
23 contribution is paid into the retirement system within ninety
24 (90) days of the date of retirement. An employe who retires
25 within five (5) years of the effective date of the compensation
26 cap removal may elect to satisfy the contribution requirement by
27 making a lump sum contribution that is calculated by applying
28 the applicable contribution percentage rate to all excess
29 compensation received by the employe during the prior five-year
30 period on which contributions were not made. Within ninety (90)

1 days of such contribution by an employe, contributions shall
2 also be made by the county in an amount equal to the amount
3 contributed by the employe. The effective date of the cap
4 removal is December 31, 1999.

5 (4) After the effective date of this amendment, certain
6 former county employes who are now receiving a retirement
7 allowance shall receive an increase of a certain per centum of
8 such retirement allowance, which sum shall be computed on the
9 average monthly retirement allowance as heretofore authorized by
10 the board.

11 (5) The per centum of increase in said monthly retirement
12 allowance shall be a flat 10 per centum increase with the
13 maximum amount not to exceed forty-five dollars (\$45.00) per
14 month.

15 (6) Any employe who earns in excess of ten thousand eight
16 hundred dollars (\$10,800) per annum and shall retire during the
17 period from January 1, 1973 to December 31, 1981 shall pay, as a
18 condition to the payment of any benefits hereunder a lump sum
19 contribution into the retirement fund, which contribution shall
20 be computed as follows:

21 (i) The difference between ten thousand eight hundred
22 dollars (\$10,800) and the annual salary of the employe
23 multiplied by the number of years during which he was not an
24 employe of the county for the period aforesaid and upon that
25 amount the sum of two per centum which shall be the lump sum
26 contribution as required herein.

27 (ii) No person who is reemployed as a county employe shall
28 be eligible to receive the benefit of a retirement allowance
29 plus a service increment, if any, until he or she shall have
30 made at least twenty-four monthly or fifty-two bi-weekly

1 contributions into the retirement fund subsequent to his or her
2 reemployment. The foregoing provisions shall not have a
3 retroactive application and shall apply only to present and
4 future county employees. The rate required to be paid in
5 accordance with this provision shall apply to present county
6 employees notwithstanding the rate of contribution that the
7 present county employe has made into the retirement fund.

8 (b.1) (1) In addition to the retirement allowance which is
9 authorized by this article and notwithstanding the limitations
10 therein placed upon retirement allowances, any [present or
11 future] county employe hired prior to the effective date of
12 paragraph (2) who upon retirement shall be eligible to receive
13 payment of a retirement allowance and who has been employed as
14 such for twenty or more years during which period of time he or
15 she shall have made monthly contributions into the retirement
16 fund, shall also be eligible to the payment in addition to a
17 retirement allowance a service increment of two per centum per
18 year computed upon the annual retirement allowance to which he
19 or she is entitled. Said service increment shall be the sum
20 obtained by computing the number of full years, and any portion
21 of a year, in excess of twenty years during which period of time
22 he or she shall have made monthly or bi-weekly contributions
23 into the retirement fund. No service increment shall be paid for
24 more than twenty (20) such excess service years. Effective as of
25 January 1, 1989, in the event an employe, on the effective date
26 of employment termination, shall have less than a full year of
27 service for the purpose of computing the employe's service
28 increment, then the amount of the service increment which would
29 have been computed had the employe completed a full twelve-month
30 period for the year of the termination of employment shall be

1 prorated upon a full completed month basis for said last year of
2 service increment.

3 (2) In addition to the retirement allowance which is
4 authorized by this article and notwithstanding the limitations
5 therein placed upon retirement allowances, any county employe
6 hired on or after the effective date of this paragraph who upon
7 retirement shall be eligible to receive payment of a retirement
8 allowance and who has been employed as such for twenty-five or
9 more years during which period of time he or she shall have made
10 monthly or bi-weekly contributions into the retirement fund,
11 shall also be eligible to the payment in addition to a
12 retirement allowance a service increment of two per centum per
13 year computed upon the annual retirement allowance to which he
14 or she is entitled. Said service increment shall be the sum
15 obtained by computing the number of full years, and any portion
16 of a year, in excess of twenty-five years during which period of
17 time he or she shall have made monthly or bi-weekly
18 contributions into the retirement fund. No service increment
19 shall be paid for more than twenty (20) such excess service
20 years. In the event an employe, on the effective date of
21 employment termination, shall have less than a full year of
22 service for the purpose of computing the employe's service
23 increment, then the amount of the service increment which would
24 have been computed had the employe completed a full twelve-month
25 period for the year of the termination of employment shall be
26 prorated upon a full completed month basis for said last year of
27 service increment.

28 * * *

29 (e) Any present or future married county employe covered
30 under the provisions of this article may receive retirement

1 benefits in accordance with the provisions of this section to
2 which such county employe may be entitled or he or she may elect
3 at anytime before retirement, to receive in lieu thereof
4 benefits under the option as hereinafter set forth.

5 The option shall consist of retirement benefits in accordance
6 with the provisions of [subsections (a) and (b)] subsection (a)
7 of this section but reduced at age fifty-five, or on
8 commencement of retirement benefits if later, by ten per centum
9 plus one per centum for each full year in excess of five years
10 by which the spouse is younger than the married county employe,
11 with a maximum reduction to seventy per centum of such
12 retirement benefits, and minus one-half of one per centum for
13 each year by which the spouse is older, with a maximum increase
14 to ninety-five per centum of such retirement benefits. The
15 reduced amount of such retirement benefits shall commence at the
16 time of retirement, but not before age fifty-five, and shall be
17 paid to the employe subject to the provisions of subsection (d)
18 of this section.

19 (f) (1) The election by said county employe of the option
20 as provided in subsection (e) of this section shall be final on
21 attainment of age fifty or on later election prior to
22 retirement, and no further election shall be permitted:

23 Provided, That the election shall automatically be cancelled if
24 the county employe shall either be divorced or if his or her
25 spouse shall die, in each case before retirement benefits under
26 the option shall commence. In the event the designated spouse
27 shall predecease, or if a legal separation occurs, while on
28 retirement, the reduced retirement option benefit shall be
29 reinstated to the full amount had there been no option
30 exercised. Said reinstated amount to commence immediately upon

1 the death of the spouse so designated or upon satisfactory proof
2 of legal separation.

3 (2) All [present and future] employes hired prior to the
4 effective date of paragraph (3) may elect to provide
5 survivorship option benefits for a spouse in the following
6 classifications if the following conditions are satisfied:

7 Class I. The deceased employe shall have attained the age of
8 fifty years and had completed between the minimum number of
9 years of service specified in subsection (a) of section 1710 and
10 nineteen years of service and dies before reaching the age of
11 fifty-five years. The reduced retirement option benefit to
12 commence to the survivor at the time the deceased employe would
13 have attained the age of fifty-five years. Said benefits to be
14 paid in accordance with the provisions set forth under
15 subsection (d), Option II, of section 1713.

16 Class II. All [present and future] employes hired prior to
17 the effective date of paragraph (3), who after completion of
18 twenty or more years of service and shall die before reaching
19 the age of fifty years, his or her spouse shall be eligible to
20 receive the reduced retirement option immediately, in accordance
21 with the provisions set forth under subsection (d), Option II of
22 section 1713.

23 (3) All employes hired on or after the effective date of
24 this paragraph may elect to provide survivorship option benefits
25 for a spouse in the following classifications if the following
26 conditions are satisfied:

27 Class I-A. The deceased employe shall have attained the age
28 of fifty years and had completed between the minimum number of
29 years of service specified in subsection (a) of section 1710 and
30 twenty-four years of service and dies before reaching the age of

1 fifty-five years. The reduced retirement option benefit to
2 commence to the survivor at the time the deceased employe would
3 have attained the age of fifty-five years. Said benefits to be
4 paid in accordance with the provisions set forth under
5 subsection (d), Option II, of section 1713.

6 Class II-A. All employes hired on or after the effective
7 date of this paragraph, who after completion of twenty-five or
8 more years of service and shall die before reaching the age of
9 fifty years, his or her spouse shall be eligible to receive the
10 reduced retirement option immediately, in accordance with the
11 provisions set forth under subsection (d), Option II of section
12 1713.

13 * * *

14 (i) (1) Any county employe hired prior to the effective
15 date of paragraph (2) retiring under disability retirement
16 benefits shall qualify for survivorship option benefits if he or
17 she shall have reached the age of fifty-five years and having
18 twenty or more years of service credit will be eligible for same
19 benefits had he retired under the normal retirement provided for
20 in this act. Any county employe retiring under disability
21 retirement and having [fifteen] twelve years but less than
22 twenty years of service credit, upon reaching age fifty-five
23 will be eligible for survivorship option benefits and his or her
24 spouse shall receive the maximum amount of seventy-five dollars
25 (\$75.00) per month upon his or her death under the option
26 benefit clause as set forth under subsection (e) of this
27 section.

28 (2) Any county employe hired on or after the effective date
29 of this paragraph retiring under disability retirement benefits
30 shall qualify for survivorship option benefits if he or she

1 shall have reached the age of fifty-five years and having
2 twenty-five or more years of service credit will be eligible for
3 same benefits had he retired under the normal retirement
4 provided for in this act. Any county employe retiring under
5 disability retirement and having twelve years but less than
6 twenty-five years of service credit, upon reaching age fifty-
7 five will be eligible for survivorship option benefits and his
8 or her spouse shall receive the maximum amount of seventy-five
9 dollars (\$75.00) per month upon his or her death under the
10 option benefit clause as set forth under subsection (e) of this
11 section.

12 Section 6. This act shall take effect in 60 days.