PUBLIC EMPLOYEE RETIREMENT COMMISSION

ACTUARIAL NOTE TRANSMITTAL

Bill ID: Senate Bill Number 129, Printer's Number 265

System: Act 96 County Pension Plans

Subject: Cost-of-Living Adjustments

SYNOPSIS

Senate Bill Number 129, Printer's Number 265, 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 also add a definition for "cost-of-living index" to be used in the determination of cost-of-living adjustments.

DISCUSSION

The County Pension Law (Law) applies to all counties of the Second Class-A through Eighth Class. Under the Law, a county retirement system is established by a resolution of the county commissioners and is administered by a county retirement board, which has full power to invest and manage the assets of the retirement system. As of January 1, 2012, there were 71 county pension plans operating under the Law with total aggregate assets of approximately $7.2 billion. Combined, these county pension plans had approximately 57,312 active members and 30,774 retirees and surviving beneficiaries currently receiving benefits. Members are vested upon attaining five years of credited service. The normal retirement age is age 60, or age 55 if a member has completed 20 years of service. Membership is mandatory for all employees who work or are expected to work 1,000 hours or more per year, and elected county officials have the option to participate.

A postretirement adjustment is a special type of retirement benefit. It is an increase in the amount of the retirement benefit that initially was payable at retirement. Postretirement adjustments may be granted for a number of reasons, but the most common is to increase retirement pay to reflect part of the increase in the cost of living since an individual retired.

DISCUSSION (CONT'D)

In Pennsylvania, some local governments have provided postretirement cost-of-living adjustments to retired municipal employees. The General Assembly has also enacted statewide cost-of-living adjustments for certain municipal retirees on an ad hoc basis.

Under the current interpretation of Section 30 of the County Pension Law, when a county retirement board provides a cost-of-living adjustment (COLA) to retired county employees, the adjustment is calculated as a percentage of the increase in the cost-of-living index (or, Consumer Price Index) from the retiree's year of retirement to the current year. COLAs that have been previously granted to retirees are subtracted from the lifetime COLA to arrive at the current year's adjustment. For a county that has not granted a COLA in several years, granting a COLA now would require including the cost-of-living increases for each year since the last COLA was provided. This can quickly make a COLA unaffordable for the county board to provide to its retirees. The alternative would be for a county board to provide a COLA at a fraction of the increase in the cost-of-living index, or to provide no COLA at all.

The following table, compiled by the Commission staff, shows the year of the most recent COLA for each county and the county's current funded ratio. The information was taken from the individual 2012 Actuarial Valuation Reports for each of the affected county pension plans. Several of the counties included in the table do not have a calculated funded ratio, due to the use of an aggregate actuarial cost method. Entry age normal, the actuarial methodology most commonly used by municipal retirement systems, funds the cost of providing a future retirement benefit to a member by spreading that cost over the working lifetime of a member. Aggregate cost method differs from entry age normal, however, by matching the annual cost of benefits to the normal cost of funding the plan. All plan costs, including past and future service credit, are included in the normal cost. Therefore, this method does not produce an unfunded liability outside the normal cost. The normal cost is also determined for the entire group rather than on an individual basis.

DISCUSSION (CONT'D)

County Name	Date of Last COLA	Funded Ratio (%)
Adams	2007[1]	102.77
Allegheny[2]	2009	55.44
Armstrong	2009	83.08
Beaver	2000	96.81[3]
Bedford	2007	67.13
Berks	2000	80.78
Blair	2011	AGG
Bradford	2004	AGG
Bucks	2011	87.83
Butler	2009	76.29
Cambria	2001	AGG
Cameron	2011	AGG
Carbon	2011	AGG
Centre	2012	AGG
Chester	2007	76.67
Clarion	2008	AGG
Clearfield	2008	AGG
Clinton	2011	94.40
Columbia	2002	AGG
Crawford	2007	77.86
Cumberland	2008	78.99
Dauphin	2007	75.82
Delaware	2005	AGG
Elk	2000	AGG
Erie	2008	AGG
Fayette	2011	88.94
Forest	2007[1]	102.48
Franklin	2009	AGG
Fulton	2009	AGG
Greene	No known COLAs	91.72
Huntingdon	2011	AGG
Indiana	No known COLAs	AGG
Jefferson	2007[1]	102.35

County Name	Date of Last COLA	Funded Ratio (%)
Juniata	2012	AGG
Lackawanna	2008	75.30
Lancaster	2009	79.16
Lawrence	2007	AGG
Lebanon	2012	73.58
Lehigh	2002	84.18
Luzerne	2007[1]	85.70
Lycoming	2012	88.03
McKean	2012	90.92
Mercer	2007	AGG
Mifflin	1998	84.29
Monroe	2009	72.24
Montgomery	2009	AGG
Montour	1990	AGG
Northampton	2011	77.57
Northumberland	2007	95.05
Perry	2007	AGG
Pike	2007	AGG
Potter	1998	AGG
Schuylkill	2007	AGG
Snyder	2011	AGG
Somerset	2005	71.10
Sullivan	Unknown[4]	57.09
Susquehanna	2001	AGG
Tioga	2012	AGG
Union	2000	AGG
Venango	2008	AGG
Warren	2007	AGG
Washington	1998	84.37
Wayne	2007	AGG
Westmoreland	2011	83.85
Wyoming	2007	AGG
York	2008	79.05

AGG - County pension plan using an aggregate cost method, rather than entry age normal methodology, which does not calculate the funded ratio since the plan is technically always fully funded.

[1] A PMRS county plan. PMRS only grants COLAs when excess interest exists.
[2] Allegheny County is a second class county and not subject to Act 96. It is being included for informational purposes only.
[3] Beaver County has two additional county pension plans, both of which use an aggregate cost method.
[4] Joined PMRS in 2009, after the latest COLA was granted. Data on previous COLAs granted is not available.

DISCUSSION (CONT'D)

By amending the Law to clarify the provisions for granting COLAs to county retirees, Senate Bill Number 129, Printer's Number 265, would provide more flexibility to county retirement boards when considering COLAs in future years. For years in which a COLA may be deemed to be unaffordable, a county board may choose not to provide a COLA. In subsequent years when a COLA is determined to be affordable, a county board may provide one to its retirees regardless of the number of years since the last COLA was granted.

The bill also adds a definition for "cost-of-living index," which is to mean the Consumer Price Index for All Urban Consumers (CPI-U) for the Pennsylvania, New Jersey, Delaware and Maryland area. Since there are many variations of the "cost-of-living index" in practice, having a specific definition included in Act 96 is useful from the standpoint that each county providing cost-of-living adjustments is basing it upon the same measure of increase in the cost of living.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary has reviewed Senate Bill Number 129, Printer's Number 265, and determined that no precise cost estimate can be made since the bill contains no specific COLA proposal for retired county employees. The costs, if a specific COLA(s) were to be provided under the bill, would be a function of the frequency and amount of COLAs granted under county pension plans in future years *with* the passage of the bill, compared to the frequency and amount of COLAs granted in future years *without* the passage of the bill. If the bill were to become law, the consulting actuary anticipates that the actuarial cost of future COLAs would not be markedly different from the actuarial costs of future COLAs if the bill were not to become law.

POLICY CONSIDERATIONS

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

> Clarification of the Law. The bill seeks to clarify the provisions for granting COLAs to county retirees under the County Pension Law. This change in the interpretation of the Law would provide more flexibility to county retirement boards and allow for COLAs on a more consistent basis to all county retirees.

POLICY CONSIDERATIONS (CONT'D)

Optional Implementation. The bill authorizes rather than mandates county retirement boards to provide cost-of-living increases, allowing for local determinations of the need for and feasibility of the cost-of-living adjustments.

Prospective COLAs. By reducing the cost of a prospective COLA, the bill may facilitate the grant of additional COLAs that would be otherwise more expensive.

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 in the actuarial note.

ATTACHMENTS

Actuarial note prepared by David H. Killick of Conrad Siegel Actuaries.

Senate Bill Number 129, Printer's Number 265.

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February 12, 2015

PUBLIC EMPLOYEE
FEB 17 2015
RETIREMENT COMMISSION

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

Re: Senate Bill No. 129, Printer's No. 265

Dear Jim:

Pursuant to engagement, I have reviewed Senate Bill No. 129 and am hereby providing an actuarial note on such bill. The bill would amend Act 96 of 1971, the County Pension Law, by adding a definition of "cost-of-living index" to be used in the determination of cost-of-living adjustments provided to retired members under a county pension plan and would also amend Section 30(b) of Act 96 to provide that cost-of-living adjustments, if given to retired county employees, need not be calculated retroactively to the date of the previous cost-of-living increase and need not apply the cost-of-living index change for each year since the previous cost-of-living increase.

Under Senate Bill No. 129, the definition for "cost-of-living index" is added to mean the Consumer Price Index for All Urban Consumers (CPI-U) for the Pennsylvania, New Jersey, Delaware, and Maryland area. By adding this definition, the bill clarifies what is meant by the increase in the Consumer Price Index when determining a cost-of-living adjustment. Since there are many variations of the "cost-of-living index" in practice, having a specific definition included in Act 96 is useful from the standpoint of having each county provide cost-of-living adjustments based upon the same measure of the increase in cost-of-living.

Currently, when a cost-of-living adjustment is provided to retired members under a county pension plan, the adjustment is calculated as a percentage of the increase in the Consumer Price Index from the retiree's year of retirement to the current year. Any prior cost-of-living adjustments which have been granted to the retiree are subtracted from the lifetime COLA to arrive at the current year COLA. This can be problematic to the county board when determining whether or not to grant a COLA if COLA's have not been granted for several years because the board is faced with providing COLA's for all prior years during which no COLA's were granted, which could result in a COLA which is unaffordable, or the board would have to provide a COLA which is a small percentage of the increase in the Consumer Price Index from the year of retirement to the current year so that the cost of the COLA is affordable. This could result in a level of COLA for a recent retired member that is less than desirable to the board.

Senate Bill No. 129 is useful in that the county boards would be given more flexibility with respect to the calculation of the COLA's to be granted to retired members in future years. During years in which a COLA is deemed unaffordable, the board can elect to not provide

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a COLA. In subsequent years in which a COLA is determined to be desirable and affordable, such COLA can be provided more uniformly to all retired members at that time, regardless of the number of years since each member's date of retirement.

It is difficult to determine the actuarial cost associated with Senate Bill No. 129 because the cost would be a function of the frequency and amount of COLA's granted under county pension plans in future years after passage of the bill compared to the frequency and amount of COLA's that would be granted under county pension plans in future years without passage of the bill. Based upon my experience, I would anticipate that the actuarial costs of future COLA's that would be provided under county pension plans if Senate Bill No. 129 is passed would not be markedly different from the actuarial costs of future COLA's that would be provided under county pension plans without passage of Senate Bill No. 129; however, the COLA's granted would be more evenly spread amongst all current retired members rather than having the COLA's skewed more towards retired members who have been in retirement status for a longer period.

With best regards,

Yours sincerely,

Dave

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

DHK:smf

PRINTER'S NO. 265

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE BILL

No. 129 Session of 2015

INTRODUCED BY WILEY, EICHELBERGER, BLAKE, COSTA, HUGHES, WILLIAMS, FONTANA, YUDICHAK, BOSCOLA, BROWNE, ARGALL, GORDNER, GREENLEAF, HUTCHINSON, VOGEL, VULAKOVICH, WARD, BREWSTER, KITCHEN, SCHWANK, SMITH, TARTAGLIONE AND AUMENT, JANUARY 29, 2015

REFERRED TO FINANCE, JANUARY 29, 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) The cost-of-living increase shall be reviewed at least once in every three years by the board which may adjust 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 such previous cost-of-living increase.

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