

PUBLIC EMPLOYEE RETIREMENT COMMISSION**ACTUARIAL NOTE TRANSMITTAL**

Bill ID: Senate Bill Number 703, Printer's Number 708

System: Cities of the Second Class A (Scranton) Employees'
Retirement Systems (Uniformed Employees)

Subject: Eligibility for Purchase of Nonintervening Military Service

SYNOPSIS

Senate Bill Number 703, Printer's Number 708, would amend the act of July 3, 1947 (P. L. 1242, No. 507), which is the statute establishing the pension plans for police officers and firefighters in the City of Scranton. The act permits a uniformed employee of either the police or firemen's pension plans to purchase up to five years of nonintervening military service if the member enters employment with the City of Scranton within three years of the date of the member's release from active military service. The bill would amend the Act by removing the statutory three-year time limit within which a member must commence employment with the City following military service in order to be eligible to purchase credit for nonintervening military service, and by mandating that moneys be appropriated by the City to the pension plans to enable the purchase of military service credit. Senate Bill Number 703, Printer's Number 708, is a companion bill to Senate Bill Number 704, Printer's Number 709, which would similarly amend the pension statute affecting nonuniformed employees.

DISCUSSION

The act of July 3, 1947 (P. L. 1242, No. 507) establishes the pension plan for uniformed (police and fire) employees in the City of Scranton. The City of Scranton Police Pension Plan is a contributory, defined benefit pension plan. For police officers hired prior to July 1, 1987, the normal retirement age is age 65 or any age upon the completion of 25 years of service. The normal retirement benefit for members who have attained age 65 is equal to 2% for each year of service based upon the salary being received at retirement, up to a maximum of 50% of salary. The normal retirement benefit for members who have not attained age 65 is 50% of the salary paid to the member at the highest grade held by the member at retirement. For police officers hired on or after July 1, 1987, normal retirement age is age 55 and 25 years of service. The normal retirement benefit is 50% of the member's average monthly salary based upon the final 36 months of employment. As of January 1, 2011, there were 150 active members of the plan.

DISCUSSION (CONT'D)

The City of Scranton Firemen's Pension Plan is a contributory, defined benefit pension plan. For firemen hired prior to July 1, 1987, the normal retirement age is any age upon the completion of 25 years of service. The normal retirement benefit is equal to 50% of the member's salary at retirement, plus a service increment of 0.5% per year, payable in five-year increments, for service in excess of 25 years. For firemen hired on or after July 1, 1987, normal retirement age is age 55 with 25 years of service, and the normal retirement benefit is equal to 50% of the member's average monthly salary based upon the final 36 months of employment. As of January 1, 2011, there were 137 active members of the plan.

One of the most common service purchase authorizations provided by public employee retirement systems is for periods of military service which interrupt or delay the commencement of a career with the public employer. Permitting a member to receive retirement service credit for military service is of benefit to the member because the member's retirement benefit can be enhanced through the acquisition of additional service credit, and, in some cases, retirement eligibility can be accelerated.

In 1994, the United States Congress passed the Uniformed Services Employment and Re-employment Rights Act (USERRA), which replaced the former Veterans' Reemployment Rights Law (VRRL). To ensure that they are not held at a disadvantage in their employment rights, USERRA requires that all employees rendering intervening military service (service that interrupts employment) be considered as having been on leave of absence during that time, a policy that is also reflected in the Commonwealth of Pennsylvania's Military Code and in most state pension plan statutes. (USERRA does not address the issue of *nonintervening* military service.) Specifically, 38 U. S. C. § 4318(a)(2)(A) provides that the employee "shall be treated as not having incurred a break in service . . . by reason of such person's period or periods of service." Further, § 4318(b)(1) provides that "[a]n employer . . . shall . . . be liable to an employee pension benefit plan for funding any obligation of the plan to provide the benefits described in subsection (a)(2) . . .," and that "[n]o such payment may exceed the amount the person would have been permitted or required to contribute had the person remained continuously employed by the employer" (§ 4318(b)(2)).

In addition to service credit for intervening military service (covered by USERRA), the statute governing the pension plans for uniformed employees in the City of Scranton permits an active member of the pension plan to purchase up to five years of nonintervening military service (military service performed prior to commencement of employment) if the member entered employment with the City within three years of the date of the member's release from active military service. The bill would amend the statute by removing the three-year time limit within which a member must commence employment with the City following military service

DISCUSSION (CONT'D)

in order to be eligible to purchase credit for nonintervening military service, and by mandating that affected members be entitled to purchase the nonintervening military service credit.

Permitting a member to receive retirement service credit for nonintervening military service has been a longstanding policy among the major public employee retirement systems of the Commonwealth. The currently mandated three-year time limit appears arbitrary and is a condition not imposed by any other state or municipal pension statute. There is no reasonable public pension policy rationale for making eligibility for the purchase of nonintervening military service contingent upon the expanse of time between when an individual left the military and became a public employee of the City. If the purchase of nonintervening military service is to be permitted, all such service should be treated equally. The bill, therefore, seeks to remove an inequity in the crediting of nonintervening military service that currently exists in the statute governing police and firemen retirement systems of the City.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary reviewed the bill and determined that because an eligible member would be required to purchase nonintervening military service by making a payment to the pension fund that is equal to the amount the member would have contributed had the member been a member of the pension fund during the period of nonintervening military service, plus the equivalent of the City's contributions on account of such service, there should be no actuarial cost to the City resulting from enactment of the bill.

POLICY CONSIDERATIONS

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

Equity in the Crediting of Military Service. (+) Permitting a member to receive retirement service credit for military service has been a longstanding policy among the major public employee retirement systems of the Commonwealth. The bill removes statutory language that currently treats nonintervening military service inequitably for retirement credit purposes.

COMMISSION RECOMMENDATION

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

ATTACHMENTS

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

Senate Bill Number 703, Printer's Number 708.



May 9, 2013

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

Re: Senate Bill No. 703, Printer's No. 708
Police and Firemen's Pension Funds in Cities of Second Class A (City of Scranton)
– Nonintervening Military Service

Dear Jim:

Pursuant to engagement, I have reviewed Senate Bill No. 703 and am hereby providing an actuarial note on such bill. The bill would amend the Act regulating police and firemen's pension funds in cities of the Second Class A (City of Scranton) to permit a member of such police or firemen's pension funds to purchase up to five years of nonintervening military service even if such member commenced employment with the City more than three years after the member's date of release from active military service. The bill also mandates that monies be appropriated by the City to the pension plans to enable the purchase of military service credit.

In order to purchase such nonintervening military service, the member must pay to the pension fund an amount equal to that which he would have paid had he been a member during the period for which he desires credit, computed with reference to the compensation he received when first employed by the City and his current member contribution percentage. In addition, such member must contribute to the pension fund an amount equal to the equivalent of the contributions to be made by the City on account of such military service. The contribution may be paid in a lump sum or by installments based upon the approval of the organizations or associations distributing pension funds to police and firemen.

I believe this bill is useful to members who have nonintervening military service since all nonintervening military service is treated equally regardless of the time in which it was served prior to the member's commencement of employment with the City. If this bill is passed, a member's nonintervening military service will not be rendered useless for this purpose simply because such member did not elect to become employed by the City within three years from such member's date of release from active military service.

Since the member is required to purchase such nonintervening military service by making payment to the pension fund equal to the amount he would have contributed during the period of service that he is purchasing plus the equivalent of the City's contributions on

Mr. James L. McAneny
May 9, 2013
Page 2

account of such military service, there should be no actuarial cost to the City associated with the passage of Senate Bill No. 703.

With best regards,

Yours sincerely,



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

DHK:smf

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE BILL

No. 703 Session of
2013

INTRODUCED BY BLAKE, FERLO, FONTANA, BREWSTER, YUDICHAK,
TARTAGLIONE, COSTA, WASHINGTON, FARNESE AND SCHWANK,
MARCH 15, 2013

REFERRED TO FINANCE, MARCH 15, 2013

AN ACT

1 Amending the act of July 3, 1947 (P.L.1242, No.507), entitled
2 "An act relating to police and firemen's pension funds in
3 cities of the second class A, and directing such cities to
4 appropriate certain moneys thereto, and requiring reports and
5 audits," further providing for credit for military service.

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

8 Section 1. Section 1 of the act of July 3, 1947 (P.L.1242,
9 No.507), entitled "An act relating to police and firemen's
10 pension funds in cities of the second class A, and directing
11 such cities to appropriate certain moneys thereto, and requiring
12 reports and audits," amended July 15, 1968 (P.L.341, No.166), is
13 amended to read:

14 Section 1. There shall be paid over, as hereinafter
15 provided, to the organization or association constituting and
16 having in charge the distribution of police and firemen's
17 pension funds in every city of the second class A, three per
18 centum (3%) of all city taxes collected by the city, other than
19 taxes levied to pay interest on or to extinguish the debt of the

1 city, or any part thereof, to be divided equally between the
2 police and firemen's association or organization. In addition to
3 the three per centum (3%) of city taxes required to be paid
4 pursuant to this section, moneys shall be appropriated by cities
5 of the second class A to organizations and associations
6 distributing police and firemen's pension funds, whenever
7 necessary to enable the organizations or associations to pay the
8 amounts of minimum pensions prescribed by act of Assembly,
9 pursuant to section 11 of article III[.] of the Constitution of
10 Pennsylvania. In addition to the above payments and
11 appropriations, moneys [may] shall be appropriated by cities of
12 the second class A to organizations and associations
13 distributing police and firemen's pension funds, whenever
14 necessary, to entitle any policeman or fireman who is a member
15 of the pension fund and who served in the armed forces of the
16 United States subsequent to September 1, 1940, and who was not a
17 member of the police or firemen's pension funds prior to such
18 military service, and who commenced employment as a policeman or
19 fireman in a city of the second class A [within three (3) years
20 from] after the date of release from active duty to have full
21 credit for each year or fraction thereof, not to exceed five (5)
22 years of such service upon his payment to the police or
23 firemen's pension fund an amount equal to that which he would
24 have paid had he been a member during the period for which he
25 desires credit computed with reference to the compensation he
26 received upon entry into city service as a policeman or fireman
27 and his current percentage of salary deductions, and an
28 additional amount as the equivalent of the contributions of the
29 city on account of such military service, which amount may be
30 paid in a lump sum or by installments as may be approved by the

1 organizations or associations distributing pension funds to
2 police and firemen.

3 Section 2. This act shall take effect immediately.