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

September 8, 2015

The Honorable Kate M. Harper
Majority Chairman
House Local Government Committee
House of Representatives
209 Ryan Office Building
Harrisburg, PA 17120

Re: Advisory Note for
House Bill Number 32, Printer's Number 1205

Dear Representative Harper:

Pursuant to your request, the Public Employee Retirement Commission has prepared the attached advisory note on the above referenced bill. The bill would amend the Pennsylvania Municipal Retirement Law (Act 15 of 1974) to establish the "Statewide Municipal Police Officers' Pension Plan" ("Plan"). The Plan would require mandatory membership in the Pennsylvania Municipal Retirement System as an Article IV-A member for any municipal police officer hired on or after January 1, 2016, excluding police officers hired by a city of the first or second class. Employer contributions to the Plan would be no less than 7.5% of salary, with a mandatory employee contribution of 7.5% of salary. An Article IV-A member would be eligible for an annual benefit accrual rate of 2.5%, not to exceed 65% of the member's final salary. Membership in the Plan for municipal police officers hired on or before December 31, 2015, will be optional.

The Commission is utilizing an "advisory note," as distinct from an "actuarial note" referred to in the Public Employee Retirement Commission Act (Act 66 of 1981), for the analysis of proposed pension legislation when the legislation is being considered by the General Assembly. The advisory note is prepared primarily by the staff of the Commission, with review or additional analysis by a consulting actuary retained by the Commission as deemed necessary. The advisory note is intended to provide the General Assembly with an identification of the pension policy issues contained in proposed legislation and, if possible, with broad information on the likely actuarial cost of the proposal.

I hope that the attached advisory note provides you with the information that you require. Should you have any questions, please feel free to call the Commission's office at (717) 783-6100.

Sincerely,

James L. McAneny
Executive Director

Attachment

cc: The Honorable Robert L. Freeman

PUBLIC EMPLOYEE
RETIREMENT COMMISSION

Date Prepared:	September 8, 2015
Agency Contact:	James L. McAneny
Telephone:	717-783-6100

ADVISORY NOTE

House Bill Number 32, Printer's Number 1205

Prime Sponsor: Representative Glen R. Grell

Committee: House Local Government Committee

Retirement Systems Affected: Municipal Police Retirement Systems

Subject: Statewide Municipal Police Officers' Pension Plan

SYNOPSIS

House Bill Number 32, Printer's Number 1205, would amend the Pennsylvania Municipal Retirement Law (Act 15 of 1974) to establish the "Statewide Municipal Police Officers' Pension Plan" ("Plan"). The Plan would require mandatory membership in the Pennsylvania Municipal Retirement System (PMRS) as an Article IV-A member for any municipal police officer hired on or after January 1, 2016, excluding police officers hired by a city of the first or second class. Employer contributions to the plan would be no less than 7.5% of salary, with a mandatory employee contribution of 7.5% of salary. An Article IV-A member would be eligible for an annual benefit accrual rate of 2.5%, not to exceed 65% of the member's final salary. Membership in the plan for municipal police officers hired on or before December 31, 2015, will be optional.

DISCUSSION

Pennsylvania currently has approximately 956 pension plans for municipal police employees, representing one-third of all municipal pension plans in the Commonwealth. Based upon the 2013 Act 205 reporting period data (the most recent available), including the City of Philadelphia, these plans had a total of 17,434 active members, with an average membership of 18.2 members per plan. Three hundred fifty-two (352) of the police plans, or 37%, had three or fewer active members; and three hundred five (305) plans, or 32%, had from 4 to 10 members. Nearly 70% of all the police pension plans have less than 11 members. In total, these 956 police pension plans were paying benefits to approximately 20,665 retired members and beneficiaries. It should be noted that

DISCUSSION (CONT'D)

the City of Philadelphia represents approximately 34% of the active membership and 50% of the retired members and beneficiaries.

The Pennsylvania Municipal Retirement System

The Pennsylvania Municipal Retirement System (PMRS) is a governmental multiple-employer retirement system created by the Commonwealth under the Pennsylvania Municipal Retirement Law for the purpose of administering municipal retirement systems for municipalities on a contracted basis. Responsibility for the organization and administration of PMRS is vested in its 11-member Pennsylvania Municipal Retirement Board (Board). The Commonwealth appoints all 11 Board members, but the Commonwealth is not financially accountable as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with PMRS. PMRS, therefore, is considered a related organization of the Commonwealth.

Municipalities participating in PMRS are financially responsible only for their own plan obligations. PMRS is maintained by contributions from municipalities, payroll deductions and other contributions of employees, and by earnings from the investments of the System. While the monies of individual municipalities are accounted for separately, they are pooled for investment experience. PMRS also pools certain cost experiences, including the cost of administration, disability experience, and retired life experience. As of January 1, 2013, PMRS reported that there were 7,599 active employees participating in 714 PMRS-covered defined benefit plans and 1,131 active employees participating in 251 cash balance plans covered by PMRS.

Statewide Municipal Police Officers' Pension Plan

The transition to a statewide plan will occur through the mandatory participation of police employees hired on or after January 1, 2016. Under the bill, a local government police pension plan established prior to January 1, 2016, may continue to operate until either all of the plan's current members and beneficiaries are voluntarily transferred to the new statewide plan, or until the local police pension plan no longer has members or beneficiaries representing actual or potential liabilities. Provisions are also included in the bill for the optional participation by current police employees, provided that both the affected municipality and the employees agree on the terms of participation and that all existing pension liabilities are fully-funded prior to participation. Once the police employees and municipality agree to participate in the Plan, the election will be irrevocable.

For the purposes of this analysis, the Commission staff has assumed that no existing police pension plans will voluntarily transfer current members into the statewide plan. Instead, the Commission staff has assumed that only police employees hired on or after January 1, 2016, will become members of the statewide plan, as mandated by the bill. The staff's assumption results in the gradual recognition of the aggregate effects of full implementation of the statewide plan over

DISCUSSION (CONT'D)

the course of 20 years, after which time practically all local government police officers will be members of the statewide plan.

Organization and Administration

Under the bill, the new statewide retirement plan for police employees will be administered under the auspices of an existing state agency – the Pennsylvania Municipal Retirement System. The Pennsylvania Municipal Retirement System possesses both the necessary staff and expertise to effectively administer such a large retirement plan. Most of the details governing the actual operation of the new statewide retirement plan are delegated to the PMRS Board, which will be responsible for establishing the rules and regulations governing the Plan. These rules and regulations will presumably address the many specific details involved in the operation of a public pension plan, such as the collection of contributions, investment options, benefit payment methods, domestic relations orders, beneficiary designations, etc.

Administrative and Investment Expenses

Municipal governments are increasingly required to react to multiple levels of state and federal legislation concerning tax and other employment related issues. Within Pennsylvania's decentralized system, the availability and accuracy of reliable data are accordingly becoming more critical. Plan documents, including demographics, earnings, and payment records, must be maintained over the active and retired life of employees, which often exceeds fifty years. Small municipalities very often lack the administrative continuity to perform these functions on a long-term basis.

Additionally, the high per-member costs associated with administering so many small municipal plans and the direct costs attributable to the investment function have long been a concern of the Commission. These administrative and investment costs are significantly greater for most local government police plans than for either large municipal plans, such as the City of Philadelphia, or for a multiple-employer retirement system such as PMRS. A review of the Commission's 2013 Act 205 reporting data revealed that the average per-member administrative costs for the Commonwealth's approximately 954 local government police pension plans (excluding Philadelphia and Pittsburgh) were $1,612. The average per-member administrative costs under PMRS for the same reporting period were $392. The average per-member investment costs for the local government police pension plans were $1,590. Under PMRS, the average per-member investment costs were $762.

The Commission staff has estimated the administrative cost savings associated with the consolidation of administrative functions through the proposed statewide retirement plan. The Commission staff's analysis of annual administrative expenses for 2013 for the 954 police pension plans was approximately $15,807,092, or $1,612 per-member based upon 9,804 active members. Using the average per-member administrative costs under PMRS, $392, the total hypothetical annual

DISCUSSION (CONT'D)

administrative expenses for the statewide retirement plan would have been approximately $3,800,000. Therefore, the reduction in annual administrative expenses resulting from the establishment of a statewide retirement plan would have been approximately $12,000,000 in 2013. If the annual administrative expense savings resulting from the establishment of a statewide retirement plan is assumed to increase at a rate of 3% per year, then the reduction in annual administrative expenses in year 20 amounts to approximately $21,000,000 in current dollars.

The Commission staff has also estimated the investment cost savings associated with the consolidation of investment functions through the proposed statewide retirement plan. The Commission staff's analysis of annual investment expenses for 2013 for the 954 police pension plans (excluding Philadelphia and Pittsburgh) was approximately $15,588,360, or $1,590 per-member based upon 9,804 active members. Using the average per-member investment costs under PMRS, $762, the total hypothetical annual investment expenses for the statewide retirement plan would have been approximately $7,500,000. Therefore, the reduction in annual investment expenses resulting from the establishment of a statewide retirement plan would have been approximately $8,000,000 in 2013. If the annual investment expense savings resulting from the establishment of a statewide retirement plan is assumed to increase at a rate of 3% per year, the reduction in annual investment expenses in year 20 amounts to approximately $14,000,000 in current dollars.

The relative administrative and investment efficiency and effectiveness of a single, consolidated statewide retirement plan over the administration of large numbers of very small municipal plans is evident.

Actuarial Cost Methodology

Actuarial cost methodology is used in the administration of a retirement system to determine a total cost that is systematically funded in advance of the actual pension benefit payments. Actuarial cost methodology is also used to assure the predictability of the ongoing funding requirements of the retirement system. The broad base of demographic experience afforded by a pension plan with a large membership allows greater accuracy in the choice of actuarial assumptions and consequently improves the reliability of the actuarial cost determinations. However, when actuarial cost calculations are performed for a pension plan with a small membership, there is a limited base of demographic experience upon which to base the choice of actuarial assumptions. Because actuarial assumptions are largely based on statistical averages, the size of the plan directly affects the probability of the predicted events being realized. In the absence of an adequate experience base, the selection of accurate actuarial assumptions is difficult, and the reliability of the actuarial cost determinations is reduced. As stated previously, a review of the Commission's 2013 Act 205 reporting data reveals that the average membership of police pension plans in the Commonwealth is approximately 18.2 members per plan. No accepted actuarial cost method can be reliably applied to these small pension funds.

DISCUSSION (CONT'D)

Investment of Plan Assets

Investment management is another function that demonstrates the relative inefficiency of the current decentralized structure of local government police employee retirement systems. In addition to compounding the direct costs attributable to the investment function, the dispersed investment activity limits access to certain investments that require minimum threshold deposits and impedes the level of diversification that would be available to a larger fund. To the extent that the lack of investment diversification or the limited access to investment vehicles diminishes earnings, the current decentralized structure of local government retirement systems increases the pension costs that must be financed with tax revenues. Under the bill, many of these inefficiencies would be rectified by the implementation of a centralized structure through the new statewide retirement plan that would permit diversification of investments, a wider range of access to certain investments, and economies of scale.

Benefit Structure

Much of the benefit disparity of municipal police pension plans results from the confusing and sometimes conflicting state laws governing police pension benefits. There are more than a dozen state laws, many of which have been amended repeatedly, that impact the benefits to be provided to municipal police officers. Most municipal police pension plans have a benefit structure with a basic benefit of 50 percent of final average salary, after meeting age and service requirements. Some plans, however, provide benefits as low as 20 percent of final salary and some are as high as 80 percent of final salary. The normal cost rates among municipal police plans also vary greatly and are another indicator of the disparity in benefits. Normal costs, when stated as a percentage of payroll, during the 2013 Act 205 reporting period were as low as 5.38 percent of payroll and as high as 45.74 percent of payroll.

Under the bill, the superannuation retirement age for an Article IV-A member is age 50 with 20 years of credited service. A member becomes vested after 12 years of service, which is in accordance with the existing PMRS structure. The annual benefit for an Article IV-A member would be calculated by multiplying the member's years of credited service times the member's final salary times 2.5%, not to exceed 65% of the member's final salary. Final salary is calculated as the average annual compensation earned by the member during the final three years of credited service.

The bill also seeks to amend the definition of "compensation" under the PMRS Code to exclude overtime pay in excess of 30% of base salary from the retirement benefit calculation for Article IV-A members. This would statutorily acknowledge that many police pension plans currently include overtime pay in the final salary calculation, despite current statutes to the contrary. The inclusion of overtime pay in the determination of retirement benefits has the potential to result in benefit "spiking," and the possibility of costs being shifted to other employers. This should be considered by the bill's sponsors.

DISCUSSION (CONT'D)

Under the bill, the linking of pension disability with Workers' Compensation constitutes a significant reduction from current benefits. In *Miller v. Bethlehem City Council*, 760 A. 2d 446 (2000), the Commonwealth Court held that the "abnormal working conditions" standard applicable to psychological disability claims under Workers' Compensation and the Act of June 28, 1935, P. L. 147, as amended, 53 P. S. §§ 637-638, commonly referred to as the "Heart and Lung Act," does not apply to disability retirement claims. This bill would appear to reverse that decisional law. However, the bar against offsetting Workers' Compensation for any disability pension benefit may mitigate some of the savings.

Employee and Employer Contributions

The bill requires all active members of the statewide plan to make employee contributions to the plan in the amount of 7.5% of compensation. For the 2013 Act 205 reporting period, the average employee contribution was 4.22% of compensation.

The employer contribution will be equal to the amount necessary to fund the liability of the benefits payable to members, but shall be no less than 7.5% of compensation. For the 2013 Act 205 reporting period, the average employer contribution was 13.26% of compensation.

Portability

The current lack of portability among police pension plans prevents an employee from transferring pension rights and benefits from one municipal employer to another in conjunction with job changes. Accordingly, many police employees are restricted in their ability to achieve their full career potential. Employers also lose significant flexibility because of the impediment lack of portability imposes on the selection of employees from other municipalities. Under the current decentralized system, it is impracticable to establish an equitable method to value and transfer assets and service credits among municipalities with varying benefit structures, funding mechanisms and funded conditions.

The single, statewide plan provided for under the bill provides complete portability for municipal police employees and provides professional police employees with retirement advantages similar to that of a single statewide employer.

SUMMARY OF ACTUARIAL COST IMPACT

For the purposes of this advisory note, the Commission staff is including an actuarial cost estimate that was originally provided to the Commission by PMRS during the 2013-2014 legislative sessions on a proposal that was substantively identical to this current bill. On November 5, 2013, the consulting actuary for PMRS prepared an actuarial cost estimate on House Bill Number 1651, Printer's Number 2282. The estimate was not independently reviewed by the Commission's consulting actuary, but is being attached to the Commission's advisory note on this bill.

Please note: the following cost estimate was prepared by the consulting actuary for PMRS on House Bill Number 1651, Printer's Number 2282, and is based on data submitted by PMRS *as of January 1, 2013.*

Since the demographic characteristics of the proposed plan members are unknown, the PMRS staff assumes that the police officers who enrolled in 2011 and 2012 in any one of the police pension plans currently administered by PMRS represent an average of the new members enrolling in the plan on January 1, 2014. It was assumed that the projected population of 70 officers would all be hired on January 1, 2014, and would be provided membership in the statewide plan. The average age of an officer of the new plan would be 33 years of age, with an average annual compensation of $49,281. The expected retirement age would be 56 years of age.

The estimated total normal cost for a plan with a single officer being hired at age thirty-three at a salary of $49,281 is projected to be 22.76% of compensation, or $11,216. The employer normal cost is projected to be 15.26%, or $7,520, with an employee contribution of 7.5% of compensation, or $3,696. While the bill provides for the plan's actuarial gains and losses to be amortized as a percentage of estimated compensation of covered officers and applied to the employer's normal cost, the bill also sets the minimum employer cost, regardless of plan experience, at 7.5% of compensation.

While this is an advisory note, rather than an actuarial analysis of the Commission, the staff would note that the normal cost calculations proposed by the actuary for PMRS assume that the current average age of an active police officer will be the normal hire age for police officers under the new plan; this could understate the normal cost.

POLICY CONSIDERATIONS

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

> Statewide Plan. The establishment of a statewide municipal police pension plan would remedy the problems of ineffective and inefficient administration, lack of portability, and disparity in benefit structure. Additionally, a statewide plan would, when fully implement-

POLICY CONSIDERATIONS (CONT'D)

ed, provide for reliable actuarial funding, enhance membership services, and provide equitable retirement benefits to the Commonwealth's municipal police officers.

Administrative Efficiency. Implementation of a statewide retirement plan for local government police employees will enable the consolidation of administrative functions, increasing efficiency and significantly reducing costs associated with providing employee retirement benefits.

Determination of Actuarial Funding Requirements. The bill resolves the present difficulties in the application of actuarial cost methods in numerous small plans by gradually consolidating the membership of the approximately 954 police pension plans into a single retirement plan.

Centralized Investment Management. The consolidation of assets and centralization of investment management functions provided for in the bill will serve to maximize potential investment earnings and reduce the risks of adverse investment experience.

Benefit Portability. A statewide retirement plan for local government police employees will ensure pension benefit portability for police employees. The transfer of retirement service credits between local governments will eliminate a substantial impediment to police employee mobility, facilitating recruitment, and providing more equitable retirement benefits when a public safety career involves service with more than one government entity.

Benefit Uniformity. Because local governments will provide more uniform benefits within the parameters provided by a statewide plan, the competitive pressure on police employees to achieve higher benefits will diminish, and the benefit provisions will be more widely understood and accessible.

Enhanced Member Services. The statewide plan provided for in the bill will ensure an adequate and consistent level of retirement-related services to police employees.

Enhanced Benefit Tier. If enacted, the bill's inclusion of overtime compensation up to 30% of base salary in the retirement benefit formula, combined with the implementation of a more generous final average salary calculation for most police employees, would have the effect of functioning as an enhanced benefit tier applicable to new employees of the statewide retirement plan.

Change in Employer Normal Cost. Because the retirement benefit provided in the bill represents a benefit enhancement for new members of the statewide retirement plan, it results, on average, in an increase in the employer normal cost for municipalities from a cur-

POLICY CONSIDERATIONS (CONT'D)

rent average of 13.26% of compensation to 15.26% of compensation (as of 2013) under the new retirement plan.

Maximum Benefit Payable. Superannuation benefits calculated at 2.5% of final average salary are payable after 20 years of service and 50 years of age. Because of the maximum benefit payable of 65% of pay, the statewide pension plan offers no inducement for service beyond 26 years.

Technical Operational Issues. In reviewing the bill, the Commission staff noted the following technical operational issues.

Drafting Considerations. The bill makes no explicit prohibition of the establishment of any new police retirement plans or systems by local governments other than through participation in the Statewide Municipal Police Officers' Pension Plan.

It is unclear how the final and irrevocable determination of disability can be reconciled with the return to service provisions in the bill.

As it is written, under Section 406-A of the bill, there is no provision in place in the event of a member terminating service prior to meeting the superannuation retirement requirements of attaining age 50 and completing 20 years of credited service. This appears to be a drafting ambiguity that should be addressed by the bill's sponsors.

ATTACHMENTS

A Proposal for the Establishment of a Pennsylvania Statewide Municipal Police Officers Pension Plan, November 5, 2013, provided by Pennsylvania Municipal Retirement System, which includes the Actuarial Note on House Bill Number 1651, Printer's 2282, prepared for the Pennsylvania Municipal Retirement System by Kenneth A. Kent of Cheiron, Inc.

House Bill Number 32, Printer's Number 1205.

pmrs pennsylvania
MUNICIPAL RETIREMENT SYSTEM

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Presentation of Valuation on House Bill 1651 Printer's Number 2282

A Proposal for the Establishment of a Pennsylvania Statewide Municipal Police Officers Pension Plan

November 5, 2013

An actuarial examination relating to the possible establishment of a new, statewide retirement plan to be provided to certain municipal police officers hired on or after January 1, 2014.

Prepared by: Pennsylvania Municipal Retirement System (PMRS)

Phone: (717) 787-2065 (800) 622-7968 **Fax:** (717) 783-8363

Our Vision: To be Pennsylvania local governments' pension administrator ***of choice.***

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Introduction

The Pennsylvania Municipal Retirement System (PMRS) is pleased to provide this actuarial study that was prepared by the consulting actuarial firm retained by the PMRS Board, Cheiron Inc. The purpose of this study is to estimate the cost of establishing a Statewide Municipal Police Officers Pension Plan that would be the pension plan provided to all municipal police officers hired by Pennsylvania's municipal governments or regional councils of governments on or after January 1, 2014, except those hired by the cities of Philadelphia and Pittsburgh. This study was prepared to value the provisions of House Bill 1651, Printer's Number 2282 introduced by Representative Glenn Grell into the House of Representatives during the 2013-2014 Session of the Pennsylvania General Assembly.

While Representative Grell introduced the proposed statewide pension program, this valuation represents the PMRS staff's understanding of that proposal. The PMRS has had no direct discussion or contact with Rep. Grell concerning this presentation of our findings. This document should be considered the estimated actuarial cost of such a pension plan as understood by the staff and consulting actuaries to PMRS. Any misunderstandings of the proposed benefits outlined in HB 1651 are unintended but are reflective of the PMRS staff's interpretations of the legislation's provisions.

In accordance with Act 15 of 1974, "...the board shall adopt such tentative tables and certify such tentative rates **for the purpose of giving** municipalities and municipal employes, municipal firemen and municipal police **estimates of the cost involved in electing to join the retirement system established by this act**." 53 P.S. §881.105 (Emphasis added). This proposal has been prepared accordingly and with board adopted policy, assumptions, and guidelines incorporated in the product except where otherwise specifically identified herein.

PMRS is a full service pension administrator that has responsibility for approximately 970 municipal, police, and firefighter pension plans. The PMRS is an independent state-affiliated entity created by Act 15 of 1974. It is governed by an eleven member board comprised of eight local government officials and employees, a retiree, the State Treasurer, and the Secretary of the Commonwealth. The Board has retained over a dozen money managers to invest the $1.8 billion in the PMRS Fund. Additional information about PMRS and how it operates can be found at our website: www.pmrs.state.pa.us.

We encourage a close review of this proposal. Questions specific to this proposal should be directed to James (Jim) B. Allen, Secretary of PMRS at (800) 622-7968.

Executive Summary

This proposal is intended to determine the expected cost of a new statewide municipal police officers pension plan as conceived and represented in House Bill 1651, P.N. 2282 of the of the 2013 – 2014 Session of the Pennsylvania General Assembly. The new pension plan is to cover all police officers hired on or after January 1, 2014 from throughout the state, exclusive of the officers to be employed by the cities of Pittsburgh and Philadelphia. The officer must be expected to work on average at least thirty-five (35) hours a week for at least six consecutive months. There is a provision in the legislation that would allow police pension plans that have officers hired on or before December 31, 2013 to transfer their officers into the statewide plan but this provision was not addressed in this actuarial study. The new plan is a defined benefit plan.

Because the demographic characteristics of the proposed members of the plan are unknown, the PMRS averaged the demographics of every police officer who enrolled in 2011 and 2012 into any one of the over 200 police pension plans that were enrolled in and administered by PMRS on January 1, 2013. PMRS assumed that these "average" officers would be representative of the officers that would be enrolling in the new plan on or after January 1, 2014.

While it is assumed that the actuarial costs would be scalable to reflect all the new police officers statewide, this is not a certainty. In examining the data, PMRS staff and its consulting actuary, Cheiron Inc. made several unique assumptions that were applied to the sample workforce. These specific assumption changes are as follows:

- A reduction in the turnover rate after one year of credited service to 2% of the workforce per year
- Because the PMRS does not assume different rates of disability dependent on the type of disability (total and permanent versus partial), it was assumed that all disabilities were total and permanent

We have included some of the basic information about the assumed new officers in the PMRS database so that a better understanding can be obtained as to the source of the estimated costs. We note that we were provided with basic data from the January 1, 2011 Act 205 Valuations submitted to the Public Employee Retirement Commission but due to certain limitations PMRS elected to use the more complete information from its database.

The following chart contains a brief description of the key plan benefits.

Benefit	Eligibility
Superannuation (Normal) Retirement	Upon attainment of age fifty (50) and the completion of at least twenty (20) years of credited service
Basic Annual Benefit	Years of credited service multiplied times Final Average Salary (FAS) multiplied by the accrual rate of 2.5% (0.025)
Maximum Annual Benefit	Maximum Annual Benefit may not exceed 65% of FAS
Final Average Salary (FAS)	Annualized compensation paid over last three consecutive years of credited service
Vesting	Cliff vesting after completion of 12 years of credited service. Benefit payable upon the attainment of the later of 1) age 50 or 2) the date the member would have completed 20 years of credited service
Service Connected Disability Benefit	50% of salary at time of disability if officer is permanently unable to perform the full duties required of a police officer 75% of salary at time of disability if officer is permanently unable to perform gainful employment (Similar to the Social Security definition of disability)
Member Contribution Rate	Seven and five-tenths percent (7.5%) of compensation

The estimated employer cost of the plan, based upon the average officer in the PMRS new enrollees database, is 15.26% of covered compensation ($ 49,281) or $ 7,520. There is no unfunded liability associated with the plan as no plan members have prior service. There is no actuarial surplus as the plan members are all assumed to have started on the first day of the plan and there were no assets in the plan on the first day of its existence.

Administrative charges were assumed to apply as they do in existing PMRS administered plans. This would require a twenty ($20) annual administrative fee for each enrolled officer. The fee would be charged to the employing municipality along with the applicable normal cost of the plan's benefit being applied to the plan members' reported compensation.

Note under existing law, PMRS is authorized to deduct up to sixth tenths of a percent (0.006) of the assets of the plan from the investment earnings of the portfolio to offset administrative expenses. In 2012 the total deduction from the investment income used to meet administrative expenses was approximately $3.42 million; less than twenty-five hundredths of a percent (0.0025) of beginning year plan assets ($1.48 billion.)

Proposed Benefits

Benefit Provision	Description
Superannuation (Normal) Retirement (Age and service required to be eligible to immediately start to receive a monthly benefit)	Upon attainment of age fifty (50) and the completion of at least twenty (20) years of credited service
Benefit Accrual Rate (Multiplier used to calculate the retirement benefit)	2.5% (Example: 20 years of service X $50,000 FAS X .025 = $25,000 annual benefit)
Final Average Salary (Basis of Determining compensation used in benefit calculation)	Annualized compensation paid over the last three consecutive years of credited service (See definition of "Compensation" under the "Terms and Definition " portion of this proposal – Page 27)
Maximum Annual Benefit (Maximum benefit that can be earned when multiplying years of credited service time FAS times Benefit Accrual Rate)	In no event may the Member's benefit exceed 65% of FAS
Voluntary Early Retirement (When first eligible for a reduced monthly benefit)	Not available
Involuntary Early Retirement (When first eligible for a reduced monthly benefit if involuntarily terminated)	Not available
Vesting (Service required to be eligible to receive a monthly benefit deferred until Normal Retirement eligibility)	Cliff vesting - After twelve (12) years of credited service with the benefit being payable upon the attainment of the later of 1) age 50 or 2) the date the member would have completed 20 years of credited service
Service Increment Benefit (Additional benefit available after Maximum Basic Benefit has been earned)	Not available

Benefit Provision (cont.)	Description (cont.)
Automatic Cost of Living Adjustment or **COLA** (Automatic annual adjustment to pension benefit post-retirement based upon CPI)	Not available
Normal Form of Benefit Payment (50% Spouse's Joint Annuity)	An annuity for the life of the annuitant with the annuitant's spouse (or eligible dependent) receiving a monthly benefit equal to fifty percent (50%) of the benefit the annuitant was receiving at the time of the annuitant's death.
Optional Forms of Benefit Payment	Not available
Death Benefit (Benefit or dollar amount payable upon death of a member)	If an active member dies prior to eligibility for vesting, beneficiary receives all of the money in the member's account. If an active member dies and has at least twelve years of credited service but less than twenty, the current spouse (or eligible dependent) receives a monthly benefit equal to fifty percent (50%) of the benefit the member was eligible to receive at the time of death (actuarially reduced from the member's superannuation retirement date.) If no spouse or eligible dependent, beneficiary receives all of the money in the member's account. If an active member dies and has at least twenty years of credited service, the current spouse (or eligible dependent) receives a monthly benefit equal to fifty percent (50%) of the benefit the member was eligible to receive at the time of death. If no spouse or eligible dependent, beneficiary receives all of the money in the member's account. If a vested member dies, the current spouse (or eligible dependent) receives a monthly benefit equal to fifty percent (50%) of the vested benefit, payable when the member would have become eligible for superannuation retirement. If no spouse or eligible dependent, beneficiary receives all of the money in the member's account. If an annuitant dies, the current spouse (or eligible dependent) receives a monthly benefit equal to fifty percent (50%) of the benefit the annuitant was receiving at the time of death. If no spouse or eligible dependent, beneficiary receives the remaining accumulated deductions of the member.

Benefit Provision (Cont.)	Description (Cont.)
Killed In Service Death Benefit or **KIS** (Benefit or dollar amount payable to beneficiary upon death of an member killed in the line of duty)	No benefit is provided through pension plan. See Act 51 of 2009 for benefit payable from the state.
Service Connected Disability Benefit (Benefit payable in the event member deemed disabled due to a work related injury or illness)	50% of salary at time of disability if officer is unable to perform the ***full duties*** required of a police officer 75% of salary at time of disability if officer is unable to perform any gainful employment (Similar to the Social Security definition of disability) There is no offset for any benefit payable under this provision
Non - Service Connected Disability Benefit (Benefit payable in the event member deemed disabled due to non-service connected causes)	Not Available
Portability (Allows members to transfer service credit between one pension plan to another PMRS enrolled plan)	Transfer is allowed when a member leaves the employ of an Article IV-A (Statewide) municipality and enrolls as a member of another PMRS plan within one year of separation. Change of an Article IV-A employer will not impair a member's credited service under the statewide plan.
Military Service (The ability to receive credited pension service for time served in the military)	Intervening military service shall be credited in accordance with the provisions of the Federal Uniformed Services Employment and Reemployment Rights Act of 1994 Non-intervening military service (up to five years) may be purchased by a member after completing five years of credited service under the plan by paying both the employer and member required contributions plus credited interest
Regular Interest (Credited rate of interest adopted by PMRS on an annual basis)	PMRS adopted rate set at five and five tenths percent (5.5%) since January 1, 2013. Board has authority to change rate but adopted rate must be set prior to beginning of the year

Benefit Provision (Cont..)	Description (Cont.)
Excess Interest (Investment earnings over and above regular interest credited by PMRS Board)	Any excess interest awarded to the plan is credited to the employers' account and is treated as an actuarial gain
Deferred Retirement Option Program or **DROP*** (Program by which a retired member, but one not yet separated from employment, can defer constructive receipt of their monthly benefit)	A member may elect to retire, but not separate from employment, under the provisions of the PMRS adopted DROP policy

Note: The above is an abbreviated description of the plan benefits.

Plan Census and Financial Data

Since the demographic characteristics of the proposed members of the plan are unknown, the PMRS assumed that every police officer who enrolled in 2011 and 2012 in any one of the police pension plans currently administered by PMRS will be enrolling in this plan on January 1, 2014. It was assumed this population of seventy (70) officers would all be hired on January 1, 2014 and would be provided membership in the statewide plan. The following data represents the "average" officer in the proposed plan.

Date Plan Established:	January 1, 2014
Assets Available for Benefits	$ 0
Active members of the plan	70
Average age of new plan members:	33
Average Annual Compensation:	$ 49,281
Average Credited Service:	None
Expected Retirement Age	56

The following chart groups by age (five year bands) the officers included in the composite group which was used to determine the average officer.

Age	Count
21-25	10
26-30	23
31-35	13
35-40	10
41-45	6
45-50	3
51-55	4
55+	1

For purposes of exploring the plan's estimated cost PMRS and our consulting actuaries elected to use the database of PMRS membership due to its completeness and our ability to examine the integrity of the data. While the Public Employee Retirement Commission did provide our agency with a complete statewide list of officers covered by pension plans as of January 1, 2011 including their salaries, ages, gender, and years of credited service, we found the information less precise than the PMRS audited data. There were approximately 860 participants in the statewide data who had two or less years of credited service making PMRS' sample eight percent (8%) of the anticipated universe.

We note that the PMRS average officer's age was 33 and the average officers' age from the statewide data was 31. While approximately 2 years younger than the PMRS sample data, the statewide data is as of January 1, 2011 and the PMRS data is as of January 1, 2013. The average pay of the statewide average officer was approximately 1.5% less than the PMRS' average salary. Obviously, the individual data can drive the final results, and we caution that averages do not always give the entire picture, but the data appears to be similar enough to be a reliable database for estimating purposes.

Proposal Cost

The estimated Normal Cost for a plan with a single officer being hired at age thirty-three at a salary of \$ 49,281 is projected to be 22.76% of compensation or \$ 11,216. The officer's contribution of 7.5% would meet \$ 3,696 of the obligation and the employer's responsibility would be \$ 7,520. While the proposal provides for the plan's actuarial gains and losses to be amortized as a percentage of estimated compensation of covered officers and applied to the employer's Normal Cost, the proposal also sets the minimum employer cost, regardless of plan experience at 7.5% of covered compensation.

This estimate was prepared by Cheiron, actuaries for the System, and is based on data submitted to them by PMRS. That data was as of January 1, 2013. The actuarial valuation is attached (see page 15). See also the actuarial assumptions upon which the calculations are based.

General State Aid to Municipal Pension Plans

The legislation provides that municipalities that have police officers participating in the plan would be eligible to receive General State Aid to Municipal Pension Plans (State Aid) and that this state aid would be directly sent to the municipality. The provision of Act 205 of 1984 that requires a municipality to fund a pension plan for three full calendar years before being eligible for State Aid is specifically made not applicable for municipalities that have officers enrolled in the plan. If the municipality had no other pension plan obligation other than for the newly hired officer (no municipal or non-uniform plan, no pre-existing police plan, and no firefighter pension plan) then the participating employer would have to send all the State Aid to PMRS to satisfy in whole or in part the employer's current year's obligation. If the municipality had a pre-existing police plan and / or a municipal or non-uniform plan or firefighter pension plan the State Aid received could be used to satisfy the municipality's obligation to those plans. These observations have no bearing on the costing of the benefit. However, any discussion of a municipality's financial obligation is not complete without understanding the role that State Aid plays.

The following information is provided to demonstrate what portion of the new plan's costs could be realistically met with State Aid. The following numbers are presented with the assumption that the State Aid unit value in 2014 will look like the average of the unit values in five of the last six years. [2008 ($ 3,186), 2009 ($ 3,128), 2010 ($ 3,235), 2012 ($ 3,576), and 2013 ($ 3,884)] rather than the unit value set in 2011 ($ 5,596). The five year average, excluding the 2011 aberration, is $ 3,402.

By reviewing the summary on the following page one can make a comparison of the cost for a plan member and the State Aid expected to be available to a municipality to meet this cost. The salary information represents the plan's composite information for a single new member. Typically this information would be gleaned from a municipality's Auditor General Form AG-385 which is prepared by a municipality and submitted to the Auditor General's Office. The Maximum State Aid is calculated using the number of employees reported on the Auditor General's form. Again, for purposes of this presentation we assume only one plan member and that member was enrolled for one full year. The full-time employees (or units) are multiplied by the unit value which under the state law formula fluctuates from year to year. Municipal (or non-uniformed) employees count as one unit. Police officers and firefighters count as two units.

It is important to note that the source of the State Aid Allocation is derived from the 2% tax on foreign (out of state) casualty policies. Because the taxes collected vary from year to year and because the statewide information pertaining to the calculation is not certified until August of each year, state aid amounts cannot be accurately predicted or assumed to always exist.

Act 205 of 1984 Funding Requirements

	Police		Fire		Municipal	
Reported Compensation *		49,281		###,###		###,###
Employer Normal Cost Rate	X	.1526	X	#.##	X	#.##
Total Normal Cost		7,520		###,###		###,###
Amortization Payment	(+)	0	(+)	###,###	(+)	###,###
10% Surplus Credit	(-)	0	(-)	###,###	(-)	###,###
Plan Cost		7,520		###,###		###,###
Total Cost All Plans				7,520		

	Police		Fire		Municipal	
Reported employees*		1		##		##
Unit Credits	X	2	X	2	X	1
Plan Units		2		##		##
Total Units All Plans				2		

Unit Value	$ 3,402
Maximum State Aid for Municipality	$ 6,804
Total Cost All Plans	$ 7,520
State Aid Payable Under Existing Formula	$ 6,804
Projected Minimum Municipal Obligation (MMO) required from the Municipality's General Fund	$ 716

Actuarial Proposal

(See following pages)

November 5, 2013

Mr. James B. Allen
Secretary
Pennsylvania Municipal Retirement System
Commonwealth of Pennsylvania
1010 North 7th Street, Suite 301
Eastgate Center
Harrisburg, PA 17102

Re: Plan Name: Statewide Police Plan Cost Study Estimate

Dear Mr. Allen:

At your request we have prepared the following cost study estimate for the Statewide Police Plan. Our calculations include the minimum municipal obligation for fiscal year beginning January 1, 2013 under the requested provisions. We assume the cost will be effective once the plan is adopted.

Our report includes the following:

- Summary of the most recent demographic data as of January 1, 2013
- Description of the potential plan provisions
- Brief discussion of any assumptions or adjustments made in the processing of the results
- Summary of the actuarial assumptions and methods currently in force and applied in arriving at these cost proposals

Pertinent Demographics & Financial Information as of January 1, 2013:

Membership Date:	1/1/2013	**Estimated 2013 Annual Salary:**	$3,449,637
Active Assets Available for Benefits:	$0	**Average Credited Service**	No Prior Service Included
Average Age:	33 years	**Expected Retirement Age:**	56 years
Active Amortization Factor:	Not Applicable	**Active Amortization Period:**	Not Applicable

Highlights of Potential Provisions for Statewide Police Plan:

Description	Base Plan
Normal Retirement:	Accrued benefit available after age 50 with 20 years of service.
Vesting Service Required:	A member is 100% vested after 12 years of service.
Early Retirement:	None Available.
Benefit Accrual Rate:	2.50%
Final Average Salary (FAS):	FAS based upon last 3 years annualized salary.
Maximum Benefit:	65% of Final Average Salary.
Service Credited:	None
Member Contribution Rate:	7.50%
In-service Disability Benefit:	A 75% of FAS disability benefit is provided to a member who is unable to perform gainful employment regardless of age or service. A 50% of FAS disability benefit is provided to a member who is unable to perform the full duties of a municipal policeman regardless of age or service.
Death Benefit:	If eligible to retire or vested at time of death, spouse receives 50% of member's benefit actuarially reduced benefit to the member's earliest retirement date.
Service Increment Benefit:	None available.
Service Incremental Accrual Rate:	None available.
COLA:	None available.

Assumptions and Methods

The results presented in this cost study represent the costs for a sample of 70 potential new participants. Actual costs will be dependant upon the demographic nature of the participants.

Due to the nature of the group analyzed for this study, we have modified our assumptions to better measure the anticipated differences in the behavior of the Police Officers under this plan compared to the overall System assumptions. The assumptions used are attached to the end of this letter unless otherwise listed below:

- Maintain the termination rate of 13% in the first year of service
- Reduce the termination rate to 2% for all subsequent years of service after the first year
- The Pennsylvania Municipal Retirement System does not have a separate assumption for total and permanent disability versus partial disability. Therefore for purposes of this study, we assumed all disability retirements were total and permanent (75% of Final Average Salary
- For the purpose of this study, while we anticipate that those new entrants included in the data at older ages may represent transfers from one participating municipality to another, we did not make adjustments to this data. Under a statewide plan, we would anticipate there would be no transfers.

Costs valued as of January 1, 2013 with Funding Commencement Date of January 1, 2015:

	Description	Potential Participants
	Employer Cost[1]	
A.	**Estimated 2013 Annual Salary**	**$3,449,637**
B.	**Normal cost rate**	**15.26%**
C.	**Normal cost** *(AxB)*	**$526,415**
D.	**Active Assets available for benefits**	**$0**
E.	**Active Accrued Liability**	**$0**
F.	**Remaining Balance on Prior Unfunded**	**$0**
G.	**New Unfunded Liability**	**$0**
H.	**Amortization of New Unfunded Liability**	**$0**
I.	**Prior Amortization Payment**	**$0**
J.	**Total Amortization of Unfunded Liability**	**$0**
K.	**Administration charge**	**$1,400**
L.	**Total employer charges** *(C+J+K)*	**$527,815**
	Employee Cost	
M.	**Member contribution rate**	**7.50%**
N.	**Member contribution**	**$258,723**
	Disability Term Cost Rate	**0.71%**

Notes

1) Excess monies (interest) allocated to members' accounts and assets held in the retiree reserve are not included. Also, no consideration is given as to whether state aid or general fund monies are used to fund the employer cost.

2) There is an option to reduce or waive employee contributions on a yearly basis by action of the governing board. This study assumes no reduction in employee contributions.

An explanation of the actuarial assumptions and methodology used is attached on the following pages.

The purpose of this report is to present a cost study estimate if this plan was included in the Pennsylvania Municipal Retirement System. This report is for the use of the Pennsylvania Municipal Retirement System in preparing cost increases in accordance with applicable law and accounting requirements.

In preparing our study, we relied on information supplied by PMRS. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

This cost study estimate was prepared exclusively for PMRS for the purpose described herein. This cost study estimate is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

This letter was prepared exclusively for the Pennsylvania Municipal Retirement System for the purpose of measuring the cost impact for this plan. This letter is not intended to benefit any third party.

I hereby certify that, to the best of my knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. I am not an attorney and my firm does not provide any legal services or advice.

If you have any questions, please do not hesitate to contact us.

Sincerely,
Cheiron

Kenneth A. Kent, FSA, FCA, EA
Principal Consulting Actuary

Attachments

cc: James B. Allen
Kristine M. Cline

Actuarial Assumptions and Methods

(See following pages)

Actuarial Assumptions:
The below current PMRS actuarial assumptions were used in this study.

A. Healthy Life Mortality: Sample rates are:

	Actives: (Males RP2000 +1; Females RP2000 +5)		Retirees: (RP2000 Sex-Distinct)	
Age	**Male**	**Female**	**Male**	**Female**
50	0.20%	0.11%	0.21%	0.17%
55	0.32	0.17	0.36	0.27
60	0.59	0.27	0.67	0.51
65	1.13	0.51	1.27	0.97
70	1.98	0.97	2.22	1.67
75	3.39	1.67	3.78	2.81
80	5.79	2.81	6.43	4.59
85	9.98	4.59	11.08	7.74

(a) Killed-in-Service Related Mortality Rates:
(i) 15% of mortality is assumed to be service related for municipal plans
(ii) 50% of mortalities are assumed to be service related for uniform plans

B. Disabled Life Mortality Rates: Mortality under RP-2000 mortality table for a life 10 years older.

C. Termination Rates Before Retirement:

	Current Valuation Rate[1]			
	Municipal Active Count		Uniformed Active Count	
Years of Service	<25	25+	<25	25+
Less than 1	20.0%	20%	14%	13%
1 but less than 2	20.0	20	14	10
2 but less than 3	12.0	15	12	7
3 but less than 4	10.0	12	10	7
4 but less than 5	8.0	7	6	6
5 but less than 6	6.0	7	4	5
6 but less than 7	4.0	6	3	4
7 but less than 8	3.0	5	2	3
8 but less than 9	3.0	5	2	3
9 but less than 10	2.5	5	1	3
10 or more	2.5	3	1	3

[1] *No termination rates are applied once the employee becomes eligible for voluntary early or normal retirement.*

D. Disability Incidence Rates: 40% of 1964 OASDI (Social Security) Experience for Males for municipal plans. Sample rates are:

Age	Valuation Rate (%)
25	0.034%
35	0.059
45	0.144
55	0.404
65	0.928

Uniformed plans – 60% of 1964 OASDI (Social Security) Experience for Males. Sample rates are:

Age	Valuation Rate (%)
25	0.051%
35	0.088
45	0.216
55	0.605
65	1.393

(a) Service Related Disability Rates:
(i) 15% of disablements are assumed to be service related for municipal plans,
(ii) 50% of disablements are assumed to be service related for uniform plans

E. Workers Compensation: Service-related disability benefits payable from municipal plans are offset by 25% of final average salary.

F. Salary Scale:
Three year select rates include 3.0% inflation and age related scale for merit/seniority based on sample rates below plus 2% during the select period only then reverting to inflation and merit/seniority thereafter. Final actual salary plans assume an additional 6% at retirement.
Sample rates are as follows:

Age	Total Rate (%)* (including inflation)
25	8.3%
30	6.4
35	5.6
40	5.0
45	4.2
50	4.1
55	3.9
60	3.7
65	3.0

* *Add 2% for each of the first 3 years of service.*

G. Retirement Age:
The age at which unreduced benefits are available. No early retirement is assumed. Specific assumptions regarding retirement age are:
(a) Municipal Members:
Members are assumed to retire over a range of ages as shown below:

Age	Current Rate of Normal Retirement[2]
Under 46	5%
46 – 54	15
55 – 59	10
60 – 61	10
62	30
63 – 64	20
65	35
66 – 74	15
75	100

[2] *Rates indicated are adjusted by adding 5% (and 10% for ages 60-62 under current rate assumptions) for the year in which the member is first eligible for normal retirement.*

(b) Uniformed Members:

Age	Current Rate of Normal Retirement[2]
Under 50	0%
50	20
51 – 54	10
55	20
56 – 57	25
58 – 59	30
60	40
61 – 62	50
63	60
64	70
65	80
66+	100

H. Marital Status and Spouse's Age:[3] 85 percent of members will be married at time of retirement and females are three years younger than their spouses.

I. Social Security Projections[3]**:**

(a) The Social Security Taxable Wage Base will increase by 3.5% compounded annually.

(b) The Consumer Price Index will increase 3.0% compounded annually.

(c) The Average Total Wages of All Workers will increase by 3.5% compounded annually.

J. Post-Retirement Cost of Living Increases[3]**:** 3.0% per year, subject to plan limitations.

K. Net Investment Return: 5.5% compounded annually (net of investment and certain administration expenses) for funding purposes.

Actuarial Methods:
Contribution requirements are individually determined for each participating municipality, on an actuarial basis as described below, at least biannually. The frequency of actuarial valuation is determined by applicable Commonwealth statute (Act 44 of 2009, Act 205 of 1984, and Act 293 of 1972). The following actuarial methods were adopted effective January 1, 1985, unless indicated otherwise.

Actuarial Value of Assets:
Sum of all audited reserve accounts as of the valuation date, including Member, Municipal, Retired, and Disability Reserves, and a one-year administration expense reserve, plus the portion of any additional investment income to be distributed as "excess interest." The actuarial value can never be less than 90 percent of fair market value.

Each year, municipalities receive an excess interest allocation derived as a portion of new surplus created during the prior year. "Surplus" refers to the excess of fair market value over the actuarial value of assets. Once the preliminary actuarial asset value has been determined, a formula is used to allocate the new surplus. Generally, depending on the relative size of surplus to fair market value, between 10 percent and 90 percent of new surplus will become excess interest.

Actuarial Cost Method:

Entry Age Normal Actuarial Cost Method.

Entry age is defined as attained age less credited service. The normal cost rate is derived as a level percent of future compensation of current employees, on an individual basis. This rate is applied to the projected payroll and projected employee contributions are deducted. Actuarial gains (or losses), including the effect of contributions greater or lesser than the previously determined actuarial level, are reflected by decreases (or increases) in the unfunded actuarial accrued liability. Under Act 44 of 2009, the unfunded actuarial accrued liability is amortized as a level dollar amount over the lesser of:

(a) (i) 30 years, with respect to the initial liability as of 1/1/85 (or first valuation);
(ii) 20 years, with respect to actuarial gains and losses;
(iii) 15 years, with respect to changes due to actuarial assumptions;
(iv) 10 years, with respect to changes due to plan provisions;
(v) 1 year, with respect to changes in benefits for currently retired members;
(vi) 20 years, with respect to state mandated benefit changes; or

(b) The average assumed working lifetime of active employees as of the date the liability was established.[4]

With the two exceptions which follow, the funding method is applied individually with respect to each municipality:

Retired and disabled members are paid monthly benefits from the System's Retired Reserve account, which at the time of retirement receives a transfer from the municipal and member accounts in an amount actuarially determined to be sufficient to pay all future benefits for the member (and, if applicable, a surviving beneficiary). Thus, post-retirement experience is pooled with the system. (However, this procedure does not apply to the legislated ad-hoc adjustments effective January 1, 1989.)

A disabled member's pension is met in part from the amount that can be provided by the value of that portion of the member's accrued benefit attributable to municipal contributions, with the balance of the pension being provided by the appropriate transfer from the Disability Reserve Account. The amount of annual transfer from the accumulated municipal contributions to the Disability Reserve Account is determined on the one year term cost basis, i.e. the expected cost of disabilities in the coming year.

[3] *If applicable*

4 *If there are no active employees, the unfunded liability is amortized one year after the liability was established.*

Sample Benefit Summary

A SUMMARY OF THE STATEWIDE POLICE PENSION PLAN

The following is intended as a "plain English" summary of the proposed retirement benefits offered under this proposal as prepared by the Pennsylvania Municipal Retirement System (PMRS).

WHEN WILL I FIRST BE ELIGIBLE FOR RETIREMENT?

You may retire at age fifty (50) if you have at least twenty (20) years of credited service.

HOW MUCH CAN I EXPECT TO RECEIVE?

Your annual benefit is determined by multiplying your years of credited service times your final average salary times two and five tenths percent (0.025). However, in no event shall your basic retirement benefit equal more than sixty-five percent (65%) of your final average salary.

Example: Assume 20 years of credited service and a final average salary of $50,000.
20 X $50,000 X 0.025 = $25,000 annual benefit

Your final average salary is the average annual compensation earned and paid during the final three (3) consecutive years of compensated employment prior to the effective date of retirement. Compensation is defined as remuneration actually received for services rendered as a municipal police officer, excluding lump sum accrued leave payments and overtime pay in excess of thirty percent (30%) of an individual's base salary. Included are all payments made under the Enforcement Officer Disability Benefit Law.

WILL I GET A COST-OF-LIVING INCREASE?

There is no automatic Cost of Living Adjustment (COLA) in this plan.

CAN I RETIRE EARLY AND STILL RECEIVE BENEFITS?

There is no early retirement benefit offered in this plan.

WHAT TYPE OF SURVIVOR BENEFITS CAN I PROVIDE?

You will receive a continual income throughout your lifetime. Under the "Spouses Benefit" provisions of the plan if you were married when you die while on retirement, your spouse will receive half of the monthly benefit you were receiving. If you have no spouse the benefit will be paid to any surviving eligible dependents. In the event of death when there are no spouse or eligible dependents, any member contributions and credited interest not already paid to you in the form of a benefit will be paid to your designated beneficiary

HOW WILL SOCIAL SECURITY AFFECT MY RETIREMENT BENEFIT?

The two benefits are not interdependent. What you receive from your pension plan will not be affected by any Social Security benefit to which you may be entitled.

HOW MUCH MUST I CONTRIBUTE TO THE RETIREMENT PLAN?

Your plan requires a deduction of seven and five tenths percent (7.5%) from your compensation. The plan operates under the provisions granted in Section 414h of the Federal Internal Revenue Code so that the member's contributions are tax deferred from federal taxes until they are withdrawn from the plan. As such, your mandatory contributions are not taxable until received as a benefit or when paid out in a lump sum.

HOW MUCH INTEREST DOES MY MONEY EARN?

Regular interest on your account is annually determined by the Pennsylvania Municipal Retirement Board. The regular interest rate has been set at five and five tenths percent (5.5%) by the PMRS Board since January 1, 2013.

WHAT HAPPENS IF I DIE WHILE WORKING?

If you have twenty years of credited service and die while still an active member of the plan, your spouse or eligible dependents will be entitled to fifty percent (50%) of the monthly benefit you were eligible to receive. If you are eligible for a vested retirement benefit and die while still an active member of the plan your spouse or eligible dependents will be entitled to fifty percent (50%) of the monthly benefit you were eligible to receive actuarially reduced from the date you would have been eligible to start receiving your benefit.

If you die before being eligible for a vested retirement benefit, all of your personal contributions, the interest earned as of the date of death will be paid to the most recently named beneficiary on file with PMRS.

WHAT HAPPENS IF I AM KILLED WHILE IN SERVICE?

The "Killed-in-Service" benefit is now covered by Act 51 of 2009. That law provides a 100% of salary pension benefit for survivors. The KIS benefit is not addressed in the pension plan.

CAN I GET CREDIT FOR MY MILITARY TIME?

If you were a member of the plan and left for service in the uniformed services, upon your re-employment (within designated time periods) you are eligible to receive credit for pension purposes of up to five (5) years of time spent in the uniformed services. This benefit requires the restoring of the employee contributions which would have been made during the time in the uniformed service.

Separately, you may purchase credit for up to five (5) years of non-intervening military service time provided the service was in the time of war, armed conflict or National emergency as so declared by the President and that you have completed five (5) years of employment with the municipality after such service. For complete eligibility requirements and a cost estimate, contact the Pennsylvania Municipal Retirement System.

WHAT HAPPENS TO MY BENEFITS IF I LEAVE MUNICIPAL SERVICE?

Your plan allows for vesting after twelve (12) years of credited service. Vesting allows you to leave your municipal employer before normal retirement age and defer receipt of any monies until normal retirement age is attained (the later of age fifty(50) or the date on which you would have attained twenty (20) years of credited service had you continued to be employed with the municipality as a police officer. When you receive your benefits, the monthly checks will include both the municipal and member contributions.

You must file the form PMRB-50 (Application for Retirement Benefits) which is available from your employer or by contacting the PMRS office within ninety (90) days of separation to insure your eligibility for a vested benefit.

WHAT HAPPENS TO MY BENEFITS IF I GO TO WORK FOR ANOTHER MUNICIPALITY?

If you terminate employment and go to work for another municipality as an eligible police officer your service credits will be unimpaired with your new employer. If you terminate membership as an eligible police officer, but enroll within one year of separation as a member of another PMRS plan you may elect to transfer your credited service to the new PMRS pension plan.

WHAT IF I AM NOT ELIGIBLE FOR BENEFITS?

If you terminate employment and are not eligible for a retirement benefit all of your personal contributions and the interest earned and credited as of the severance date will be returned to you.

DOES THE PLAN HAVE ANY DISABILITY BENEFITS, AND IF SO, WHAT KIND?

The plan does provide for service-connected disability retirements. If the disability prevents you from being able to perform the ***full duties*** required of a police officer the annual benefit will equal fifty percent (50%) of your final salary. There is ***no*** offset to this benefit.

If the disability prevents you from performing any gainful employment (Similar to the Social Security definition of disability) the annual benefit will equal seventy-five percent (75%) of your final salary. The benefit is ***not*** offset by Worker's Compensation Benefits. Officers receiving this benefit will also be entitled to any Social Security benefits provided under the federal program.

No disability benefits are provided for non-job related disabilities.

The above represents a general description of the proposed retirement plan as understood by the staff of PMRS.

Terms and Definitions

Accumulated Deductions
The monies that an active member personally contributes to the retirement plan plus the interest the retirement account earns.

Active Member
A person currently employed by a Pennsylvania Municipal Retirement System (PMRS) member municipality and enrolled in a PMRS administered plan.

Actuarial Assumptions
A group of assumptions set by the Pennsylvania Municipal Retirement Board about future inflation, rates of return, salary growth, probable death rates, and probable disability. As a whole, these form a basis for the actuary to determine the liability of the pension fund and the amount of money that needs to be paid into the plan.

Actuarial Valuation
The actual cost of the pension plan based on the plan's demographics. The cost study is based on the plan's determined retirement age, benefit level, years of credited service, and the individual demographics of the employees. The actuary calculates how much money is needed to fund the pension in accordance with Act 205 of 1984.

Actuary
A person who determines the amount of money that needs to be deposited in a defined benefit plan to ensure adequate assets accumulate to pay the promised benefit.

Annuitant
A retiree or a survivor or beneficiary of a retiree who receives a monthly retirement payment from PMRS.

Annuity
A payment of a fixed sum of money issued to an annuitant.

Beneficiary
The joint annuitant or any other person, estate, or trust fund that a member last designates in writing to receive any benefits which may be payable upon the member's death.

Benefit Accrual Rate
A number (usually expressed as a percentage) established as part of plan's retirement formula that is multiplied by the member's final average compensation and years of service to determine the person's retirement allowance.

Board
The Pennsylvania Municipal Retirement Board created by the Pennsylvania Municipal Retirement Law, Act of 1974, P.L. 34, No. 15.

Compensation
As used in this proposal and defined in the legislation the term excludes lump sum accrued leave payments and overtime pay in excess of thirty percent (30%) of an individual's base salary. Included are all payments made under the Enforcement Officer Disability Benefit Law.

Credited Interest
Member account interest set by the Board (currently 6.0% per year) plus any excess interest that may be allocated to the members' accounts. (See also excess interest)

Credited Service
Service a member earns by being paid for work in a regularly-established position with an employer that is a PMRS member plus any additional service the member may be eligible to purchase, e.g., military time.

Defined Benefit Plan
The municipality guarantees a benefit based on the employee's years of service and the salary of the employee. The employees' retirement benefit is based on a formula. For example if the benefit accrual rate is 2.5% and employees work for 20 years, they will receive 50% of their final average salary. [Example: 20 years of service x 2.5% benefit accrual rate x $50,000 final average salary = $25,000 annual benefit]

Deferred Retirement Option Program Account (DROP Account)
This is an account that is separately held in the name of a member and into which a DROP Participant's monthly retirement is deposited. It earns interest at a separately established rate than the regular interest. The account balance is paid to the retired member upon the member's actual separation from employment.

Employers' Account
The account to which all contributions made by municipalities required to enroll newly hired police officers in the Statewide Police Pension Plan are credited to fund the retirement and death benefits of those officers.

Excess Interest
The investment earning on the Pennsylvania Municipal Retirement Fund in excess of that required for allocation for regular interest plus maintaining adequate reserves if the System does not earn its regular interest and administrative expenses.

Final Average Salary
The average of the highest or final years of compensation earned during covered employment. The number of years used in the average will depend on the retirement plan's provisions.

Fund
The Pennsylvania Municipal Retirement Fund created by the Pennsylvania Municipal Retirement Law, Act of 1974, P.L. 34, No. 15.

Inactive Member
A municipal employee, municipal firefighter, or municipal police officer who is enrolled in PMRS but is no longer earning credited service in a PMRS pension plan and who is NOT participating in a DROP program but who is separated or on leave from employment.

Joint Annuitant
A beneficiary eligible to receive continuing benefits upon the member's death.

Member's Account
The account that is credited with the payroll deductions from active members plus interest earned.

Money Manager
The various firms which invest the assets of the Pennsylvania Municipal Retirement System under investment guidelines set forth by the Pennsylvania Municipal Retirement Board.

Municipal Account
The account maintained for each municipality to which shall be credited the contributions made by it toward the retirement and death benefits of members.

Municipal Police Officer
A person holding a full-time position in the police department of a municipality and who works for a stated salary or compensation.

Municipality
A city, borough, town, township, county, institution district, any newly-created governmental unit, an authority, an institution supported and maintained by a municipality or municipal government association, or an industrial government association which has adopted bylaws and the governing body of which is organized and holds regular public meetings.

Municipal Plan Member
A municipality or authority that contracts with PMRS to provide for certain retirement benefits for eligible employees or that is required by law to utilize a PMRS administered pension plan.

New Member
A municipal officer, employee, firefighter, police officer, or an employee of a municipal government association who first becomes a member after the effective date required to join PMRS.

PMRS
The acronym for the Pennsylvania Municipal Retirement System.

Portability
When a member leaves a PMRS-administered plan and within one year of the date of termination enters into employment with another PMRS-administered plan, the member can transfer previously accrued credits to the new employer, subject to provisions of the plan documents.

Regular Interest
The rate of interest fixed by the Pennsylvania Municipal Retirement Board from time to time. The rate has been set at 5.5% as of January 1, 2013.

Retired Member
A former municipal employee, municipal fire fighter, or municipal police officer or the beneficiary or survivor annuitant of same who is entitled to a monthly benefit payment from the System's retired reserve account.

Retired Members' Reserve Account
The account from which all retirement allowances are paid for superannuation and disability retirement.

State Pension Aid
State aid is available for municipalities to help fund their pension plans according to the Municipal Pension Plan Funding Standard & Recovery Act (Act 205 of 1984). Only cities, boroughs, and townships are eligible to receive state aid; authorities and counties are not eligible. The source of state pension aid is a 2% tax on out-of-state (foreign) casualty insurance companies doing business in Pennsylvania.

Superannuation (Normal) Retirement Age/Date
The age or date when a member first becomes eligible to retire without a reduction in benefits.

Survivor
A dependent eligible to receive an allowance upon a member's death.

System
The Pennsylvania Municipal Retirement System created by the Pennsylvania Municipal Retirement Law, Act of 1974, P.L. 34, No. 15.

Termination of Employment
Occurs when a member ends employment with the municipality.

Vested Member
A member who after sufficient years of service (based on the plan in which the member is enrolled) elects to terminate municipal employment and leave total accumulated deductions in the fund, and defer receipt of an annuity until achieving normal retirement age. The election to vest must be made within 90 days after the effective date of termination of service.

Vesting
Allows a member to terminate employment before being eligible for a normal retirement benefit and defer receipt of a monthly benefit until the individual is eligible to receive a normal retirement benefit.

PRINTER'S NO. 1205

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 32 Session of 2015

INTRODUCED BY GRELL, CALTAGIRONE, GODSHALL, MILLARD, DIAMOND, GINGRICH, GOODMAN, PICKETT, COHEN, GILLEN AND DELOZIER, APRIL 14, 2015

REFERRED TO COMMITTEE ON LOCAL GOVERNMENT, APRIL 14, 2015

AN ACT

Amending the act of February 1, 1974 (P.L.34, No.15), entitled "An act creating a Pennsylvania Municipal Retirement System for the payment of retirement allowances to officers, employes, firemen and police of political subdivisions and municipal authorities and of institutions supported and maintained by political subdivisions and municipal government associations and providing for the administration of the same by a board composed of the State Treasurer and others appointed by the Governor; imposing certain duties on the Pennsylvania Municipal Retirement Board and the actuary thereof; providing the procedure whereby political subdivisions and municipal authorities may join such system, and imposing certain liabilities and obligations on such political subdivisions and municipal authorities in connection therewith, and as to certain existing retirement and pension systems, and upon officers, employes, firemen and police of such political subdivisions, institutions supported and maintained by political subdivisions, and upon municipal authorities; providing for the continuation of certain municipal retirement systems now administered by the Commonwealth; providing certain exemptions from taxation, execution, attachment, levy and sale and providing for the repeal of certain related acts," in general provisions, further providing for definitions, for general powers of board, for retirement funds and accounts and for management and investment of fund and interest credits; and providing for Statewide Municipal Police Officers Pension Plan.

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

Section 1. The definitions of "compensation," "final salary," "municipal account," "Municipal Pension Funding Standard and Recovery Act" and "superannuation retirement age" in section 102 of the act of February 1, 1974 (P.L.34, No.15), known as the Pennsylvania Municipal Retirement Law, amended December 19, 1975 (P.L.520, No.153) and July 9, 2010 (P.L.434, No.56), are amended and the section is amended by adding definitions to read:

Section 102. Definitions.--As used in this act:

* * *

"Article IV-A annuitant" means an annuitant under Article IV-A of this act.

"Article IV-A member" means a member under Article IV-A of this act.

* * *

"Compensation" means remuneration actually received for services rendered as a municipal employee, municipal fire fighter or municipal police officer, excluding reimbursement for expenses incidental to employment. For Article IV-A members, the term shall also exclude lump sum accrued leave payments and overtime pay in excess of thirty percent of base salary, but shall include all payments made under the act of June 28, 1935 (P.L.477, No.193), referred to as the Enforcement Officer Disability Benefits Law. The following apply:

(1) Compensation shall be adjusted as appropriate to comply with the terms of any contract entered into between the board and the applicable municipality under Article IV.

(2) For members who are enrolled in a plan that has adopted the provisions of section 414(h) of the Internal Revenue Code (26 U.S.C. § 414(h)), the term includes a contribution designated as a pickup contribution.

(3) Notwithstanding any provision of this act to the contrary, a member's compensation shall not exceed the limitations under section 401(a)(17) of the Internal Revenue Code (26 U.S.C. § 401(a)(17)), as adjusted in accordance with section 401(a)(17)(B) of the Internal Revenue Code (26 U.S.C. § 401(a)(17)(B)).

(i) The adjustment in effect for a calendar year applies to a period:

(A) which begins in the calender year;

(B) which does not exceed twelve months; and

(C) over which compensation is determined.

(ii) If a determination period consists of fewer than twelve months, the compensation limit shall be multiplied by a fraction:

(A) the numerator of which is the number of months in the determination period; and

(B) the denominator of which is twelve.

* * *

"Employers' account" means the account to which are credited all contributions made by municipalities required under Article IV-A of this act.

* * *

"Final salary" means the average annual salary or compensation earned by a member and paid by the municipality during the highest three, four, or five non-overlapping periods of twelve consecutive months as stipulated by the municipality, or if not so long employed, then the average annual salary or compensation earned and paid during the whole period of such employment; or, if applicable, the amount or formula stipulated between the municipality and the board in a contract for an optional retirement plan entered into under the provisions of clause (11) of section 104 of this act. Notwithstanding any other provisions of this act to the contrary, "final salary" under Article IV-A shall mean the average annual compensation earned by an Article IV-A member and paid by the municipality during the final three consecutive non-overlapping years of credited service or, if not so long enrolled with credited service, the average annual compensation earned and paid during the whole period of such credited service.

* * *

"Municipal account" means the account maintained for each municipality that establishes a retirement plan under Article II, III or IV of this act, to which shall be credited the contributions made by it toward the superannuation retirement and death benefits of members.

* * *

"Municipal Pension Plan Funding Standard and Recovery Act" means the act of December 18, 1984 (P.L.1005, No.205), known as the Municipal Pension Plan Funding Standard and Recovery Act.

* * *

"Superannuation retirement age" means sixty-five years of age for municipal employes, fifty-five years of age for municipal firemen and municipal police or such other age as may be stipulated between the municipality and the board in a contract for an optional retirement plan entered into under the provisions of clause (11) of section 104 of this act and for Article IV-A members, fifty years of age.

* * *

Section 2. Sections 104(12.1) and (12.2), 108 and 110 of the act, amended July 9, 2010 (P.L.434, No.56), are amended to read:

Section 104. General Powers of the Board.--The board shall:

* * *

(12.1) In accordance with the plan contract, provide cost-of-living increases from a plan's share of excess investment earnings to those members of such municipalities who have already retired under the provisions of Article II, III or IV of this act. Such allocations shall be made, with the advice of the actuary, on a fully funded basis employing actuarial assumptions which reflect the nature of the liability. An award of excess interest shall not be made under this paragraph if the plan is less than 95% funded as of the plan's most recent filing of the actuarial report required under the Municipal Pension Funding Standard and Recovery Act.

(12.2) In accordance with the plan contract, the board shall allocate excess investment earnings for active members [of such municipalities] enrolled under the provisions of Article II, III or IV of this act by applying such allocation to [member] the members' contributions. To the extent that additional liabilities may accrue as a result of such allocation, the actuary shall employ actuarial assumptions, on a fully funded basis, to accurately reflect the nature of the liability generated therefrom. An award of excess interest shall not be made under this paragraph if the plan is less than 95% funded as of the plan's most recent filing of the actuarial report required under the Municipal Pension Funding Standard and Recovery Act.

* * *

Section 108. Retirement Funds and Accounts.--(a) The Pennsylvania Municipal Retirement Fund shall consist of the money received from municipalities arising from contributions by municipalities, from payroll deductions from salary or compensation of members, and other contributions made by members through the municipality to the system, from DROP participants and from transfers made from municipal retirement or pension systems and credited as provided in this act, and investment earnings thereon.

(b) The fund shall be a trust and the assets of the system shall be held in trust. No part of the assets of the system shall be used for or diverted to purposes other than for the exclusive benefit of the members, their spouses or the members' beneficiaries prior to the satisfaction of all liabilities of the system with respect to them. The assets of the fund shall only be used to pay:

(1) Benefits to members in accordance with this act.

(2) Necessary expenses of the system as established in this act.

(c) Contributions made by municipalities for plans established under the provisions of Article II, III or IV of this act toward superannuation retirement and death benefits of members shall be credited to the municipal account of [said] the fund, contributions made by the same municipalities toward disability retirement of Article II, III or IV members shall be credited to the total disability reserve account of [said fund, retirement] the fund. Contributions made by municipalities for Article IV-A members shall be billed by the board on a quarterly calendar basis, expressed as a percentage of the compensation paid to the municipalities' plan members during the quarter and credited to the employers' account. Actuarial gains and losses associated with Article IV-A members shall be calculated in accordance with the Municipal Pension Plan Funding Standard and

Recovery Act but shall be expressed as a percentage of compensation and shall be incorporated in the plan's employer cost percentage. Retirement benefits paid to DROP participants shall be credited to the subsidiary DROP reserve account and payroll deductions and other contributions of members shall be credited to the member's account of [said] the fund. Transfers made from existing municipal retirement or pension systems shall be credited as provided in this act.

(d) The board shall keep separate accounts of each municipality and for each separate class of employes enrolled by that municipality under [the several articles] Articles II, III and IV of this act, except the total disability reserve account [and], the retired member's reserve account and the employers' account which shall be maintained as pooled accounts. Each municipality and the members thereof shall be liable to the board for the amount of contributions required to cover the cost of the retirement allowance and other benefits payable to such members.

(e) Upon the granting of a superannuation or voluntary or involuntary withdrawal retirement allowance to any contributor, the amount of such contributor's accumulated deductions in the member's account shall lose their status as accumulated deductions and shall be transferred to the retired member's reserve account and the actuarial equivalent of the municipal annuity shall be similarly transferred from the municipal account or the employers' account as applicable to the retired member's reserve account.

(f) Upon the granting of a superannuation retirement allowance to any DROP participant, the full amount of the DROP participant's monthly retirement benefit shall be deposited monthly to a subsidiary DROP participant account in the subsidiary DROP participant reserve account until the DROP participant terminates employment.

(g) Upon the granting of a disability retirement allowance to any contributor under Article II, III or IV of this act, there shall be transferred to the retired member's reserve account the amount of the contributor's accumulated deductions in the member's account, the amount of the equivalent actuarial value to the municipal annuity, and such additional amount from the total disability reserve account as is needed in addition thereto to provide the actuarial equivalent of the total disability allowance to which the contributor is entitled.

(h) Upon the granting of a disability retirement allowance to an Article IV-A member, there shall be transferred to the retired member's reserve account the amount of the member's accumulated deductions in the member's account and such additional amount from the employers' account as is needed to provide the actuarial equivalent of the total disability allowance to which the Article IV-A member is entitled.

Section 110. Management and Investment of Fund; Interest Credits.--(a) The members of the board shall be trustees of the fund, and shall have the exclusive management of said fund, with full power to invest the moneys therein, subject to the terms, conditions, limitations and restrictions imposed by law upon fiduciaries. The said trustees shall have power to hold, purchase, sell, assign, transfer and dispose of any securities and investments in said fund, as well as the proceeds of such investments, and of the money belonging to such fund.

(b) The board shall annually allow regular interest to the credit on each [contributor's] member's account, municipal account, employers' account, the retired members reserve account and the total disability reserve account. The board shall monthly credit DROP interest to the subsidiary DROP participant accounts in accordance with established procedures.

(c) The board shall, after deducting money to pay for the appropriate expenses, allow excess interest as each contract provides to the credit of the municipal accounts, member's accounts for members enrolled under Article II, III or IV of this act, the member's excess investment accounts and retired members reserve accounts. Except as provided in a contract, the board shall credit the excess interest to the [plan's] municipal account[.] for plans established under the provisions of Article II, III or IV of this act. Excess interest attributable to Article IV-A accounts shall be credited to the employers' account.

Section 3. The act is amended by adding an article to read:

ARTICLE IV-A

STATEWIDE MUNICIPAL POLICE OFFICERS PENSION PLAN

Section 401-A. Statewide Municipal Police Officers Pension Plan.

(a) Establishment.--The Statewide Municipal Police Officers Pension Plan is established to provide for the mandatory enrollment of municipal policemen at the contribution rates and benefit rates outlined in this article.

(b) Pension rights.--Regardless of any other provision of law, pension rights of Article IV-A members shall be determined solely by this article and no collective bargaining agreement nor any arbitration award between the municipality and its employees or their collective bargaining representatives shall be construed to change any of the provisions of this article, to require the board to administer pension benefits not set forth in this article or otherwise require action by any other government body pertaining to pension benefits or rights of Article IV-A members.

Section 402-A. Mandatory and optional membership.

(a) Mandatory membership.--Membership under this article shall be mandatory as of the effective date of employment for any municipal policeman hired on or after January 1, 2016, provided the municipal policeman is scheduled to work an average of at least 35 hours per week during a period of at least six consecutive months and is not employed by a city of the first or second class. Municipalities shall comply with the enrolling procedures established by the board.

(b) Optional membership.--Membership under this article shall be optional for municipal policemen hired on or prior to December 31, 2015, and who are scheduled to work an average of at least 35 hours per week during a period of at least six consecutive months and who are not employed by a city of the first or second class subject to the following:

(1) Municipal policemen eligible for optional membership under this section may be enrolled under this article provided an affirmative vote electing to be enrolled under this article is obtained from 100% of all the municipal policemen eligible for optional membership.

(2) Upon the satisfaction of paragraph (1), the employing municipality shall pass an ordinance or resolution, as appropriate, enrolling all of its municipal policemen eligible for optional membership under the provisions of this article.

(3) Provisions shall be made between the board and the

municipality for the transfer of moneys and securities from any preexisting pension fund being maintained by the municipality covering such municipal policemen, in whole or in part, to fund the accrued benefits of all the municipal policemen being enrolled under this article. Securities to be transferred shall be only those acceptable to the board. Securities not acceptable shall be converted into cash and the cash shall be transferred to the fund. In any transfer, provision shall be made to credit the accumulated deductions of each Article IV-A member at least the amount the member has paid into the preexisting retirement or pension system of the municipality.

(4) Enrollment shall be approved by the board only if the municipality transfers assets in an amount sufficient to completely satisfy the municipality's liability, as determined by the board's actuary, for the prior service credits of the municipal policemen to be enrolled.

(5) No liability, on account of retirement allowances or pensions being paid from any existing retirement or pension fund of a municipality enrolling under this section, shall attach against the fund, except as may be agreed upon by the municipality and the board making a transfer of an existing system. The liability to continue payment of pensions not transferred shall attach against the municipality.

(6) In cases where municipal policemen eligible for optional membership under this section elect to join the system created by this article in accordance with paragraph (1) and the employing municipality complies with paragraph (2), the election to join shall be irrevocable.

Section 403-A. Service credit.

(a) Credited service.--In computing the length of service of an Article IV-A member, full credit shall be given to each Article IV-A member for each full or partial year of service rendered to the municipality as a municipal policeman for which the required member contributions have been made or for which contributions otherwise required for such service were not made solely by reason of any provision of this act relating to the limitations under sections 401(a)(17) or 415(b) of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. §§ 401(a)(17) and 415(b)). Except as otherwise required by applicable law, in no event shall an Article IV-A member receive service credit for any period during which the Article IV-A member is on leave of absence without pay.

(b) Purchase of service.--

(1) If a former Article IV-A member returns to service and becomes an active Article IV-A member, the member may restore to the fund any amounts refunded under section 407-A that represent that member's previous service and continue accruing credited service for service rendered subsequent to the return to service.

(2) The Article IV-A member's annuity rights shall be restored as they existed at the time of separation from service provided the member pays the amount due plus regular interest up to the date of purchase in a lump sum within 30 days after billing or through salary deductions amortized with regular interest through a repayment period of not more than five years.

(c) Military service.--

(1) An active Article IV-A member who enters the uniformed services as defined by 38 U.S.C. § 4303 (relating

to definitions) and returns to the municipality as an Article IV-A member within the time period prescribed by law shall have the time spent in uniformed service credited to the Article IV-A member's account for retirement purposes if the Article IV-A member makes the required employee contributions.

(2) An active Article IV-A member may also purchase credit for nonintervening military service for a period not to exceed five years. The member may file an application with the board to purchase credit for periods of nonintervening military service upon completion of five years of credited service. The amount due from the member shall be computed by applying the applicable member and municipal contribution rate which was in effect on the date of the member's enrollment under this article times the member's average annual rate of compensation over the first five years of the member's subsequent employment and multiplying the result by the number of years and fractional part of a year of creditable nonintervening military service being purchased, plus regular interest from the date of enrollment under this article to date of purchase.

(3) The amount due from the member for the purchase of military service credit shall be certified by the board in accordance with methods approved by the actuary and may be paid in a lump sum within 30 days or may be amortized with additional interest through deductions in amounts agreed upon by the member and the board. The rate of interest to be charged to the member on account of the purchase of credit for nonintervening military service shall be the regular interest rate.

(4) An Article IV-A member may purchase credit for intervening or nonintervening military service only if the member's discharge or separation from the service was granted under other than dishonorable conditions. An Article IV-A member may not purchase credit for any military service for which the member is entitled to receive, eligible to receive now or in the future or is receiving retirement benefits for the service under a retirement system administered and wholly or partially paid for by another governmental agency or private employer. Applications to purchase credit for military service must be accompanied by proof of the nature of discharge or separation from military service.

Section 404-A. Determination of municipal liability.

(a) Municipal contribution rate.--

(1) The municipal contribution rate shall be computed by the actuary for each municipality as a percentage of the municipality's payroll attributable to active Article IV-A members during the period for which the amount is determined and shall be certified by the board.

(2) The municipal contributions shall be equal to the amount necessary to fund the liability for any benefit payable to Article IV-A members, provided that the municipal contribution rate shall be no less than 7.5%.

(b) Eligibility for general State aid.--

(1) A municipality shall be immediately eligible for participation in the General Municipal Pension System State Aid Program established under the act of December 18, 1984 (P.L.1005, No.205), known as the Municipal Pension Plan Funding Standard and Recovery Act, if the municipality employs an active Article IV-A member.

(2) The three-year waiting period for eligibility for State aid for new plans stated in section 402(d) of the Municipal Pension Plan Funding Standard and Recovery Act shall not be applicable to municipalities that employ active Article IV-A members.

Section 405-A. Contributions by members.

(a) Required contributions.--

(1) Article IV-A members shall contribute 7.5% of compensation. The contributions shall be deemed "pickup" contributions and shall be treated as contributions made by the municipality for purposes of section 414(h) of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 414(h)) relating to pickup contributions.

(2) Each municipality shall certify and deduct from payroll the required contributions and shall send all contributions to the system in a manner and at a time that the board determines.

(b) Limits.--The municipality shall immediately notify the board of the compensation of any Article IV-A member to whom the limitation under section 401(a)(17) of the Internal Revenue Code of 1986 either applies or is expected to apply and shall cause the Article IV-A member's contributions deducted from payroll to cease upon reaching the limitation under section 401(a)(17) of the Internal Revenue Code of 1986.

Section 406-A. Superannuation retirement.

(a) Eligibility for superannuation retirement.--An active Article IV-A member who attains superannuation retirement age shall be entitled to receive a superannuation retirement benefit upon termination of service and filing of a proper application under subsection (c) provided the Article IV-A member has completed 20 years of credited service.

(b) Superannuation retirement benefit.--Upon termination of service, an Article IV-A member who is eligible for a superannuation retirement shall be entitled to receive an annual retirement allowance throughout the member's life, which shall be calculated by multiplying the member's years of credited service times the member's final salary times 2.5% not to exceed 65% of the member's final salary.

(c) Application.--

(1) Each active Article IV-A member who terminates service and who is not then a disability annuitant shall execute and file with the board a written statement, duly attested by the member or his legally constituted representative, electing to receive an immediate annuity and stating on what date the member desires to be retired.

(2) The application shall make the superannuation retirement benefit effective on the date so specified if the application was filed in the office of the board or deposited in the United States mail addressed to the board before the date specified in the application and before the death of the member, but the date stated in the application shall not be more than 90 days after the date of filing or the date the application was deposited in the mail.

(d) Initial payment.--The board shall make the first payment to an Article IV-A member who is eligible for an annuity within 60 days of the filing of an application for an annuity or within 60 days of the effective date of retirement, whichever is later, and receipt of the required data from the employer.

Section 407-A. Refund.

(a) Eligibility.--Upon termination of service, an Article

IV-A member, regardless of eligibility for benefits, may elect to receive his accumulated deductions in lieu of any benefit to which he is entitled.

(b) Required refund.--Upon termination of service, an Article IV-A member who is not eligible for any benefits under this article shall be paid the full amount of the accumulated deduction standing to the member's credit in the member's account.

Section 408-A. Vesting.

(a) Eligibility.--An Article IV-A member who terminates service with 12 or more years of credited service shall be entitled to vest his retirement benefits until the date upon which the Article IV-A member would have become eligible for a superannuation retirement benefit under section 406-A(a) if such Article IV-A member had continued to be employed and eligible for membership under section 402-A.

(b) Notification following termination of service.--

(1) The municipality shall immediately notify the board in a manner prescribed by the board of the date of termination of service for any Article IV-A member.

(2) As soon as practicable after receiving notice from a municipality that an Article IV-A member who is eligible to vest is terminating service, the board shall notify the Article IV-A member in writing that the member must file with the board an application to vest within 90 days of the date of notice to vest. If the Article IV-A member fails to file an application to vest within 90 days of the date of notice to vest, the member shall be deemed to have elected to receive the accumulated deductions in lieu of any benefit to which the member may be entitled.

(c) Failure to elect.--In the event that an Article IV-A member fails to file an application to vest within 90 days of the date of notice to vest, he shall be ineligible to vest and shall be deemed to have elected to receive his accumulated deductions in lieu of any benefit to which he may be entitled. The amount payable to the member shall be determined in accordance with section 407-A.

(d) Interest.--Regular interest will continue to be credited on a vested Article IV-A member's accumulated deductions from date of termination of service until the earlier of the date of the commencement of the annuity or the date of payment of member contributions.

(e) Application for benefits.--

(1) A vested Article IV-A member may submit an application in accordance with section 406-A within 90 days of the date upon which the member would have become eligible for a superannuation retirement benefit under section 406-A(a) if the member had continued to be employed and eligible for membership under section 402-A.

(2) If a vested Article IV-A member applies for an annuity within 90 days of the date, the effective date of retirement will be the date the member would have attained eligibility for a superannuation retirement benefit.

(3) If an Article IV-A member does not apply within 90 days, the effective date of retirement will be the date the application was filed or the date specified on the application, whichever is later.

Section 409-A. Deferred Retirement Option Program.

An Article IV-A member may elect to receive a retirement benefit under the terms of the Deferred Retirement Option

Program as adopted by the board.

Section 410-A. Return to service.

(a) General rule.--Should an Article IV-A annuitant, other than a disability annuitant, be reemployed in a position that is subject to mandatory enrollment as an Article IV-A member or be subsequently employed with a municipality that has enrolled its employees under Article II, III or IV, his retirement allowance shall continue to be paid through the period of reemployment, provided the Article IV-A annuitant is otherwise eligible to receive an in-service distribution of his retirement benefit by attainment of normal retirement age as defined in section 411(a)(8) of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 411(a)(8)), operation of section 401(a)(36) of the Internal Revenue Code of 1986 or operation of any other provision as may be adopted by the board and consistent with the tax qualification provisions of the Internal Revenue Code of 1986.

(b) Credited service during in-service distribution.--An Article IV-A annuitant who is eligible for an in-service distribution shall not be entitled to earn any credited service during the period of reemployment and no contribution may be made by the Article IV-A annuitant or the municipality on account of such employment.

(c) Notification by municipality.--The municipality shall immediately notify the board of the reemployment status of any Article IV-A annuitant.

Section 411-A. Death benefits.

(a) Options.--The current spouse or eligible dependent of a vested Article IV-A member who has terminated service and dies before filing an application for benefits under section 408-A(a) may elect to receive payment according to one of the following options:

(1) A monthly benefit equal to 50% of the benefit the vested Article IV-A member would have received had he submitted an application under section 408-A(e). The monthly benefit will begin on the date upon which the vested Article IV-A member would have become eligible for a superannuation retirement benefit under section 406-A(a) if the Article IV-A member had continued to be employed and eligible for membership under section 402-A.

(2) All of the moneys credited to the member's account as of the date of his death.

(b) Withdrawal of moneys by survivor.--The current spouse or eligible dependent of an active Article IV-A member who dies and has less than 12 years of credited service at the time of death shall receive all of the money credited to the member's account as of the date of death.

(c) Survivor annuity.--

(1) The current spouse or eligible dependent of an active Article IV-A member who dies and has at least 12 years of credited service at the time of death but less than 20 years of credited service shall receive a monthly benefit equal to 50% of the benefit the active Article IV-A member would have received had he retired the day before his death actuarially reduced from the member's superannuation date.

(2) The current spouse or eligible dependent of an active Article IV-A member who dies and has at least 20 years of credited service at the time of death shall receive a monthly benefit equal to 50% of the benefit the active Article IV-A member would have received had he retired the

day before his death.

(3) The current spouse or eligible dependent of an Article IV-A annuitant shall receive a monthly benefit equal to 50% of the benefit the Article IV-A annuitant was receiving at the time of his death.

(d) Determination of current spouse.--For purposes of this article, the "current spouse" shall be determined as of the date of death of the member. In the event there is no current spouse, an "eligible dependent" shall be the child or children of the deceased Article IV-A member, provided the dependent is under 18 years of age or, if attending college, under 23 years of age.

(e) Duration of survivor annuity.--

(1) If the current spouse is entitled to receive a benefit, the benefit shall be paid for the life of the spouse.

(2) If an eligible dependent is receiving a benefit, the benefit shall be paid until the child attains 18 years of age or, if attending college, 23 years of age.

(3) If there is more than one eligible dependent, the benefit shall be equally divided among the dependents.

(4) If the current spouse is receiving a benefit under the provisions of this section and the current spouse dies and there is a surviving eligible dependent of the Article IV-A member, the eligible dependent shall receive the benefit as long as the eligible dependent is entitled.

(f) Default provision.--In the event there is no current spouse or eligible dependent, the member's accumulated deductions, less any moneys paid out as a benefit, shall be paid to the beneficiary or, if one is not designated, the estate or next of kin under 20 Pa.C.S. § 3101 (relating to payments to family and funeral directors).

Section 412-A. Disability retirement.

(a) Eligibility.--

(1) An active Article IV-A member who is permanently unable to perform the full duties of a municipal policeman as a result of a service-connected disability shall receive a disability pension equal to 50% of the Article IV-A member's final salary, regardless of age or credited service, provided the physician designated by the board, after medical review, certifies that the member is unable to perform the full duties of a municipal policeman.

(2) An active Article IV-A member who is permanently unable to perform substantial, gainful employment, considering the member's age, education and work experience as a result of a service-connected disability, shall receive a disability pension equal to 75% of the member's final salary, regardless of age or credited service, provided the physician designated by the board, after medical review, certifies that the member is unable to perform substantial, gainful employment.

(3) For purposes of this section only, a "service-connected disability" shall mean the disability of a member resulting from:

(i) an injury arising out of and incurred in the course of his employment as determined under the applicable provisions of the act of June 2, 1915 (P.L.736, No.338), known as the Workers' Compensation Act, or the act of June 21, 1939 (P.L.566, No.284), known as The Pennsylvania Occupational Disease Act; or

(ii) an injury in the performance of his duties under the applicable provisions of the act of June 28, 1935 (P.L.477, No.193), referred to as the Enforcement Officer Disability Benefits Law, which has been determined to be permanent.

(b) Offset not authorized.--A disability benefit shall not be offset by the amount of any payment made to the Article IV-A member under the provisions of the Workers' Compensation Act, The Pennsylvania Occupational Disease Act or the Social Security Act (49 Stat. 620, 42 U.S.C. § 301 et seq.).

(c) Effective date of disability retirement.--The effective date of a disability retirement shall be the first day of the month following the earlier of:

(1) the granting of a disability retirement by the board; or

(2) the date following the termination of benefits under the Enforcement Officer Disability Benefits Law.

(d) Permanency of disability benefits.--Once granted by the board, the disability benefit shall be a permanent benefit and shall not be subject to subsequent reviews by the board.

(e) Return to service.--

(1) Notwithstanding any other provision of this article to the contrary, should a disability annuitant return to employment and become eligible to enroll as an Article IV-A member, any annuity payable to the annuitant shall cease effective upon the date of return to service.

(2) If an annuitant is receiving a disability under subsection (a)(2) and is subsequently employed by a municipality that has enrolled its employees under Article II, III or IV and is otherwise subject to mandatory enrollment under the plan, the disability annuity shall cease

effective upon the date of return to service.

(3) Should a disability annuity cease in accordance with paragraph (1) or (2), the disability annuitant shall be restored to active service and the actuarial equivalent of the total disability allowance calculated as of the date of retirement less the amount of disability payments paid to the disability annuitant shall be transferred from the retired member's reserve account and credited to the member's account and the employers' account as follows:

(i) The present value of the member's annuity to which the disability annuitant was receiving less the total payments received on account of the member's annuity as of the time of reentry into Article IV-A shall be credited to the member's account.

(ii) The remainder shall be credited to the employers' account.

Section 413-A. Portability.

When a member terminates service, within one year of separation becomes employed by a municipality and is enrolled as a member under Article II, III or IV or this article and the member's service credits shall remain unimpaired. In such a case, the municipal liability for past service shall be prorated by the system between the municipalities and the applicable plan on an equitable basis.

Section 414-A. Municipal guarantee.

Regular interest charges payable, the maintenance of reserves in the fund on account of benefits under this article and the payment of all annuities and other benefits granted under this article are hereby made obligations of each municipality employing Article IV-A members. All income, interest and dividends derived from deposits and investments attributable under this article shall be used for the payment of the obligations of the municipalities.

Section 4. This act shall take effect in 60 days.