

PUBLIC EMPLOYEE RETIREMENT COMMISSION**ACTUARIAL NOTE TRANSMITTAL**

Bill ID: House Bill Number 9, Printer's Number 2205

System: State Employees' Retirement System

Subject: Membership in the State Employees' Retirement System for Individuals
Employed as "Crewleaders" with the Pennsylvania Conservation Corps

SYNOPSIS

House Bill Number 9, Printer's Number 2205, would amend the Pennsylvania Conservation Corps Act (Act of 1984, P. L. 561, No. 112) to entitle "crewleaders" of the Pennsylvania Conservation Corps to membership in the State Employees' Retirement System beginning July 1, 2009. The bill also mandates expiration of the Pennsylvania Conservation Corps Act and the Pennsylvania Conservation Corps on June 30, 2020.

DISCUSSION

The State Employees' Retirement Code (Code) is a governmental, cost-sharing, multiple-employer pension plan. The designated purpose of the State Employees' Retirement System (SERS) is to provide retirement allowances and other benefits, including disability and death benefits to State employees. Membership in SERS is mandatory for most full-time State employees. Certain other employees are not required but are given the option to participate. As of December 31, 2009, SERS had 110,458 active members and 109,639 annuitants and beneficiaries.

Under the Code, superannuation or normal retirement age for most members is age 60 with three years of service or any age with 35 years of service, while age 50 is the normal retirement age for members of the General Assembly and certain public safety employees. Temporary provisions of the Code also have permitted members with 30 or more years of service credit to retire at any age and receive full retirement benefits with no benefit reduction for retiring prior to the superannuation or normal retirement age. The most recent special early retirement provision expired June 30, 1999.

Pennsylvania Conservation Corps

The Pennsylvania Conservation Corps (PCC) was created in July 1984 by the Pennsylvania Conservation Corps Act (Act 112 of 1984). Administered by the Department of Labor and Industry, the mission of the PCC is to develop the workplace skills, life skills and self-confidence of corps members, and to instill in corps members a sense of citizenship and

DISCUSSION (Cont'd)

community service through participation in conservation projects, historical work and various other projects of public benefit. Since 1984, the PCC has undertaken more than 1,000 projects in urban, suburban and rural areas statewide. Entities that are eligible to sponsor PCC projects include: local governments; community-based non-profit organizations; the Pennsylvania Emergency Management Agency; the Pennsylvania Game Commission; the Pennsylvania Fish and Boat Commission; the Historical and Museum Commission; and the Departments of Aging, Corrections, Education, Public Welfare, Military and Veterans Affairs, Community and Economic Development, and Conservation and Natural Resources.

Corps members are Pennsylvania residents, between the ages of 18 and 25 (16 and 17 year-olds may participate under special circumstances). Preference in enrollment is given to the economically disadvantaged. Corps members enroll for an initial one-year term of service, with the possibility of extending for an additional six to twelve months of service. Corps members receive a starting salary of \$7.25 per hour, with a 10 percent pay increase after six months on the job. Corps members who complete a year of service are eligible to receive a one-time cash bonus of \$1,000, and may also qualify for an education award of up to \$4,725. While enrolled, Corps members receive on-the-job vocational training, including carpentry, masonry, electrical work, landscaping and a variety of other trades. Corps members work in crews under the supervision of crewleaders who have experience in the building trades and are skilled in motivating and training young adults.

Crewleaders are supervisory personnel employed by the Department of Labor and Industry pursuant to the Pennsylvania Conservation Corps Act. To be eligible for employment as a crewleader, an individual must be a Pennsylvania resident, be registered with the local Job Center for employment, and be physically and mentally capable of performing labor intensive work and supervisory duties. Crewleader candidates are referred to the PCC by the Bureau of State Employment, and preference in hiring is given to honorably discharged military veterans. Crewleaders are full-time, temporary employees, and currently receive a starting wage of \$12.35 per hour, with an increase to \$12.96 an hour after six months on the job. Examples of work performed by crewleaders include: interviewing and enrolling corps members, planning, organizing, scheduling and assigning work to corps members, directing crew activities, evaluating corps members' work performance, and compiling and submitting periodic reports. Crewleaders are initially employed for a one-year term of service, which may be extended, at the option of the Department of Labor and Industry, for an unlimited number of additional one-year terms. Despite their full-time status, however, crewleaders are not entitled to membership in SERS, nor most other employee benefits normally provided to regular Commonwealth employees, except for paid Commonwealth holidays and workmen's compensation.

SUMMARY OF ACTUARIAL COST IMPACT

The Commission's consulting actuary indicated that enactment of the bill would create an unfunded actuarial accrued liability. The additional liability results because the assumed average attained age of the affected employees as of July 2009 was 46, which is significantly higher than the average age (35) of a new entrant to SERS (upon whom the normal cost rate is based). Therefore, the present value of future normal costs, which are based on the average SERS new entrant, will not fully cover the present value of future benefits for the 49 members expected to join SERS as a result of enactment of the bill.

Additional amortization payments would be necessary to fund any increase in unfunded actuarial accrued liability. By law, benefit changes must be funded over a 10-year period through level-dollar amortization payments. However, because the bill would not institute a benefit change, but would instead add an additional cohort of membership to the system, the consulting actuary for SERS has advised the Commission staff that the increase in liability attributable to the bill would be treated as an experience loss and amortized through level-dollar amortization payments over 30 years instead of 10 years. The estimated change in normal cost is shown in the following table.

	Amount	
Change in Unfunded Actuarial Accrued Liability	\$231,000	
	Amount	As a % of Affected Payroll
Additional Employer Annual Costs		
Normal Cost	\$120,000	9.51%
Amortization Payment ¹	20,000	1.59%
Total Additional Increase in Employer Annual Costs	\$140,000	11.10%

¹ Level-dollar amortization payments over a thirty-year period.

POLICY CONSIDERATIONS

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

Drafting Irregularity. The bill amends the Pennsylvania Conservation Corps Act to provide for membership in SERS without amending the applicable retirement statute. It is unusual and irregular to provide for retirement benefits by amending a statute other than the applicable retirement Code. The bill would entitle crewleaders to membership in SERS beginning July 1, 2009. However, the bill is silent on the precise nature of that membership. The bill does not specify whether membership in SERS would be mandatory (as is the case for most Commonwealth employees) or if membership would be optional. House Bill Number 9 should be amended to make the entitlement to SERS membership contingent upon a corresponding amendment to the SERS Code which would specify the nature of SERS membership. Such an amendment would alleviate the Commission's concern about creating a pension entitlement in a non-pension statute. The staff believes that the following suggested language would adequately address this concern:

On bill page 2, line 21, insert after "System" "if so provided in Section 5301 (pertaining to Mandatory and Optional Membership) of Title 71 (State Government) of the Pennsylvania Consolidated Statutes."

Mandatory and Optional Membership. Section 5301 of the SERS Code addresses the issue of System membership. While the bill itself is silent on whether membership would be mandatory or optional for the affected group of employees, for most full-time State employees of Commonwealth departments, membership in SERS is mandatory. Certain other employees, including the Governor, members of the General Assembly, and heads of departments and commissions, have the option to become members, but are not required to do so. Others, including most part-time employees, are specifically excluded from membership in SERS. The Pennsylvania Conservation Corps Act defines crewleaders as full-time, temporary employees of the Department of Labor and Industry. The General Assembly and the Governor must determine whether mandatory or optional membership in SERS is appropriate for this class of employee.

Potential for Additional Retirement Benefit Costs. If the bill is enacted, there may be additional retirement benefit costs incurred by the Commonwealth. By becoming members of SERS, the affected employees may become eligible to purchase service credit in SERS for previous nonstate service. Through the purchase of additional service credit, a member either may become eligible for superannuation retirement benefits sooner than otherwise or may achieve eligibility for such benefits when the

POLICY CONSIDERATIONS (Cont'd)

member could not otherwise do so. There may also be ancillary costs to the Commonwealth resulting from enactment of the bill, such as payments for unused accrued leave or eligibility for employer-subsidized postretirement healthcare benefits.

Drafting Issue. The bill would entitle crewleaders to membership in SERS beginning July 1, 2009. As written, the bill could be interpreted as providing retroactive membership in SERS. If the intent of the bill is to provide SERS membership on a prospective basis only, the bill should be amended to provide SERS membership beginning July 1, 2010 (see bill page 2, line 20, and bill page 3, line 8).

COMMISSION RECOMMENDATION

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

ATTACHMENTS

Actuarial note provided by William A. Reimert and Timothy J. Nugent of Milliman.

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