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A SUNSET PERFORMANCE AUDIT OF THE

PUBLIC EMPLOYEE RETIREMENT
STUDY COMMISSION

Pursuant to
Acts 1981-66 and 1981-142

June 1990

TABLE OF CONTENTS

A SUNSET PERFORMANCE AUDIT OF THE
PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION

	<u>Page</u>
I. <u>INTRODUCTION</u>	
A. Audit Authority and Purpose	1
B. Audit Objectives	1
C. Audit Scope and Methodology	2
D. Report Structure and Acknowledgements	3
II. <u>AUDIT FINDINGS AND RECOMMENDATIONS</u>	
A. Relationship to Public Health, Safety, and Welfare	5
B. Public Input and Participation	21
C. Required Commission Input Is Being Provided for Most Retirement-Related Legislation	25
D. Commission Actions Are Promoting Municipal Compliance With Pension Reporting and Minimum Funding Standards	31
E. Need to Broaden Representation on Commission Advisory Committees	41
F. Certain Municipal Pension System Reports Not Submitted to the Commission	45
G. Commission Assessment Needed of Municipal Pension System State Aid Allocation Formula	48
H. Additional Coordination Needed Between Commission and Other State Agencies Involved With Municipal Pension Systems	51
I. Commission Proposal Needed to Address Fragmented Structure of Public Employee Pension Systems	55
J. Commission Guidelines for Use of Consulting Actuaries Require Modification and Update	59
K. Commission Relies on Self-Certification of Qualifications by Municipal Actuaries	62

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
II. <u>AUDIT FINDINGS AND RECOMMENDATIONS</u> (Continued)	
L. Inconsistency in Law Regarding Frequency of Commission Reporting on Municipal Pension Systems	65
M. Commission Name Not Fully Reflective of Its Functions	67
N. Statutory Classification of the Commission Is Unclear	69
III. <u>BACKGROUND DESCRIPTIVE INFORMATION ABOUT THE PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION</u>	
A. Legal Background	71
B. Commission Powers and Duties	71
C. Commission Goals and Objectives	74
D. Member Composition and Functions	74
E. Staff Composition and Functions	75
F. Advisory Committees	76
G. Fiscal Information	77
IV. <u>APPENDICES</u>	
A. PA Sunset Review and Termination/Continuation Timetable	87
B. Membership of the Public Employee Retirement Study Commission	91
C. List of Public Employee Retirement Study Commission Publications and Reports	93
D. Pennsylvania Municipalities With Unfunded Actuarial Accrued Liabilities Greater Than One Million Dollars (Based on 1987 Municipal Pension Plan Data)	95
E. Detailed Breakdown of Unfunded Actuarial Accrued Liability by Municipality and Plan Type Based on 1985 and 1987 Municipal Pension Plan Data	99

TABLE OF CONTENTS
(Continued)

	<u>Page</u>
IV. <u>APPENDICES</u> (Continued)	
F. Analysis of the Impact of Selected PERSC Actuarial Notes	109
G. Selected Membership and Actuarial Information on Pennsylvania Public Employee Pension Systems	117
H. Selected Comparative Information on State Pension Commissions in Pennsylvania and All States	119
I. Membership of the Municipal Pension Advisory Committee	123
J. Membership of the Municipal Employee Pension Advisory Committee	125
K. Public Employee Retirement Study Commission By-Laws	127
L. Responses to This Report	131

LIST OF TABLES AND EXHIBITS CONTAINED IN THIS REPORT

TABLES

1 - Amount and Percentage Change in the Unfunded Actuarial Accrued Liability of Selected Municipal Pension Plans Between 1985 and 1987	38
2 - State General Fund Appropriations to the PERSC and Amounts Expended and Lapsed, FY 1982-83 through FY 1990-91 (Budget)	84
3 - Breakdown of FY 1988-89 Public Employee Retirement Study Commission Expenditures by Minor Object	85

EXHIBITS

A - Summary Information on PERSC Development of Actuarial Notes for Legislation Relating to Public Employee Pension/Retirement Matters	29
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TABLE OF CONTENTS
(Continued)

	<u>Page</u>
<u>EXHIBITS</u> (Continued)	
B - Growth of Unfunded Actuarial Accrued Liabilities in Pennsylvania Local Government Pension Plans, 1974 to 1989 (Estimated)	37
C - Public Employee/Employer Organizations Currently Represented on PERSC Advisory Committees	44
D - Growth in Number of Local Government Pension Plans	58
E - State Laws Which Pertain to the Establishment and Operation of the Public Employee Retirement Study Commission (PERSC)	78
F - Summary of Primary Activities Carried Out by the Public Employee Retirement Study Commission	79
G - Summary of Primary Activities Carried Out by the Public Employee Retirement Study Commission Membership	80
H - Summary of Primary Activities Carried Out by the Public Employee Retirement Study Commission Staff	81
I - Public Employee Retirement Study Commission Organization Chart	83

I. INTRODUCTION

A. Audit Authority and Purpose

This audit of the Public Employee Retirement Study Commission (PERSC) was conducted pursuant to the Public Employee Retirement Study Commission Act, 43 P.S. §1401 et seq., (Act 1981-66, as amended) and the Sunset Act, 71 P.S. §1795.1 et seq. (Act 1981-142, as amended).

Pursuant to the provisions of the Sunset Act, the Legislative Budget and Finance Committee is to conduct a performance audit of each agency scheduled for sunset termination. Written reports on the audits, which are to be completed by March 1 of the termination year, are presented to the appropriate standing committees of the General Assembly.

The LB&FC's audits are intended to determine whether agencies are operating in the public interest, suggest ways in which their efficiency and effectiveness can be enhanced, and aid the General Assembly in determining whether the agency should be continued, terminated, or modified/restructured.

The scheduled sunset termination date for the Public Employee Retirement Study Commission is December 31, 1991. Appendix A contains overview information on the sunset review and termination/continuation timetable which will apply to the Commission.

B. Audit Objectives

The objectives of this audit incorporate the specific sunset criteria which are set forth in Act 1981-142. The objectives are as follows:

1. To determine if the activities of the Commission are consistent with the objectives intended by the General Assembly.
2. To determine if the activities of the Commission are being conducted in a faithful, efficient, economical, and effective manner.
3. To determine whether termination of the Commission would significantly harm or endanger the public health, safety, or welfare.
4. To determine if there is an overlap or duplication by other agencies that would permit termination of the Commission.

5. To determine if the Commission's operation has been in the public interest and whether there is a demonstrated need, based on service to the public, for its continuing existence.
6. To determine if the Commission has encouraged public input and participation in its deliberations and decision-making processes.
7. To determine if the Commission's services may be provided in an alternate, less restrictive manner.

During this audit, the sunset criteria incorporated in the above objectives were also applied by LB&FC staff in examining the operations of the Commission's two advisory committees, the Municipal Pension Advisory Committee and the Municipal Employee Pension Advisory Committee. (See part C below for further explanation.)

C. Audit Scope and Methodology

This audit covers the operation and performance of both the Public Employee Retirement Study Commission (PERSC) and its two statutory advisory committees, the Municipal Pension Advisory Committee (MPAC), and the Municipal Employee Pension Advisory Committee (MEPAC).

The MPAC was created by the Public Employee Retirement Study Commission's enabling legislation (Act 1981-66) and is, therefore, also subject to the sunset review process and the PERSC's scheduled sunset termination date of December 31, 1991. The MEPAC was established by Act 1982-221. Under the ten-year sunset review and termination date provided for in the Sunset Act, 71 P.S. §1795.8, the MEPAC has a scheduled termination date of December 31, 1992.

A close statutory and operational relationship exists between the PERSC and its two advisory committees. Because of this relationship and because the scheduled termination date for the MEPAC is only one year later than that of the Commission and the MPAC, audit activities were conducted for the MEPAC as part of the PERSC sunset audit. The results of LB&FC staff audit work related to the MEPAC are reported in this sunset audit report.

The operations and performance of the Public Employee Retirement Study Commission and its two advisory committees were reviewed primarily for the period January 1986 through January 1990, with an emphasis on fiscal years 1987-88, 1988-89, and the first half of 1989-90. The audit was conducted in accordance with generally accepted government auditing standards and included:

1. Review of applicable statutes and regulations.
2. Interviews with PERSC staff.
3. Attendance at PERSC and advisory committee meetings.
4. Receipt of information and input (through survey questionnaires and interviews) from Commission members, advisory committee members, legislative staff, actuaries who are involved with the PERSC, state and municipal pension administrators, and other interested organizations and individuals.
5. Review of PERSC study reports, policy research documents, and other published materials.
6. Identification and testing of PERSC's management control systems.
7. Examination and testing of PERSC files pertaining to the development of actuarial notes, monitorship of state and municipal pension systems, and other Commission functions.
8. Contacts with Pennsylvania state agencies which are involved with the PERSC, pension commissions in selected other states and pertinent state and national organizations (e.g., the Pension Commission Clearinghouse).

The above activities were carried out during the period November 1989 through May 1990. No information has been omitted from this report because it is deemed privileged or confidential.

D. Report Structure and Acknowledgements

This audit report consists of four sections: Section I, Introduction, contains information on audit authority and purpose, objectives and scope and methodology; Section II presents the audit findings and recommendations; Section III provides background descriptive information on the Public Employee Retirement Study Commission and its functions; and Section IV, Appendices, sets forth various supplemental information related to the sunset review process and the Commission.

The audit staff expresses appreciation to the members of the Public Employee Retirement Study Commission and to the Commission staff for the cooperation and assistance they provided during this audit. Special thanks are extended to Commission Chairman Dale D. Stone and Executive Director Anthony W. Salomone, who served as audit liaison to the LB&FC staff.

Also acknowledged is input which was received from members of the Commission's advisory committees, state and municipal pension administrators, legislative staff, staff of selected Pennsylvania state agencies, consulting actuaries and others who have involvement with the Commission.

The LB&FC staff involved in the sunset performance audit of the Public Employee Retirement Study Commission was under the direction of the LB&FC Executive Director Philip R. Durgin and Chief Analyst John H. Rowe. The audit team leader was Senior Analyst George A. Franklin, Jr. Joan E. Hellmann and Deborah A. Reihart, Analysts, worked on the audit on a full-time basis and Jonathan P. Nase, Counsel, and Krista L. Williard, Paralegal, also assisted in the audit effort. Secretarial support was provided by Beverly L. Brown, B. Anne Gange, Donna R. Kerrigan, and Shannon M. Opperman. Additional staff assistance was provided by Michael G. McKenna and Charles V. Saia.

IMPORTANT NOTE:

This report contains information developed by the Legislative Budget and Finance Committee (LB&FC) staff. The release of this report should not be construed as an indication that Members of the LB&FC necessarily concur with all of the information contained in the report. The LB&FC as a body, however, supports the publication of the information and believes it will be of use to the Members of the General Assembly by promoting improved understanding of the issues.

Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania, 17105-8737.

II. AUDIT FINDINGS AND RECOMMENDATIONS

A. RELATIONSHIP TO PUBLIC HEALTH, SAFETY, AND WELFARE

The operation of public employee retirement plans is an important governmental function. Public pensions constitute a significant element of employee compensation for both state and local governments and require the commitment of billions of dollars of public revenue for extended periods of time. The Public Employee Retirement Study Commission (PERSC) was created in 1981 in response to growing unfunded pension liabilities and potential insolvencies in many of the Commonwealth's public pension plans. By statute, the Commission is responsible for reviewing proposed pension legislation, studying public pension issues, coordinating policy development, and monitoring the fiscal stability and costs of Pennsylvania's estimated 2,600 public pension systems. The Commission also has responsibilities which relate to the annual allocation of more than \$139 million in state aid to municipal pension systems. Public pension reforms and improvements in pension management, funding, and benefit practices have occurred in Pennsylvania in recent years. The municipal unfunded liability situation also appears to have been stabilized. The Commission has played a direct role in these developments, and its operations and performance have been in the public interest. Termination of the Commission without the continuation of most or all of its functions by another agency or agencies could significantly harm the public welfare by jeopardizing pension benefits for many Commonwealth citizens and potentially increasing taxpayer costs for public pensions.

DISCUSSION:

1. Commission Overview

The Public Employee Retirement Study Commission (PERSC) is a nine-member body which was created by Act 1981-66, 43 P.S. §1401 et seq., to provide an ongoing mechanism to monitor public employee retirement plans and to assure their actuarial viability by reviewing proposed changes to relevant Commonwealth statutes.

The Commission has several specific statutory responsibilities which are intended to achieve this objective. Among these are:

- Reviewing proposed legislation affecting public employee pension and retirement plans.
- Studying, on a continuing basis, public employee retirement policy, the interrelationships among the several systems, and the actuarial soundness of such systems.

- Administering an actuarial valuation reporting program for municipal retirement systems.
- Monitoring and enforcing compliance with statutorily mandated actuarial funding standards for municipal retirement systems.
- Certifying municipal pension cost data used in allocating state assistance to municipal pension systems.

The Commission meets in Harrisburg, usually on a monthly basis, and is supported by a full-time staff of seven employees and three consulting actuarial firms. Input and advice are to be provided to the Commission by two advisory committees, the Municipal Pension Advisory Committee and the Municipal Employee Pension Advisory Committee. The Commission's operating appropriation for fiscal year 1989-90 was \$500,000. (Additional background information on the Commission is contained in Section III of this report.)

2. Conditions Which Led to the Creation of the Commission

Nationally, increasing attention and concerns were directed to public pension matters during the 1970s. One outgrowth of these concerns was an increasing movement in the states to establish state pension oversight units. Developments in Pennsylvania generally paralleled the national trend as funding crises developed in many public pension plans and the need for additional state regulation and reform of state and local retirement systems became evident.

As was reported by the Advisory Commission on Intergovernmental Relations (ACIR) in 1980, the subject of public employee pensions, for many years, "lay dormant in the field of public finance." The ACIR also noted, however, that during the decade of the seventies public pensions emerged from obscurity and became a subject of increasing interest and concern:

The uncontrollable nature of pension costs, combined with the fact that many state and local governments had accumulated sizable pension debt in the form of unfunded liabilities of retirement systems, caused some observers to identify state and local retirement systems as potential fiscal time bombs. Public interest in pensions therefore initially was focused on the funding issue as public employees, taxpayers, and public officials sought to place pension funding on a more sound actuarial basis than previously

As early as 1967, a report issued by the State Division of the Pennsylvania Economy League (PEL) recommended that the General Assembly establish procedures to provide for the actuarial evaluation of all proposed retirement laws and amendments. The

PEL also proposed that local retirement systems be required to submit annual reports to the Department of Community Affairs on pension plan membership and financial condition.

Several years later, in 1972, the Commonwealth Compensation Commission (a special commission created to study the compensation of the Governor, the Lieutenant Governor, cabinet members, judges, and state legislators) also recommended the creation in law of a permanent retirement study commission in the Commonwealth. As was recommended by the Governor's Review of Government Management, Inc., in the same year and again in 1975, the Commonwealth Compensation Commission proposal called for the creation of a commission to study all state and local government retirement laws and systems, review proposals for new retirement legislation, and prescribe funding methods to make the programs actuarially sound.

In 1977, the PEL again called for the creation of a permanent retirement study commission. At that time a League study found "enormous unfunded liability" in the Public School Employees' Retirement System. This same study indicated that the high cost of Commonwealth retirement systems resulted partially from the Legislature's "failure to develop and enforce a policy governing retirement of public employees and its failure to examine proposed pension changes for long-range costs."

Additionally, reports issued by the Governor's Special Task Force on State Pension Reform (1974), the Special Senate Committee on Municipal Retirement Systems (1980), and the Auditor General's Office (in a 1973 audit report on the SERS Board) similarly called for the creation of a retirement oversight body.

During this same period reports issued by the Department of Community Affairs indicated the existence of "considerable serious and growing unfunded liabilities in local government pension funds." The initial data published in 1975 showed that municipal pension plans had accumulated \$1.0 billion in unfunded actuarial accrued liabilities. By 1978, this figure had reached \$1.7 billion and was continuing to grow.

In short, the following conditions, as identified by the Pennsylvania Economy League, characterized the public employee pension environment in the Commonwealth immediately prior to the creation of the Commission:

- Large and increasing unfunded liabilities in the state's systems.
- Bankruptcy threats for certain cities.
- Increasing tax burdens at all levels of government.
- Inequities among groups of public employees and between them and employees in the private sector.

A common theme in a number of these studies was that public pension policy and legislation in Pennsylvania evolved in a piecemeal fashion without systematic analysis and knowledge of the ultimate cost and impact of proposed pension benefits, policies, and funding changes. Other conditions or problems indicated in these studies and, in particular, in the DCA reports were the following:

- The absence of legislated actuarial funding standards for municipal pension plans.
- The technical deficiencies and omissions in the disjointed structure of statutes governing municipal pension plans.
- The absence of a mechanism to develop and coordinate municipal pension policy at the state level and the substandard management of municipal pension plans at the local level.

Another condition which appears to have been instrumental in the creation of the PERSC was the possibility of federal intervention and regulation of governmental pension plans. Congress enacted the Employee Retirement Income Security Act of 1974 (ERISA), which regulates and guarantees the actuarial soundness of private employee pension plans.

A special congressional subcommittee subsequently studied federal, state, and local public employee retirement plans. Congress then reportedly withdrew from the need to regulate state systems in the hope that the states would themselves address this issue. During floor debate on a bill which became Act 1984-205, a legislator indicated that Pennsylvania's response to the possibility of federal intervention and the public pension conditions previously discussed in this section was to create the PERSC.

3. Public Employee Pension Systems in Pennsylvania^{1/}

The public pension system structure in Pennsylvania is large, complex, and fragmented. As of 1989, an estimated 2,600 individual public employee pension plans existed. There are approximately 425,000 active members in these systems.

At the state level, the State Employees' Retirement System and the Public School Employees Retirement System have approximately 310,000 active members.

At the municipal level, Pennsylvania has more than four times the number of individual public pension systems than any other state and accounts for 25% to 30% of all public pension

^{1/}See Finding I in this report for further discussion related to the public employee pension system structure in Pennsylvania.

plans in the nation. When taken together, Pennsylvania's 2,600 local government systems reportedly represent one of the nation's largest public employee pension plans. Active membership in these municipal plans was 115,041 as of 1987.

The current number of public pension plans in Pennsylvania has increased from 1,600 in 1974. The PERSC projects that the number of plans will continue to increase, at least in the short term, with a potential for more than 7,000 plans. (See Appendix G for information on the assets and actuarial accrued liabilities of these state and municipal systems.)

Contributing to the complex nature of public pensions in Pennsylvania are the relatively small size of most plans and the statutory framework which governs the plans. According to the PERSC, municipal plans range in size from one member to over 5,000, with most (98%) being classified as small (less than 100 active members). State laws which apply to public pensions have been characterized as a "myriad" of more than 50 disjointed statutes enacted over the past 60 years.

Financing of public employee pension systems in Pennsylvania requires a substantial commitment of state and local budgetary resources. According to the PERSC, annual expenditures by Pennsylvania public employers for local government retirement systems are approximately one-half billion dollars. Additionally, state expenditures in FY 1989-90 approximated \$1.1 billion as follows:

State Share Contribution to the State Employees' Retirement System	\$ 421,900,000
State Share Contribution to the Public School Employees Retirement System	551,011,000
State Assistance to Municipal Pension Systems:	
General Municipal Pension System State Aid (Act 1984-205)	121,700,000
State Supplemental Assistance	<u>17,625,447</u>
Total	<u>\$1,112,236,447</u>

4. Commission Performance

Performance audit activities conducted by LB&FC staff indicate that the PERSC is meeting its statutory mandates to review public employee pension legislation, monitor the actuarial soundness and cost of public pension plans, and study and formulate state and local public pension policy. In examining Commission operations, LB&FC staff noted the existence of formal operational

policies and procedures, management reporting systems, and internal written schedules and timetables and the development and use of performance goals and objectives. These practices are indicative of a sound approach to administration and management of the Commission.

Specific information on the results of LB&FC staff audit work which was undertaken to assess Commission performance is included below. Also, Findings B through N of this report contain additional information on various aspects of Commission performance and accomplishments and, in some cases, include recommendations for corrective actions and program/operational refinements.

a. Review of Proposed Pension Legislation

One of the primary mandates of the PERSC is to provide specialized technical advice and assistance to the General Assembly and the Governor regarding proposed pension legislation. This function requires that an actuarial note be attached to all bills (or amendments thereto) which propose any changes relative to a public employee pension or retirement plan. These notes are to be attached within 25 legislative days after a bill receives first consideration or within 25 legislative days after an amendment to a bill has been submitted to the Commission.

The Commission has developed written procedures and internal goals and objectives for the actuarial note process. An "advisory note" process has also been established to facilitate the provision of Commission input to legislative standing committees prior to the time an actuarial note is statutorily required.

LB&FC staff found that with only a relatively few exceptions, the Commission is providing required actuarial input on pension-related bills and is doing so within the required 25-day time frame. (See Finding C.) The Commission's actuarial and advisory note processes are providing for independent study and analysis of proposed legislation and an indication of related costs and impacts. This independent review function appears to be useful to the General Assembly and the Governor's Office.

Input received from legislative and executive branch staff who are involved in the development and review of pension legislation characterized the PERSC's actuarial and advisory notes as being important to the legislative process. In particular, comments received indicated the belief that the actuarial information and technical assistance provided by the Commission has had a beneficial impact on the development of pension legislation.

An executive director of a legislative standing committee responsible for public pension legislation stated the following regarding the Commission's performance in this area:

As an advisory body, the PERSC has a significant impact on the final form of pension legislation being considered by the General Assembly and, to the best of my knowledge, this service is not performed elsewhere.

Finally, the public interest is served by the Commission's willingness to work with the General Assembly in amending legislation that otherwise would place serious financial demands on the Commonwealth and consequently Pennsylvania taxpayers.

LB&FC staff examination of a sample of bills to which PERSC actuarial notes were attached also indicates that PERSC input has impact on legislative decision-making regarding public pension legislation.

As illustrated in the actuarial note impact summaries included in Appendix F, policy considerations, cost estimates, and related recommendations reflected in PERSC actuarial notes can have a direct bearing on the legislative disposition of proposed pension bills.

For example, legislation was introduced in 1987 which would have amended the Public School Employees' Retirement Code to provide for earlier normal retirement (by reducing from 35 years to 30 years the service required for normal retirement at any age). The Commission attached an actuarial note to this bill which expressed a number of concerns (e.g., the possible precedent for similar benefit modifications for other PA public pension plans) regarding this proposal. The PERSC also estimated that, if enacted, the proposed legislation would increase the unfunded actuarial accrued liability of the system by \$771 million. The bill was not passed by the General Assembly.

In another instance, a 1987 bill proposed authorizing the establishment and maintenance of retirement plans for volunteer firefighters. The Commission's actuarial note expressed numerous concerns about this bill, including the potential for substantial financial liabilities for the Commonwealth. The Commission noted that the estimated potential statewide cost of this proposal was \$1.6 billion, five to ten times greater than the dedicated funding source for the proposed benefit. The bill was not passed by the General Assembly.

Regarding actuarial notes, the PERSC Executive Director noted that he is reluctant to state that there is a direct cause and effect relationship between the notes and subsequent legislative decisions. He pointed out, however, that it has been his experience that legislators do consider the PERSC's actuarial cost estimates and policy considerations. According to the Executive Director, the Commission also impacts on pension legislation by responding to information requests and conceptual issues while a bill is being drafted (i.e., prior to the time an actuarial note is required).

b. Administration of the Municipal Pension Plan Funding Standard and Recovery Act

The PERSC is also involved in monitoring the actuarial soundness and cost of municipal pension plans. As specified in its enabling legislation, the Commission's initial and priority objective in 1981 was to recommend legislative reforms to address problems and potential insolvencies among Pennsylvania's municipal pension systems. Specifically, Act 1981-66 required the PERSC to formulate and recommend passage of legislation to address the problems in the municipal pension systems within one year of its initial meeting, to mandate actuarial funding standards, and establish a recovery program for municipal pension plans or systems determined to be financially distressed.

The Commission responded to this statutory mandate by adopting recommendations in December 1982 (one year after its initial organizational meeting), which were presented in a January 1983 report to the General Assembly and the Governor. This report, entitled "Recommendation of Actuarial Funding Standards and a Recovery Program for Municipal Pension Systems," contained proposals to address the municipal pension situation.

Legislation developed by the PERSC to implement these proposals was subsequently adopted as Act 1984-205, the Municipal Pension Plan Funding Standard and Recovery Act.

The PERSC reports that approximately one-third of its staff time is directed to the administration and enforcement of the actuarial reporting and minimum funding standards of Act 205. LB&FC staff reviewed Commission performance in implementing those provisions of Act 205 for which it is responsible.

As indicated in Finding D of this report, the Commission has taken a conscientious approach to its Act 205 responsibilities. While refinements in the Act 205 administration/monitorship process appear possible, the PERSC has achieved a high degree of compliance from the municipal systems.

c. Review of State Systems

Another Commission function involves annual reviews of the actuarial valuation and financial reports of the State Employees' Retirement System, the Public School Employees' Retirement System, and the Pennsylvania Municipal Retirement System. This function is performed pursuant to Section 6(a)(g) of Act 1981-66 which requires the Commission "to monitor and evaluate from time to time all the laws and systems thereunder which relate to public employee pension and retirement policy in the Commonwealth."

The Commission's Executive Director also noted that during the reviews discussions between the Commission's members, staff, and actuary and the state retirement systems' staff and actuary

generally center around such areas as changes since the prior valuation (e.g., in actuarial assumptions) and proposed legislation that affects the systems.

During these annual reviews, the Commission may also express its concerns regarding various matters which are noted from the actuarial valuation and financial reports. For example, during the review of the State Employees' Retirement System's (SERS) actuarial valuation report for the year ended December 31, 1986, the Commission expressed concerns about the economic actuarial assumptions (i.e., interest assumption and the salary scale) adopted by the SERS Board. However, according to the Commission's Executive Director, the SERS Board felt that their economic actuarial assumptions were valid and no changes were made. (Unlike the situation with the municipal system under Act 1984-205, the Commission does not have enforcement powers over the state systems and cannot require the systems to make changes as a result of their reviews.)

Discussions with high ranking administrators of these three systems indicate there is a general consensus that the Commission's reviews are "useful," "provide insight into the agency (i.e., system) for the benefit of interested parties . . ." and that "it is good to have the checks and balances of an independent third-party review."

d. Pension-Related Research/Policy Development

The Commission also serves as a specialized resource on public employee pension topics for the General Assembly, the Governor's Office, and others (e.g., affected pension plans and public employee groups). As shown in Appendix C, the Commission has completed 13 research/policy reports (excluding PERSC annual reports) since 1983.

These reports have dealt with various policy issues and, in some cases, have resulted in proposed legislation. Subjects dealt with in Commission reports have included relief programs for distressed public pension plans, post-retirement adjustments for local police and fire pensions, service purchase authorizations, and the adequacy of public pension benefit coverage in the Commonwealth. Most recently a report on fiduciary responsibility and liability for local government retirement systems resulted in the introduction of legislation to institute fiduciary regulation and performance standards at the municipal level.

Planned future publications include special reports on the structure of local government retirement systems in the Commonwealth and the need for adjustments in the General Municipal Pension System State Aid Program (see Findings I and G).

e. Other Functions

While administering Act 205, preparing actuarial notes, performing research and formulating policy are major Commission activities, other functions are also carried out. The Commission administers Act 1972-293, which requires that every county file an actuarial valuation report for each of its employee retirement systems on a periodic basis. Review of PERSC files and reports indicates that the Commission has achieved full compliance from the counties in the submission of these actuarial reports.

The PERSC also performs informational, clearinghouse, and instructional functions. For example, Commission staff indicated that they respond to technical inquiries concerning municipal pension plan management and, if appropriate, refer inquiries to appropriate state offices.

The Commission also prepares informational and municipal and county pension systems status reports. As required by Act 1981-66, an annual report is also issued to the General Assembly and the Governor. LB&FC staff found that the Commission issued its first annual report in September 1983 and has subsequently prepared reports each year thereafter on a timely basis.

5. Overlap and Duplication

While there are several entities within Pennsylvania state government which have duties and responsibilities related to public employee pension matters, none appears to unnecessarily overlap or duplicate those assigned to the PERSC. Among these entities are the Department of the Auditor General, the Department of Community Affairs, the boards and staffs of the state retirement systems, and various legislative standing committees.

The Department of the Auditor General (in particular the Bureau of Municipal Pension and Firemen's Relief Association Audits) and the Commission have shared responsibilities related to administration of the Municipal Pension Plan Funding Standard and Recovery Act. In this particular case the PERSC has primary responsibility for collecting and certifying municipal pension cost data to the Auditor General for use in allocating General Municipal Pension System State Aid and Supplemental State Assistance. The Auditor General is responsible for conducting audits of these monies. Also, the PERSC has requested that the Auditor General's Office monitor situations in which the PERSC identifies noncompliance with the minimum municipal funding standards.

One of the statutory functions of the Department of Community Affairs is to provide technical assistance and consultation services to local governments. The Municipal Consulting Division of the Bureau of Local Government Services is involved in providing pension-related consultation to local governments on, for example, benefit setting and plan management.

Again, the PERSC's functions appear to complement rather than duplicate the efforts of the DCA. (As noted elsewhere in this report, the administration of actuarial reporting requirements under Act 1972-293 was formerly a DCA function which has been transferred to the PERSC). LB&FC staff additionally noted that the DCA provides financial data to the Commission that is used in the Commission's calculation for determining the degree to which a municipality's pension plan or system is financially distressed. The DCA also coordinates activities with the Commission, related to Act 1987-47 (the Financially Distressed Municipalities Act).

The boards and staffs of the State Employees' Retirement System, the Public School Employees' Retirement System, and the Pennsylvania Municipal Retirement System are also involved in public pension matters on an ongoing basis. Their efforts, however, are focused primarily on the fiduciary and management responsibilities to their individual systems and do not provide for an independent third party comprehensive review of the systems or of public pension policy and legislation.

While special congressional subcommittees continue to monitor public employee retirement systems (e.g., the Subcommittee on Labor Management Relations), there is no comparable agency at the federal level which would provide for ongoing monitorship and review of public pension systems and policy development within the states.

In Pennsylvania, legislative standing committees are also involved in developing pension legislation and establishing public pension policy. The standing committees, however, do not have the specialized database and actuarial experience and services available to the Commission. Based on discussions with legislative staff who have worked with the Commission, PERSC activities do not appear to duplicate legislative staff efforts but rather serve as a source of specialized technical assistance.

6. Commission Operations Within the National Context

Nationally, the evolution of state pension oversight bodies has been associated with efforts to improve state oversight and regulation of public pension systems. The movement associated with this concept has resulted in the creation of a combination of permanent and temporary or interim commissions within the states as well as arrangements which provide for pension oversight by permanent legislative committees.

As of 1969, state pension review or oversight commissions were reported to be operational in eight states. Surveys conducted by the Pension Commission Clearinghouse indicate that as of 1988 the number of permanent pension commissions had grown to 21 (including Pennsylvania) and that temporary or interim commissions had recently been operational in eight other states. (See Appendix H.)

Other states, including some of the same states which indicated that permanent pension commissions were operational, reported that permanent legislative committees are also involved in pension oversight activities. Twenty-three states reported that neither a permanent pension commission nor a permanent legislative committee arrangement for public pension oversight existed as of 1988.

Appendix H provides comparative information on public pension commission activities among the states. As illustrated on this appendix, the functions of the PERSC are generally similar to those of other states. However, other state pension commissions generally do not have specific administrative oversight and enforcement functions such as those assigned to the PERSC (i.e., related to the state's actuarial reporting standards and the state's program for financially distressed municipal pension plans).

7. Current Role and Need for the Commission

As discussed earlier in this section, the public employee pension structure in Pennsylvania is complex and fragmented. This structure includes more than 2,600 individual public pension plans which are governed by more than 50 statutes.

Within this context, the PERSC serves as a specialized resource on public employee retirement system design, financing, and administration and has substantial regulatory functions related to pension system reporting and minimum funding standards. The Commission also has responsibilities related to the administration of the \$121 million (in FY 1989-90) General Municipal Pension System State Aid Program and the Supplemental State Assistance Program (maximum \$35 million annually) for distressed municipalities.

Prior to the enactment of Act 1984-205, municipal pension plans were not subject to statutory actuarial funding requirements. As a result, in many cases, these plans were funded without respect to their actuarial requirements and were consequently under-funded. This practice contributed to fiscal crises and growing unfunded accrued liabilities.^{2/}

The existence of large unfunded accrued liabilities threaten not only the well-being of the funds and payments to its members but also potentially jeopardizes the fiscal health of the municipalities to which those funds are attached.

^{2/}Unfunded accrued liabilities represent the extent by which future retirement benefits already earned by members exceed the accumulated reserve funds (or assets).

Public retirement systems can have a significant effect on tax and expenditure patterns and the overall fiscal stability of state and local governments. In a 1978 report, the Congressional Pension Task Force on Public Employee Retirement Systems noted that public employee retirement systems have substantial economic, social and political influences. The Task Force report stated that the far-reaching influence of the public employee retirement systems involves a fundamental national interest affecting the well-being and security of millions of workers and their families, the operation of the national economy, the revenues of the United States, and the relationships between the federal government and the state and local governments.

Another factor critical to the need for ongoing oversight and monitorship of public pensions is the tax burden associated with pension costs and the need for taxpayer accountability in the conduct of pension policy. The Commission has facilitated a comprehensive actuarial reporting and disclosure system for all locally administered systems and annually monitors the state systems.

During the late 1970s the potential for federal intervention in the form of federal pension regulation was a factor in the creation of state pension commissions. This potential is apparently still present. According to the Counsel for Pensions, Congressional Subcommittee on Labor Management Relations, consideration was being given as of early 1990 to a congressional proposal which, if enacted, would establish federally mandated reporting and fiduciary standards for all states except those that have already initiated and implemented such standards on their own initiative (particularly those with pension commissions). This individual also expressed the opinion that this proposal would have a greater effect on those states that do not have pension commissions and would "institutionalize" the role of current and future state pension commissions.

The creation of pension commissions represented an increased recognition among state legislators of the responsibilities and increasing liabilities associated with the maintenance of public pension plans. In addition to other considerations, the Commonwealth may have a financial interest in ensuring local government and public pension stability. The Pension Commission Clearinghouse has stated as follows:

While presently the dividing line between state and local jurisdiction is not at all clear, it may be that the state's legal responsibility to protect and defend the interest of its citizens will be found by the courts to extend to providing promised benefits in the event of local plan insolvency. While the question of whether the state will be held liable goes unanswered, there is no doubt that the first recourse of defaulting systems will be to go to state legislatures for funds to pay benefits.

State regulation and reform in public pension matters, including the creation of state pension commissions, have been supported by a variety of organizations, including the National Conference of State Legislatures (Task Force on Pensions), the National Governors' Association, the Pension Commission Clearinghouse, and the Advisory Commission on Intergovernmental Relations. The ACIR has referred to pension commissions as being "invaluable as a central institution through which states and local governments can properly address their public employee pension problems."

While the stabilization of municipal unfunded liabilities (see Finding D) and other developments indicate that Pennsylvania's public pension environment is improving, it is also apparent that continued monitorship and reforms are warranted. One public pension commentator who has knowledge of and experience with Commonwealth public pension plans states as follows regarding Pennsylvania's public pension situation:

Pennsylvania, with its large number of public pension plans, its weaknesses in municipal plan administration, its frequently uncoordinated approach to pension policy setting (pensions are a local matter, are bargainable, have minimal statutory guidance, and are overseen by a number of legislative committees with jurisdiction over pensions based on the type of public employee) and its recent involvement in cutting edge pension investment issues (real estate investments, economic development investments, corporate takeover conflicts, and position on state legislation on corporate governance), is considered by many public pension commentators as one of the states with the greatest potential for public pension disasters. Some portion of the federal Congress, in promoting greater federal legislative regulation of public pension plans and benefits, have cited Pennsylvania as an example of the need for regulation.

Prior to the creation of the PERSC, a need was identified for a "specialized agency to initiate and coordinate public pension policy development and to promote independent analysis of retirement-related issues and legislative proposals." Given the scope and complexity of public pension system design, administration, and funding issues in the Commonwealth, there appears to be a continuing need for such an agency.

Although it might be possible for the functions of the PERSC to be carried out solely by an administrative entity, LB&FC staff believe a continued need exists for maintaining a Commission structure. Given the scope and complexity of the public pension issues which come before the Commission and the legislative interaction on public pension legislation which occurs through the actuarial rate process, it appears that a governing body made up of legislators and public representatives experienced in

the field of public pension system management^{3/} is conducive to performing the mandated Commission functions.

8. Current Role and Need for PERSC Advisory Committees

As discussed earlier in this finding, the PERSC has two statutorily created advisory committees, the Municipal Pension Advisory Committee (MPAC) and the Municipal Employee Pension Advisory Committee (MEPAC).^{4/} The existence and activities of both of these advisory committees appear to be important to the operations and functioning of the PERSC.

The Municipal Pension Advisory Committee is a six-member body made up of representatives from six municipal associations (e.g., the PA State Association of Boroughs and PA League of Cities). The primary function of the MPAC is to present information and make recommendations to the Commission on retirement issues of interest and concern to their members.

The Municipal Employee Pension Advisory Committee is a five-member group consisting of representatives of five public employee associations (e.g., the Fraternal Order of Police and American Federation of State, County and Municipal Employees). Correspondingly, the primary function of the MEPAC is to present the viewpoint and recommendations of the member associations to the PERSC on retirement matters and issues.

The Executive Director of the PERSC indicated to LB&FC staff that it is important to the Commission and its staff to receive, on a continuing and structured basis, the views, concerns, and priorities of municipal employees and municipal governments.

The Director further expressed the opinion that the need for input from these associations is ongoing as the General Assembly continues to evaluate retirement-related policies and considers public employee retirement legislation.

Although neither Committee routinely provides written input and recommendations to the Commission, the PERSC Executive Director indicated that valuable insights and perspectives are provided through dialogue which occurs at advisory committee meetings

^{3/}A presently constituted, the Commission is comprised of nine members, five of whom are appointed by the Governor and four of whom are members of the General Assembly. The five gubernatorial appointees are to be skilled and knowledgeable in the area of pension or retirement system management, and one is to be an active or retired member of a public employee pension or retirement plan.

^{4/}Descriptive information on these advisory committees is presented in Section III, Background. Findings, B and E also relate specifically to the advisory committees.

(which are attended by PERSC staff) and periodic joint commission and advisory committee meetings. For example, at these meetings, the advisory committee members also provide comments and reaction to the Commission regarding proposed pension legislation. According to the PERSC's Executive Director, this input is useful in the preparation of actuarial notes for the General Assembly.

Both advisory committees also reportedly participated, along with the PERSC, in the development of Act 1984-205, which established an actuarial reporting system and a funding standard for Pennsylvania's municipal retirement systems, and in the recent development of proposed legislation to establish uniform standards for fiduciary activity in these systems.

The operations of the two advisory committees are carried out at a relatively low cost to the Commonwealth. Advisory committee members receive reimbursement for expenses. During FY 1988-89, the total cost for advisory committee member expenses was approximately \$2,900.

In summary, the Public Employee Retirement Study Commission has extensive administrative and oversight responsibilities which concern the operation of municipal retirement systems. Continued input and participation from the MPAC and the MEPAC appear to be important to the administration of these duties. Termination of these advisory bodies would eliminate a formal and relatively low-cost mechanism through which public employees and employers can advise and assist the Commission.^{5/}

^{5/}See Finding E for discussion regarding the need to provide for a broader representation of public employee and employer organizations on the PERSC's advisory committees.

B. PUBLIC INPUT AND PARTICIPATION

The membership of the PERSC includes five "public" members who are appointed by the Governor. This statutory membership requirement coupled with other provisions such as frequent public meetings, the existence of two advisory committees representing specialized "publics," and solicitation of public comments on proposed regulations provide opportunities for public input and participation. While such opportunities are present, steps could be taken to further enhance public input and participation.

DISCUSSION:

The statutory composition of the Public Employee Retirement Study Commission and its two advisory committees provide opportunities for public input and participation. Five of the nine members of the Commission are public members appointed by the Governor. Additionally, the existence of two advisory committees (the Municipal Pension Advisory Committee, MPAC, and the Municipal Employee Pension Advisory Committee, MEPAC) provides an avenue for input and participation by specialized "publics" (i.e., public employee and public employer organizations represented on the committees).^{1/}

Public meetings of the Commission occur on a fairly regular monthly basis. (By law, the Commission must meet at least six times per year.) Advisory committee meetings occur at varying frequencies. (By law, the advisory committees are required to meet with the PERSC at least once a year.) For example the MPAC met three times in 1988 and once in 1989, while the MEPAC met five times in 1988 and six times in 1989.

All meetings are held in Harrisburg. According to PERSC staff, an opportunity is provided at each Commission and advisory committee meeting for interested public attendees to provide comments and input to members.

PERSC staff also indicated that a mailing list of interested persons and organizations is maintained. Persons on this list are sent advance copies of meeting agendas and other information developed by the Commission. According to the PERSC Executive Director, persons who have a particular interest in a matter on the meeting agenda may call PERSC staff and request time to make a statement, or they may simply attend the meeting and speak when public input is solicited.

^{1/}The possible need to expand the membership of these advisory committees is addressed in Finding E.

Meetings of the PERSC and its advisory committees are subject to the provisions of the Sunshine Act. The Sunshine Act requires covered agencies to give public notice of meetings, which can be given by publishing the date, time, and place of a meeting in the local newspaper.

LB&FC staff sampled three PERSC meetings per year for the years 1988 and 1989 and found that notice was published in a Harrisburg paper prior to each meeting. In addition, two meetings per year during 1988 and 1989 were sampled for both the MPAC and the MEPAC. Each committee published prior notice for three of the four meetings sampled. A notice was not published for either of the other meetings. Review of PERSC files indicates that Commission staff prepared Sunshine notices and submitted them to the Office of Administration for each of these meetings. However, the notices for the two meetings concerned apparently were not submitted by the Commission in time for publication prior to the meeting date.

The Sunshine Act also requires a covered agency to keep written minutes of all open meetings. The six PERSC meetings, four MEPAC meetings, and four MPAC meetings discussed above were reviewed for compliance with the minute-keeping requirement. The MPAC and the MEPAC keep written minutes of meetings, and the PERSC keeps written minutes of Commission meetings.

The PERSC, however, does not keep minutes of working sessions^{2/} (held immediately prior to monthly Commission meetings) or annual meetings with the advisory committees. While the Sunshine Act does not specifically require that minutes be kept of these sessions, such practice would appear to be consistent with the intent of the Act and the PERSC's practice of advertising and opening these meetings to the public. Also, if the Commission is considered to be an executive agency, the keeping of minutes would be required by regulation.^{3/}

2/Working sessions are prearranged meetings of agency members held immediately prior to a meeting at which official action will be taken for the purpose of discussing agenda items to be discussed and decided at the PERSC meeting.

3/The Office of General Counsel has promulgated regulations, 4 Pa. Code §§1.41-1.61 Subchapter C, concerning the application of the Sunshine Act to executive agencies. Those regulations provide for a rebuttable presumption that a meeting is subject to the regulations (including the minute-keeping requirement) "whenever a quorum of an agency meets by prearrangement to discuss agency business," 4 Pa. Code §1.44. The regulations also provide criteria for determining whether a meeting must be open (e.g., the agency anticipates making a decision on agency business in the near future, the discussions involve direct or indirect indications of how agency members will vote, or the discussions occur at a prearranged gathering of agency members to deliberate on agency business). As discussed in Finding N, it is unclear whether the PERSC is an executive agency for this purpose, however.

A review of Commission minutes also indicated that the PERSC has on some occasions taken official action at meetings attended by less than half of its members. Of 35 meetings held between January 1986 and December 1989, the Commission took official action at four meetings attended by four of nine sitting members and one meeting attended by three of nine sitting members.^{4/}

Act 1981-66, as amended, does not specify a quorum for PERSC meetings, but the Commission's bylaws provide that the presence of five members constitutes a quorum (except in situations involving a vacancy or a long-term disability). The Executive Director indicated that the Commission construes its bylaws as meaning that both members and designees of absent legislators are to be counted toward a quorum (under Commission by-laws, a designee may attend on behalf of a legislator and may vote in accordance with written instructions). Under this interpretation, a quorum was present at each of the 35 PERSC meetings examined.

The auditors also examined the Commission's compliance with the public notice and input requirements of the Regulatory Review Act, as amended, 71 P.S. §§745.1-745.15, and other relevant statutes.

The PERSC promulgated regulations under Act 205 in 1987 (16 Pa. Code Chapters 201-209). The PERSC amended one of those regulations in 1988 and another in 1989. On each of these three occasions, the PERSC gave public notice of its intent to promulgate or amend rules and solicited public input, as required by law. No comments were submitted, however.

The PERSC also publishes various reports and public information documents. Certain of these, including the "PERSC Annual Report," a biennial "Status Report on Local Government Pension Plans" and a summary booklet entitled "Public Employee Retirement Laws for Pennsylvania Local Governments," are outreach-type materials which serve as a source of public information on the Commission and its work.^{5/}

^{4/}In addition, the PERSC took official action at one meeting attended by four of seven sitting members. The term of one legislator had expired and no replacement had been appointed, and the term of one public representative had expired and no replacement had been appointed and qualified.

^{5/}A complete list of PERSC publications is included as Appendix C to this report.

IT IS RECOMMENDED THAT:

- The PERSC consider keeping minutes of the "working sessions" which are held prior to regular Commission meetings. Keeping such minutes would be consistent with the Commission's policy of providing notice of such meetings and opening them to the public. In addition, if the PERSC is classified as an executive agency (see Finding N), keeping minutes of such meetings would appear to be required by regulations promulgated by the Office of General Counsel. The PERSC should also consider keeping minutes of annual meetings held with the Municipal Pension Advisory Committee and the Municipal Employee Pension Advisory Committee.
- The PERSC consider developing a general statement soliciting public input for inclusion as a permanent feature in its annual report and other public information documents. This statement should generally define the role and mission of the PERSC and should solicit comments, ideas, and suggestions regarding Commission operations, programs administered by the Commission, and other public pension issues. Procedures for contacting the Commission to provide such input should also be specified.
- The PERSC develop a procedure for ensuring that Sunshine notices are completed and sent to the Office of Administration in time to permit their publication prior to meetings of the PERSC, MPAC, and MEPAC. In addition, the PERSC may wish to consider posting notice of MPAC and MEPAC meetings.^{6/}

^{6/}Public notice for a meeting is defined as (1) publication of notice in a newspaper, (2) posting notice at the agency's office or the building where the meeting will be held, (3) giving notice to parties, 65 P.S. §273. The PERSC notifies officials in the Capitol Building to post notice of PERSC meetings, but not PERSC working sessions, MPAC or MEPAC meetings, or joint sessions of PERSC and its advisory committees.

C. REQUIRED COMMISSION INPUT IS BEING PROVIDED FOR MOST RETIREMENT-RELATED LEGISLATION

One of the primary statutory responsibilities of the PERSC is the review and analysis of proposed public employee pension legislation. Input resulting from this Commission function is provided to the Legislature through both actuarial and advisory notes. By law, a pension bill is not to receive second consideration until an actuarial note has been attached to it by the PERSC except under certain circumstances (e.g., if the PERSC fails to meet the statutory actuarial note deadline). LB&FC staff found that the Commission has established written objectives and procedures to guide this process and is, with only a relatively few minor exceptions, providing required advice and input on proposed pension legislation. LB&FC staff also found that actuarial note preparation is occurring well within the 25 legislative day time frame provided for in law. Although a high compliance rate is evident, minor refinements in the process may be advantageous.

DISCUSSION:

A central function of state retirement commissions is to provide advisory services to the state's legislative body. Common to all such commissions is a responsibility to review proposed pension-related legislation and provide advice and input to the state legislature regarding the potential implications of proposed pension benefit/system changes.

The Public Employee Retirement Study Commission's responsibilities in this area are clearly established in state law. As stated in 43 P.S. §1406(a)(2), the PERSC is:

To analyze on its own or upon request from either the legislative or executive branch any bill relating to public employee retirement or pension policy and issue a report thereto in a timely fashion. Such a report shall be submitted to the General Assembly and the Governor and shall include an assessment of the actuarial soundness, feasibility and cost of such legislation.

Another provision requires the Commission to prepare actuarial notes for pension-related legislation. As stated in 43 P.S. §1407(a), except where the PERSC fails to meet the 25 legislative day deadline for preparing an actuarial note:

. . . no bill proposing any change relative to a public employee pension or retirement plan shall be given second consideration in either House of the General Assembly, until the Commission has attached an

actuarial note prepared by an enrolled pension actuary which shall include a reliable estimate of the cost and actuarial effect of the proposed change in any such pension or retirement system.

The law stipulates that if the Commission fails to attach an actuarial note within 25 legislative days of first consideration in either House of the General Assembly the bill may be further considered in the same manner as if the actuarial note had been attached to the bill. These provisions also apply to amendments to public employee pension or retirement-related legislation.

Both PERSC members and staff devote a considerable degree of attention to the development of actuarial advice and input. According to information prepared by the PERSC staff for purposes of this audit, about 50% of the Commission members' time involves the actuarial note process, while Commission staff spends 25% of total staff effort to this area and 5% to the development of related advisory notes.

The Commission has established written procedures as well as internal goals and objectives related to this function. To expedite the process, "Legislative Procedures" for the actuarial note process were adopted in April 1985. These guidelines outline actuarial note request and response procedures. The PERSC staff has additionally developed written goals and objectives which relate to the process.

The preparation of actuarial notes is a joint activity carried out by PERSC staff and its consulting actuaries. The PERSC's Research Associate identifies pertinent legislation through an ongoing manual review of all legislation which is introduced. This individual then enters information on these bills into the PERSC computer.

Once activated, the actuarial note process works as follows:

- The staff prepares a summary of the actuarial cost data received from the consulting actuary and develops an analysis of each legislative proposal for which an actuarial note is prepared. (The analysis, for use by the Commission in considering the attachment of the actuarial note, presents general information and background on the legislative proposal, identifies and discusses public pension policy considerations associated with the legislation and sets forth potential recommendations for the Commission's consideration.)
- The Commission reviews and considers the actuarial analysis developed by its staff and consulting actuary and decides whether to approve attachment of the actuarial note to the bill.

- The actuarial note is transmitted to the General Assembly and the Governor.

As noted earlier, the PERSC also provides input through a mechanism known as an advisory note. These notes are prepared primarily by Commission staff with review by a consulting actuary, if necessary. They are distinct from actuarial notes and are intended to provide legislative committees with an identification of the pension policy issues contained in proposed legislation and, if possible, broad information on the likely actuarial cost of the proposal prior to the time an actuarial note is required.

LB&FC staff review of Commission files^{1/} indicates that a total of 316 pension-related bills were identified by the PERSC staff during the 1987-88 and 1989-90 legislative sessions (through January 1990). As indicated on Exhibit A, actuarial notes were attached to a total of 86 of these bills. Analysis of the remainder of this legislation indicated that:

- Actuarial notes were not needed for 218 or 69% of these bills. In most cases (173), a note was not needed because the bills had not been referred from committee, while 32 did not have notes attached because the Commission determined that no actuarial cost was involved (e.g., an appropriations bill or a bill involving investment restrictions).
- Actuarial notes were not attached to 5 bills in which the Legislature included wording exempting them from the actuarial note process. Two of these bills (in the 1987-88 legislative session) became acts without having an actuarial note attached. PERSC staff stated that although no formal note was prepared for these two bills, the Legislature had received some prior input from the Commission on them. PERSC staff also indicated that bills exempt from the actuarial note requirement are generally enacted near the end of a legislative session or at the end of a fiscal year.
- Actuarial notes were not attached to 4 bills which were on second consideration and 3 amended bills. PERSC staff reported that although a formal actuarial note was not used, the Commission had previously provided input on all of these bills. This actuarial information was reportedly provided through notes attached to an original version of a bill before amendment, through notes attached to similar bills, through telephone conversations with legislators or legislative staff and/or through advisory notes.

^{1/}A discussion of the use of actuarial notes by the General Assembly and their impact on pension legislation is included in Finding A.

LB&FC staff also examined Commission compliance with the statutory requirement that actuarial notes be attached within 25 legislative days. Sampling of PERSC actuarial note preparation during the 1987-88 and 1989-90 legislative sessions indicated that the Commission is attaching the required notes in a timely manner. As shown below, 80% of the 25 bills sampled were attached within 15 days or less and none exceeded the 25-day limit.

Bills	Number of Days						Total Bills
	1-5	6-10	11-15	16-20	21-25	>25	
Number	5	7	8	3	2	0	25
Percentage	20%	28%	32%	12%	8%	0%	100%

The General Assembly is receiving input and advice regarding the formulation of public pension policy that was not available on a routine basis prior to the creation of the PERSC. While input is provided on most bills, a relatively small number of bills are not being examined in final amended form or when exempted by the Legislature. In these particular instances, legislators may not have sufficient information on the actuarial cost and policy implications of proposed pension legislation which could potentially have a negative impact on pension funding for the particular systems to which the legislation applies.

IT IS RECOMMENDED THAT:

- *The PERSC contact the Legislative Data Processing Center to discuss the possibility of entering into a reciprocal agreement under which the Commission would receive authorization to access the LDP's computerized legislative records system. This linkage would appear to be useful to the Commission, for example, in reducing the time it currently takes to identify and manually track proposed retirement and pension legislation and obtain information that is pertinent to its actuarial note responsibilities.*
- *The PERSC review all proposed pension and retirement legislation which includes a specific exemption from the actuarial note requirement to determine if there may be significant unanticipated actuarial and pension system impacts which should be brought to the attention of the pertinent legislative standing committees and the Governor's Office. If determined to be necessary by the Commission, information and advice on such legislation should be transmitted through the Commission's informal advisory note process.*

EXHIBIT A

Summary Information on PERSC
 Development of Actuarial Notes for Legislation
Relating to Public Employee Pension/Retirement Matters^{*/}

<u>Actuarial Note Actions Taken</u>	<u>No. of Bills During Legislative Sessions</u>	
	<u>1987/88</u>	<u>1989/90a/</u>
Bills on which actuarial notes attached ^{b/} ..	52	34
Bills exempted by legislative action ^{c/}	5	0
Bills not requiring a note:		
Not reported from committee ^{d/}	80	93
PERSC determination ^{e/}	21	11
Other ^{f/}	3	10
Bills on which no note attached prior to second consideration ^{g/}	3	1
Bills on which no note attached to amendment ^{h/}	<u>1</u>	<u>2</u>
Total pension-related bills	<u>165</u>	<u>151</u>

^{*/}State law, Act 1981-66, requires that the PERSC analyze and report on the actuarial soundness, feasibility, and cost of any bill relating to public employee retirement or pension policy. Another provision of the same act requires that the Commission prepare actuarial notes which shall include a reliable estimate of the cost and actuarial effect of the proposed legislation. The latter provision also applies to amendments to such legislation.

Source: Developed by the LB&FC staff from examination of PERSC files.

(NOTE: Please see additional footnotes to this exhibit on the following page.)

FOOTNOTES TO EXHIBIT A

a/Through January 1990.

b/According to PERSC records, the Commission authorized the attachment of a total of 60 actuarial notes to pension legislation at the request of the General Assembly during 1987, 1988, and 1989. This number differs from the numbers shown on this exhibit because the figures 52 in 1987-88 and 34 in 1989-90 refer to the number of bills on which actuarial notes were attached, while the number cited above (60) refers to actuarial notes. In some cases, several actuarial notes may pertain to the same bill; in other cases, one actuarial note may relate to several different bills.

c/The Legislature incorporated wording in these bills to exempt them from the actuarial note requirement of Act 1981-66.

d/These bills had not been reported from committee. The actuarial note process is activated when a bill is reported from committee and the General Assembly requests that an actuarial note be prepared by the PERSC. Advisory notes were prepared by the PERSC for certain bills in this category.

e/The PERSC staff determined that these bills did not require an actuarial note. In this category are appropriations bills, bills requiring only employee costs (deferred compensation), investment restriction bills, and other bills for which PERSC staff indicate the actuarial cost is not determinable.

f/Generally includes bills referred to committee, reported, and then sent back to committee.

g/A note is to be attached to a bill within 25 legislative days after first consideration of the bill and prior to second consideration in either House of the General Assembly.

h/An actuarial note is to be attached to an amendment to pension/retirement bills within 25 legislative days after the amendment has been submitted to PERSC but prior to consideration by either House of the General Assembly.

D. COMMISSION ACTIONS ARE PROMOTING MUNICIPAL COMPLIANCE WITH PENSION REPORTING AND MINIMUM FUNDING STANDARDS

Act 205 of 1984 mandates actuarial reporting and minimum funding standards for all municipal pension plans in the Commonwealth. Responsibility for administration and oversight of these provisions is assigned to the PERSC. Actions taken by the Commission have produced a high level of compliance with Act 205 standards. The requirement that actuarial reports be regularly submitted to the Commission appears to provide for an effective accountability and monitorship mechanism. Full compliance was achieved in this area for the most recent reporting year (1987). There are also indications that the PERSC-administered actuarial funding requirement has been a major factor in arresting the rapid growth in the unfunded pension liabilities of local governments which existed prior to the passage of Act 205. However, not all municipalities are meeting this minimum funding standard. Additional follow-up by the Commission to ensure that corrective actions are taken appears to be needed.

DISCUSSION:

Under Act 1984-205, the "Municipal Pension Plan Funding Standard and Recovery Act," the PERSC has specific administrative and monitoring responsibilities related to pension system reporting and funding by Pennsylvania local governments. These responsibilities include:

- Administering an actuarial valuation reporting program for municipal retirement systems.
- Monitoring and enforcing compliance with the statutorily mandated actuarial funding standard.
- Annually certifying municipal pension cost data to the Auditor General for use in allocating General Municipal Pension System State Aid.
- Administering the Financially Distressed Municipal Pension Systems Recovery Program that involves the annual determination and certification of distress data used in allocating Supplemental State Assistance.

Information on the Commission's performance in these areas is summarized below:

Act 205 Administration and Enforcement

1. Actuarial Valuation Reporting - Act 205 provides for the submission of standardized reports on all municipal pension plans (approximately 2,600) every two years.

Reports must be filed with the PERSC on or before the last business day in March following each reporting year (i.e., 1985, 1987, 1989, etc.). LB&FC staff examined Commission enforcement of the reporting requirements for the 1987 municipal pension plan reports (i.e., those with a filing deadline of March 31, 1988).^{1/} Commission records indicate that although the use of delinquency notices was required, only 7 of 2,632 reports were delinquent one year after the filing deadline and all were received by June 1989, within the eighteen-month time frame established as a goal by the PERSC for 100% compliance.

2. Monitoring/Enforcing Minimum Funding Standard - Act 205 requires that each municipality annually contribute the full amount of its minimum funding obligation to each of its retirement systems. For each municipality, a minimum financial obligation is calculated (referred to as the minimum municipal obligation, or MMO).

The act specifies a procedure for calculating the MMO based on the type of retirement plan in effect. The MMO is calculated using the results of the standardized actuarial reports submitted to the PERSC. When a municipality contributes less than the MMO, a funding deficiency is created.

The PERSC is responsible for monitoring and enforcing compliance with this funding standard. Information on compliance with the standard, which was first effective in 1986, was available in the 1987 Act 205 actuarial valuation reports. Analysis of this reported data by the PERSC indicated that municipalities had failed to comply with the funding standard in 256 cases.

Because the process was new and unfamiliar to municipal officials and their consultants, the PERSC chose to take a "limited enforcement" approach in dealing with instances of noncompliance. At the same time, the Commission indicated a "need to effectively communicate the Commission's intent to ensure strict compliance with the actuarial funding standard in the future."

^{1/}The municipalities' biennial actuarial valuation reports for 1989 (i.e., the period ending December 31, 1989) was due to the PERSC on March 31, 1990. Because of this March filing deadline, compliance testing could not be done for this reporting period. Data compiled from these reports will be presented by the PERSC in the 1991 edition of its "Status Report on Local Government Pension Plans."

To identify those municipal pension plans subject to enforcement proceedings the Commission identified three categories based on pension plan fund ratio^{2/} and the magnitude of the funding deficiency.

Funding deficiencies in all pension plans with low fund ratios (50% or less) were examined to determine if they were "significant." Significance was determined by the Commission by calculating the funding deficiencies as a percentage of municipal payroll.

The Commission took the following actions:

- For 13 instances where the funding deficiencies were significant and the fund ratio was low, the Commission issued orders to the affected municipalities requiring the submission of actuarial certifications that the funding deficiencies have been rectified. The PERSC also indicated that for any instances of noncompliance with its orders, legal proceedings would be initiated.
- For 73 instances where the funding deficiencies were significant and the fund ratio was greater than 50%, the Commission notified the affected municipalities of the statutory requirement to remedy the funding deficiencies, and requested that the Department of the Auditor General monitor their compliance.
- For the remaining 170 deficiencies, no action was taken by the PERSC because the funding deficiencies were considered to be insignificant.

According to PERSC records, the 13 municipalities which received compliance orders from the Commission have complied. No information is available, however, on remedial actions taken by the 73 municipalities which received noncompliance notification letters. The Commission's Municipal Pension Program Manager indicated that, although written certification of compliance is not available for these 73 deficiency situations, he feels confident that corrective actions have been taken.

According to an official of the Auditor General's Bureau of Municipal Pension and Firemen's Relief Association Audits, the 73 funding deficiencies communicated by the

^{2/}Fund ratio is defined as assets expressed as a percentage of the actuarial accrued liability. According to the PERSC, fund ratios under normal circumstances should range from 50% to 150%.

PERSC via letter in May 1989, will be examined in conjunction with that office's Act 205 post-audit function. Instances of continued noncompliance will be reported to the Commission.

The Commission did not follow-up on the 170 plans with insignificant deficiencies. The PERSC Executive Director indicated, however, that the Commission will strictly enforce compliance with the actuarial funding standard beginning in 1990.

3. Certification of Municipal Pension Cost Data to the Auditor General - Using a database which is derived from the municipal actuarial valuation reports, the Commission certifies municipal pension cost data to the Department of the Auditor General on an annual basis. This data is used by the Auditor General in allocating General Municipal Pension System State Aid (GMPSSA).

Commission certification of this data appears to be occurring in an accurate and timely manner. For example, LB&FC staff determined that annual certifications have occurred by the August deadline and that the annual certifications to the Auditor General have had a less than 2% error rate.

Officials of the Auditor General's Office also indicated that the PERSC has made very few errors in certifications and is very timely in reporting the necessary GMPSSA certification information to them by the August 15 deadline.

After the initial certification, the PERSC also certifies to the Auditor General pension plan cost data for delinquent municipal filings. These monthly certifications occur on a 30 day cycle until all municipalities maintaining pension plans are determined to be in compliance with Act 205 reporting requirements.

4. Administering Provisions of the Financially Distressed Municipal Pension System Recovery Program - Act 205 also established a recovery program for financially distressed municipal pension systems or plans. Depending upon the extent of financial distress of the system or plan (i.e., minimally distressed to severely distressed), there are a number of remedies available, including state aid through the Supplemental State Assistance Program.^{3/}

^{3/}Act 205 provides for a program of Supplemental State Assistance to be funded by General Fund appropriations not exceeding \$35 million annually. The program began in 1988 and is to continue for a maximum of 15 years.

The PERSC is responsible for determining "distress scores"^{4/} for municipalities participating in the program, transmitting distress determination notices to involved municipalities, and certifying data to the Auditor General for payment of Supplemental State Assistance. The Commission also receives annual actuarial valuation reports from the municipalities and annually notifies the Governor and the General Assembly of the appropriation amount needed for the program.

LB&FC staff examination of PERSC files indicated that the PERSC has fulfilled its legal mandate to determine financially distressed municipal pension plans and to administer the Financially Distressed Municipal Pension System Recovery Program. Deadlines were met in a timely manner and calculations sampled were found to be accurate.

Impact on Unfunded Liabilities of Municipal Plans

As shown on Exhibit B, the unfunded actuarial accrued liabilities of municipal pension plans totalled approximately \$3.0 billion as of 1987. The Commission has concluded that the Act 205 actuarial funding requirement has "arrested the rapid growth in the unfunded pension liabilities of the Commonwealth's local governments." While noting that the unfunded actuarial accrued liabilities of municipal pension plans has continued to increase, the PERSC reported in 1989 that its rate of growth is declining and that little or no future growth is expected. The Commission also expects that a decrease in unfunded actuarial accrued liabilities will begin in the early 1990s.

. . . the annual rate of growth in the unfunded actuarial accrued liabilities of municipal pension plans decreased significantly between 1985 and 1987. Prior to the passage of Act 205, the unfunded actuarial accrued liabilities had consistently grown at a 10% annual rate since 1974 when the Commonwealth initiated monitoring municipal pension plans. In the two-year period following the passage of Act 205, the annual growth rate dropped to approximately 1%.

^{4/}Act 205 establishes a procedure for determining "distress" in municipal retirement systems. This determination is made by the PERSC based on a quantified evaluation of both the aggregate actuarial condition of a municipality's retirement systems and the general fiscal condition of the municipality. As of April 1990, there were 30 municipalities participating in this program.

The results of analysis by LB&FC staff of 1985 and 1987 municipal pension plan data is consistent with the above PERSC observations. The amount and percentage change in unfunded accrued liability was calculated for the 57 municipalities with aggregate unfunded liabilities of more than \$1 million. (See Table 1.) Only eight of these municipalities experienced increases of 10% or more between 1985 and 1987 (the annual rate of growth prior to Act 205), and the unfunded liability declined in 33 municipalities. (See Table 1.)

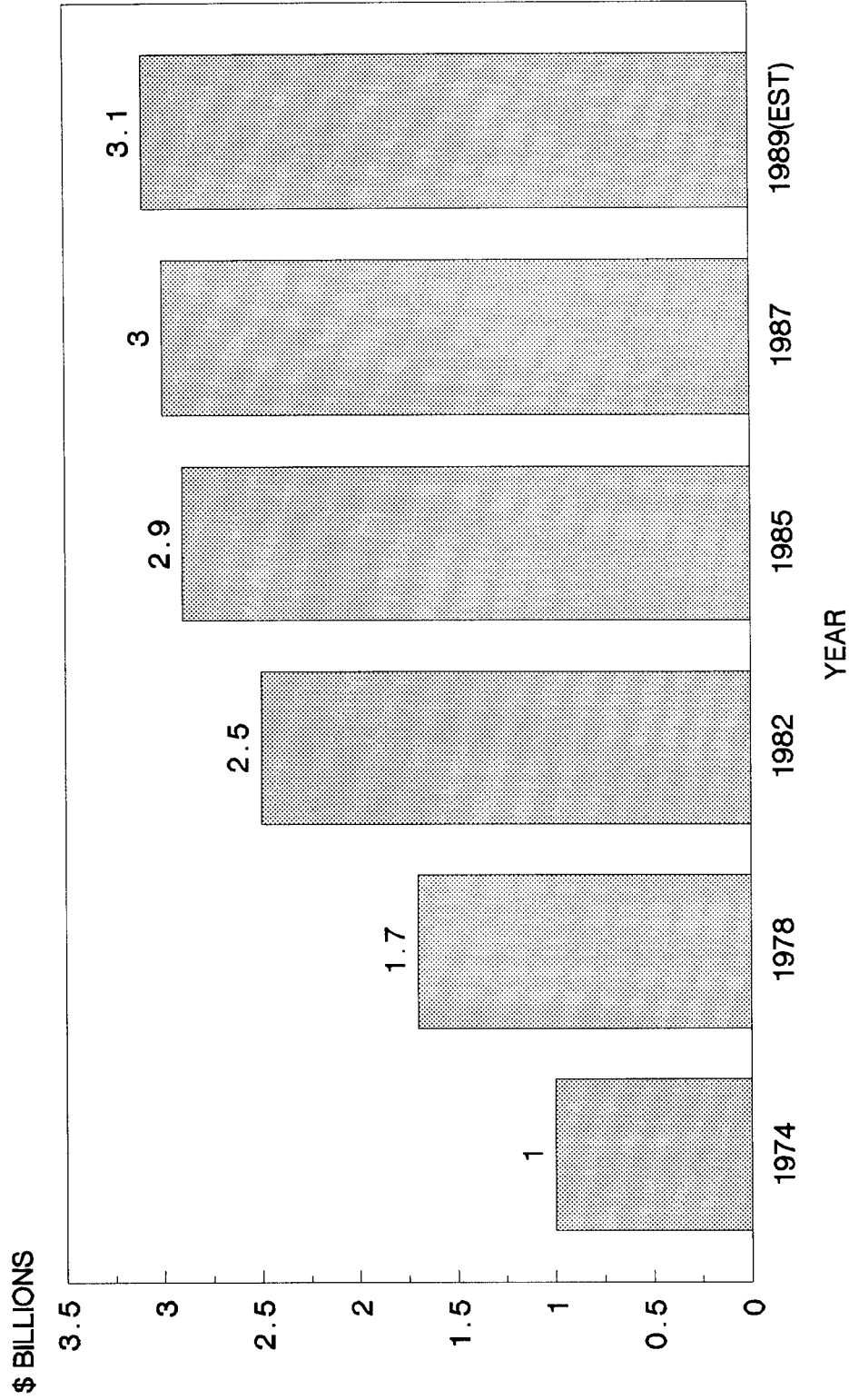
IT IS RECOMMENDED THAT:

- Because municipal officials and their consulting actuaries now have experience with the minimum funding obligation provisions of Act 205, the Commission require that all municipalities strictly comply with these provisions.^{5/} In this regard, it is suggested that the Commission:
 - Discontinue the "limited enforcement" policy which involved classification of municipal funding deficiencies as either "significant" or "insignificant."
 - Take an aggressive approach to enforcing the minimum municipal funding provisions, including, for example, the development of procedures for notifying municipalities of noncompliance, directing them to come into compliance, establishing time frames for municipalities to come into compliance and specifying acceptable methods of demonstrating compliance (for example, the Commission could require written actuarial certification of compliance). In addition, it is suggested that the Commission exercise its option to take appropriate legal action to secure compliance, where necessary.
 - Continue its past practice of notifying the Auditor General of all instances of municipal noncompliance and requesting that these funding deficiencies be reviewed during the municipal audit process.
- The Commission include follow-up information in each of its biennial local government pension status reports on corrective actions/legal proceedings instituted to address instances of municipal noncompliance identified in prior reports.

^{5/}The importance of such compliance is reflected in the Act 205 provision which states, "any actual or potential failure by a municipality to comply with the applicable funding standard established by this act threatens serious injury to the affected municipal pension plan, to the entire system of public employee pension plans in the Commonwealth, and to the Commonwealth itself," 53 P.S. §895.306 (emphasis added).

EXHIBIT B

Growth of Unfunded Actuarial Accrued Liabilities
in Pennsylvania Local Government Pension Plans, 1974 to 1989 (Estimated)



Source: Developed by LB&FC staff from information obtained from the Public Employee Retirement Study Commission.

TABLE 1

Amount and Percentage Change in the Unfunded Actuarial
Accrued Liability of Selected Municipal Pension Plans Between 1985 and 1987*/

Municipality (Type) ^{a/}	County	Total Unfunded Actuarial Accrued Liability		Increase (Decrease)	
		1985	1987	Amount	Percent
				1987 Over 1985	
Philadelphia (City)	Philadelphia	\$1,731,416,000	\$1,798,524,000	\$67,108,000	3.88%
Pittsburgh (City)	Allegheny	430,516,479	454,591,684	24,075,205	5.59%
Erie (City)	Erie	93,326,431	100,526,402	7,199,971	7.71%
Scranton (City)	Lackawanna	55,874,562	58,748,170	2,873,608	5.14%
Allentown (City)	Lehigh	42,307,929	37,668,698	(4,639,231)	(10.97%)
Harrisburg (City)	Dauphin	39,535,659	37,516,375	(2,019,284)	(5.11%)
Reading (City)	Berks	34,323,015	30,426,827	(3,896,188)	(11.35%)
York (City)	York	25,145,273	26,588,180	1,442,907	5.74%
Wilkes Barre (City)	Luzerne	23,266,965	24,597,613	1,330,648	5.72%
Easton (City)	Northampton	18,717,839	20,417,139	1,699,300	9.08%
McKeesport (City)	Allegheny	17,336,518	19,816,241	2,479,723	14.30%
Bethlehem (City)	Northampton	23,743,202	19,650,882	(4,092,320)	(17.24%)
Altoona (City)	Blair	17,276,583	17,088,520	(188,063)	(1.09%)
Chester (City)	Delaware	15,129,789	15,235,477	105,688	0.70%
New Castle (City)	Lawrence	13,245,453	13,682,533	437,080	3.30%
Johnstown (City)	Cambria	14,495,922	13,097,941	(1,397,981)	(9.64%)
Lancaster (City)	Lancaster	11,676,521	10,622,924	(1,053,597)	(9.02%)
Williamsport (City)	Lycoming	10,386,825	10,009,332	(377,493)	(3.63%)
Hazleton (City)	Luzerne	9,150,853	9,193,169	42,316	0.46%
Washington (City)	Washington	7,604,948	8,903,250	1,298,302	17.07%
Butler (City)	Butler	7,994,657	8,740,660	746,003	9.33%
Duquesne (City)	Allegheny	5,648,969	6,047,955	398,986	7.06%
Lebanon (City)	Lebanon	6,281,533	5,551,982	(729,551)	(11.61%)
Bradford (City)	McKean	4,350,220	5,379,608	1,029,388	23.66%
Clairton (City)	Allegheny	4,831,547	4,319,270	(512,277)	(10.60%)
Bensalem (Township)	Bucks	5,610,116	3,392,508	(2,217,608)	(39.53%)
New Kensington (City)	Westmoreland	3,122,253	3,120,628	(1,625)	(0.05%)
Beaver Falls (City)	Beaver	3,080,250	3,045,003	(35,247)	(1.14%)
Monroeville (Borough)	Allegheny	3,405,741	3,006,241	(399,500)	(11.73%)
Oil City (City)	Venango	3,757,768	2,928,444	(829,324)	(22.07%)
Carbondale (City)	Lackawanna	2,232,889	2,446,245	213,356	9.56%
McKeesport Municipal Water Authority	Allegheny	2,587,598	2,401,367	(186,231)	(7.20%)
Franklin (City)	Venango	2,697,973	2,347,515	(350,458)	(12.99%)

TABLE 1 (Continued)

Amount and Percentage Change in Selected Municipal Unfunded Pension Liability

Municipality (Type)	County	Total Unfunded Actuarial Accrued Liability		Increase (Decrease)	
		1985	1987	Amount	Percent
Arnold (City)	Westmoreland	\$ 2,160,862	\$ 2,322,771	\$ 161,909	7.49%
Westmoreland County					
Municipal Authority ..	Westmoreland	3,291,011	2,065,566	(1,225,445)	(37.24%)
Pottsville (City)	Schuylkill	1,379,034	2,012,836	633,802	45.96%
Pottstown (Borough)	Montgomery	2,710,877	1,987,843	(723,034)	(26.67%)
Sharon (City)	Mercer	2,369,785	1,795,935	(573,850)	(24.22%)
Greensburg (City)	Westmoreland	2,387,427	1,769,809	(617,618)	(25.87%)
Farrell (City)	Mercer	1,201,962	1,620,118	418,156	34.79%
Radnor (Township)	Delaware	1,454,817	1,548,045	93,228	6.41%
Aliquippa (City)	Beaver	1,591,425	1,525,870	(65,555)	(4.12%)
Penn Hill (Township)	Allegheny	2,159,825	1,449,200	(710,625)	(32.90%)
Shamokin (City)	Northumberland	1,067,395	1,421,967	354,572	33.22%
Cumberland-Dauphin-					
Harrisburg Transit Auth .	Dauphin	1,279,808	1,419,745	139,937	10.93%
Upper Merion (Township) .	Montgomery	2,040,160	1,387,953	(652,207)	(31.97%)
Shaler (Township)	Allegheny	1,455,447	1,383,411	(72,036)	(4.95%)
Monessen (City)	Westmoreland	1,307,147	1,348,662	41,515	3.18%
Connellsville (City)	Fayette	1,502,740	1,310,570	(192,170)	(12.79%)
Media (Borough)	Delaware	576,420	1,304,089	727,669	126.24%
Lehigh/Northampton					
Transit Authority	Lehigh	1,377,565	1,243,119	(134,446)	(9.76%)
Mt. Lebanon (Township) ..	Allegheny	3,166,393	1,226,132	(1,940,261)	(61.28%)
Titusville (City)	Crawford	1,348,715	1,065,070	(283,645)	(21.03%)
Jeannette (City)	Westmoreland	1,577,880	1,063,618	(514,262)	(32.59%)
Cheltenham (Township) ...	Montgomery	1,480,244	1,049,362	(430,882)	(29.11%)
Allegheny County					
Sanitary Authority	Allegheny	4,311,748	1,041,213	(3,270,535)	(75.85%)
Erie Metro Transit					
Authority	Erie	1,263,445	1,014,622	(248,823)	(19.69%)
Total		\$2,734,540,412	\$2,815,010,309 ^{b/}	\$ 80,469,897	2.94%

(Note: Footnotes to this table appear on the next page.)

FOOTNOTES TO TABLE 1

*/This table includes those municipalities with unfunded actuarial accrued liability of \$1 million or more as of 1987. Included are various types of pension plans, including police, fire and nonuniformed employee plans.

a/A breakdown of unfunded actuarial accrued liability by plan type for each municipality is contained in Appendix E.

b/This total accounts for 95% of the total \$2,968,321,805 unfunded actuarial accrued liabilities for all Commonwealth municipalities based upon 1987 municipal pension plan data.

Source: Developed by LB&FC staff from analysis of 1985 and 1987 Public Employee Retirement Study Commission municipal pension plan data.

E. NEED TO BROADEN REPRESENTATION ON COMMISSION ADVISORY COMMITTEES

The PERSC receives advice and input from two statutorily created advisory committees. Although the Commission's functions relate to all public employee retirement systems in the Commonwealth, membership of the two advisory groups is generally limited to representatives of municipal employee and employer organizations. Through an informal arrangement, representatives of two non-municipal organizations have been serving as nonvoting members of the advisory committees. Addition of these groups to the advisory committees and a broader overall representation of public employee and employer organizations on the committees is recommended.

DISCUSSION:

Two advisory committees have been established to serve as a formal source of advice and input for the Public Employee Retirement Study Commission (PERSC). State law provides that these groups, the Municipal Pension Advisory Committee (MPAC) and the Municipal Employee Pension Advisory Committee (MEPAC), are to meet at least once a year with the full Commission to discuss PERSC activities and to present information and recommendations.

As illustrated on Exhibit C, both advisory groups have a primarily municipal orientation. The Municipal Pension Advisory Committee is a six-member group which includes municipal officials or employees who are nominated by the municipal associations listed on the exhibit; the five-member Municipal Employee Pension Advisory Committee is comprised of representatives nominated by various municipal employee organizations.

The municipal orientation of the advisory committees may be related to conditions which existed at the time the PERSC was created. The PERSC Executive Director expressed the opinion that the main reason that the advisory committees have a municipal orientation is that the pension situation at the municipal level (i.e., serious and growing unfunded liabilities) was a primary factor in the creation of the Commission in 1981.

Municipal issues were identified in the PERSC's enabling legislation as being "first priority." Because the priority was to address and complete the duties in the Act related to municipal government retirement systems, advisory committees with a municipal orientation were apparently created to provide input specific to the Commission's primary mission at that time.

The Commission's legal mandates and responsibilities relate, however, to all public employee retirement systems in Pennsylvania. Among these systems are the State Employees' Retirement System and the Public School Employees' Retirement System. Together, these systems account for approximately 73% of all active members of the public pension systems in the Commonwealth.

Neither state retirement system nor the Governor's Office of Administration is presently represented on the PERSC's advisory committees. The Governor's Deputy Secretary for Employee Relations expressed the belief that it would be useful for a representative of the Office of Administration to be placed on the committee if there is an expansion of the advisory committees as a result of the sunset process.

Also not formally represented on the advisory committees are a number of other public employee/employer groups which have a direct interest in the formulation of public pension and retirement policy and legislation. While these groups may have access to the Commission through its public meetings and the meetings of the MPAC and MEPAC, they are not formally involved in the PERSC deliberation and decision-making process.

Representatives of several groups contacted by LB&FC staff stated that they believe that it would be desirable for their organizations to be formally added to the appropriate advisory committee. These groups included the PA School Boards Association, the Association of PA State College and University Faculties, the PA Federation of Teachers and the PA Social Services Union.

The Commission's Executive Director indicated that he believes that it may be helpful to have other public employee/employer groups represented on the advisory committees. In this regard, two non-municipal organizations, the PA School Boards Association (PSBA) and the Association of PA State College and University Faculties (APSCUF), are presently participating on an informal basis as nonvoting members of the MPAC and MEPAC respectively.

IT IS RECOMMENDED THAT:

The General Assembly consider amending the Public Employee Retirement Study Commission Act, 43 P.S. §1408, to provide for a broader representation of public employee and employer organizations on the PERSC's advisory committees. In relation to this recommendation it is suggested that:

- *The PERSC provide written input to the standing committee assigned sunset review responsibilities for the Commission regarding other public employee/employer groups which*

would be appropriate for inclusion on expanded advisory committees (for example, the PA School Boards Association, the Association of PA State College and University Faculties, the PA Social Services Union, the PA Federation of Teachers, a representative of the state retirement systems, and the Office of Administration).

- The existing two advisory committee structure be maintained, but the names of the advisory committees be modified to reflect their expanded membership base.

EXHIBIT C

Public Employee/Employer Organizations
Currently Represented on PERSC Advisory Committees

Municipal Pension Advisory Committee (6 Members)

The Pennsylvania League of Cities

The Pennsylvania State Association of Boroughs

The Pennsylvania State Association of Township Supervisors

The Pennsylvania State Association of Township Commissioners

The Pennsylvania State Association of County Commissioners

The Pennsylvania Municipal Authorities Association

Municipal Employee Pension Advisory Committee (5 members)

The Pennsylvania Chiefs of Police Association

The Pennsylvania State Firefighters Association

The Pennsylvania State Education Association

The American Federation of State, County and Municipal Employees

Pennsylvania Fraternal Order of Police

Source: Developed by LB&FC staff from pertinent state statutes and PERSC membership lists.

F. CERTAIN MUNICIPAL PENSION SYSTEM REPORTS NOT SUBMITTED TO THE COMMISSION

The PERSC is responsible for administering an actuarial reporting program for municipal and county retirement systems. While the Commission has been effective in ensuring the receipt of the required actuarial valuation reports, it did not in 1986 enforce the mandatory "experience investigation" reporting requirement which applies to certain large municipal pension plans. These reports were first due in 1986 and are to be filed every four years. Commission actions to ensure future compliance with this reporting requirement are suggested.

DISCUSSION:

There are two types of actuarial reports which are to be submitted to the Public Employee Retirement Study Commission under current state law. Act 205 of 1984, the "Municipal Pension Plan Funding Standard and Recovery Act," requires that municipal pension plans submit actuarial valuation reports and experience investigation reports^{1/} to the PERSC. Additionally, under Act 293 of 1972, the PERSC administers an actuarial reporting program for county systems.

As discussed in Finding D of this report, all actuarial valuation reports were received by the PERSC, although a relatively small number were not received until up to 18 months following the reporting deadline. While the PERSC has been successful in bringing about a high level of compliance with the municipal actuarial valuation reporting requirements, problems were encountered in achieving full compliance with the experience investigation reporting mandate of the act.

Under the provisions of Act 205, each municipality which maintains a pension plan for its employees and has an active, vested inactive, and benefit recipient membership equal to or greater than 1,000 must prepare an experience investigation report quadrennially. This requirement applies to the following four municipal systems: the city of Pittsburgh, the city of Philadelphia, the Philadelphia Housing Authority, and the city of Erie. The initial filing of this report was due along with the systems' first actuarial valuation reports on the last business day of March 1986.

1/According to Act 1984-205, 53 P.S. §895.102, an experience investigation is a report which furnishes data on the experience of the pension plan and an analysis which substantiates the actuarial assumptions on which actuarial valuations are based.

There are several specific provisions which apply to this reporting requirement. Specifically, the experience investigation is to accompany the municipality's actuarial valuation report and be prepared by an approved actuary (53 P.S. §§895.201 and 203). If the actuarial valuation report or the experience investigation is not filed in a timely fashion, all financing which is provided to the municipality by the Commonwealth for pension plan purposes is to be withheld until both of these reports are prepared and filed. If the municipality fails to file an experience investigation, the Commission is to have the report prepared and the municipality is to reimburse the Commission for the cost of preparation (53 P.S. §895.204).

Two of the four municipalities, to which these requirements apply (the Philadelphia Housing Authority and city of Erie), did not file an experience investigation report. The PERSC did not attempt to bring about compliance by withholding funding to the municipal system or by assigning an actuary to prepare the investigation and billing the system for associated costs. While the Philadelphia Housing Authority is not eligible to receive municipal pension state aid, Erie has received a total of \$12,159,429 in General Municipal Pension System State Aid monies during the period 1986 through 1989, even though its experience investigation was never filed.

Because the Commission did not receive experience investigation reports from these two entities, there is no data available concerning the accuracy and validity of the actuarial assumptions upon which their actuarial valuation reports were based. In addition, municipal pension aid monies were disbursed which, according to law, should have been withheld.

Commission staff explained that, when the reports were first due in 1986, Act 205 was relatively new and the PERSC's Municipal Pension Program Manager at that time left employment with the Commission. It appears that these factors and the absence of specific controls related to this aspect of the reporting program contributed to the PERSC not enforcing compliance in this area.

IT IS RECOMMENDED THAT:

The Commission take steps to ensure that the experience investigation reports which were due from the municipal pension systems on the last business day of March 1990 and every four years thereafter, are prepared and submitted as required.^{2/}

^{2/}According to the PERSC's Municipal Pension Program Manager, all experience investigation reports which were due by the last business day of March 1990 had been received.

It is also suggested that in cases of noncompliance, the Commission take actions provided for in law to:

- Withhold the payment of General Municipal Pension System State Aid to the municipality until the delinquent report is filed.*
- Have the report prepared for the municipality and bill the municipality for reimbursement of the actual cost of report preparation.*

**G. COMMISSION ASSESSMENT NEEDED OF MUNICIPAL PENSION SYSTEM
STATE AID ALLOCATION FORMULA**

In 1985 the General Municipal Pension System State Aid Program was initiated to assist municipalities in meeting employee pension costs. The state aid available for allocation under this program has grown from \$62.3 million in 1985 to \$121.7 million in 1989. According to Commission reports, the unanticipated increase in state revenues dedicated to this program has altered its intended effect. As a result, the program now finances 100% of the employee pension costs of most recipient municipalities. Consequently, instead of defraying a portion of municipal pension costs, the aid is actually serving as an inducement for municipalities to increase their employee pension liabilities. The Commission is encouraged to monitor this situation and proceed with the planned development of proposals for corrective changes to the allocation formula.

DISCUSSION:

Act 1984-205 established the General Municipal Pension System State Aid (GMPSSA) Program. Under this program, proceeds from the Foreign Casualty Insurance Premium Tax and a portion of the proceeds of the Foreign Fire Insurance Premium Tax are allocated annually to municipalities (other than counties and authorities) to assist them in meeting their total pension costs.

State aid allocations under the GMPSSA Program are made on a formula basis with an upper limit or "cost cap" provision which limits allocations to 100% of a municipality's annual pension costs. Calculation of the Act 205 state aid allocation is made by the Auditor General using municipal pension cost data certified by the PERSC from its municipal pension plan database. The PERSC annually certifies data to the Auditor General for this purpose.

The amount of state aid allocated under this program has increased substantially since its inception. Since 1985 the total allocation of GMPSSA to municipalities has increased by 95%. The growth in total annual GMPSSA allocations from 1985 to 1989 is illustrated below:

<u>Year</u>	<u>Total Allocation</u> (\$ Millions)
1985	\$ 62.3
1986	78.4
1987	97.1
1988	109.0
1989	121.7

The substantial increase in state aid available for the GMPSSA Program can be traced primarily to increases in receipts from the Foreign Casualty Insurance Premium Tax.

As the Commission has reported, this increase is having a profound effect on the municipal pension environment. PERSC data indicates that in 1988 state aid allocations fully funded the municipal pension obligations of over 93% of the recipient municipalities.

This development is reportedly changing the orientation of municipal officials to their employee pension plans. The PERSC commented on this development in its May 1989 "Status Report on Local Government Pension Plans":

Because local tax revenues are no longer required to finance employee pension benefits, municipal officials are more likely to grant increased pension benefits. The GMPSSA allocations are now being viewed by many municipal officials and others as grant monies that can be increased by raising the employer costs of the pension plans. The employer pension costs--the total annual costs less member contributions--can be increased by granting benefit increases or by reducing or eliminating member contributions. Municipal pension benefits are being increased as an alternative to other forms of compensation that must be funded by the municipality. The same inducement exists for reducing member contributions. Whether increasing benefits or reducing member contributions, the municipalities are incurring liabilities based on the assumption that the state aid will fund the increased annual costs.

The continued operation of the GMPSSA program in this manner is inconsistent with the stated intent of the program and with sound fiscal and public pension policy.

In its 1983 report entitled "Recommendation of Actuarial Funding Standards and a Recovery Program for Municipal Pension Systems," (which subsequently was embodied in Act 205) the PERSC recommended that "the general municipal pension system state aid program monies be in the form of a nonrestricted allocation to offset municipal employer pension costs" (emphasis added). Additionally, it appears clear that the Legislature intended the GMPSSA to offset municipal employer pension costs when the minimum funding standards for municipal pension plans were established by Act 1984-205.

State aid which fully supports municipal pension obligations is also not conducive to sound fiscal or public pension policy. According to the Commission, "there is considerable reason to doubt that the GMPSSA Program will continue to fund municipal pension costs to the extent evident in the last few years."

Therefore, municipalities choosing to incur liabilities for increased pension benefits may experience future decreases in GMPSSA allocations and increased demands on local tax revenues to fund benefits they may have assumed would be covered by state aid. Additionally, it is conceivable that a limit on GMPSSA revenues could be implemented for state budgetary reasons.

In keeping with its responsibility to monitor and evaluate laws related to public employe pension and retirement policy, the Commission has been monitoring the rate of growth of the GMPSSA as well as the impact of the GMPSSA allocation formula. The Commission reports that it plans to issue a special report on the GMPSSA Program subsequent to the 1990 allocation. This report and the Commission's recommendations to address the GMPSSA Program funding situation are expected to be issued during the spring of 1991.

IT IS RECOMMENDED THAT:

The Commission continue to monitor the need to modify the General Municipal Pension System State Aid allocation formula and proceed in as timely a manner as possible to complete a planned report and proposed recommendations to address this situation. Updated information on the impact of the allocation formula and associated Commission proposals for legislative changes to the formula should be made available to the standing committee assigned sunset review responsibilities for the Commission.

H. ADDITIONAL COORDINATION NEEDED BETWEEN COMMISSION AND OTHER STATE AGENCIES INVOLVED WITH MUNICIPAL PENSION SYSTEMS

In addition to the PERSC, both the Department of the Auditor General and the Department of Community Affairs have administrative/program responsibilities related to municipal pension systems. While dialogue and communication occurs among these agencies on an as needed basis, there is no formal or regularly scheduled forum for information interchange, planning and coordination of activities. A number of individuals who responded to an LB&FC sunset questionnaire survey cited the need for enhanced coordination, especially regarding policy development, technical assistance and the provision of advice regarding Act 1984-205 (the Municipal Pension Plan Funding Standard and Recovery Act). Regular planning/coordination meetings and periodic joint technical assistance workshops are proposed.

DISCUSSION:

As discussed in other sections of this report (see primarily Findings A and D), the Public Employee Retirement Study Commission is responsible for administering the actuarial reporting and minimum funding standards established for municipal pension plans by Act 1984-205.

In this capacity, the Commission certifies municipal pension cost data to the Department of the Auditor General. The Commission additionally certifies payments to municipalities participating in the Financially Distressed Municipal Pension System Recovery Program and notifies the Auditor General of instances of significant municipal noncompliance with minimum pension funding standards so that remedial actions can be monitored.

Both the Department of the Auditor General and the Department of Community Affairs have related roles and involvement with municipal pension systems. The Auditor General, for example, is responsible under Act 205 for allocating General Municipal Pension System State Aid and Supplemental State Assistance to municipalities based upon certifications made by the Commission. The Auditor General is also responsible for conducting audits of the state aid allocations.

The Department of Community Affairs also has related functions under the Financially Distressed Municipalities Act, 53 P.S. §11701.101 et seq. Additionally, the Department, through its Bureau of Local Government Services, provides municipal training and consulting services that can relate to pension matters.

Discussions with staff of these agencies indicate that working relationships and dialogue occur on an as-needed basis.

Additionally, LB&FC staff noted that the Department of Community Affairs sponsored training workshops on municipal pension reform and pension administration at nine locations throughout the state in 1985. PERSC staff served as instructors for the municipal pension reform workshops.

There are indications, however, that there may be a need to formalize inter-agency communication and coordination and to consider additional mechanisms through which training and technical assistance can be systematically provided to local government officials, municipal pension administrators and involved consulting actuaries.

The following are comments on this general subject which were submitted to LB&FC staff through a sunset audit questionnaire:

- Pension advice re PERSC/Auditor General interface could be better.
- . . . There also seems to be little or no coordination of effort between the Study Commission and the Auditor General's Office. I would like to see more authority and control exercised by the Public Retirement Study Commission as well as some type of coordination of efforts with the Auditor General's Office.
- There should be better information on laws and regulations. The Department of Police and Fire Audits does not give "pre-audit" advice and the Commission says permissible interpretations of Act 205 et al are up to the auditors. We, as actuaries, must therefore adopt "reasonable" approaches without good guidance.
- I see little or no coordination of efforts between the two main agencies involved in the state's administration of municipal pension plans, namely between the Public Retirement Study Commission and the Auditor General's Office.
- There is little to no overlapping, but there is also no coordination or direction.
- We have been receiving conflicting reports, information, and rules between the PERSC and the Auditor General's Office since 1987.
- The only suggestion that I have is to grant the Commission more control over pension policy and provide for better coordination with the Auditor General's Office.
- More written guidance. For example, on acceptable plan provisions, budget process, compensation definition, etc.

- But, please don't go as far as the IRS in trying to regulate everything.
- It appears that there is some conflict between the two organizations in their respective understandings of Act 205 and, therefore, the data which is collected by the Public Employee Retirement Study Commission and used for the calculations of costs is not necessarily consistent with the way the Auditor General is applying the data to determine the state aid.

The Executive Director of the PERSC indicated that while Act 205 is structured in such a way as to force interaction between the agencies, there remains a need for increased communication. The Director supports the concept of holding regularly scheduled meetings. He also stated that it may be useful to reinstitute periodic training workshops because of turnover which has occurred at the municipal level since sessions were last held in 1985.

Officials of the Department of Auditor General's Bureau of Municipal Pension and Firemen's Relief Association Audits and the Bureau of Local Government Services within the Department of Community Affairs also expressed the belief that regularly scheduled periodic meetings with the PERSC, the Auditor General's Office, and the DCA would be beneficial, as would joint conferences with municipalities to address pension matters.

IT IS RECOMMENDED THAT:

- *The Commission take the initiative to establish regularly scheduled (possibly quarterly) meetings with pertinent staff of the Department of the Auditor General and Department of Community Affairs to exchange information and ideas and coordinate activities which relate to the administration of Act 205 and other duties which relate to their respective rules in providing for state monitorship of and assistance to municipal pension systems.*
- *The Commission, together with the Department of Community Affairs and the Department of the Auditor General, explore the possibility of conducting periodic joint technical assistance workshops at various locations through the state (similar to those last conducted in 1985) to provide information to municipal officials, public pension administrators, consulting actuaries and other interested parties concerning state oversight of municipal pension systems and the administration and requirements of associated assistance programs.*

- *The Commission take the lead in addressing the possible need to better define the flow and interchange of information among the agencies and explore opportunities for interagency cross-training in areas of mutual concern.*

I. COMMISSION PROPOSAL NEEDED TO ADDRESS FRAGMENTED STRUCTURE OF PUBLIC EMPLOYEE PENSION SYSTEMS

Pennsylvania has more individually administered local government pension plans than any other state. With an estimated 2,600 individual public pension plans, the Commonwealth has between 25% to 30% of such plans in the nation. The PERSC has reported that this number is continuing to increase and that Pennsylvania local governments have the potential to establish more than 7,000 plans. The PERSC has also characterized the legislation which governs these systems as technically deficient and outmoded. As identified by the Commission, a fundamental issue facing the Commonwealth is whether this fragmented structure of local retirement systems should be maintained. Many other states have taken steps to consolidate individual local plans. Although discussed by the PERSC in 1987, a special report and proposal to address this issue has not yet been developed. Such a report is, however, now scheduled for completion by the end of 1990 or early 1991.

DISCUSSION:

Pennsylvania's public employee pension system structure is made up of many plans established by general and special purpose units of local government. The Commonwealth has over 4,500 such units. General purpose local governments (such as cities, boroughs, towns and townships) generally establish separate pension plans for their police, fire, and nonuniformed employees. Special purpose units (municipal authorities) and counties usually establish one pension plan for nonuniformed employees.

As shown below, Pennsylvania had 2,512 local government pension plans as of 1987.^{1/} This is reported to be more than

<u>Local Government</u>	<u>Police</u>	<u>Fire</u>	<u>Nonuniformed</u>	<u>Total</u>
County	1	0	69	70
City	56	46	54	156
Borough	538	24	418	980
Township (1st Class) ..	86	5	88	179
Township (2nd Class) ..	293	3	433	729
Authority	0	0	382	382
Council of Government .	<u>11</u>	<u>0</u>	<u>5</u>	<u>16</u>
Total	<u>985</u>	<u>78</u>	<u>1,449</u>	<u>2,512</u>

^{1/}This was the latest detailed (by local government unit) data available from the PERSC as of April 1990.

four times the number of public employee pension plans in existence in any other state. Taken together, these individual public employee retirement systems in the Commonwealth represent one of the largest public employee pension plans in the nation.

As shown on Exhibit D, the total number of local government pension plans in Pennsylvania has increased from 1,600 in 1974 to an estimated 2,600 in 1989. The PERSC projects that this number will continue to increase, at least in the short term.

Also contributing to the complex and fragmented nature of the public pension structure in Pennsylvania is the relatively small size of the plans. Data obtained from the PERSC indicates that municipal plans range in size from one member to over 5,000 members while county plans range from 31 members to over 7,000 members.

The Government Finance Officers Association has reportedly used 100 active members as a standard to categorize public employee pension plans as either small or large. Using this standard, 98% of Pennsylvania's municipal plans and 20% of the state's county plans which appeared in PERSC's May 1989 "Status Report" are "small." This is illustrated below:

<u>Municipal Plans</u>		<u>County Plans</u>	
<u>Number of Members</u>	<u>Number of Plans</u>	<u>Number of Members</u>	<u>Number of Plans</u>
10 or Fewer	1,642	100 or Fewer ...	14
11 to 25	450	101 to 200	12
26 to 50	184	201 to 300	10
51 to 100	128	301 to 400	8
101 or More	<u>38</u>	401 to 500	3
		501 or More	<u>23</u>
Total	<u>2,442</u>	Total	<u>70</u>

The existence of more than 2,500 systems, about two-thirds of which have fewer than 10 members, creates an unwieldy, complex, and fragmented retirement structure. This situation is compounded by the fact that these individual systems are governed by a multiplicity of different statutory provisions. As described by the PERSC, Pennsylvania has more than 50 disjointed retirement-related statutes enacted over the last 60 years. On this subject the Commission has observed that:

Deficiencies in the legislation governing these individually administered pension plans result in inequities and inconsistencies in the benefits provided, preclude the portability of service credits, and inflate the costs of providing the pension benefits.

According to the Advisory Committee on Intergovernmental Relations (ACIR), the consolidation of small retirement systems has been advocated for many years in both the private and public sectors. A 1980 report by the ACIR indicated that many states had brought most of their state and local employees into one or a few large retirement systems.

The ACIR also developed model legislation in 1980 for the establishment of a consolidated state-administered pension system. In the introductory section of the model legislation, the ACIR stated that, while problems may be encountered in the consolidation process, ". . . there is reason to believe that consolidation of retirement systems can enable a state to achieve economies of scale in administrative costs and in investment returns."

The Commission has referred to the public employee pension system structure as Pennsylvania's "fundamental local government retirement issue" and has recognized the need to address this issue. In its 1987 "Status Report on Local Government Pension Plans," the PERSC stated as follows:

If the present structure is to be maintained, the process to effect a comprehensive review and revision of all local government pension statutes must be initiated. If the present structure is to be replaced, the process to design and implement the replacement structure of local government retirement systems must begin.

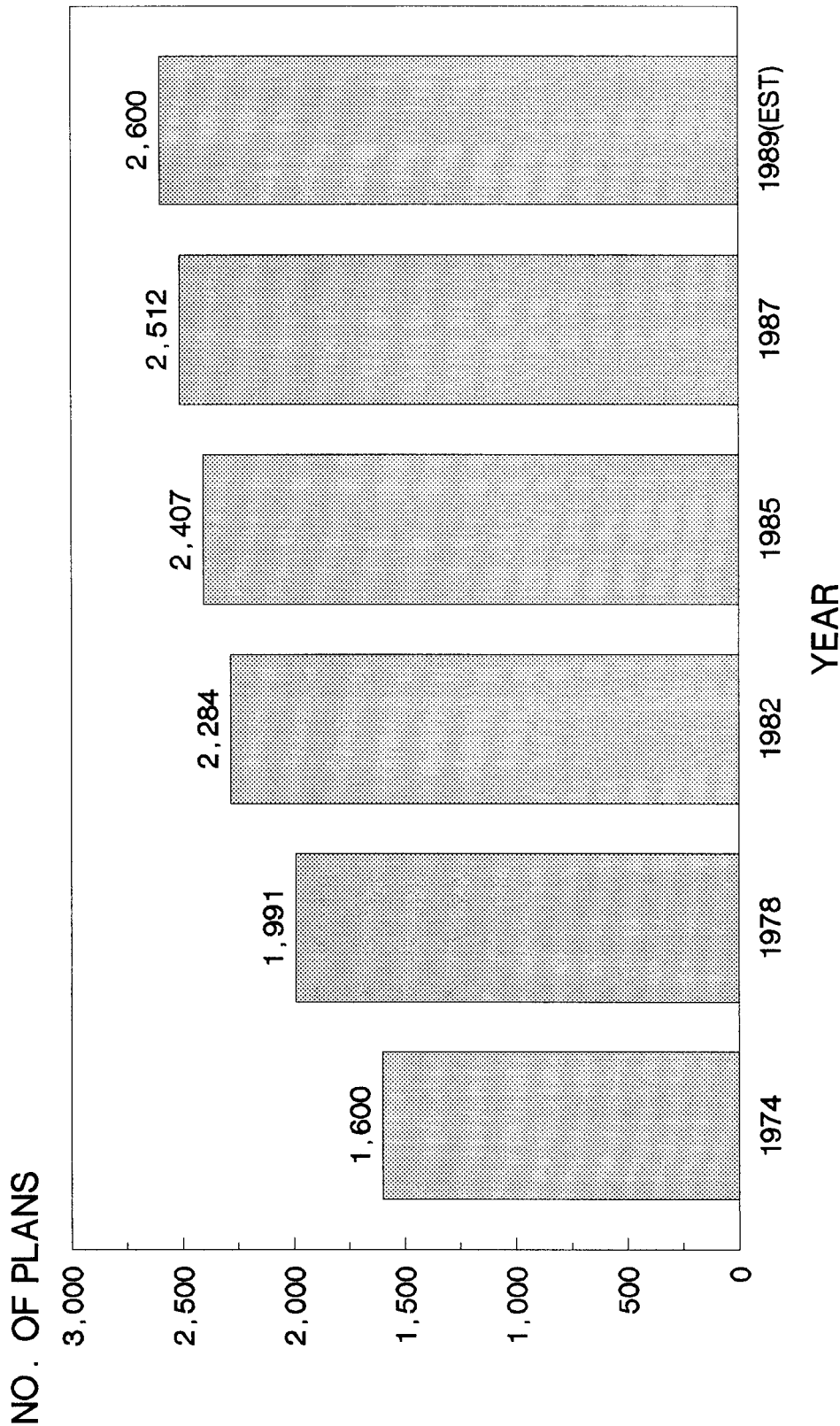
Although the Commission has previously recognized the need to address the consolidation issue, a report and/or policy recommendations for the General Assembly had not been completed as of April 1990. Commission staff indicate that a special Commission report on this subject should be completed by the end of 1990 or early 1991.

IT IS RECOMMENDED THAT:

The Commission place a high priority on completion of a planned report to the General Assembly on possible consolidation of the Commonwealth's local government public employee pension systems. Information on the status of this report and specific proposals and alternatives identified by the PERSC for legislative consideration should be communicated to the standing committee assigned sunset review responsibilities for the Commission so that discussion on the Commission's proposals and its role in implementing them can occur during the sunset hearing and review process.

EXHIBIT D

Growth in Number of Local Government Pension Plans



Source: Developed by LB&FC staff from information obtained from the Public Employee Retirement Study Commission.

**J. COMMISSION GUIDELINES FOR USE OF CONSULTING ACTUARIES
REQUIRE MODIFICATION AND UPDATE**

The Commission receives specialized advice and services through annual contracts with consulting actuaries. Written guidelines were developed by the Commission in 1982 to govern the acquisition and provision of these services. These guidelines are outdated and incomplete and are in need of revision.

DISCUSSION:

The Public Employee Retirement Study Commission supplements its staff resources through the use of consulting actuaries. During FY 1988-89, three separate firms were under contract to the Commission at a total fiscal year cost of \$40,519. Services provided by these actuaries included the following: (1) the preparation of actuarial notes for proposed legislation and possible presentations related to such notes, (2) the peer review of work done by other consulting actuaries to ensure consistency and reliability of the actuarial notes prepared, (3) the provision of general actuarial consulting services, and (4) the maintenance of a liaison with the PERSC's Executive Director.

In addition to annual written contracts, the PERSC's use of consulting actuaries is governed by a set of written guidelines entitled "Guidelines on Provision of Actuarial Services to Pennsylvania Public Employee Retirement Study Commission." These guidelines were developed by a special internal PERSC subcommittee (the Committee on Actuarial Services) in 1982 shortly after the creation of the Commission. They have not undergone substantive revision since that time.^{1/}

Examination of the "Guidelines" indicate that they are out-of-date and incomplete in many respects. For example,

- The "Scope of Services" section of the "Guidelines" identifies four areas for which actuarial guidance is required. The services listed relate only to the Commission's enabling legislation (Act 1981-66) and Act 1972-293. There is no reference to statutory mandates enacted after 1982 (e.g., Act 1984-205).

^{1/}The "Guidelines" were last updated by PERSC staff to indicate the actuarial rate structure as expressed in actuarial service contracts for the 1987-88 fiscal year.

- The "Guidelines" contain "General Principles in Engaging Reviewing Actuaries." However:
 - The principle that there be a "regional balance of location within the Commonwealth" among the selected actuaries is no longer appropriate.
 - The Board of Reviewing Actuaries cited in the "Guidelines" no longer exists.
 - Although several selection criteria are listed, there is no explanation of the selection procedure to be followed, if a competitive bidding process is to be used, and the frequency of rebidding or contract renewal.^{2/}
- The "Guidelines" do not specify minimum standards or a uniform format for actuarial notes which are prepared by the consulting actuaries (a primary function of the consulting actuaries).
- The "Guidelines" also do not define criteria or performance standards against which the performance of the consulting actuaries can be measured (e.g., for use in making contract renewal decisions).
- While the rate structure for consulting actuaries is addressed, the "Guidelines" do not require documentation of the rate determination process.

The absence of current and complete guidelines is inconsistent with sound management practices which require that agencies develop and utilize guidelines and standards for contracted services. The Contracting for Services manual published by the Office of the Budget states that contracts should (1) include a precise statement of objectives that the agency expects to achieve through the use of contracted services; (2) detail the specific tasks to be performed by the contractor in reaching the agency's objectives; (3) identify the specific deliverables expected from the performance of each task; (4) include meaningful parameters of measurement for the effort; (5)

^{2/}The Commission retained a new consulting actuarial firm in 1986. Although notices of the intent to retain a firm were sent by the PERSC to about 20 potential contractors, the PERSC did not advertise the contract in the Pa. Bulletin as is required by Management Directive M215.1, "Contracting for Services." (It should be noted that it is not clear as to whether or not the PERSC is required to adhere to this directive because of questions which exist regarding its status as an agency under the Governor's jurisdiction.)

identify any specific phases in which the work is to be accomplished; and (6) include a description of the reports that the contractor will be required to make.

Commission staff indicated that they are aware that the "Guidelines" require attention but that this matter has not been addressed because of other priorities. The PERSC's Deputy Executive Director also stated that the PERSC basically follows the provisions of their contracts^{3/} with the actuaries, rather than the "Guidelines," and that perhaps it would be better if the annual contracts signed with the consulting actuaries were more specific as to performance standards and duties.

IT IS RECOMMENDED THAT:

- *The PERSC reactivate its internal Committee on Actuarial Services^{4/} to revise and update the "Guidelines on Provision of Actuarial Services" and that the "Guidelines" be periodically reviewed and updated as necessary.*
- *The Guideline revisions address the specific issues identified in this finding and that special attention be given to the addition of a section which defines the procedure to be used in selecting and retaining consulting actuaries. This procedure should provide for publication of notice in the Pa. Bulletin as well as conditions and guidelines for automatic contract renewal.*

3/LB&FC staff examination of current contracts indicates that they contain the approximate total dollar amount to be expended for the services based on the established rates for personnel and travel. The contract includes provisions related to allowable costs and attachments for contractor integrity provisions, terms and conditions, and scope of services.

4/This special committee was not operational at the time of the audit. According to PERSC staff, it is a standing committee which can be called upon on an as needed basis.

K. COMMISSION RELIES ON SELF-CERTIFICATION OF QUALIFICATIONS BY MUNICIPAL ACTUARIES

Act 205 of 1984 requires that every municipality submit a standardized biennial report to the PERSC on all of its pension plans. The act further specifies that the required actuarial data in these reports (e.g., information on the financial position of the pension trust fund) be prepared and certified by an approved actuary with five years experience with public pension plans. Because of time and staff resource constraints, the PERSC does not directly verify these credentials. As an alternative, the PERSC relies on self-certification of qualifications by the actuaries. While direct verification may be administratively burdensome, initiation of a regular sampling and spot-checking process by PERSC staff may be advisable.

DISCUSSION:

Act 205 of 1984, the "Municipal Pension Plan Funding Standard and Recovery Act," requires that municipalities submit standardized reports to the PERSC on all of their individual pension plans. These reports, which are submitted on a biennial basis, are prepared for the municipalities by various actuaries and actuarial firms.

Act 205 also specifies that the municipalities' actuarial reports are to be prepared and certified by an approved actuary. As defined in the act, 53 P.S. §895.102, an approved actuary is a person who has at least five years of actuarial experience with public pension plans and who is enrolled either as a member of the American Academy of Actuaries (AAA) or as an actuary pursuant to the Federal Employee Retirement Income Security Act of 1974 (ERISA).

The PERSC does not currently carry out direct verification that actuaries involved in the preparation of the municipal reports meet the above requirements. Verification of the five-year experience requirement does not occur nor does PERSC staff normally verify that the actuaries who prepare and certify the municipal actuarial valuation report exhibits are approved actuaries.

According to the PERSC's Municipal Pension Program Manager, the 1985 reports, which were the first reports prepared under Act 205, were checked frequently to determine if they were prepared by an enrolled actuary because the program was new and the PERSC was unfamiliar with many of the actuaries. The 1987 reports were reportedly checked only when the Commission identified an unfamiliar name among the participating actuaries. The

only documentation of these reviews is the initialing of the municipal reports reviewed by the PERSC's Municipal Pension Program Manager.

As an alternative to direct verification, the PERSC utilizes a self-certification process for participating actuaries. This process involves the use of a check-off block on the actuarial valuation reports which are submitted to the Commission. Through responses on this portion of the report the actuary certifies that he/she has met the Act 205 experience and enrollment requirements.

The PERSC staff explained that there are several reasons for the current approach to dealing with this mandate. The Commission reviews approximately 2,600 actuarial valuation reports, 60% of which are received during a three-month period. Because of the volume of reports received, the associated reporting deadlines, and the relatively small size of the PERSC staff, the Commission's Executive Director believes that self-certification is the most manageable and cost-effective means of addressing this requirement.

The requirement in law that the reports be completed by an approved actuary is intended to ensure that the actuarial, demographic and financial data that is required to be in the actuarial reports is prepared by qualified and experienced actuaries. If prepared by unqualified/inexperienced actuaries, the reports provided to the Commission on the actuarial status of municipal pension systems may be inaccurate and/or incomplete.

The importance of ensuring that qualified or enrolled actuaries are used was stated in a 1980 report issued by the PA Special Senate Committee on Municipal Retirement Systems. This report indicated that requiring that an actuary be enrolled may make certain that the actuary is fully versed in the specifics of actuarial science in the context of pension plans and assure that actuarial calculations are properly done.

IT IS RECOMMENDED THAT:

- *The PERSC consider supplementing its current process of self-certification of actuary credentials with a regular sampling of actuaries and spot-checking of actuarial enrollment and experience. A written policy and procedure statement should be developed to govern this process including a provision that the results of all spot-checks be documented in PERSC files.*
- *In conjunction with the proposed spot-checking process, the PERSC consider requiring selected actuaries to submit evidence of their five-year actuarial experience with public pension plans and enrollment under the Employee*

Retirement Income Security Act (ERISA) or American Academy of Actuaries (AAA) along with the actuarial valuation reports which they prepare.

- The PERSC consider obtaining a listing of ERISA-certified actuaries for reference purposes.*

L. INCONSISTENCY IN LAW REGARDING FREQUENCY OF COMMISSION REPORTING ON MUNICIPAL PENSION SYSTEMS

Act 205 of 1984 mandates that municipalities annually meet a minimum financial obligation for each of their retirement systems. The PERSC is responsible for monitoring and reporting on compliance with this funding standard. Although the act requires the Commission to issue an annual public report identifying municipalities which do not comply, such reports are currently being issued every two years. The issuance of biennial rather than annual reports results from another Act 205 provision that requires municipalities to submit pension system reports to PERSC biennially. Adjustment of this technical inconsistency in law is recommended.

DISCUSSION:

The "Municipal Pension Plan Funding Standard and Recovery Act," Act 205 of 1984, establishes a minimum funding standard for every municipal pension plan and requires municipalities to submit actuarial reports on their pension plans to the Public Employee Retirement Study Commission. The act applies to every borough, city, incorporated town, township, home rule municipality, municipal authority, and council of governments.

Another of the major provisions of Act 205 relates to the requirement that each municipality meet a minimum financial obligation for each of its retirement systems. This is referred to as the minimum municipal obligation, or MMO.^{1/}

Act 205 establishes a procedure for determining the annual financial requirement or MMO of a municipal retirement system and assigns related oversight responsibilities to the PERSC. The PERSC is responsible for monitoring compliance with the MMO provisions of the Act and reporting on instances of noncompliance.

According to Act 205, 53 P.S. §895.301, in the event that any municipality or pension plan fails in a material way to comply with any applicable provision of the minimum funding standard for municipal pension plans, the Commission shall notify the Governor and the General Assembly of this noncompliance through an annual public report.

However, because of a technical inconsistency in Act 205, PERSC reporting on noncompliance occurs on a biennial rather than annual basis. Noncompliance is identified by the PERSC through actuarial reports which are submitted to the Commission

^{1/}See Finding G for a discussion of the Act 205 minimum municipal obligation.

by the municipalities every two years (annual valuation reports are only required if the municipality is applying, or has previously applied, for supplemental state assistance). The requirement that these reports generally be submitted to the Commission biennially is also contained in Act 205, 53 P.S. §895.201.

The PERSC's approach to responding to this Act 205 reporting mandate is to issue a biennial report to the General Assembly and the Governor entitled "Status Report on Local Government Pension Plans." This report identifies municipalities which do not meet the minimum funding standard and presents a wide range of other municipal and county pension data. The Municipal Program Manager of the PERSC indicated that the report is basically informational and contains data and analysis which can lead to various studies by the Commission and possible legislation.

Act 205's provisions concerning the calculation of the minimum funding standards became effective July 1, 1985 and its provisions concerning payment of the minimum obligation took effect January 1, 1986. The first actuarial valuations under the act were to be made as of the plan year occurring in 1985, and were to be submitted by the last business day of March 1986. To date, two status reports have been issued by the Commission, the first in December 1987 and the second in May 1989. The next status report is expected to be available in 1991.

Because these reports are prepared every two years there is an issue of noncompliance with the provision in Act 205 which requires the PERSC to report annually to the Governor and the General Assembly. This noncompliance results, however, from an inconsistent provision in the law.

The PERSC's Municipal Pension Program Manager stated that he does not believe it is necessary to report this information annually since the Auditor General's Office conducts annual audits of municipal pension plans. He also noted that the PERSC does not have any additional data in the non-filing years and that it would be time consuming and expensive to implement annual reporting of this type.

IT IS RECOMMENDED THAT:

The General Assembly consider amending the pertinent section of Act 205^{2/} to provide for biennial rather than annual public reporting by the PERSC of instances of municipal noncompliance with minimum pension funding standards. Such action would bring the reporting requirement in line with the section of Act 205 which provides for the submission of biennial actuarial reports to the Commission.

^{2/}This section is 53 P.S. §895.301(b).

M. COMMISSION NAME NOT FULLY REFLECTIVE OF ITS FUNCTIONS

The PERSC has a statutory mandate to carry out a wide range of activities which involve administrative, enforcement, and study functions. The Commission's name focuses on the study aspects of this mandate. While appropriate in 1981 when the Commission was created, the name does not accurately convey the nature and scope of current Commission responsibilities. The current designation as a study commission may be misleading, and a revision should be considered during the sunset review process.

DISCUSSION:

Pennsylvania's Public Employee Retirement Study Commission was created in 1981 in response to a recognition of a need for ongoing oversight of public retirement systems and the complex issues associated with such systems. This development was consistent with a national pattern of state pension commission development which was encouraged by such organizations as the National Conference on State Legislatures and the Advisory Commission on Intergovernmental Relations.

At that time such commissions were defined as statutory governmental entities "charged with the task of analyzing and reporting the complex issues involved in the maintenance of viable public retirement plans." This definition clearly implied a review and study orientation for the commissions.

Consistent with developments in other states, the PERSC's enabling legislation, Act 1981-66, provided for a review and study-oriented mission for the agency. In addition to reviewing retirement-related legislation, the Commission was "to study on a continuing basis public employee pension and retirement policy as implemented at both the state and local level, the interrelationships of the several systems and their actuarial soundness and cost," 43 P.S. §1404. Many of the specific powers and duties outlined in the enabling legislation relate to this study function.

Since the creation of the PERSC other statutory mandates have been assigned to the Commission which expanded the scope and nature of its functions beyond review and study. The most notable of these was Act 205 of 1984, the "Municipal Pension Plan Funding Standard and Recovery Act."

As described in the "Background" section of this report, Act 205 assigns major administrative and enforcement responsibilities to the PERSC related to monitoring actuarial reporting and establishing and enforcing minimum funding standards for municipal pension plans. The Commission is also involved, for example, in

the allocation of "General Municipal Pension System State Aid" and the "State Supplemental Assistance Program."

The Executive Director of the PERSC indicated that he believes the current title of the Commission is not sufficiently descriptive of the Commission's functions and may be misleading.

According to the Pension Commission Clearinghouse, twenty-one states have permanent pension commissions. (See Appendix H.) Of these, three (Ohio, Pennsylvania, and South Carolina) are designated as "study commissions." Similar commissions in other states are named, for example, the Pension Management Oversight Commission (Indiana), the Retirement Law Commission (Massachusetts), the Retirement System Review Commission (Virginia), and the Joint Committee on Public Employee Retirement (Missouri).

IT IS RECOMMENDED THAT:

The General Assembly consider changing the name of the Commission to more accurately reflect the full range of its current functions. If a decision is made to amend the enabling legislation to accomplish such a change, it is suggested that consideration be given to dropping the word "study" from the Commission's name (e.g., the Public Employee Retirement Commission) or replacing "study" with a term such as "management" or "review" to better reflect the range of current functions and activities.

N. STATUTORY CLASSIFICATION OF THE COMMISSION IS UNCLEAR

The Public Employee Retirement Study Commission (PERSC) is not clearly designated in law as a legislative, executive, or independent agency. As a result, the PERSC does not clearly fall within or without the coverage of certain regulations and management directives. Both the current and past executive directors of the Commission believe that the uncertainty concerning the PERSC's classification in law also creates a potential "perception problem" which may negatively affect the Commission's functioning. According to the Commission's current Executive Director, this ambiguity also impacts on the ability of the Commission to retain its own in-house legal counsel. To address these matters, it is recommended that the General Assembly consider amending the law to clarify the Commission's statutory classification.

DISCUSSION:

Act 1981-66, which created the Public Employee Retirement Study Commission, did not indicate whether the PERSC is a legislative, executive, or independent agency. Further, the PERSC is not listed as either a "departmental administrative board" or an "independent administrative board" in the Administrative Code, 71 P.S. §§61-63, nor is the PERSC named as an independent agency in the Commonwealth Attorneys Act, 71 P.S. §732-102.

Four PERSC members are legislators and five are public representatives appointed by the Governor with the advice and consent of the Senate. In addition, the PERSC has a statutory role in the legislative process through its actuarial and advisory notes and has administrative responsibilities such as implementing Act 1972-293 and certain portions of Act 1984-205.

Because of its uncertain legal status, the PERSC is not clearly subject to management directives applicable to agencies under the Governor's jurisdiction (such as Management Directive M215.1, Contracting for Services--see Finding J) or regulations applicable to executive agencies (such as the Office of General Counsel's regulations interpreting the Sunshine Act--see Finding B). According to the Executive Director, the most significant problem resulting from the uncertainty surrounding the PERSC's legal status concerns arrangements for the provision of legal services to the Commission. Legal services are currently provided by two attorneys (one from the Office of General Counsel and one from PennDOT) working for the PERSC on a part-time basis.^{1/}

^{1/}Under the Commonwealth Attorneys Act, the General Counsel's Office has authority to appoint, supervise, and administer legal services for each executive agency. Act 1981-66, however, states that the PERSC has authority to hire legal counsel and other appropriate staff.

The Executive Director indicated that the current situation has resulted in "uneven response times" for the receipt of legal services. He also indicated that the PERSC's function requires that it be perceived as being objective, but the lack of a definitive provision in law making the PERSC independent may result in a perception that the PERSC is unduly influenced by either the legislative or executive branch. According to the Commission's former Executive Director, the PERSC has been "captured" by the executive branch, which can increase friction between the Commission and the General Assembly.

The Commission's current Executive Director expressed the opinion that the lack of clarity regarding the status of the PERSC could be addressed by an amendment to the Commonwealth Attorneys Act to specifically designate the PERSC as an independent agency.

IT IS RECOMMENDED THAT:

The General Assembly consider amending the law to clarify the legal status of the Commission. This clarification should address the issue of whether the PERSC is a legislative or administrative agency, and if the PERSC is to be considered an administrative agency, whether it is an executive or independent agency.^{2/}

^{2/}In addressing this matter, it is important to note that the Pennsylvania courts have invalidated statutes on the ground that the statutes assigned an executive function to a legislative agency. For example, in Commonwealth, Department of Environmental Resources v. Jubelirer,--Pa. Commw.--, 567 A.2d 741 (1989), appeal pending, the Commonwealth Court struck down sections of the Regulatory Review Act on grounds that a legislative agency was given powers that interfered with the executive branch's function of administering the laws.

III. BACKGROUND DESCRIPTIVE INFORMATION
ABOUT THE PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION

A. Legal Background

The Public Employee Retirement Study Commission (PERSC) was created by Act 1981-66. This statute established the Commission to "provide an ongoing mechanism to monitor public employee retirement plans and to assure their actuarial viability by review of proposed changes and reforms in the plans and to re-view relevant statutes."

Act 66 further enumerated the specific powers and duties of the Commission in carrying out this mission. (See Part B of this section for a listing of the PERSC's current duties and responsibilities.)

In addition to the basic enabling legislation, five other statutes impose specific duties and responsibilities on the Commission. Most notable among these is Act 1984-205, the "Municipal Pension Plan Funding Standard and Recovery Act," 53 P.S. §§895.101 - 895.803. This and other state laws which pertain to the functions and operation of the PERSC are summarized on Exhibit E.

B. Commission Powers and Duties

The powers and duties of the Public Employee Retirement Study Commission are defined in six separate statutes. These are as follows:

1. Act 1981-66 - Under Act 1981-66, as amended, 43 P.S. §1401 et seq., the Public Employee Retirement Study Commission Act, the Commission has two primary responsibilities. These are:
 - a. To review proposed legislation affecting public employee retirement systems.
 - b. To study, on a continuing basis, public employee retirement system policy, the interrelationships of the several systems, and their actuarial soundness and cost.

As defined in Act 66, the Commission has the following specific powers and duties:

- a. To study generally the subject of retirement, income after retirement, disability and death benefits, and the retirement needs of public employees. The PERSC has the responsibility to formulate principles and

objectives applicable thereto and to recommend any new legislation it deems advisable.

- b. To analyze any bill relating to public employee retirement or pension policy and issue a report to the Governor and General Assembly in a timely fashion which includes an assessment of the actuarial soundness, feasibility, and cost of the legislation.
- c. To establish and review plans for actuarial soundness for every public employee retirement plan.
- d. To issue subpoenas to compel testimony or receive any information which is reasonably necessary.
- e. To cooperate with state and municipal retirement and pension boards on matters of mutual concern.
- f. To issue an annual public report to the General Assembly and the Governor including, but not limited to, its findings, recommendations, and a summary of its activities.
- g. To hire an executive director and additional staff such as actuaries, legal counsel, research analysts, secretarial assistance and contract for consultant services as may be within the limits of available appropriations.
- h. To adopt bylaws for the conduct of its official business.
- i. To monitor and evaluate from time to time all laws and systems which relate to public employee pension and retirement policy in the Commonwealth.
- j. To study the relationship of retirement and pension policy to other aspects of public personnel policy and to the effective operation of government generally.
- k. To examine the interrelationships among public employee pension and retirement systems throughout the state.
- l. To recommend to the General Assembly a change in the process by which public employee pension and retirement legislation is analyzed and acted upon by the Legislature.
- m. To issue actuarial notes.

- n. To formulate and recommend passage of legislation, within one year of the initial Commission meeting, to mandate actuarial funding standards and establish a recovery program for municipal pension systems determined to be financially distressed.
 - o. To perform the functions and duties vested in the Department of Community Affairs pursuant to Act 1972-293.
2. Act 1982-221 - This act directed the Commission to appoint a Municipal Employee Pension Advisory Committee.
 3. Act 1984-205 - Under Act 1984-205, the Municipal Pension Plan Funding Standard and Recovery Act, the Commission has the following three additional responsibilities:
 - a. To administer the actuarial valuation reporting program for municipal retirement systems, which entails monitoring and enforcing compliance with the statutorily mandated actuarial funding standard.
 - b. To certify annually municipal pension cost data used in allocating "General Municipal Pension System State Aid" monies.
 - c. To administer the Financially Distressed Municipal Pension Systems Recovery Program that involves the annual determination and certification of distress data used in allocating "Supplemental State Assistance" funds of up to \$35 million annually.
 4. Act 1972-293 - Responsibilities under this act were originally vested in the Department of Community Affairs. They were transferred to the PERSC by Act 1981-66. As a result, county retirement systems are required to have actuarial investigations of their funds conducted and report findings to the PERSC; the PERSC is to periodically publish information received from the actuaries.
 5. Act 1987-53 - Under this act, the Commission is required to determine the appropriate amount of employer contributions to be transferred to the State Employees' Retirement System by county/municipal pension systems for certain transfers to state employment.
 6. Act 1987-78 - This statute requires the PERSC to study, at four-year intervals, the employer contribution rate established in state law for school employees participating in an independent retirement program. The

PERSC is empowered to recommend a new rate to the Governor and the General Assembly.

C. Commission Goals and Objectives

As reported by its Executive Director, the objectives of the Public Employee Retirement Study Commission relate to its two major statutory responsibilities: the preparation of actuarial notes mandated under Act 1981-66 and the proper administration of the reporting requirements of Act 1984-205 and Act 1972-293. Additionally, the Commission has an objective to study generally the subject of retirement.

The specific objectives of the Commission in these areas as reported in response to the LB&FC's "Sunset Pre-audit Survey Questionnaire" are as follows:

1. Actuarial Note Objectives

- a. To develop accurate, concise and timely actuarial notes.
- b. To minimize the response time on all actuarial note requests without sacrificing completeness.

2. Municipal Reporting Requirement Objectives

- a. To ensure that all administrative deadlines established by statute or regulations for Acts 205 and 293 are met.
- b. To facilitate 100% compliance by municipalities with the actuarial reporting requirements of Acts 205 and 293.

3. Public Employee Retirement Research Objectives

- a. To improve public employee retirement policy through the development of legislative initiatives.
- b. To develop research reports to implement public employee retirement policy initiatives.

D. Member Composition and Functions

By law, 43 P.S. §1405, the Public Employee Retirement Study Commission is composed of nine members. Five members are appointed by the Governor with the advice and consent of the Senate and four are appointed by the leaders of the General Assembly.

The five members appointed by the Governor are to be representatives of the general public who are skilled and knowledgeable in the area of pension or retirement system management. One member is to be an active or retired member of a public employee pension or retirement plan and no more than three shall be of the same political party. All Gubernatorial appointments are made with the advice and consent of a majority of the Senate.

Legislative members of the Commission are appointed by House and Senate leaders. In the Senate, the President pro Tempore, after consultation with the Minority Leader, appoints two members, one from the majority and one from the minority. In the House of Representatives, the Speaker of the House does likewise after consultation with the House Minority Leader.

Commission members appointed by the Governor serve six-year terms. Legislative members serve for the duration of the terms for which they were elected.

The Commission meets at the call of the Chairman but not less than six times per year. Nonlegislative members are paid \$50 a day for each day spent in transacting Commission business, not to exceed \$3,000 per year. All members are to be reimbursed for necessary expenses incurred in connection with their commission duties.

Based on pre-audit information received from the Commission, member activities are focused in the five primary "activity areas" shown on Exhibit G. As shown on the exhibit, 80% of Commission activities are related to the review and approval of actuarial notes and the development and issuance of pension-related policy recommendations.

E. Staff Composition and Functions

The Public Employee Retirement Study Commission has a full-time staff of seven persons who are headquartered in Harrisburg. As shown on Exhibit I, the staff complement includes an Executive Director, a Deputy Executive Director, a Municipal Pension Program Manager, a Research Associate, a Computer Systems Analyst, an Administrative Assistant, and a Clerk/Typist.

The "Sunset Pre-Audit Survey Questionnaire" completed by the Commission indicated that 55% of staff time and effort is devoted to analysis of proposed pension-related legislation, including the development of actuarial and advisory notes and the conduct of related policy research and studies. (See Exhibit H.) Another major staff activity, consuming 30% of staff effort, is the administration of Act 205, the "Municipal Pension Plan Funding Standard and Recovery Act."

The remaining 15% of staff time includes drafting proposed legislation, providing information and technical assistance to various individuals and organizations, and administering the biennial actuarial reporting requirement which applies to Pennsylvania counties.

The Commission staff receives specialized assistance in its actuarial note preparation activities from contracted actuaries. Fiscal services are obtained from the Office of Administration, and legal services are provided by the Office of General Counsel and the PA Department of Transportation. The PERSC complement does not include an in-house fiscal specialist or attorney.

F. Advisory Committees

The PERSC is to receive input from two statutorily created advisory groups, the Municipal Pension Advisory Committee and the Municipal Employee Pension Advisory Committee.

The Municipal Pension Advisory Committee (MPAC) is a six-member group appointed by the Commission pursuant to Act 1981-66. It is composed of one municipal official or employee nominated by each of the following municipal associations: Pennsylvania League of Cities, Pennsylvania State Association of Boroughs, Pennsylvania State Association of Township Supervisors, Pennsylvania State Association of Township Commissioners, Pennsylvania State Association of County Commissioners, and Pennsylvania Municipal Authorities Association.

Persons appointed to the advisory committee may not be members of the Commission. The MPAC is required to meet with the Commission at times designated by the Commission, but not less than once a year to discuss the activities of the Commission and present information and make recommendations. The MPAC may also meet at such other times as it may determine. Committee members receive reimbursement for expenses.

The Municipal Employee Pension Advisory Committee (MEPAC) is a five-member group appointed by the Commission as mandated by Act 1982-221. This advisory committee is composed of representatives nominated by each of the following associations: the Pennsylvania Chiefs of Police Association, the Pennsylvania State Firefighters Association, the Pennsylvania State Education Association, the American Federation of State, County and Municipal Employees (AFSCME), and the Pennsylvania Fraternal Order of Police.

Members of this advisory committee may not be members of the Commission. The advisory committee is required to meet with the Commission at times fixed by the Commission but at least once a year, at which time the activities of the Commission are to be

discussed and information and recommendations presented. The MEPAC may also meet at such other times as it may determine. Committee members are reimbursed for expenses.

G. Fiscal Information

The operations of the Public Employee Retirement Study Commission are funded from an appropriation from the State General Fund. As shown on Table 2, the FY 1988-89 appropriation amount was \$476,000, of which \$428,916 was expended. A minor object breakdown of FY 1988-89 expenditures is presented on Table 3.

The PERSC's fiscal year 1989-90 operating appropriation was \$500,000; the amount requested in the Governor's FY 1990-91 budget for Commission operations was \$504,000.

EXHIBIT E

State Laws Which Pertain to
the Establishment and Operation of the
Public Employee Retirement Study Commission (PERSC)

- Act 1972-293 - Requires county retirement systems to have actuarial investigations of their funds conducted and report findings to the PERSC; the PERSC is to periodically publish information received from the actuaries. (These responsibilities were originally vested in the Department of Community Affairs. They were transferred to the PERSC by Act 1981-66.)
- Act 1981-66 - Created the Public Employee Retirement Study Commission to review legislation affecting public employee pension and retirement plans and to study on a continuing basis public employee pension and retirement policy as implemented at both the state and local level, the interrelationships of the several systems and their actuarial soundness and cost.
- Act 1982-221 - Amended Act 1981-66 to require the Commission to appoint a Municipal Employee Pension Advisory Committee. (A Municipal Pension Advisory Committee had been established by Act 1981-66.)
- Act 1984-205 - Known as the Municipal Pension Plan Funding Standard and Recovery Act, this statute requires actuarial reporting by municipal retirement systems, establishes a minimum funding standard for every municipal pension plan, provides for allocation of General Municipal Pension System State Aid, and establishes a recovery program for financially distressed municipal retirement systems. The PERSC is responsible for administering this Act in conjunction with the Auditor General.
- Act 1987-53 - Requires PERSC to determine the appropriate amount of employer contributions to be transferred to the State Employees' Retirement System by county/municipal pension systems for certain transfers to state employment.
- Act 1987-78 - Requires the PERSC to study, at four-year intervals, the employer contribution rate established in state law for school employees participating in an independent retirement program. The PERSC is empowered to recommend a new rate to the Governor and the General Assembly.

Source: Developed by the LB&FC staff from review of pertinent state statutes.

EXHIBIT F

Summary of Primary Activities Carried Out
by the Public Employee Retirement Study Commission

1. Preparation of Actuarial Notes and Advisory Notes
2. Administration of Act 1984-205
 - Administers actuarial reporting requirement
 - Enforces mandatory actuarial funding standard
 - Determines financially distressed municipal pension plans
 - Administers a recovery program for distressed plans
 - Calculates/certifies amounts of supplemental state assistance payable to eligible distressed municipalities
 - Certifies municipal pension cost data to the Auditor General for use in calculation of General Municipal Pension System State Aid
3. Research/Development of Reports and Studies/Policy Recommendations
4. Formulation of Proposed Statutes and Assistance in Drafting Legislation
5. Retirement Systems Review (SERS, PSERS, PMRS)
6. Provision of Information and Technical Assistance
7. Administration of Act 1972-293

Source: Developed by the LB&FC staff from review of pertinent statutes.

EXHIBIT G

Summary of Primary Activities Carried Out by the
Public Employee Retirement Study Commission Membership

Activity	Percentage of Total Commission Effort ^{a/}	Brief Description
Actuarial Notes	50%	Review, approval and transmittal of actuarial notes to the Governor and General Assembly on legislative proposals proposing changes to public employee retirement systems, including PERSC recommendations concerning future consideration of the proposed legislation.
Policy Recommendations	30%	Issuance of periodic reports, including policy recommendations on issues associated with public employee retirement policy.
Retirement Systems Review	10%	Review of the annual financial and actuarial valuation reports of the State Employees' Retirement System, Public School Employees' Retirement System, and PA Municipal Retirement System.
Recommendation of Proposed Statutes	5%	Development of draft legislation to implement Commission recommendations introduced by PERSC's legislative members.
Oversight of Act 205 ^{b/} Administration	5%	Oversee the PERSC staff's administration of the Act, evaluate the Act's effectiveness and periodically recommend proposed amendments.

^{a/}As estimated by the Public Employee Retirement Study Commission staff.
^{b/}The "Municipal Pension Plan Funding Standard and Recovery Act" (Act 1984-205).
Source: Developed by the LB&FC staff from information reported by the Public Employee Retirement Study Commission in the "Sunset Pre-Audit Survey Questionnaire," October 1989.

EXHIBIT H

Summary of Primary Activities Carried Out by the
Public Employee Retirement Study Commission Staff

<u>Activity</u>	<u>Percentage of Total Staff Effort^{a/}</u>	<u>Brief Description</u>
Administration of Act 205 ^{b/} 30%	Administers the actuarial reporting requirement applicable to approximately 2,600 municipal pension plans, enforces the mandatory actuarial funding standard specified in Act 205, determines financial-ly distressed municipal pension plans and administers a recovery program for dis-tressed plans, calculates and certifies amounts of supplemental state assistance payable to eligible distressed municipali-ties and certifies to the Auditor General pension cost data for 1,200 municipalities for use in the calculation of General Municipal Pension System State Aid.
Actuarial Notes	25%	Prepares a summary of the actuarial cost data received from the PERSC's consulting actuary and develops an analysis of each legislative proposal for which an actuari-al note is prepared; includes potential recommendations for the Commission's con-sideration.
Research/Development of Reports and Studies	25%	Conducts research and prepares reports and policy recommendations on public employee retirement policy issues for Commission review and approval.

a/As estimated by the Public Employee Retirement Study Commission staff.
b/The "Municipal Pension Plan Funding Standard and Recovery Act" (Act 1984-205).

EXHIBIT H

Summary of Primary Activities Carried Out by the
Public Employee Retirement Study Commission Staff
(Continued)

Activity	Percentage of Total Staff Effort ^a	Brief Description
Legislation Drafting	5%	Drafts proposed legislation necessary to implement PERSC policy recommendations.
Advisory Notes	5%	Prepares advisory notes for use by legislative committees in their consideration of public employee retirement legislation prior to the need for a full actuarial note.
Provision of Information and Technical Assistance	5%	Provides information and technical assistance to a broad range of individuals and organizations interested in public employee retirement issues (e.g., executive and legislative branch staff, local government officials and associations, retirement system administrators and others).
Administration of Act 293 of 1972	5%	Administers the biennial actuarial reporting requirement applicable to the Commonwealth's 70 county pension plans.

Source: Developed by the LB&FC staff from information reported by the Public Employee Retirement Study Commission in the "Sunset Pre-Audit Survey Questionnaire," October 1989.

Exhibit I
**PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION
 ORGANIZATIONAL CHART**

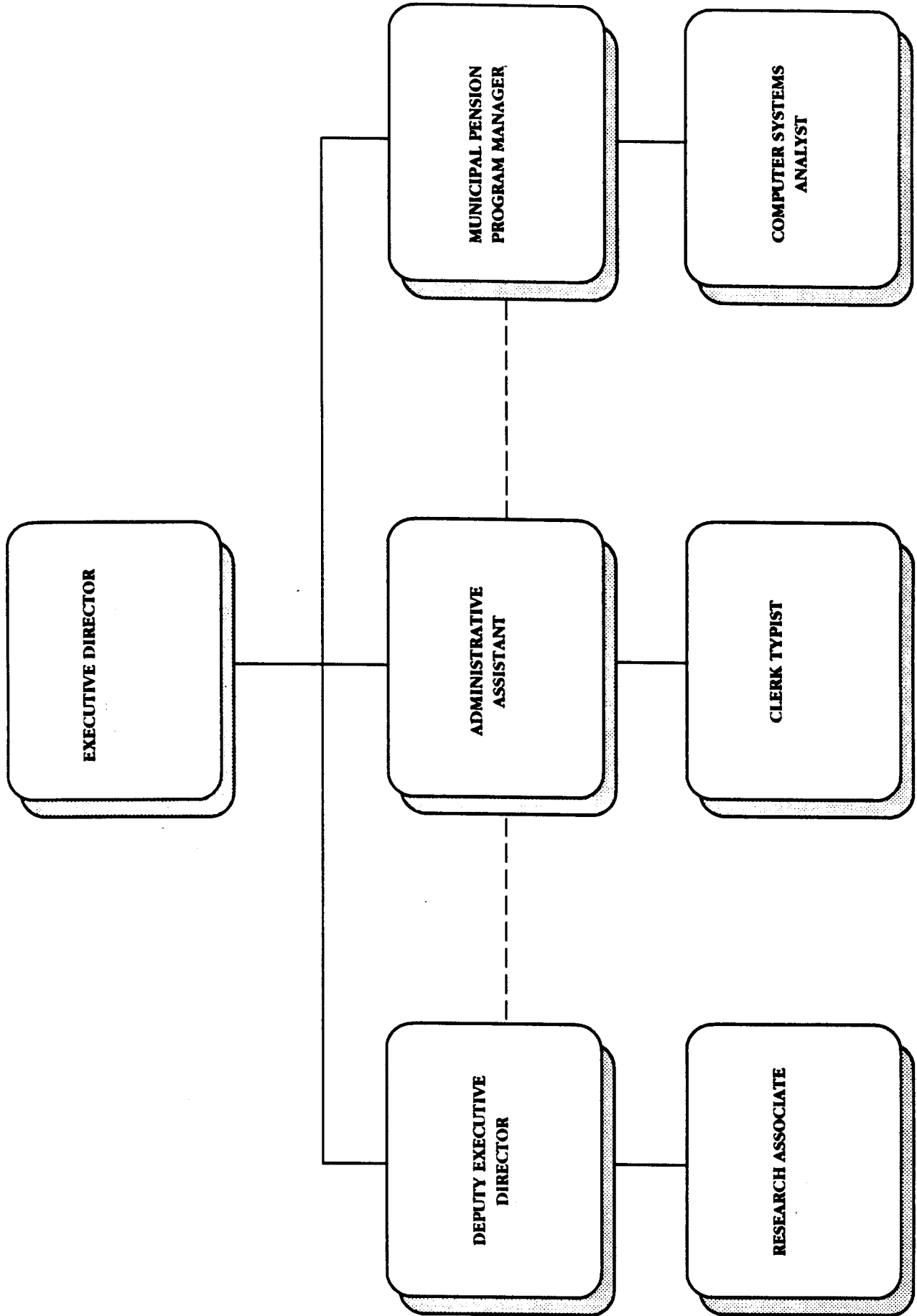


TABLE 2

State General Fund Appropriations
to the PERSC and Amounts Expended and Lapsed,
FY 1982-83 through FY 1990-91 (Budget)

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Expenditures</u>	<u>Lapses</u>	<u>Percent of Appropriation Lapsed</u>
1982-83	\$200,000	\$195,526	\$ 4,474	2.2%
1983-84	310,000	268,765	41,235	13.3
1984-85	350,000	289,425	60,575	17.3
1985-86	390,000	291,026	98,974	25.4
1986-87	425,000	362,206	62,794	14.8
1987-88	465,000	424,605	40,395	8.7
1988-89	476,000	428,916	47,084 ^{a/}	---
1989-90 (Available)	500,000 ^{c/}	277,588 ^{b/}	---	---
1990-91 (Budget) ..	504,000 ^{c/}	---	---	---

a/According to the Chief of the Division of Fiscal and Office Services, Office of Administration, \$20,587 of this amount was the February 28, 1990, "Status of Appropriations Report" available balance which was in the process of being lapsed as of April 3, 1990. The remaining \$26,497 was automatically lapsed June 30, 1989.

b/Represents total expenditures and commitments as of January 31, 1990.

c/As presented in the FY 1990-91 Governor's Executive Budget.

Source: Developed by LB&FC staff from "Status of Appropriations Reports" prepared by the Office of the Budget and the FY 1990-91 Governor's Executive Budget.

TABLE 3

Breakdown of FY 1988-89 Public Employee Retirement
Study Commission Expenditures by Minor Object

<u>Object of Expenditure</u>	<u>Amount</u>
Salaries	\$237,149
Consultant Fees	40,519
Retirement Contributions - State Share	31,125
Social Security - State Share	17,897
Employee Hospital Insurance - State Share	14,805
Printing	9,024
Postage	8,140
Travel	7,954
Office Supplies	7,276
Annual Hospital Insurance - State Share	7,132
State Workman's Insurance Premiums	6,631
Employee Health and Welfare - State Share	4,658
Purchase EDP Equipment - CP&PR	4,446
Furniture and Furnishings	4,422
Wages	4,150
Contracted Maintenance Services - Office Equipment ..	3,482
Legal Fees	2,996
Rent of Real Estate	2,516
Subscriptions	1,846
PA Telephone Network	1,529
Equipment and Machinery	1,302
Conference Expenses	1,261
EDP Software - Vendor Provided	1,213
Specialized Services	1,208
Telephone/Telegraph Monthly Charges	1,175
Purchase EDP Software	850
Employee Group Life Insurance - State Share	806
Educational Books	705
Membership Dues	550
Office Equipment	418
Freight Charges	376
Conference Registrations	300
Overtime	251
Out Service Training	245
Contracted Repairs	220
Telephone/Telegraph Equipment	176
Motorized Equipment Rentals	61
Other Equipment Rentals	36
Long Distance Toll Charges	33
Insurance Surety, Fidelity Bonds	29
Interest Penalties	6
Total	<u>\$428,916^{a/}</u>

^{a/}Does not add due to rounding.

Source: Developed by LB&FC staff from ICS Reports XABC6410 (6/30/89) and XABC643 (9/30/89), obtained from the Office of Administration.

APPENDIX A

PA Sunset Review and Termination/Continuation Timetable

APPENDIX A

PA Sunset Review and Termination/Continuation Timetable

The Pennsylvania sunset cycle timetable as outlined in the Sunset Act, 71 P.S. §1795.1 et seq., appears below:

1. January - The Sunset Leadership Committee^{1/} assigns responsibility for the review and evaluation of each agency to an appropriate standing committee of the House or Senate.
2. On or before March 1 - The responsible standing committee shall receive the following information for each agency that it is reviewing:
 - a. A performance audit or summary audit from the LB&FC
 - b. A report on all pertinent statutes from the Legislative Reference Bureau
3. On or before the first session day of September - The standing committee presents to the General Assembly a report on the committee's determination as to the future of each agency under sunset review. The report is to be accompanied by draft legislation to implement the standing committee's recommendations.
4. During November - If legislation has not been enacted by November 1 to reestablish an agency scheduled for termination, a resolution is to be placed before the House and Senate to determine the agency's continued existence. If a majority of the members of each House approve of its continuation, the agency will continue to exist until the next ten-year sunset cycle, unless the General Assembly establishes an earlier termination date for that agency.^{2/}

^{1/}The Sunset Act creates a leadership committee, comprised of the Speaker of the House, the President Pro Tempore of the Senate, and the House and Senate Majority and Minority Leaders.

^{2/}A Commonwealth Court judge, ruling on a motion for a preliminary injunction, recently found the reestablishment by resolution provision unconstitutional. This case is still being litigated.

APPENDIX A

PA Sunset Review and Termination/Continuation Timetable
(Continued)

5. On December 31^{3/} - Any agency scheduled for termination that has not been specifically reestablished or continued^{4/} shall be terminated. Each such agency shall have until June 30 of the succeeding year to wind up its affairs.

^{3/}Agencies scheduled for sunset review generally have termination dates of December 31 of the termination year.

^{4/}The Sunset Act permits the Sunset Leadership Committee to continue an agency for up to one year. According to a recent Pennsylvania Supreme Court decision, this provision is unconstitutional. This case is still being litigated.

Source: Developed by the LB&FC staff from Act 1981-142, as amended.

APPENDIX B

Membership of the
Public Employee Retirement Study Commission

APPENDIX B

Membership of the
Public Employee Retirement Study Commission

Gubernatorial Appointees

Mr. Dale D. Stone, Chairman
Retired Senior Vice President
The Sun Company

Dr. J. Richard Aronson
Vice Chairman
Professor of Economics
Lehigh University

Mr. Paul D. Halliwell
President
Halliwell and Associates, Inc.

Mr. Albert L. Hydeman, Jr.
Director of Economic and
Community Development
City of York

Mr. John Ingram
Retired Director
State Division
PA Economy League

Legislative Appointees

Senator Gibson E. Armstrong
District 13, Lancaster County

Senator Anthony B. Andrezeski
District 49, Erie County

Representative Harold F. Mowery, Jr.
District 87, Cumberland County

Representative Terry E. Van Horne
District 54, Westmoreland County

Source: Public Employee Retirement Study Commission as of
January 1990.

APPENDIX C

List of Public Employee Retirement
Study Commission Publications and Reports

APPENDIX C

List of Public Employee Retirement Study Commission
Publications and Reports

1. *Recommendation of Actuarial Funding Standards and a Recovery Program for Municipal Pension Systems* (January 1983)
2. *Act 293 Report* (March 1984)
3. *Report of the Public Employee Retirement Study Commission on Post Retirement Adjustments* (March 1984)
4. *Special Study of Cost-of-Living Post Retirement Adjustments for Municipal Police Officers and Municipal Firefighters* (October 1984)
5. *Study of Method of Setting Employer Contribution Rates to Alternate Retirement Programs* (March 1987)
6. *A Comprehensive Study of the Pennsylvania State Employees' Retirement System (SERS), Public School Employees' Retirement System (PSERS), and Statewide Public Retirement Systems in Other States* (May 1987)
7. *A Study of the Total Compensation of Pennsylvania Public Employees* (June 1987)
8. *Status Report on Local Government Pension Plans* (December 1987)
9. *Public Employee Retirement Laws for Pennsylvania Local Governments* (June 1988)
10. *Fiduciary Responsibility and Liability for Pennsylvania Local Government Retirement Systems* (February 1989)
11. *Status Report on Local Government Pension Plans* (May 1989)
12. *Service Purchase Authorizations for Pennsylvania Public Employee Retirement Systems* (June 1989)
13. *Compilation and Analysis of Data on Municipal Pension Plans*
14. *Commission Annual Reports* (1983 to 1989)

Source: Public Employee Retirement Study Commission.

APPENDIX D

Pennsylvania Municipalities With Aggregate Unfunded
Actuarial Accrued Liabilities Greater Than One Million Dollars
(Based on 1987 Municipal Pension Plan Data)

APPENDIX D

Pennsylvania Municipalities With Aggregate Unfunded Actuarial Accrued Liabilities Greater than One Million Dollars*/
(Based on 1987 Municipal Pension Plan Data)

<u>Municipality</u> ^{a/}	<u>County</u>	<u>Total Unfunded Accrued Liability</u> ^{b/}
Philadelphia City	Philadelphia	\$1,798,524,000
Pittsburgh City	Allegheny	454,591,684
Erie City	Erie	100,526,402
Scranton City	Lackawanna	58,748,170
Allentown City	Lehigh	37,668,698
Harrisburg City	Dauphin	37,516,375
Reading City	Berks	30,426,827
York City	York	26,588,180
Wilkes Barre City	Luzerne	24,597,613
Easton City	Northampton	20,417,139
McKeesport City	Allegheny	19,816,241
Bethlehem City	Northampton	19,650,882
Altoona City	Blair	17,088,520
Chester City	Delaware	15,235,477
New Castle City	Lawrence	13,682,533
Johnstown City	Cambria	13,097,941
Lancaster City	Lancaster	10,622,924
Williamsport City	Lycoming	10,009,332
Hazleton City	Luzerne	9,193,169
Washington City	Washington	8,903,250
Butler City	Butler	8,740,660
Duquesne City	Allegheny	6,047,955
Lebanon City	Lebanon	5,551,982
Bradford City	McKean	5,379,608
Clairton City	Allegheny	4,319,270
Bensalem Township	Bucks	3,392,508
New Kensington City	Westmoreland	3,120,628
Beaver Falls City	Beaver	3,045,003
Monroeville Borough	Allegheny	3,006,241
Oil City City	Venango	2,928,444
Carbondale City	Lackawanna	2,446,245
McKeesport Municipal		
Water Authority	Allegheny	2,401,367
Franklin City	Venango	2,347,515
Arnold City	Westmoreland	2,322,771
Westmoreland County		
Municipal Authority	Westmoreland	2,065,566
Pottsville City	Schuykill	2,012,836
Pottstown Borough	Montgomery	1,987,843
Sharon City	Mercer	1,795,935
Greensburg City	Westmoreland	1,769,809
Farrell City	Mercer	1,620,118
Radnor Township	Delaware	1,548,045
Aliquippa City	Beaver	1,525,870
Penn Hills Township	Allegheny	1,449,200
Shamokin City	Northumberland	1,421,967

APPENDIX D Continued

<u>Municipality</u> ^{a/}	<u>County</u>	<u>Total Unfunded Accrued Liability</u> ^{b/}
Cumberland-Dauphin-		
Harrisburg Transit Auth .	Dauphin	1,419,745
Upper Merion Township	Montgomery	1,387,953
Shaler Township	Allegheny	1,383,411
Monessen City	Westmoreland	1,348,662
Connellsville City	Fayette	1,310,570
Media Borough	Delaware	1,304,089
Lehigh/Northampton		
Transit Authority	Lehigh	1,243,119
Mt. Lebanon Township	Allegheny	1,226,132
Titusville City	Crawford	1,065,070
Jeannette City	Westmoreland	1,063,618
Cheltenham Township	Montgomery	1,049,362
Allegheny County		
Sanitary Authority	Allegheny	1,041,213
Erie Metro Transit Auth ...	Erie	1,014,622
Total		<u><u>\$2,815,010,309</u></u>^{c/}

*/As reported by the PERSC, local government pension plans established by municipalities subject to the reporting requirements of Act 205 of 1984 are termed "municipal pension plans." It is these plans which are included in this appendix. Local government pension plans established by counties that are subject to actuarial reporting under the provision of Act 293 of 1972 are termed "county pension plans." Information on these plans is not included above; 1987 data indicates, however, that two counties, Allegheny (\$116,919,379) and Greene (\$1,294,724), had unfunded accrued liability in excess of \$1 million from the 1986 database. As of early 1990, the 1987 municipal pension plan data was the most current information available; 1989 municipal pension plan data was to be submitted to the PERSC by March 31, 1990, and will be reported by the Commission in the spring of 1991.

a/It should be noted that in most cases the information shown on this table relates to more than one individual plan within the municipality. For example, Philadelphia City includes three separate plans: police, firefighters, and nonuniformed plans.

b/"Unfunded actuarial accrued liability" is defined as the excess of actuarial accrued liability over the actuarial value of assets. In other words, the unfunded actuarial accrued liability represents the amount of funding required to bring the fund ratio of a pension plan to 100%.

c/Represents 95% of the total unfunded accrued liabilities of municipalities based on 1987 data (\$2,968,321,805).

Source: Developed by the LB&FC staff from analysis of the Commission's data for 1987 municipal pension plans and 1986 county pension plans.

APPENDIX E

Detailed Breakdown of Unfunded Actuarial
Accrued Liability by Municipality and Plan Type
Based on 1985 and 1987 Municipal Pension Plan Data

APPENDIX E

Detailed Breakdown of Unfunded Actuarial Accrued Liability by Municipality and Plan Type Based on 1985 and 1987 Municipal Pension Plan Data

County	Municipality	Plan Type ^{a/}	1985 Amount by Plan	1987 Amount by Plan
Allegheny	All Co Sanitary Auth	N2	\$ 2,368,649	\$ 1,938,957
		N1	1,943,099	(897,744)
			<u>4,311,748</u>	<u>1,041,213</u>
Allegheny	Clairton City	F	2,518,880	2,513,254
		P	2,388,189	1,981,486
		N	(75,522)	(175,470)
		<u>4,831,547</u>	<u>4,319,270</u>	
Allegheny	Dusquesne City	F	2,088,889	2,281,992
		P	1,903,995	2,196,439
		N	1,656,085	1,569,524
		<u>5,648,969</u>	<u>6,047,955</u>	
Allegheny	McKeesport City	F	6,325,108	7,246,184
		N	5,055,189	5,256,303
		P	5,956,221	7,313,754
		<u>17,336,518</u>	<u>19,816,241</u>	
Allegheny	McKeesport Mun Water Auth	N	2,587,598	2,401,367
Allegheny	Monroeville Borough	P	1,415,208	1,489,897
		N	1,990,533	1,516,344
			<u>3,405,741</u>	<u>3,006,241</u>
Allegheny	Mt Lebanon Township	N	1,391,691	722,699
		F	444,164	151,898
		P	1,330,538	351,535
		<u>3,166,393</u>	<u>1,226,132</u>	
Allegheny	Penn Hills Township	N	1,193,660	515,597
		P	966,165	933,603
			<u>2,159,825</u>	<u>1,449,200</u>

APPENDIX E (Continued)

County	Municipality	Plan Type	1985 Amount By Plan	1987 Amount By Plan
Allegheny	Pittsburgh City	P	\$ 172,932,256	\$ 187,024,151
		N2	0	0
		F	121,147,562	131,717,469
		N1	136,436,661	135,850,064
			<u>430,516,479</u>	<u>454,591,684</u>
Allegheny	Shaler Township	P	259,124	292,441
		N1	621,456	402,252
		N2	574,867	688,718
			<u>1,455,447</u>	<u>1,383,411</u>
Beaver	Aliquippa City	P	215,066	7,306
		F	791,150	915,003
		N	585,209	603,561
			<u>1,591,425</u>	<u>1,525,870</u>
Beaver	Beaver Falls City	P	1,668,523	1,736,099
		F	723,992	691,684
		N	687,735	617,220
			<u>3,080,250</u>	<u>3,045,003</u>
Berks	Reading City	P	15,875,012	14,375,413
		N	12,104,938	9,733,145
		F	6,343,065	6,318,269
			<u>34,323,015</u>	<u>30,426,827</u>
Blair	Altoona City	P	6,448,946	6,007,327
		F	10,466,268	11,077,488
		N	361,369	3,705
			<u>17,276,583</u>	<u>17,088,520</u>
Bucks	Bensalem Township	P	4,949,103	2,969,577
		N	661,013	422,931
			<u>5,610,116</u>	<u>3,392,508</u>

APPENDIX E (Continued)

County	Municipality	Plan Type	1985 Amount By Plan	1987 Amount By Plan
Butler	Butler City	F	\$ 2,323,888	\$ 2,848,972
		P	3,242,598	3,454,902
		N	2,428,171	2,436,786
			<u>7,994,657</u>	<u>8,740,660</u>
Cambria	Johnstown City	F	6,294,744	6,104,519
		N1	2,261,688	1,566,147
		P	5,804,950	5,271,864
		N2	134,540	155,411
			<u>14,495,922</u>	<u>13,097,941</u>
Crawford	Titusville City	P	540,916	401,548
		F	807,799	663,522
		N	0	0
			<u>1,348,715</u>	<u>1,065,070</u>
Dauphin	Cumb-Dau-Hbg Trans Auth	N2	47,956	51,377
		N1	1,231,852	1,368,368
			<u>1,279,808</u>	<u>1,419,745</u>
Dauphin	Harrisburg City	F1	11,773,136	12,543,734
		F2	89,339	(521,972)
		N2	844,795	1,055,991
		N1	10,868,309	9,246,164
		P1	15,793,167	14,938,350
		P2	166,913	254,108
			<u>39,535,659</u>	<u>37,516,375</u>
Delaware	Chester City	P	9,159,269	9,912,621
		N	5,632,292	5,691,599
		F	338,228	(368,743)
			<u>15,129,789</u>	<u>15,235,477</u>
Delaware	Media Borough	N	347,612	584,242
		P	228,808	719,847
			<u>576,420</u>	<u>1,304,089</u>

APPENDIX E (Continued)

County	Municipality	Plan Type	1985 Amount By Plan	1987 Amount By Plan
Delaware	Radnor Township	P	\$ 900,967	\$ 821,249
		N	553,850	726,796
			<u>1,454,817</u>	<u>1,548,045</u>
Erie	Erie City	P	44,270,789	48,697,101
		F	23,419,721	24,728,532
		N	25,635,921	27,100,769
			<u>93,326,431</u>	<u>100,526,402</u>
Erie	Erie Metro Transit Auth	N	1,263,445	1,014,622
Fayette	Connellsville City	N	108,827	26,209
		P	450,143	361,301
		F	943,770	923,060
			<u>1,502,740</u>	<u>1,310,570</u>
Lackawanna	Carbondale City	P	1,938,915	2,108,164
		F	293,974	338,081
			<u>2,232,889</u>	<u>2,446,245</u>
Lackawanna	Scranton City	P	21,055,250	21,977,192
		N	840,732	360,130
		F	33,978,580	36,410,848
			<u>55,874,562</u>	<u>58,748,170</u>
Lancaster	Lancaster City	F	6,257,067	5,813,928
		N	304,484	64,159
		P	5,114,970	4,744,837
			<u>11,676,521</u>	<u>10,622,924</u>
Lawrence	New Castle City	P	5,654,516	5,852,609
		F	6,636,307	7,091,781
		N	954,630	738,143
			<u>13,245,453</u>	<u>13,682,533</u>

APPENDIX E (Continued)

County	Municipality	Plan Type	1985 Amount By Plan	1987 Amount By Plan
Lebanon	Lebanon City	P	\$ 4,328,816	\$ 4,112,564
		F	1,188,758	992,589
		N	763,959	446,829
			<u>6,281,533</u>	<u>5,551,982</u>
Lehigh	Allentown City	F1	10,157,335	9,772,185
		F2	76,807	108,202
		P1	8,901,554	8,244,425
		P2	362,134	395,032
		N1	20,150,405	18,030,020
		N2	2,659,694	1,118,834
			<u>42,307,929</u>	<u>37,668,698</u>
Lehigh	Leh/Northamp Trans Auth	N1	136,436	153,560
		N2	1,241,129	1,089,559
			<u>1,377,565</u>	<u>1,243,119</u>
Luzerne	Hazelton City	P	3,917,036	4,584,820
		N	485,834	293,970
		F	4,747,983	4,314,379
			<u>9,150,853</u>	<u>9,193,169</u>
Luzerne	Wilkes Barre City	P1	9,330,826	10,128,134
		P2	(105,104)	(223,129)
		N	1,939,082	1,174,151
		F1	12,128,138	13,574,975
		F2	(25,977)	(56,518)
			<u>23,266,965</u>	<u>24,597,613</u>
Lycoming	Williamsport City	N	1,392,030	1,543,976
		F1	6,207,235	6,284,937
		F2	(277,148)	(284,374)
		P	3,064,708	2,464,793
			<u>10,386,825</u>	<u>10,009,332</u>
McKean	Bradford City	N	1,627,625	2,784,999
		F	1,675,756	1,653,654
		P	1,046,839	940,955
			<u>4,350,220</u>	<u>5,379,608</u>

APPENDIX E (Continued)

County	Municipality	Plan Type	1985 Amount By Plan	1987 Amount By Plan
Mercer	Farrell City	P	\$ 501,768	\$ 604,017
		F	648,748	698,736
		N	51,446	317,365
			<u>1,201,962</u>	<u>1,620,118</u>
Mercer	Sharon City	F	1,020,331	715,625
		P	376,965	490,415
		N	972,489	589,895
			<u>2,369,785</u>	<u>1,795,935</u>
Montgomery	Cheltenham Township	P	338,528	356,196
		N1	620,909	352,791
		N2	450,975	264,828
		N3	69,832	75,547
			<u>1,480,244</u>	<u>1,049,362</u>
Montgomery	Pottstown Borough	P	1,432,295	952,070
		N	1,278,582	1,035,773
			<u>2,710,877</u>	<u>1,987,843</u>
Montgomery	Upper Merion Township	P	1,271,019	854,821
		N	769,141	533,132
			<u>2,040,160</u>	<u>1,387,953</u>
Northampton	Bethlehem City	N1	6,977,861	7,004,173
		F	9,720,998	9,089,832
		P	4,617,096	2,126,342
		N2	2,427,247	1,430,535
			<u>23,743,202</u>	<u>19,650,882</u>
Northampton	Easton City	N1	8,152,174	8,965,590
		P1	4,709,823	5,350,033
		F1	5,810,522	6,058,500
		N2	32,718	30,742
		P2	12,307	12,274
			295	0
			<u>18,717,839</u>	<u>20,417,139</u>

APPENDIX E (Continued)

County	Municipality	Plan Type	1985 Amount By Plan	1987 Amount By Plan
Northumberland	Shamokin City	N	\$ 55,490	\$ 106,354
		P	1,011,905	1,315,613
			<u>1,067,395</u>	<u>1,421,967</u>
Philadelphia	Philadelphia City	F	232,809,000	242,526,000
		N	913,959,000	929,769,000
		P	584,648,000	626,229,000
			<u>1,731,416,000</u>	<u>1,798,524,000</u>
Schuylkill	Pottsville City	P	1,288,850	1,945,814
		N	90,184	67,022
			<u>1,379,034</u>	<u>2,012,836</u>
Venango	Franklin City	P	1,112,112	1,076,981
		F	1,201,350	1,136,421
		N	384,511	134,113
			<u>2,697,973</u>	<u>2,347,515</u>
Venango	Oil City City	F	1,806,554	1,694,803
		P	697,908	401,882
		N	1,253,306	831,759
			<u>3,757,768</u>	<u>2,928,444</u>
Washington	Washington City	P	3,292,389	3,555,300
		N	1,455,674	1,421,780
		F	2,856,885	3,926,170
			<u>7,604,948</u>	<u>8,903,250</u>
Westmoreland	Arnold City	P	1,503,900	1,616,247
		N	656,962	706,524
			<u>2,160,862</u>	<u>2,322,771</u>
Westmoreland	Greensburg City	P	2,023,173	1,758,807
		N	364,254	11,002
			<u>2,387,427</u>	<u>1,769,809</u>

APPENDIX E (Continued)

County	Municipality	Plan Type	1985 Amount By Plan	1987 Amount By Plan
Westmoreland	Jeannette City	P	\$ 1,312,321	\$ 837,744
		F	265,559	225,874
			<u>1,577,880</u>	<u>1,063,618</u>
Westmoreland	Monessen City	N	0	0
		F	289,075	284,830
		P	1,018,072	1,063,832
		<u>1,307,147</u>	<u>1,348,662</u>	
Westmoreland	New Kensington City	P	2,407,074	2,373,064
		N	557,550	414,984
		F	157,629	332,580
		<u>3,122,253</u>	<u>3,120,628</u>	
Westmoreland	West Co Municipal Auth	N	3,291,011	2,065,566
York	York City	P	13,063,083	13,797,763
		N	3,626,630	4,028,530
		F	8,455,560	8,761,887
		<u>25,145,273</u>	<u>26,588,180</u>	
Total			\$2,734,540,412	\$2,815,010,309

a/To indicate the type of employee covered by the pension plan, the plan type column uses "p" for police officer, "F" for firefighters, and "N" for nonuniformed employees. A numeral following the employee type designation indicates there is more than one of this employee type pension plan maintained by the municipality.

Source: Developed by LB&FC staff from analysis of the Commission's 1985 and 1987 municipal pension plan data.

APPENDIX F

Analysis of the Impact of
Selected PERSC Actuarial Notes

APPENDIX F

Analysis of the Impact of Selected PERSC Actuarial Notes*/

1. Bill, Printer's Number and (Session): H.B. 251, P.N. 272
(1987)

System: Second Class A City (Scranton) Nonuniformed System

Subject: Increase in Maximum Benefit

Synopsis of Bill: This bill would have amended the provisions governing the Scranton nonuniformed employees pension plan to authorize the city to increase the maximum monthly pension amount for employees retiring on or after January 1, 1987, from \$250 to \$350. The bill also proposed increasing the maximum member contributions to the plan from \$6 to \$12 per month.

PERSC Input: The Commission attached an actuarial note and expressed concern about the ability of the City of Scranton to undertake the additional cost associated with the proposed legislation in light of the city's status as a severely distressed municipality under the Municipal Pension Plan Funding Standard and Recovery Act. The increase in the unfunded actuarial accrued liability was estimated at \$346,000.

Final Legislative Disposition: After H.B. 251 was amended, it passed and became Act 1987-84. According to the Executive Director of the PERSC, the actuarial note was basically positive, but the Commissioners pointed out that the municipality participated in the recovery program for financially distressed municipal pension systems and expressed concern about the ability of Scranton to undertake the additional costs associated with the proposed legislation. As enacted, the legislation provided that no increase would become effective unless Scranton passed an ordinance.

2. Bill, Printer's Number and (Session): H.B. 530, P.N. 580
(1987)

System: Public School Employees Retirement System (PSERS)

*/Note: Developed by LB&FC staff from review of information on PERSC actuarial notes attached to a sample of pension-related bills introduced during the 1987 and 1988 legislative sessions; this analysis involved review of the pertinent pension legislation and actuarial note summaries, review of PERSC annual reports, and interviews with PERSC, legislative and Governor's Office staff.

Appendix F
(Continued)

Subject: Normal Retirement at Any Age with 30 Years of Service

Synopsis of Bill: This bill would have amended the Public School Employees Retirement Code (PSERS) to provide for earlier normal retirement eligibility by reducing from 35 years to 30 years the service required for normal retirement at any age.

PERSC Input: The Commission attached an actuarial note and expressed concern about (1) the possibility of increased requests for postretirement cost-of-living adjustments (COLAs); (2) the appropriateness of not basing this provision on any assessment by individual PSERS employing entities of the need for encouraging early retirement or the potential benefit of net salary savings resulting from early retirement; (3) the absence of a provision which would require an increase in the PSERS member contribution rate; (4) the possible precedent for similar benefit modifications for other Pennsylvania public pensions plans; and (5) the lack of quantifiable data on the potential for payroll savings. The increase in the unfunded actuarial accrued liability was estimated to be \$771 million.

Final Legislative Disposition: H.B. 530 died in committee. According to the Executive Director of the PERSC, the Commission's consulting actuarial firm prepared a paper on public school employee early retirement, and PSERS also undertook a study of the potential salary savings from the proposed early retirement. Each of these analyses was important to the General Assembly's review of this proposal, according to the PERSC Executive Director. A legislative staff member familiar with the bill stated that the policy considerations in this bill made legislators reluctant to make the "30-and-out" retirement window permanent. A representative of the Governor's Office also felt that the actuarial note attached to this bill was helpful and useful in deliberations.

3. Bill, Printer's Number and (Session): H.B. 508, P.N. 1039 (1987)

System: State Employees' Retirement System (SERS)

Subject: Additional Service Credit Early Retirement Incentive

Synopsis of Bill: This bill would have amended the State Employees' Retirement Code by adding provisions relating to credited service as a retirement incentive. This bill also would have provided, during the period of June 30, 1987, through September 30, 1987, for the crediting of an additional three years

Appendix F
(Continued)

of Class A service for an active member, other than a judge, justice, legislator, or other elected official, who had at least ten eligibility points, had attained age 55, and upon termination of service had filed an application for retirement. The additional liability attributable to this bill would have been funded on a level dollar basis over a five year period from July 1, 1989.

PERSC Input: The Commission attached an actuarial note and expressed its concern about (1) the likelihood that no permanent reduction in the workforce would occur to achieve salary savings to offset the actuarial cost of the proposal; (2) the possible precedent for similar benefits for other public retirement systems; (3) the possible additional costs associated with COLAs and medical coverage; (4) the limited value of offering this incentive to employees whereby the majority are eligible for full retirement benefits without this incentive and would retire without this program; (5) the unclear purpose of the bill; and (6) the design of the incentive program, which provided for the largest proportional benefit increase to those with the shortest Commonwealth careers. The actuary indicated that the most probable increased annual cost estimate would be \$55 million.

Final Legislative Disposition: H.B. 508 died in committee. According to the Executive Director of the PERSC, the relationship between early retirement cost savings and replacement ratios discussed in the actuarial note was important to the General Assembly's deliberations. A representative of the Governor's Office also stated that the actuarial note attached to this bill was used to review and deliberate the issues involved in this legislation.

4. Bill, Printer's Number and (Session): H.B. 1291, P.N. 2256 (1987)

System: Public School Employees' Retirement System (PSERS)

Subject: Postretirement Medical Coverage

Synopsis of Bill: This bill would have amended the Public School Employees' Retirement Code to provide for the payment by the Commonwealth of the cost of medicare supplement, major medical, and hospitalization insurance coverage for superannuation annuitants, annuitants with 25 or more years of credited service, and disability annuitants.

Appendix F
(Continued)

PERSC Input: The Commission attached an actuarial note and expressed concern about (1) the absence of any requirement for actuarial funding; (2) the lack of coordination with other employer paid medical coverage that may be provided by individual school districts; (3) the lack of allocation of any portion of the cost of the benefit to PSERS members; (4) the absence of school district participation in the financing of the benefit; (5) the possible precedent for future requests for expanded coverage to achieve parity with the postretirement medical coverage provided to SERS members; and (6) the presence of what were considered to be substantial drafting ambiguities in the legislation. The estimated annual outlay was \$45,350,863 on a pay-as-you-go basis with a projected cost by the year 2006 of \$423,276,000.

Final Legislative Disposition: H.B. 1291 died in Committee. A staff member of the Governor's Office stated that the bill was defeated because of the PERSC actuarial note information. Also, a legislative staff member familiar with the bill stated that the PERSC's actuarial note was very important to the Legislature's deliberations since the note revealed the costly nature of the proposal.

5. Bill, Printer's Number and (Session): S.B. 852, P.N. 1113 (1987)

System: State Employees' Retirement System (SERS)

Subject: Employer Contribution Rate for Members of an Independent Retirement System

Synopsis of Bill: This bill would have amended the State Employees' Retirement Code by establishing the employer contribution rate for members of independent retirement systems at a rate of 8.95%. In addition, this bill proposed directing the Public Employee Retirement Study Commission to study the rate four years after it was last set and recommend to the Governor and the General Assembly a rate for the next five years.

PERSC Input: The Commission attached an actuarial note recommending amendments to base further studies on the goal of providing parity in employer contribution rates rather than parity in benefits. The bill was based on a recommendation contained in the Commission's 1987 study entitled "Study of Method of Setting Employer Contribution Rates to Alternate Retirement Programs." The note estimated the increase in costs to the Commonwealth annually at \$2.7 million.

Appendix F
(Continued)

Final Legislative Disposition: S.B. 852 was amended and signed into law, becoming Act 1987-78. According to the Executive Director of the PERSC, the recommendations from the Commission's March 1987 study became the basis for Act 1987-78. The final legislation reflected the Commission suggestion that parity of benefits be changed to parity of employer contribution rates. A representative of the Governor's Office stated that the actuarial note information with this bill was important in changing the way the Commonwealth deals with independent retirement systems. According to a legislative staff member familiar with the legislation, S.B. 852 was enacted largely in accordance with the recommendations of the PERSC study on contribution rates.

6. Bill, Printer's Number and (Session): H.B. 1854, P.N. 2864 (1988)

System: Not applicable (proposed a retirement system for volunteer firefighters)

Subject: Authorizing Establishment of Retirement Plans for Volunteer Firefighters

Synopsis of Bill: House Bill 1854 would have amended the Volunteer Firemen's Relief Association Act to authorize volunteer fire relief associations to establish and maintain retirement plans for volunteer firefighters. The bill would have authorized the expenditure of relief association monies to fund the volunteer firefighter retirement plans.

PERSC Input: The Commission attached an actuarial note expressing concern about (1) the appropriateness of authorizing this benefit to be provided on a decentralized, multiple pension plan basis; (2) the proposed pension benefit design; (3) the magnitude of the pension benefits and the equity of the benefits proposed compared to those of the career municipal employee; (4) the potential liabilities to the Commonwealth because the financial resources of volunteer fire relief associations may be insufficient to fund the benefits proposed; (5) the substantial financial resources needed to fund the prerequisite accidental death and disability income benefits; (6) the administrative complexity; (7) the lack of adequate reporting and funding standards in light of the complexity of the pension plans; and (8) the presence of what were considered to be numerous technical and drafting deficiencies in the proposed legislation. The estimated potential statewide cost of this proposal was \$1.6 billion.

Appendix F
(Continued)

Final Legislative Disposition: H.B. 1854 died in committee. The Executive Director of the PERSC stated in testimony before the General Assembly that the annual statewide costs were potentially five to ten times greater than the dedicated funding source for the proposed benefit. The Commission's actuarial note reportedly played a key role in legislative consideration of this bill.

7. Bill, Printer's Number and (Session): H.B. 2571, P.N. 3583 (1988)

System: Municipal Police and Fire

Subject: Ad Hoc Postretirement Adjustment

Synopsis of Bill: The bill would have required all municipalities with retired police officers or paid firefighters to provide pension benefit increases funded by the municipalities and reimbursed by the Commonwealth.

PERSC Input: The Commission attached an actuarial note indicating that the legislation addressed a recognized need to provide more adequate retirement benefits for long retired municipal public safety employees who had not received previous adjustments in a very effective manner. The Commission questioned the mandated benefit increases and the rationale to distinguish between municipal public safety employees and other municipal employees in mandating postretirement benefit increases. The Commonwealth contributions were to be drawn from funds already targeted for municipal pension purposes but no new revenue was provided. The Commonwealth would reimburse the municipalities annually for 10 years for benefit payments. The first year cost to the Commonwealth was estimated at \$4,930,000. This amount was expected to decline 5% each year thereafter.

Final Legislative Disposition: H.B. 2571 died in Committee. The Commission then reportedly worked with the affected public employee groups, legislative staff and representatives of the Governor's Office to develop S.B. 941, P.N. 2541, with what was considered to be a more appropriate benefit design and funding plan. S.B. 941 became Act 1988-147.

8. Bill, Printer's Number and (Session): S.B. 641, P. N. 2174 (1988)

System: Public School Employes' Retirement System (PSERS) and State Employes' Retirement System (SERS)

Appendix F
(Continued)

Subject: Automatic Postretirement Adjustment Mechanism

Synopsis of Bill: Senate Bill 641 proposed amending the Public School Employes Retirement Code and the State Employes' Retirement Code to establish an automatic postretirement adjustment mechanism for the two systems. The bill provided PSERS and SERS annuitants who had been receiving benefits for at least 24 months with an annual increase based on one-half of the increase in the federal Consumer Price Index (CPI), with a maximum annual increase of 3%.

PERSC Input: The Commission attached an actuarial note and expressed its views concerning the significant cost (a \$3.3 to \$7.6 billion increase in the unfunded liability) associated with it and the possibilities of future requests for ad hoc cost-of-living adjustments. The Commission also questioned: the appropriateness of providing minimal annual adjustments during periods of negligible inflation; the lack of an adjustment in the amount of benefit increase when medical coverage is provided by the employer as a postretirement benefit; the absence of a requirement for additional member contributions by active PSERS and SERS members to finance a portion of the benefit; and the appropriateness of the benefit period.

Final Legislative Disposition: S.B. 641 died in Committee, but an amended version was included in S.B. 1441 that became Act 1988-112. The Commission's actuarial note appears to have had an impact on the bill not passing. Both legislative staff and staff of the Governor's Office indicated that subsequent discussions were held with the PERSC regarding provisions for an automatic cost-of-living adjustment. As a result of these discussions, the original provisions were amended to provide for an alternative flat dollar adjustment or increase based on the number of years of work experience and the number of years retired. This provision was included in S.B. 1441 which was enacted.

APPENDIX G

Selected Membership and Actuarial Information
on Pennsylvania Public Employee Pension Systems

APPENDIX G

Selected Membership and Actuarial Information
on Pennsylvania Public Employee Pension Systems

	<u>Active Members</u>	<u>Actuarial Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>
PSERS ^{a/} /	200,430	\$14,109,085,000	\$21,216,818,000	\$7,107,733,000 ^{d/}
SERS ^{b/} /	109,611	7,510,933,374	9,833,717,526	2,322,784,152 ^{e/}
Local Governments ^{c/} /	115,041	3,883,898,903	6,577,805,514	2,994,186,313 ^{f/}

a/Data extracted from actuarial valuation report as of June 30, 1989.
b/Data extracted from actuarial valuation report as of December 31, 1988.
c/Data based on 1987 Act 205 and Act 293 actuarial valuation reports and supplemental information.
d/The unfunded actuarial accrued liability of PSERS as of June 1981 was \$5.2 billion.
e/The unfunded actuarial accrued liability of SERS as of December 1981 was \$3.3 billion.
f/Represents total of unfunded actuarial accrued liabilities reported for individual pension plans; therefore, actuarial accrued liability less actuarial assets will not equal this amount. The unfunded actuarial accrued liability of the municipal systems as of 1982 was approximately \$2.5 billion.

Source: PERSC "Status Report on Local Government Pension Plans," May 1989, "State Employees' Retirement System 1988 Actuarial Report," and "Report on an Actuarial Valuation of the Assets and Liabilities of the Public School Employees Retirement System of Pennsylvania as of June 30, 1989."

APPENDIX H

Selected Comparative Information on
State Pension Commissions in Pennsylvania and All States

APPENDIX H

Status of Pension Commission Development Within the States

Permanent Commissions/Committees

Arkansas	Nevada	South Dakota
Indiana	New York	Tennessee
Louisiana	North Carolina	Texas
Massachusetts	North Dakota	Virginia
Minnesota	Ohio	Washington
Missouri	PENNSYLVANIA	West Virginia
Nebraska	South Carolina	Wisconsin

Recent Temporary or Interim Commission/Committee

Alabama	Missouri	Oregon
Arkansas	Montana	Washington
Indiana	Nevada	

Permanent Legislative Committees

Arkansas	Nevada	South Carolina
Georgia	New Hampshire	South Dakota
Louisiana	North Carolina	Tennessee
Minnesota	North Dakota	Texas
Missouri	PENNSYLVANIA	West Virginia
Nebraska	Rhode Island	Wisconsin

No Permanent Commission/Committee or Legislative Committee

Alaska	Hawaii	Maryland
Arizona	Idaho	Michigan
California	Illinois	Mississippi
Colorado	Iowa	New Mexico
Connecticut	Kansas	Oklahoma
Delaware	Kentucky	Utah
Florida	Maine	Vermont
		Wyoming

Proposal to Create Permanent Commission

New Jersey

Source: "1988 Report on State Pension Commissions," Pension Commission Clearinghouse. Copyright A. Foster Higgins & Co., Inc., 1988. Used by permission.

APPENDIX H

Comparative Information on
Pension Commission Activities, PA and All States

	Review Retirement Legislation	Prepare and/or Require Actuarial or Fiscal Notes	Draft Legislation	Conduct Continuing Study of Retirement System	Study State Retirement System(s)	Study County Retirement System(s)	Study Municipal Retirement System(s)	Authority to Request and Obtain Necessary Data	Maintain Library of Retirement System Source Material	Hold Hearings	Make Regular Reports to Legislature and/or Governor	Information Bank
Alabama				X								
Alaska												
Arizona												
Arkansas	X	X	X	X	X	X	X		X	X		
California												
Colorado												
Connecticut												
Delaware												
Florida												
Georgia	X	X	X				X		X			
Hawaii												
Idaho												
Illinois	X	X		X	X	X	X		X	X		
Indiana	X		X	X	X	X	X		X	X		
Iowa												
Kansas												
Kentucky												
Louisiana	X	X	X	X	X	X	X	X	X	X	X	X
Maine												
Maryland												
Massachusetts	X	X	X	X	X	X	X		X	X	X	
Michigan												
Minnesota	X	X	X	X	X	X	X	X	X	X		
Mississippi												
Missouri	X	X	X	X	X	X	X	X	X	X	X	X
Montana	X		X	X						X		
Nebraska	X	X	X	X	X	X	X	X	X	X	X	X
Nevada	X	X		X			X		X	X		
New Hampshire	X	X	X	X				X		X	X	
New Jersey												
New Mexico												
New York	X	X	X	X	X	X	X		X	X		
North Carolina	X	X			X	X	X	X		X		
North Dakota	X	X	X	X	X	X	X	X	X	X	X	X
Ohio	X	X	X	X			X	X	X	X		
Oklahoma												
Oregon					X		X		X	X		
Pennsylvania	X	X	X	X	X	X	X		X	X	X	X
Rhode Island	X		X		X	X	X			X		
South Carolina	X	X	X	X	X	X	X	X	X			X
South Dakota	X	X	X	X	X	X			X	X		
Tennessee	X	X	X	X	X	X	X	X		X		
Texas	X	X	X	X	X	X	X	X		X	X	
Utah												
Vermont												
Virginia	X				X		X		X	X		
Washington		X	X	X	X		X	X	X	X		
West Virginia	X	X	X	X	X	X	X	X	X	X		
Wisconsin	X	X	X	X	X	X	X	X	X	X		X
Wyoming												

Source: "1988 Report on State Pension Commissions," Pension Commission Clearinghouse. Copyright A. Foster Higgins & Co., Inc., 1988. Used by permission.

APPENDIX I

Membership of the Municipal Pension Advisory Committee

APPENDIX I

Membership of the
Municipal Pension Advisory Committee

<u>Name</u>	<u>Representing</u>
Lee Janiczek	Springfield Township (Commissioner)
Jack Gardner	PA State Association of Boroughs (Secretary)
Jack Garner	PA League of Cities (Executive Director)
B. Kenneth Greider	PA State Association of Township Supervisors (Executive Director)
Douglas E. Hill	PA State Association of County Commissioners (Executive Director)
William J. Woll	PA Municipal Authorities Association (Execu- tive Director)

Source: Public Employee Retirement Study Commission as of
March 1990.

APPENDIX J

Membership of the Municipal Employee
Pension Advisory Committee

APPENDIX J

Membership of the
Municipal Employee Pension Advisory Committee

<u>Name</u>	<u>Representing</u>
Francis P. Bascelli	Fraternal Order of Police (State President)
Barry J. Buskey	PA State Firefighters Association (President)
Annette Palutis	PA State Education Association
Richard Toth	American Federation of State, County and Municipal Employees
W. Ronald Smeal	PA Chiefs of Police Association

Source: Public Employee Retirement Study Commission as of March 1990.

APPENDIX K

Public Employee Retirement Study Commission By-Laws

**BY-LAWS OF THE
PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION**

TITLE 4. ADMINISTRATION

PART XII. PUBLIC EMPLOYEE RETIREMENT STUDY COMMISSION

Section 401.1. Definitions.

The following words and terms, when used in this part shall have the following meanings, unless the context clearly indicates otherwise:

Act - the act of July 9, 1981 (P.L. 208, No. 66), known as the "Public Employee Retirement Study Commission Act."

Advisory Committee - a municipal pension advisory committee established under the provisions of Section 8 of the Act.

Commission - the Public Employee Retirement Study Commission created under the Act.

Member - a member of the Commission.

Chapter 402. By-Laws

Section 402.1. Meetings

Meetings of the Commission shall be held as necessary at the call of the Chairman, but in no case less than six times per year. Meeting shall be held on the dates and at the times and locations specified by the Chairman in the notice of the meeting. Notices of meetings shall contain an itemized agenda in reasonable detail. Notice of meetings shall be given to all members in writing at least seven days prior thereto; provided that such notice may be given at least twenty-four hours prior to such meeting where deemed necessary by the Chairman under the circumstances. The Chairman shall call a meeting upon the request in writing of five or more members.

Section 402.2. Quorum and Voting.

Five members shall constitute a quorum for meetings. The majority vote of the members present at a meeting or otherwise entitled to vote pursuant to these By-Laws shall constitute official action of the Commission. In the event that one or more vacancy or long term disability exists four members shall constitute a quorum. A Commission member who is a member of the Senate or House of Representatives of the Commonwealth of Pennsylvania may, from time to time, appoint a designee in writing. A designee may cast a vote for a member on any matter pending before the Commission relating to an agenda item; provided that the member has set forth in writing with reasonable particularity the position of the member on the agenda item

Commission may take official action on any matter properly before a meeting whether or not mentioned in the notice of the meeting.

Section 402.3. Open Meetings.

Meetings of the Commission shall be held and notice thereof shall be given in accordance to Act No. 1986-84 relating to public meetings, as applicable.

Section 402.4. Minutes.

Minutes shall be kept of all meetings of the Commission and shall be filed in the office of the Commission, subject to the act of June 21, 1957 (P.L. 390) §§1-4, as amended, (65 P.S. §§66.1 - 66.4) relating to the inspection and copying of public records, as applicable.

Section 402.5 Officers.

The Commission shall annually elect a Chairman, a Vice Chairman and such other officers as it finds necessary or desirable at the first meeting of the Commission occurring in each calendar year. All such officers shall be members and shall serve until the election of a successor. Election shall also occur in the event of a vacancy in any office. The Chairman shall preside over all meetings of the Commission at which he is present, or in his absence the Vice Chairman, or in both of their absence a member chosen by the Commission. In the event that the Chairman is unable to act hereunder for any reason, the Vice Chairman may do so.

Section 402.6 Office.

The Commission may establish an office for the use of the Commission in the conduct of its official business.

Section 402.7 Committees.

The Commission may, from time to time, establish such committees as it deems necessary or desirable in the conduct of its official business. Appointments to committees shall be made by the Chairman. The term of each committee shall be coterminous with that of the Chairman. For the purposes of this section, any liaison shall be deemed to be a committee.

Section 402.8 Advisory Committees.

The Commission shall appoint each advisory committee pursuant to the applicable law no later than the third meeting of the Commission occurring in each calendar year. The term of each advisory committee shall be for one calendar year or until the appointment of a successor, whichever occurs later.

Section 402.9 Budget.

The executive director of the Commission shall annually submit a proposed budget to the Commission for approval prior to the submission date under budget guidelines applicable to Commonwealth agencies.

Section 402.10 Miscellaneous.

The Commission may, from time to time, do such other things and take such other actions as it deems necessary or desirable in the conduct of its official business.

Section 402.11 Amendment.

The Commission may, from time to time, amend these By-Laws by majority vote of the members present at a meeting or otherwise entitled to vote pursuant to these By-Laws; provided that notice of the meeting shall have set forth at least the general nature of the amendment.

Adopted February 17, 1983
Amended March 9, 1983
Amended December 10, 1986
Amended November 17, 1987

APPENDIX L
Responses to This Report



COMMONWEALTH OF PENNSYLVANIA
PUBLIC EMPLOYEE RETIREMENT
STUDY COMMISSION
HARRISBURG
17120

June 7, 1990

Mr. Philip R. Durgin
Executive Director
Legislative Budget and Finance Committee
Room 400 Finance Building
Harrisburg, PA 17120

Dear Mr. Durgin:

Thank you for the preliminary report of the sunset performance audit on the Public Employee Retirement Study Commission. While I do not speak for the entire Commission, I feel the review of the Legislative Budget and Finance Committee was thorough, as well as, objective. All of your findings have merit, and while we might not agree with all of the recommendations, they will be given careful consideration by the Commission. We welcome your offer of support for those recommendations requiring legislative action.

Additionally, it might be helpful, since you make reference to it in your audit report, if you include a copy of the Commission's By-Laws in the appendix.

I appreciate the useful commentary and analysis you have provided to the Commission.

Sincerely,

A handwritten signature in cursive script that reads "Dale D. Stone".

Dale D. Stone
Chairman

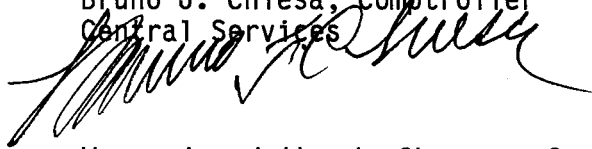
cc: Commission Members

DATE: June 8, 1990

SUBJECT: Draft Sunset Performance Audit Report on the
Public Employee Retirement Study Commission

TO: Mr. Philip R. Durgin, Executive Director
Legislative Budget and Finance Committee

FROM: Bruno J. Chiesa, Comptroller
Central Services



RECEIVED JUN 11 1990

We reviewed the draft copy of your sunset performance audit report on the Public Employee Retirement Study Commission. Our review of this report did not disclose any questions or comments. We do, however, appreciate this opportunity to review your report.