

**A Statewide Retirement System for
Municipal Employees**

Senate Bill Number 596, Printer's Number 646

A Summary

**Prepared by the Staff of the
Public Employee Retirement Commission**

**Presented to the
Senate Finance Committee**

October 3, 2007

GENERAL CHARACTERISTICS

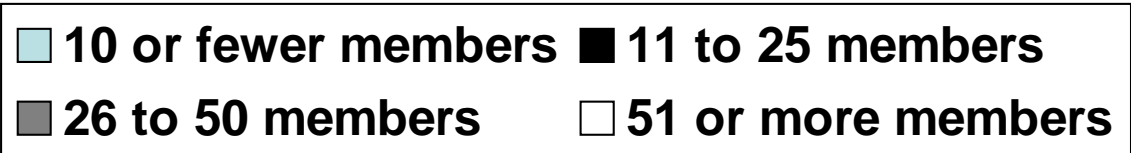
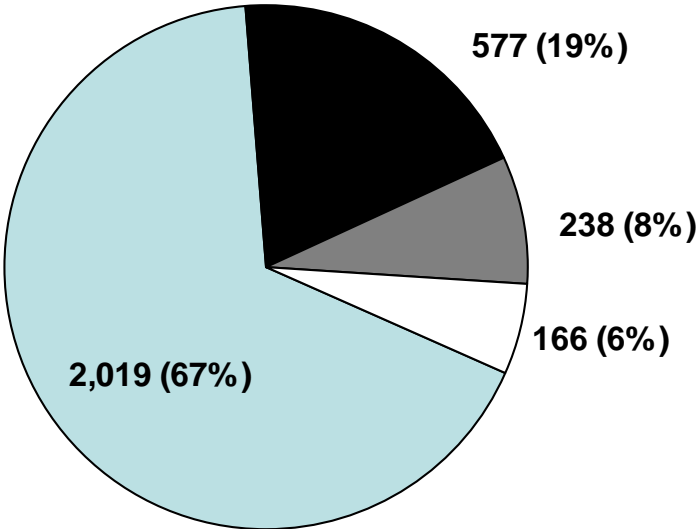
- Description of current system:
 - Fragmented
 - Inefficient
 - Inequitable

Municipal data extracted from the 1/1/03 Actuarial Valuation Reports
(Data includes the City of Philadelphia, unless otherwise noted.)

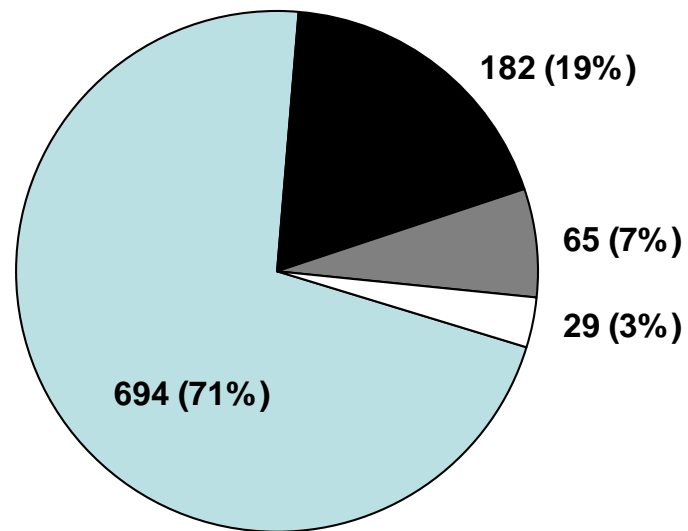
NUMBER OF MUNICIPAL PENSION PLANS

	Police	Fire	Nonuniformed	Total
City	58	45	63	166
Borough	495	19	553	1,067
Township (1 st Class)	88	6	101	195
Township (2 nd Class)	298	5	757	1,060
Town	1	0	1	2
COGs/Regional Police	30	0	20	50
Total	970	75	1,495	2,540

DISTRIBUTION OF ALL MUNICIPAL PENSION PLANS BY NUMBER OF ACTIVE MEMBERS



DISTRIBUTION OF POLICE MUNICIPAL PENSION PLANS BY NUMBER OF ACTIVE MEMBERS



■ 10 or fewer members ■ 11 to 25 members
■ 26 to 50 members ■ 51 or more members

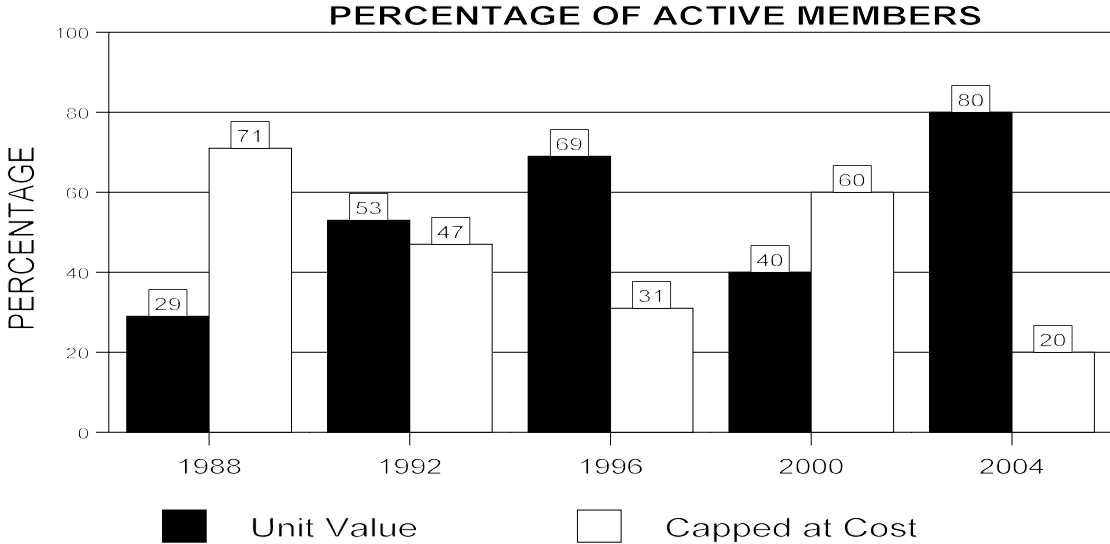
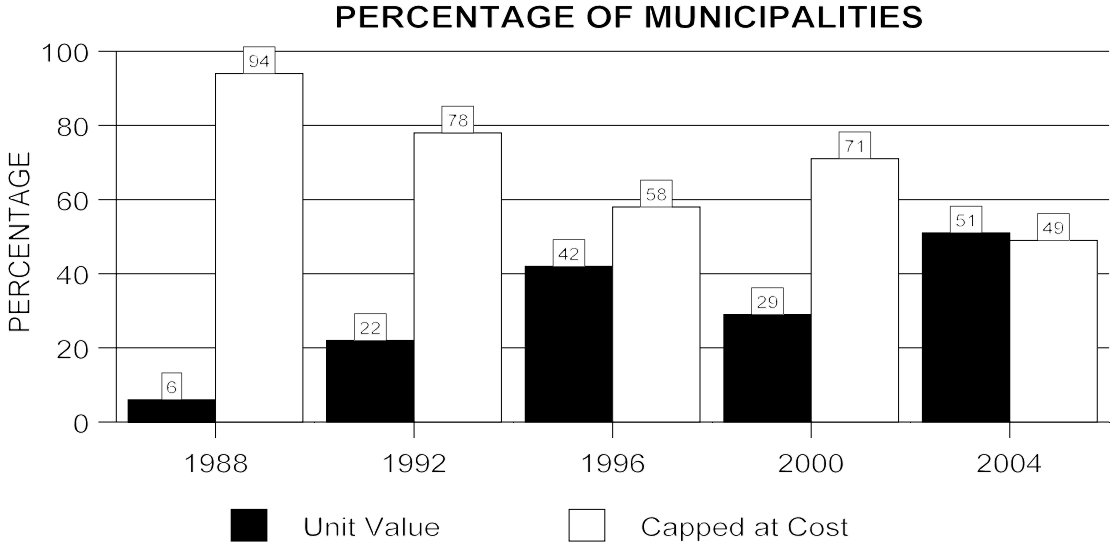
PER MEMBER ADMINISTRATIVE COST BASED ON PENSION PLAN SIZE

Pension Plan Size	Per Member Administrative Cost	
	<u>All Plans</u>	<u>Police Only</u>
10 or Fewer Active Members	\$1,136.14	\$1,553.10
11 to 100 Active Members	952.28	1,415.04
More than 100 Active Members	311.01	456.20
More than 500 Active Members	254.78	323.44
SERS	\$175.00 (2002)	

MUNICIPALITIES RECEIVING STATE AID AT FULL COST VS. UNIT VALUE

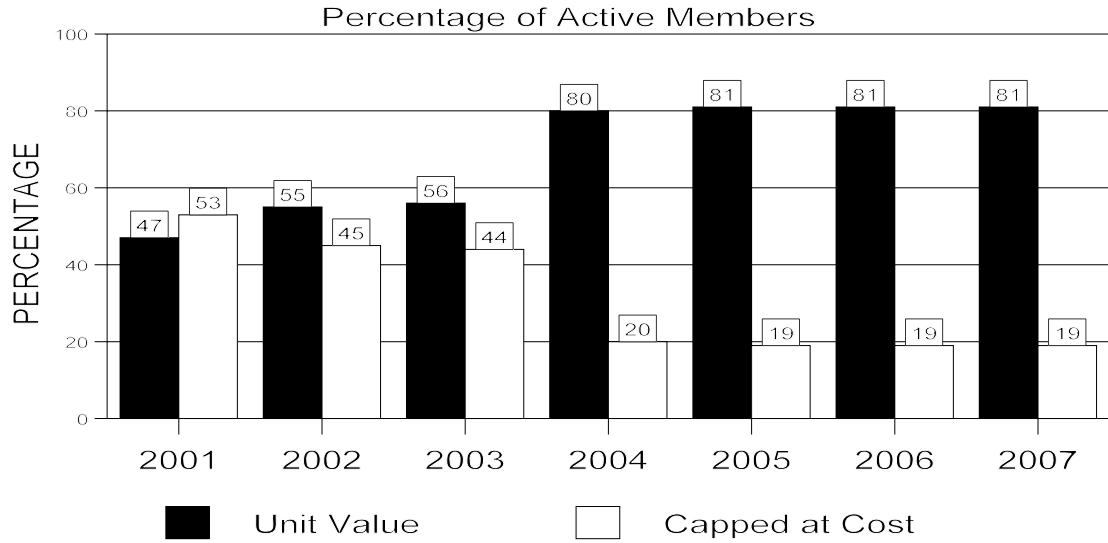
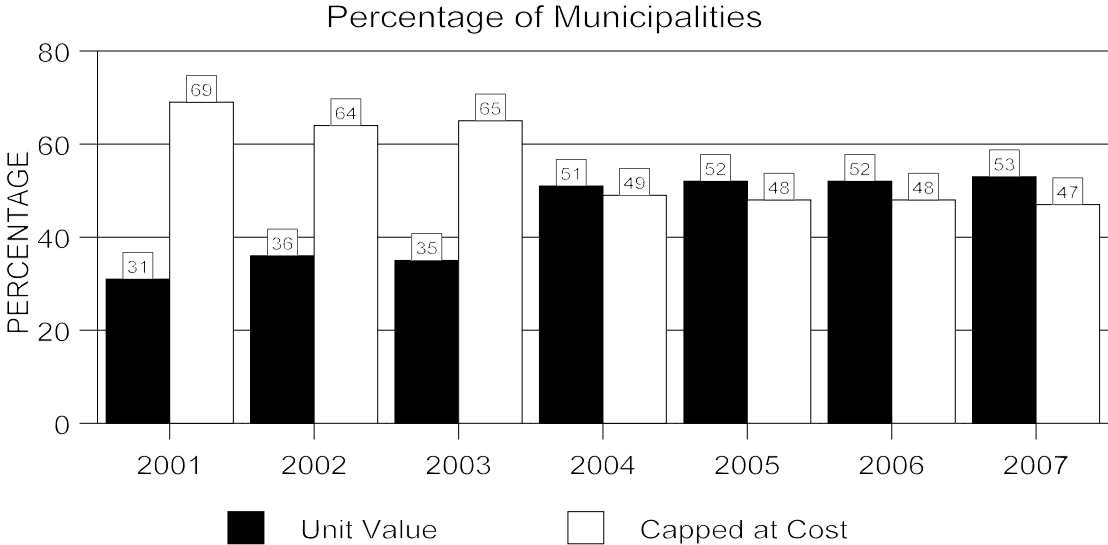
Year	Total Allocation	Municipalities Receiving Full Pension Costs		Municipalities Receiving Unit Value		Unit Value
2005	\$190.5 million	702	48%	767	52%	\$2,927
2004	\$190.5 million	724	49%	742	51%	\$2,911
2003	\$162.0 million	929	65%	499	35%	\$2,894
2002	\$150.6 million	916	64%	521	36%	\$2,763
2001	\$134.5 million	958	69%	436	31%	\$2,698
2000	\$133.3 million	983	71%	401	29%	\$2,751
1999	\$124.9 million	780	57%	580	43%	\$2,217
1998	\$129.2 million	861	65%	457	35%	\$2,437
1997	\$131.5 million	663	54%	564	46%	\$2,248
* * *						
1985	\$ 62.3 million	758	75%	253	25%	\$1,146

STATE AID - 1988 THROUGH 2004



Excludes Philadelphia, which is neither unit value or cost.

STATE AID - 2001 THROUGH 2007



Excludes Philadelphia, which is neither unit value or cost.

SUMMARY OF STATEWIDE POLICE PENSION SYSTEM

- Establishes a centrally administered statewide retirement system for all local government police employees.
- Patterned after SERS with different membership classifications.
- The new system will be of a size, scope and structure to assure:
 - fiscal and actuarial stability,
 - benefit adequacy and equity,
 - proper funding, and
 - administrative cost savings and increased efficiency.

ADMINISTRATION

- The municipal funds will be pooled for purposes of investment, administration, and risk management, but will remain separate and independent accounts for purposes of municipal contributions.

TRANSITION

- The transition will occur gradually, with only newly hired full-time employees as mandatory members.
- This will provide a 20 to 30 year transition period.
- Ensures that any potential impact upon local governments or service providers will not be disruptive.

EXISTING PLANS

- May continue to operate as is or until:
 - The plan no longer has members or beneficiaries representing a liability, or
 - Current members and beneficiaries are voluntarily transferred to the new statewide system.

OPTIONAL ENTRY INTO THE GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

- Participation by current employees is optional,
 - Provided that the affected municipality (through a duly-passed resolution) AND the employees (through the approval of 2/3 of active members) agree on the terms of participation, and
 - Municipality is fully funded, having no actuarial unfunded liabilities.

ACT 111

- It is proposed that the new Statewide plan be applied to all municipal police [and firefighters, if including] so that pension issues may be removed from collective bargaining and arbitration, as now provided at the State level: act of Aug. 5, 1991 [P. L. 183, No. 23] §24, amending 71 Pa. C. S. §5955.

CLASSIFICATION STRUCTURE

<u>Classification</u>	<u>Benefit Accrual Rate</u>	<u>Superannuation Age</u>	<u>Member Contribution Rate</u>
Class P1	2.5% for first 20 years; 2.0% for years over 20	Age 50 or 20 years of service	6.25% for first 20 years; 5.0% for years over 20
Class P2	2.25%	Age 50	5.625%
Class P3	2.0%	Age 50	5.0%
Class P4	1.75%	Age 55	4.375%

EQUITY

- The statewide retirement system will ensure pension portability for police employees.
- Contributions by members will be coordinated to the benefit structure, rather than being based upon the class of municipality or the historical receipt of State pension aid.

Classification	Member Contribution Rate
Class P1	6.25% for first 20 years; 5.0% for years over 20
Class P2	5.625%
Class P3	5.0%
Class P4	4.375%

PER-MEMBER ADMINISTRATIVE COST BASED ON PENSION PLAN SIZE

- 10 or Fewer Active Members \$1,553 *
- 11 to 100 Active Members 1,415
- More than 100 Active Members 456
- More than 500 Active Members 323

- SERS 175 (2002)

* Average Membership 1- 3: 374 police plans
Average Membership 4 - 10: 349 police plans

In 2004, average per-member administrative costs:

Municipal - \$935
SERS - \$193

ANNUAL ADMINISTRATIVE EXPENSES

- Reduction in annual administrative expenses in year 20 - \$22.6 million (1.26% of the projected payroll).
- The payroll percentage will be an ongoing cost savings into the future.

ANNUAL INCREASE IN INVESTMENT RETURNS

A weighted comparison of SERS versus aggregated municipal police plans produces an investment return difference of 2.45%

Potential for Increased Investment Earnings Resulting from Statewide Plan

<u>Assumed Increase in Investment Return</u>	<u>Reduction in Employer Costs in Dollars</u>	<u>Reduction in Employers' Costs as a % of Projected Payroll</u>
1%	\$ 34,000,000	1.89%
2%	\$ 68,000,000	3.78%
2.4%	\$ 82,000,000	4.56%
3%	\$102,000,000	5.76%

PROJECTED EMPLOYER ANNUAL COST SAVINGS

All costs projected	As a Dollar a Amount	As a % of Projected Pay
Increase in Employer Cost <ul style="list-style-type: none"> • Increase in Aggregated Normal Costs 	\$75,000,000	4.17%
Offset to Employer Cost <ul style="list-style-type: none"> • Increase in Employee Contributions • Reduction in Administrative Expenses • Increase in Return on Investments 	<div style="text-align: center;"> \$39,000,000 22,600,000 <u>82,000,000</u> </div>	<div style="text-align: center;"> 2.17% 1.26% <u>4.56%</u> </div>
Total Projected Employer Annual Cost Savings	\$68,600,000	3.82%

PROPOSED AMENDMENT

- Allow participation by municipalities with unfunded actuarial liabilities with:
 - “fresh start” amortization of existing liabilities; and
 - extension of “hold-harmless” State aid provision for municipalities that issued pension bonds.
- Delete “Supplemental Local Government Benefit Accumulation Plan” (Subchapter C, §§ 5441 - 5452)
- Delete participation by part-time employees.