



# Senate Finance Committee

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## SUMMARY OF AMENDMENT A03578 TO HOUSE BILL 1828

### *Municipal Pension Plan Funding Relief and Recovery Program:*

- Amends the Municipal Pension Plan Funding Standard and Recovery Act.
- Provides actuarial smoothing mechanisms for all municipal pensions.
- Establishes an actuarial distress scoring system.

<u>Funding Ratio</u>	<u>Score</u>
90% or over	0
70% - 89%	1
50% - 69%	2
Less than 50%	3

- A score of one (Level I) indicates minimal distress. A score of two (Level II) indicates moderate distress. A score of three (Level III) indicates severe distress.
- Level I plans are provided the following relief:
  1. Reduction in contribution limits for 2 years.
  2. Authorization to impose a special municipal tax for municipalities unable to make their minimum pension payments.
- Level II plans are provided the following relief:
  1. Reduction in contribution limits for 4 years.
  2. Level II plans must aggregate trust funds and submit an administrative improvement plan.
  3. Level II plans are prohibited from increasing benefits unless the actuarial value of the assets are at least 100% of the actuarial value of liabilities prior to adoption of the increases and at least 90% of the actuarial value of liabilities after adoption.
- Level III plans:
  1. Must enter a Municipal Pension Recovery Program and be administered by the Pennsylvania Municipal Retirement Board (PMRB).
  2. Level III plans shall utilize an actuarial assumption established by PMRB currently 6% plus 1.5%.
  3. Allows distressed plans to pay a reduced minimum municipal obligation.
  4. Requires a revised benefit plan for new hires. The revised plan may provide for defined benefits, defined contribution plans or both. A defined contribution plan shall require employee contributions of at least 6% of payroll and a matching employer contribution of 6%.

5. Beginning January 1, 2010, the special minimum tax may be assessed by a municipality only to defray pension costs.
  6. Transfers the assets of Level III plans to PMRS. Pension rights shall be governed solely by the recovery program. No other law shall permit any deviation from the program. The municipality shall continue payment of pension benefits.
  7. Establishes the Cooperative Municipal Pension Program for new hires. Establishes age and years of service requirements for Level III municipalities. Requires new hires to contribute to their pension, by payroll deduction, an amount equal to three times their accrual rate.
- Establishes conduct and disclosure standards for professional services contracts. Requires pension systems to adopt procedures to advertise and review proposals for contracts for professional services. The system must review proposals for experience, experts and compensation to be charged.
  - Requires the contractor to disclose the names and titles of the individuals providing the service.
  - Requires the system to adopt policies regarding conflicts of interest including “revolving door” policies for employees of the system and the contractor.
  - The system must provide a written statement justifying an increase in a professional services contract of 10% or \$10,000.
  - Prohibits contractors from hiring a third party or lobbyist to communicate with the municipality or municipal pension system. Prohibits campaign contributions to municipal or municipal pension plan officials or the solicitation of contributions. Limits third party communications. Prohibits a contract with a person who made a contribution to an official of the municipality within the last two years.
  - Prohibits the contractor from having any business relationship with a system official. Prohibits gifts to system officials and employees.
  - Requires disclosure of campaign contributions made in the last 5 years. Bars a contract with a person who knowingly makes a material misstatement on a disclosure form.

***City of the First Class:***

- Provides special provisions for a city of the first class. Provides a 30 year “fresh start” for amortization of unfunded actuarial accrued liability.
- Allows a city of the first class to use funding mechanisms in lieu of being subject to the mandatory Level III distress provisions. In order to be eligible for the alternative mechanisms, the city may not increase pension benefits for existing employees. In addition, by June 30, 2010, the city shall adopt a revised benefit plan for new employees. The revised benefit plan may cost no more than 75% of the existing plan. The city must submit evidence of the freeze on existing benefits, the reduced benefit plan for new hires and a schedule of payments to be deferred to the Pennsylvania Intergovernmental Cooperation authority by September 10, 2009. Establishes contribution rates for new hires.
- Allows the city to defer a portion of its minimum funding obligation as follows:
  1. For 2010, deferral of up to \$155,000,000.
  2. For 2011, deferral of up to \$80,000,000.
- Repayment shall include 8.25% interest. The city shall repay \$90,000,000 plus interest by June 30, 2013. The balance of amounts deferred shall be repaid by June 30, 2014.
- In order to retain the authority to utilize the alternative funding mechanism, the city must freeze pension benefits for existing employees, engage in collective bargaining of a revised benefit plan applicable to any newly hired employee, appeal any arbitration or other award which is inconsistent with the revised benefit plan, and repay the deferred amount adopt, bargain and/or appeal the required plan for new hires, and make deferred payments. If the city fails to comply, the State Treasurer will withhold the amount to be deferred.

- Authorizes the city of the first class to impose a 1% local sales tax. In order to retain the authority to impose the tax, the city must freeze pension benefits for existing employees and adopt the revised benefit plan by June 30, 2010. If the city fails to comply, the authority to impose and collect the tax expires.
- The tax expires in 2014.
- The special provisions sunset on January 1, 2016.

***Other provisions:***

- Freezes the Pittsburgh parking tax at 37.5%. Dedicates 6.75% of the amount collected to pay the city's minimum municipal pension obligation. Allows the city to impose an additional 2.5% parking tax if the city sells or leases its parking garages. One hundred percent of the 2.5% additional tax must go toward the city's municipal pension obligation.
- Current municipal pension employees in Pittsburgh, a Level III municipality, are given hiring priority with the state system.
- Allows counties to use the amortization methodologies in the act.
- Establishes deferred retirement option plans (DROPs) in local governments.
- Defines "DROP" as a deferred retirement option plan created and operated by a local government or the Pennsylvania Municipal Retirement System that provides for the commencement and accumulation of retirement benefits for active employees with disbursement of the accumulated payments and interest earnings as a lump sum upon termination of employment.
- Defines "Drop Participant" as an eligible retired member of a local government defined benefit pension plan who has elected to participate in "DROP" and who is not an elected official.