



Senate Finance Committee

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BILL SUMMARY

HOUSE BILL, 2493 PN 3722 (REP. EACHUS)

SUMMARY:

This legislation amends the PA Municipal Retirement Law intended to maintain the tax-qualified status of the PA Municipal Retirement System (PMRS) and, and to bring the law into compliance with the Internal Revenue Code. Specifically, the legislation amends the PA Municipal Retirement Law regarding Deferred Retirement Option Plans (DROPs), domestic relations orders (DROs), compensation and pension limits, and compliance with the Internal Revenue Code and other Federal laws.

The Pennsylvania Municipal Retirement System (PMRS) received approval from the IRS on the corrective actions contained in this legislation on March 4, 2010. The corrections must be completed within 150 days of approval by the IRS or the approval may be revoked. Therefore, this legislation must be enacted by August 2, 2010.

Deferred Retirement Option Plans (DROPs):

Act 44 of 2009 amended the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) to provide for the establishment of DROPs by local governments in the Commonwealth.

A DROP is a program that provides for the commencement of retirement benefit payments for active employees and the accumulation of those benefits until disbursement of the accumulated payments and interest earnings as a lump sum upon termination of employment.

Section 1111(c) of Act 205 (c) provides that the PA Municipal Retirement Board shall establish a DROP for local government-defined benefit pension plans that have joined PMRS. The DROPs under PMRS shall be uniform, in compliance with the provisions of Act 205, open to any local government, and applicable to any of the defined benefit pension plans administered by PMRS.

Accordingly, the DROP provisions in HB 2493:

- permit PMRS to adopt rules for the proper administration of DROPs,
- provide for the establishment of DROP participant accounts, and
- provide for the monthly crediting of interest into DROP accounts.

Domestic Relations Orders (DROs)

The PA Municipal Retirement Law does not currently contain a definition or reference to DROs. HB 2493 defines DROs as any judgment, decree or order, including approval of a property settlement agreement, entered on or after the effective date of this definition by the court which relates to the marital property rights of the

spouse or former spouse of a member, including the right to receive all or a portion of the money payable to that member under this act, in furtherance of the equitable distribution of marital assets.

This legislation establishes provisions for the approval, processing, conditions, terms and the amendment of DROs. The provisions in this bill codify guidelines previously adopted by the PMRS Board to address DROs.

Administrative Expenses

This bill provides that PMRS may use a designated portion of their excess interest for administrative expenses in any year, not only the years listed in the statute (as is currently done.)

Technical Clarifications

This bill contains a series of technical clarifications intended to bring the PA Municipal Retirement Law into compliance with the federal Internal Revenue Code (IRC).

Definition of “Compensation”

- References the inclusion of so-called “pickup contributions” as described in the IRC.
- References the limit on member compensation as contained in the IRC.

Maximum Retirement Benefit

- Provides that the annual retirement benefit not exceed the limit in the IRC.

Application of Excess Interest

- Provides that excess interest be allocated to member contributions or for cost-of-living increases in accordance with the plan contract rather than at the discretion of the municipality. This will conform to provisions in the IRC regarding “definitely determinable benefits.”

Forfeiture

- Provides that retirement benefits are subject to forfeiture under the Public Employee Pension Forfeiture Act (Act 140 of 1978.)

Certain Insurance Premiums

- Requires PMRS to establish procedures which will permit an eligible retired public safety officer to pay qualified accident, health or long-term care insurance premiums as currently permitted under the IRC.

Pennsylvania Municipal Retirement Fund

- Provides that the PA Municipal Retirement Fund shall be a trust and the assets of the system shall be held in trust. The assets of the fund shall only be used to pay:
 - (1) Benefits to members in accordance with the act.
 - (2) Necessary expenses of PMRS.

EFFECTIVE DATE:

This legislation is effective immediately

SIMILAR LEGISLATION:

This legislation has also been introduced in the Senate by Senator Pileggi as Senate Bill 1356.