

**TESTIMONY OF JAMES L. McANENY, EXECUTIVE DIRECTOR**

**PUBLIC EMPLOYEE RETIREMENT COMMISSION**

**BEFORE THE LOCAL GOVERNMENT COMMITTEE OF  
THE HOUSE OF REPRESENTATIVES**

**RE HOUSE BILL 1708, PRINTER'S NUMBER 2391**

**MARCH 12, 2014**

Madame Chairwoman and Honorable Members of the House Local Government Committee:

The Public Employee Retirement Commission is an independent, bi-partisan, Commonwealth agency, established under the Act of June 9, 1981 (P. L. 208, No. 66). This is the statute that governs the actuarial note process for pension legislation, and with which the members of the General Assembly are quite aware.

The Municipal Pension System Funding Standard and Recovery Act of December 18, 1984 (P. L. 1005, No. 205), added a significant responsibility to the duties of the Commission: the monitoring, regulation and enforcement of the actuarial funding requirements established by Act 205. Biennially, each municipal pension plan must file an actuarial valuation report, utilizing the standards regulated by the Commission, which report is then reviewed by the Commission staff, corrected where necessary, and the costs of each plan certified to the Auditor General for use in calculating the appropriate amount of state pension aid each municipality is entitled to receive. (The cost certification is provided each year, based upon the actuarial projections set by the biennial reports). With more than 3,200 municipal pension plans (exclusive of authorities and counties), this is a substantial task. Yet, in almost three decades, the Commission has never been late in its certifications and has never been found to have made a significant error in determining the costs subject to its review.

Because the Commission has historically been listed among the Executive Offices for budgetary purposes, the Commission's actual appropriations request is never seen by the General Assembly. Instead, this body receives the revised request submitted by the Executive Offices. Similarly, the Commission does not receive a budget hearing, but is theoretically included in the Executive Offices hearing. The General Assembly and the Governor's Office are familiar with the Commission's work regarding legislative activities, but the real bulk of our activities relate to the administration of Act 205. That is the type of work that only draws attention when a problem arises, so our effective performance is behind the scenes.

Lacking the funding to convert to electronic filing, the Commission continues to employ paper forms for all reporting and data management. Data entry is currently a

five-step process, with information being conveyed from the municipality to the plan actuary, the actuary to the Commission's form, our review of the form, manual entry of the information into the database, and separate verification of the data input. We believe that the Commission is one of the last Commonwealth agencies without the capacity to accept web-based filings.

It is anticipated that the General Assembly will continue to appropriate general funds to the Commission to pay for the functions subject to Act 66 of 1981. The General Municipal Pension System State Aid Fund should remain solely designated for the use and benefit of municipal pension funds. Actuarial cost studies of pending legislation would continue to be the responsibility of State government and funded accordingly.

The amount of money that the State contributes to municipal pension plans is not insignificant. The following table shows the growth of the State aid fund over the past 12 years.

<b>Year</b>	<b>Total Allocation</b>	<b>Municipalities Receiving Full Pension Costs</b>		<b>Municipalities Receiving Unit Value</b>		<b>Unit Value</b>
2001	\$134.5 million	958	69%	436	31%	\$2,698
2002	\$150.6 million	916	64%	521	36%	\$2,763
2003	\$162.0 million	929	65%	499	35%	\$2,894
2004	\$190.5 million	724	49%	742	51%	\$2,911
2005	\$190.5 million	702	48%	767	52%	\$2,927
2006	\$198.6 million	719	48%	784	52%	\$3,088
2007	\$206.0 million	734	49%	754	51%	\$3,206
2008	\$206.6 million	702	47%	800	53%	\$3,186
2009	\$205.5 million	652	43%	857	57%	\$3,128
2010	\$217.9 million	519	34%	997	66%	\$3,235
2011*	\$350.5 million	939	62%	583	38%	\$5,596*
2012	\$232.8 million	584	38%	951	62%	\$3,576

\* In 2011, there was a significant increase in the amount of State aid that was available for allocation. This inflated amount was a result of the Pennsylvania Department of Revenue's enforcement of the conversion from quarterly tentative payments of the Gross Premiums Tax that fund the Act 205 State aid program to a single annual prepayment. Because of this change, an advance collection of revenues that comprise the fund occurred and significantly increased the unit value to \$5,596. This was a one-time event that will not re-occur in the future.

The average unit value annual dollar increase for the previous 12-year period is \$88, excluding the 2011 increase of \$2,361. The proposed legislation would authorize the annual allocation of up to 0.25% of State aid to the Commission to help fund the statutorily mandated responsibilities of the Commission pursuant to Act 205.

For 2013, the Unit Value increased by more than \$300, to \$3,878.75. If the full 0.25% was to be appropriated to the Commission, the unit value impact would be less than \$10 (\$9.70), based on the 2013 data. The allocation of such amounts to the Commission would have no meaningful impact upon municipal pension plans. Due to the Commission's critical role in the State aid certification and allocation process, and the Commission's responsibility to enforce the pension funding standard in Act 205, the allocation of a portion of State aid to fund Commission operations would seem to be appropriate.

The Commission's budget would, of course, continue to be subject to legislative appropriation, with the 0.25% serving as the upper limit on any appropriation from the General Municipal Pension System State Aid fund. This would provide a basis for legislative review of the Commission's performance and the potential to fund improvements that would benefit the municipalities and taxpayers of the Commonwealth.