Municipal Pension Plan Sustainability Act – Design Memo – PMRS
Last updated January 10, 2018

A. This appears to be a stand-alone bill

B. The bill establishes a new pension plan with a standardized benefit structure for municipalities with a pension a funding level ratio of less than 80% for two consecutive biennial actuarial valuations. The evaluations periods shall be the most current plus the next one. [Question: Does this mean the one in place or immediately after the effective date?]

- Establishes a new defined benefit plan tier for new hires
    1. Full-time police officers and firefighters hired on or after the effective date shall be in this standardized plan **[Question: What about employees of a police department who are not uniformed officers? Are they in this standardized plan?] [Question: What about new hires on or after effective date of the act but before plan is amended to create this standard pension plan, are they in the standard plan or an older tier?]**
    2. This is a new benefit tier; the current plan shall be amended to reflect this new tier
    3. Compensation is defined in the definition section as base salary + overtime (which cannot exceed 10% of salary); overtime in the form of compensatory time is not salary; compensation includes service-based disability pay **[Assumption: The disability pay is for those with less than 10 years of service; otherwise they would be on disability pension from standard pension plan and that disability pension would not count towards compensation for pension purposes]**; all other compensation is excluded
    4. Final average salary is final 60 months
    5. Superannuation age is 55 or 25 years of service for uniformed and 65 or 30 years of service for non-uniformed **[Question: Why is non-uniformed in here if only police and firefighters can participate?]**
    6. Member contribution rate is 6.00% for a member who participates in social security and 8.00% for a member who does not
    7. Employer pays through MMO plus additional funds required in Section 1502(b)
    8. Vesting is 10 years – if you leave before you are vested, you get member contributions plus interest
    9. A vested member may elect to receive a return of employee contributions plus interest (at rate of 4.00%...**[Question: Does this 4.00% interest rate apply to PMRS municipalities as well or do PMRS municipalities get the PMRS regular interest rate?]** in lieu of an annuity; they can roll this into another qualified retirement plan
    10. Can port benefits between municipalities [**Question: can a member port only to another standard pension plan or any pension plan?]; [Question: Section 501(b) says that you only need to move the member's contributions, do you need to**

move employer's account as well?] if employee fails to vest, the employer contributions get returned to the previous municipality

11. Benefit options include any offered by PMRS as allowed by law
12. Basic Benefit is years of 1.25% (.0125) x years and months of credited service x final average salary (capped at 50% of final average salary if member is eligible for social security)
13. Member can collect at superannuation age if they are vested but only the % of 25 years they actually worked
14. **Section 503(c)(2) is problematic…it combines rollover language with portability. I've added some language in the bill itself to hopefully resolve this.**
15. Early retirement upon 10 years of service
16. Death benefit if failure to vest is return of member contributions plus interest; latest this can be paid is one month after member's superannuation age **[Question: What about if employees is vested? Does spouse or beneficiary get employer money as well?] [Question: This bill allows distribution to not occur until member would have reached superannuation age. That could be a long time. Does interest continue to accrue until superannuation age?]**
17. Death benefit if member is retired is 50% spouse's option; must be paid at same schedule applicable to member; can have lump sum if offered
18. Members can still get Worker's Comp, Heart and Lung, Unemployment, Emergency and Law Enforcement Death Benefits Act, Public Safety Officer's Benefits Act
19. Disability– work-related disability eligibility is 10 years of service; disability standard is ability to perform member's job duties; the disability benefit shall be offset by worker's comp and social security and other employer-provided disability benefit. Disability continues until member reaches superannuation age at which point member receives benefit with accordance of Section 502 **(Question: There is still some cash balance language here such as "member's saving account"]**; employer may provide disability insurance for employees who have less than 10 years of service…definition of disability is that of the disability insurance carrier…can be gainful employment standard language if less than 10 years…66.6% maximum benefit if less than 10 years of service; there can be offsets based on the language of the insurance policy

<u>Plan amendments</u>

- No municipality shall make plan enhancements if less than 90% and standard pension plan; standard pension plan cannot provide benefit enhancement
- This act does not affect current pension plans
- Above 90% funded can collectively bargain but enhancements cannot bring funding level below 80%

Pension plan sustainability

- Every municipality within 10 years of the effective date shall use an assume rate of return set by PMRB + 1% **[Question: Does this apply to those pension plans with a funding level ratio above 90%?]**
- Every plan established pursuant to this act, Act 205 and Act 600 shall use the PMRB rate for MMO determination
- The municipality must adjust its rates in 10 equal increments **[Suggestion: This it too many installments. I think a better approach would be to do every two years since that is the valuation period. Maybe do 0.5% every two years?]**

Management of municipal plans

- Plans with fewer than 100 members shall select the most qualified person to administer, manage or service the plan; announce the availability of the contract at 2 consecutive meetings and post the availability on its website **[Question: Is the intent to exempt municipalities with fewer than 100 members from Act 44?]**

MMO

Municipalities must provide proof to Auditor General that it paid its MMO. If it fails pay the MMO, Auditor General shall withhold an appropriate portion of state aid **[Question: Is this only for those municipalities who do not opt into the bond payments?]**. If state aid is withheld, the municipality must make MMO payments plus a penalty of 20%. **[Question: Is the 20% of the MMO amount they failed to pay or 20% of the entire MMO? The 20% needs clarified.]**

State aid

State aid may not be used to pay administrative expenses.

Changes to existing plans

- Cannot make a change to a plan if it would bring plan ratio below 80%
- Municipality shall submit proposed amendments to auditor general if plan has funding ratio below 80%
- Auditor general may reject a change if change would fail to improve overall funding of the plan

General Accounting Standards

Municipalities must use GASB.

Public Disclosure

As a part of the annual budget reports, Municipalities must disclose on its website or in a newspaper: a breakdown of administrative fees, MMO amount, other pension related expenses

Applicability

This Act shall apply to Act 600 plans

DROP

Employees no longer eligible for DROP

Management of Severely Distressed Municipal Pension Plans

- This applies to a municipality that has a pension plan with less than 50% funding ratio at the time of the posting of the first valuation that occurs after the effective date of this section **[Question: Is the intent to be two full actuarial valuations after the effective date of this Act?]**
- The municipality shall enter into a contract with PMRB for PMRS to administer the plan
- Municipality shall transfer assets within 180 days
- Contract shall comply with all existing plan provisions, etc.
- Municipality shall provide existing contract to PMRB within 30 days
- PMRB will draft new contract
- If not compliant with IRS law and PMRL, PMRS shall implement remedial measure
- Municipality has 30 days to sign contract or file appeal before PMRB
- **[Question: Does municipality have ability to pull out of PMRS if it reaches 50% or is it in PMRS forever?]**

Sale or lease of municipal assets

- A municipality may sell or lease municipal assets to improve the funding ratio
- Municipality must hold competitive bidding process; process shall be for no less than 6 months; bid details must be made available to PMRB
- Must obtain actuarial determination from PMRB that sale/lease of assets will improve its funding ratio. It can only sell/lease if it will approve funding ratio

Municipal Pension Bond

- PEDFA may issue bonds to finance a portion of PMRS **[Suggestion: this section should reference the municipalities, not PMRS]** unfunded accrued actuarial liability
- Bond is not a debt or liability of Commonwealth or political subdivision
- Bond obligations and bond expenses shall be payable solely from revenues or funds pledged authorized in this chapter
- Bond amount is 30 years of state aid to those plans under 80% funding ratio (after two biennial valuations as determined by Auditor General) **[Question: Does it apply to all plans of municipality if only one of its plans is below 80%?]**
- DCED Secretary must determine if bond issuance would reduce unfunded liability of PMRS **[Suggestion: this section should reference the municipalities, not PMRS]** and municipalities
- PMRS **[Suggestion: this section should reference the municipalities, not PMRS]** shall specify in an application to PEDFA the maximum principal amount of the bonds for each separate bond issue
- PEDFA shall consider issuance of bonds upon application by PMRS **[Suggestion: this section should reference the municipalities, not PMRS]**
- PEDFA may enter into loan agreements in connection with bond issuance
- Bonds shall be sold under financing law
- Bond proceeds may be used to pay cost of issuance of bond, fund bond reserves, refund outstanding bonds; after these are paid for, balance shall be paid to State Treasurer for distribution
- Money in account to pay bond obligations and expenses shall be transferred to PEDFA
- PEDFA staff not personally liable
- Authority to issue bonds shall expire 12/31/21
- Severely Distressed Municipal Services Account is established in general fund as a restricted account; money in this account is pledged for the payment of bond obligations and expenses. Dept. of Revenue shall transfer the state aid which would have gone to the municipalities to this account
- Office of Budget shall compute the amount needed to pay bond obligations/expenses. If not enough money in account, Dept. of Revenue shall transfer money received in the General Fund from the tax imposed under Section 202 of Tax Reform Code of 1971
- Treasurer shall distribute each municipality's portion of the 30-year bond. This money must be deposited in the pension accounts, including those in PMRS. The money cannot be used to pay administrative costs

Financial Provisions

- Each level III municipality shall pay a reduced MMO equal to normal cost and administrative expenses – anticipated member contributions + percentage of the amortization contribution under Section 202(b)(4) of Act 205
- The above shall be paid: 20% of amortization contribution in first year, 40% in second year, 60% in third year, 80% in fourth year and 100% fifth year and thereafter

- After a municipality has received its share of the bond, the municipality shall determine what impact the deposit will have on its MMO; if there is a reduction, the municipality shall deposit 50% of the savings in addition to their MMO until pension is 80% funded
- A municipality which does not receive bond proceeds will continue to receive state aid; if it does receive bond proceeds, it does not receive state aid until bond is paid off