

## No. 1986-9

## AN ACT

## SB 1260

Amending the act of December 18, 1984 (P.L.1005, No.205), entitled "An act mandating actuarial funding standards for all municipal pension systems; establishing a recovery program for municipal pension systems determined to be financially distressed; providing for the distribution of the tax on the premiums of foreign fire insurance companies; and making repeals," providing a clarification in the applicable amortization period in certain instances of financial distress.

The General Assembly of the Commonwealth of Pennsylvania hereby enacts as follows:

Section 1. Sections 202(b)(4), 604 and 607(g) of the act of December 18, 1984 (P.L.1005, No.205), known as the Municipal Pension Plan Funding Standard and Recovery Act, are amended to read:

Section 202. Contents of actuarial valuation report.

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(b) Contents of actuarial exhibits; defined benefit plans self-insured in whole or in part.—For any pension plan which is a defined benefit plan and which is self-insured in whole or in part, all applicable actuarial exhibits shall be prepared in accordance with the entry age normal actuarial cost method with entry age established as the actual entry age for all plan members unless the municipality applies for and is granted authorization by the commission to use an alternative actuarial cost method. Authorization shall be granted if the municipality demonstrates on an individual pension plan basis that there are compelling reasons of an actuarial nature for the use of an alternative actuarial cost method. The commission shall issue rules and regulations specifying the criteria which the commission will use to determine the question of the existence of compelling reasons for the use of an alternative actuarial cost method, the documentation which a municipality seeking the authorization will be required to supply and the acceptable alternative actuarial cost methods which the commission may authorize. The actuarial cost method shall be used to value all aspects of the benefit plan or plans of the pension plan unless the municipality applies for and is granted authorization by the commission to use approximation techniques other than the actuarial cost method for aspects of the benefit plan or plans of the pension plan other than the retirement benefit. Authorization shall be granted if the municipality demonstrates on an individual pension plan basis that there are compelling reasons of an actuarial nature for the use of these approximation techniques. The commission shall issue rules and regulations specifying the criteria which the commission will use to determine the question of the existence of compelling reasons for the use of approximation techniques, the documentation which a municipality seeking the authorization will be required to supply and the acceptable approximation technique which the commission

may authorize. The actuarial exhibits shall use actuarial assumptions which are, in the judgment of the actuary and the governing body of the plan, the best available estimate of future occurrences in the case of each assumption. With respect to economic actuarial assumptions, the assumptions shall either be within the range specified in rules and regulations issued by the commission or documentation explaining and justifying the choice of assumptions outside the range shall accompany the report. The actuarial exhibits shall measure all aspects of the benefit plan or plans of the pension plan in accordance with modifications in the benefit plan or plans, if any, and salaries which as of the valuation date are known or can reasonably be expected to be in force during the ensuing plan year. The actuarial valuation report shall contain the following actuarial exhibits:

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(4) An exhibit of any additional funding costs associated with the amortization of any unfunded actuarial accrued liability of the pension plan, indicating for each increment of unfunded actuarial accrued liability specified in paragraph (3), the level annual dollar contribution required to pay an amount equal to the actuarial assumption as to investment earnings applied to the principal amount of the remaining balance of the increment of unfunded actuarial accrued liability and to retire by the applicable amortization target date specified in this paragraph the principal amount of the remaining balance of the increment of unfunded actuarial accrued liability. The amortization target date applicable for each type of increment of unfunded actuarial accrued liability shall be as follows:

(i) (A) In the case of a pension plan established on or prior to January 1, 1985 for the unfunded actuarial accrued liability in existence as of the beginning of the plan year occurring in calendar year 1985, at the end of the plan year occurring in calendar year 2015; or

(B) In the case of a pension plan established after January 1, 1985, for the unfunded actuarial accrued liability then or subsequently determined to be or to have been in existence as of the date of the establishment of the plan, at the end of the plan year occurring 30 years after the calendar year in which the pension plan was established.

(ii) Increment or decrement of net unfunded actuarial accrued liability attributable to a change in actuarial assumptions, at the end of the plan year occurring 20 years after the calendar year in which actuarial assumption modification was effective.

(iii) Increment of net unfunded actuarial accrued liability attributable to a modification in the benefit plan applicable to active members, at the end of the plan year occurring 20 years after the calendar year in which the benefit plan modification was effective.

(iv) Increment of unfunded actuarial accrued liability attributable to a modification in the benefit plan applicable to retired members and other benefit recipients, at the end of the plan year occurring 10 years after the calendar year in which the benefit plan modification was effective.

(v) Increment or decrement of net unfunded actuarial accrued liability attributable to an actuarial experience loss or gain, at the end of plan year occurring 15 years after the calendar year in which the actuarial experience loss or gain was recognized.

With respect to any applicable pension plan other than a plan which comprises all or part of a *moderately distressed or a severely distressed* municipal pension system, if the remaining average period between the current average attained age of active members as of the valuation date and the later of their earliest average normal retirement age or their average assumed retirement age is less than the applicable period or periods ending with the amortization target date or dates specified in subparagraph (i), (ii), (iii) or (v), the appropriate amortization target date for the applicable subparagraph determined with reference to the longest applicable remaining average period rounded to the next largest whole number shall be used. The exhibit shall indicate the total dollar amount of additional funding costs associated with the amortization of any unfunded actuarial accrued liability of the pension plan applicable for that plan year and any subsequent plan year occurring prior to the preparation of the next required actuarial valuation report, which shall be the total of the additional funding costs associated with the amortization of each increment of unfunded actuarial accrued liability. The exhibit shall also indicate the plan year in which any unfunded actuarial accrued liability of the pension plan would be fully amortized if the total annual additional funding cost calculated pursuant to this paragraph were met continuously without increase or decrease in amount until the total unfunded actuarial accrued liability currently existing was fully amortized. In calculating the additional funding costs associated with the amortization of any unfunded actuarial accrued liability of the pension plan in any plan year, any amortization contribution made in the interval since the last actuarial valuation report shall be allocated to each type of increment of unfunded actuarial accrued liability in proportion to the remaining dollar amount of each type.

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Section 604. Recovery program level I.

(a) *Level I.*—Any municipality to which level I of the recovery program applies may utilize the following remedies:

- (1) The aggregation of trust funds pursuant to section 607(b).
- (2) The establishment of total member contribution pursuant to section 607(c).

(b) *Implementation.*—*Any municipality which receives an initial distress determination scoring in 1985 which is equal to or greater than 200, but not greater than 299, and cannot meet the minimum municipal obligation for the year 1986 because the payment of the minimum municipal obligation would result in the municipality exceeding the maximum contribution limitation for that municipality as set forth in the pertinent laws for that class of municipality, may delay the implementation of the full funding of the minimum municipal obligation until 1987. Any municipality electing to delay full*

*implementation of the minimum municipal obligation shall make a municipal contribution for 1986 as set forth in section 607(g). In addition to the one-year delay of the full actuarial funding standard, the municipality may utilize the following additional remedies:*

(1) *The deviation from municipal contribution limitations pursuant to section 607(d).*

(2) *The special municipal taxing authority pursuant to section 607(f).*  
Section 607. Remedies applicable to various recovery program levels.

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(g) Delayed implementation of funding standard over ten years.—The municipality may delay full implementation of the actuarial funding standard specified in section 302 or 303, whichever is applicable, over a period not to exceed ten years in duration, *and may calculate that actuarial funding standard on the basis of a 30-year amortization period for the increment of unfunded actuarial accrued liability in existence as of the beginning of the plan year occurring in calendar year 1985.* During the delayed implementation period, the municipality shall make a municipal contribution to each municipal pension plan of an amount equal to not less than the municipal contribution to the municipal pension plan made in the immediate prior year and the following percentage of the difference between that amount and the full minimum municipal obligation with respect to the pension plan pursuant to section 302 or 303, whichever is applicable:

Year	Percentage of Difference
1985	10%
1986	20%
1987	30%
1988	40%
1989	50%
1990	60%
1991	70%
1992	80%
1993	90%
1994 and thereafter	100%

The municipality may calculate the annual amortization contribution on the basis of a level percentage of future increasing covered payroll amortization contribution rather than on the basis of the level annual dollar amortization contribution specified in section 202.

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Section 2. This act shall be retroactive to September 30, 1985.

Section 3. This act shall take effect immediately.

APPROVED—The 14th day of February, A. D. 1986.

DICK THORNBURGH