

No. 2002-38

AN ACT

HB 27

Amending Titles 24 (Education) and 71 (State Government) of the Pennsylvania Consolidated Statutes, further providing for creditable nonschool service, for election to become a Class T-D member, for actuarial cost method and for termination of annuities; providing for supplemental annuities commencing 2002 and 2003; further providing for payment of benefits, for annuity reserve account and for the definitions of "creditable nonstate service," "State employee," "State service" and "total accumulated deductions"; providing for notice to members; further providing for mandatory and optional membership, for credited State service and for retention and reinstatement of service credits; providing for election to convert school service to State service; further providing for creditable nonstate service, for classes of service, for contributions by the Commonwealth and other employers and for actuarial cost method; providing for transfer of accumulated deductions; further providing for disability annuities; providing for supplemental annuities commencing 2002 and 2003 and for special supplemental postretirement adjustment of 2002; further providing for duties of the board to advise and report to heads of departments and members, for duties of the board to report to the Public School Employees' Retirement Board, for rights and duties of annuitants, for members' savings account, for State accumulation account and for supplemental annuity account; and making technical corrections.

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

Section 1. Sections 8304(a), 8305.1(c), 8328 and 8346(a.1) and (b) of Title 24 of the Pennsylvania Consolidated Statutes are amended to read:

§ 8304. Creditable nonschool service.

(a) Eligibility.—An active member or a multiple service member who is an active member of the State Employees' Retirement System shall be eligible to receive Class T-C service credit for creditable nonschool service and Class T-D service for intervening military service, provided the member [~~elects to become~~] *becomes* a Class T-D member pursuant to section 8305.1 (relating to election to become a Class T-D member) *or 8305 (relating to classes of service)*, as set forth in subsection (b) provided that he is not entitled to receive, eligible to receive now or in the future, or is receiving retirement benefits for such service under a retirement system administered and wholly or partially paid for by any other governmental agency or by any private employer, or a retirement program approved by the employer in accordance with section 8301(a)(1) (relating to mandatory and optional membership), and further provided that such service is certified by the previous employer and the manner of payment of the amount due is agreed upon by the member, the employer, and the board.

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§ 8305.1. Election to become a Class T-D member.

* * *

(c) Effect of election.—An election to become a Class T-D member shall remain in effect until the termination of employment [**and shall result in all service which could have been credited as Class T-C service being credited as Class T-D service**]. Those members who, on the effective date of this section, contribute at the rate of 5 1/4% shall be deemed to have accepted the basic contribution rate of 6 1/2% for all Class T-D service performed on or after January 1, 2002. Those members who, on the effective date of this section, contribute at the rate of 6 1/4% shall be deemed to have accepted the basic contribution rate of 7 1/2% for all Class T-D service performed on or after January 1, 2002.

* * *

§ 8328. Actuarial cost method.

(a) Employer contribution rate on behalf of active members.—The amount of the total employer contributions on behalf of all active members shall be computed by the actuary as a percentage of the total compensation of all active members during the period for which the amount is determined and shall be so certified by the board. The total contribution rate on behalf of all active members shall consist of the normal contribution rate as defined in subsection (b) [**and**], the accrued liability contribution rate as defined in subsection (c) **and the supplemental annuity contribution rate as defined in subsection (d)**. The total contribution rate shall be modified by the experience adjustment factors as calculated in subsection (e) but in no case shall it be less than [**zero**] **1% plus the premium assistance contribution rate**.

(b) Normal contribution rate.—The normal contribution rate shall be determined after each actuarial valuation. Until all accrued liability contributions have been completed, the normal contribution rate shall be determined, on the basis of an annual interest rate and such mortality and other tables as shall be adopted by the board in accordance with generally accepted actuarial principles, as a level percentage of the compensation of the average new active member, which percentage, if contributed on the basis of his prospective compensation through the entire period of active school service, would be sufficient to fund the liability for any prospective benefit payable to him, in excess of that portion funded by his prospective member contributions, except for the supplemental benefits provided in sections 8348 (relating to supplemental annuities), 8348.1 (relating to additional supplemental annuities), 8348.2 (relating to further additional supplemental annuities), 8348.3 (relating to supplemental annuities commencing 1994), 8348.4 (relating to special supplemental postretirement adjustment) [**and**], 8348.5 (relating to supplemental annuities commencing 1998), **8348.6 (relating to supplemental annuities commencing 2002) and 8348.7 (relating to supplemental annuities commencing 2003)**.

(c) Accrued liability contribution rate.—For the fiscal year beginning July 1, 2002, the accrued liability contribution rate shall be computed as the rate of total compensation of all active members which shall be certified by

the actuary as sufficient to fund over a period of ten years from July 1, 2002, the present value of the liabilities for all prospective benefits of active members, except for the supplemental benefits provided in sections 8348, 8348.1, 8348.2, 8348.3, 8348.4 [and], 8348.5, **8348.6 and 8348.7**, in excess of the total assets in the fund (*calculated by recognizing the actuarially expected investment return immediately and recognizing the difference between the actual investment return and the actuarially expected investment return over a five-year period*), excluding the balance in the annuity reserve account, and of the present value of normal contributions and of member contributions payable with respect to all active members on July 1, 2002, during the remainder of their active service. Thereafter, the amount of each annual accrued liability contribution shall be equal to the amount of such contribution for the fiscal year, beginning July 1, 2002, except that, if the accrued liability is increased by legislation enacted subsequent to June 30, 2002, such additional liability shall be funded over a period of ten years from the first day of July, coincident with or next following the effective date of the increase. The amount of each annual accrued liability contribution for such additional legislative liabilities shall be equal to the amount of such contribution for the first annual payment.

(d) Supplemental annuity contribution rate.—Contributions from the Commonwealth and other employers required to provide for the payment of the supplemental annuities provided for in sections 8348, 8348.1, 8348.2, 8348.4 and 8348.5 shall be paid over a period of ten years from July 1, 2002. *The funding for the supplemental annuities commencing 2002 provided for in section 8348.6 shall be as provided in section 8348.6(f). The funding for the supplemental annuities commencing 2003 provided for in section 8348.7 shall be as provided in section 8348.7(f).* The amount of each annual supplemental annuities contribution shall be equal to the amount of such contribution for the fiscal year beginning July 1, 2002. In the event that supplemental annuities are increased by legislation enacted subsequent to June 30, 2002, the additional liability for the increased benefits *to be amortized* shall be funded in equal dollar annual installments over a period of ten years [from the July 1, coincident with or next following the effective date of such legislation].

(e) Experience adjustment factor.—For each year after the establishment of the accrued liability contribution rate for the fiscal year beginning July 1, 2002, any increase or decrease in the *unfunded* accrued liability [(including liability for supplemental annuities)], *excluding the gains or losses on the assets of the health insurance account*, due to actual experience differing from assumed experience, changes in actuarial assumptions, changes in the terms and conditions of the benefits provided by the system by judicial, administrative or other processes other than legislation, including, but not limited to, reinterpretation of the provisions of this part, shall be amortized in equal dollar annual installments over a period of ten years beginning with the July 1 second succeeding the actuarial valuation.

(f) Premium assistance contribution rate.—For [the] *each* fiscal year beginning *with* July 1, 1991, the total contribution rate as calculated according to this section shall be increased annually in the full amount certified by the board as necessary to fund the premium assistance program in accordance with section 8509 (relating to health insurance premium assistance program), notwithstanding any other provisions of this section.

§ 8346. Termination of annuities.

* * *

(a.1) Return of benefits.—In the event an annuitant whose annuity ceases pursuant to this section receives any annuity payment, including a lump sum payment pursuant to section 8345 (relating to member's options) on or after the date of his return to school service or entering State service, the annuitant shall return to the board the amount so received plus statutory interest. The amount payable shall be certified in each case by the board in accordance with methods approved by the actuary and shall be paid in a lump sum within 90 days or in the case of an active member or a State employee who is an active member of the State Employees' Retirement System may be amortized with statutory interest through salary deductions in amounts agreed upon by the member and the board. *The salary deduction amortization plans agreed to by the member and the board may include a deferral of payment amounts and statutory interest until the termination of school service or State service as the board in its sole discretion decides to allow. The board may limit salary deduction amortization plans to such terms as the board in its sole discretion determines.* In the case of a State employee who is an active member of the State Employees' Retirement System, the agreed upon salary deductions shall be remitted to the State Employees' Retirement Board, which shall certify and transfer to the board the amounts paid.

(b) Return to school service during emergency.—When, in the judgment of the employer, an emergency creates an increase in the work load such that there is serious impairment of service to the public or in the event of a shortage of appropriate subject certified teachers, an annuitant may be returned to school service for a period not to exceed 95 full-day sessions in any school year without loss of his annuity. In computing the number of days an annuitant has returned to school service, any amount of time less than one-half of a day shall be counted as one-half of a day.

* * *

Section 2. Title 24 is amended by adding sections to read:
§ 8348.6. *Supplemental annuities commencing 2002.*

(a) *Benefits.—Commencing with the first monthly annuity payment after July 1, 2002, any eligible benefit recipient shall be entitled to receive an additional monthly supplemental annuity from the system. This shall be in addition to the supplemental annuities provided for in sections 8348 (relating to supplemental annuities), 8348.1 (relating to additional supplemental annuities), 8348.2 (relating to further additional*

supplemental annuities), 8348.3 (*relating to supplemental annuities commencing 1994*), 8348.4 (*relating to special supplemental postretirement adjustment*) and 8348.5 (*relating to supplemental annuities commencing 1998*).

(b) *Amount of supplemental annuity.*—*The amount of the supplemental annuity payable pursuant to this section shall be a percentage of the amount of the monthly annuity payment on July 1, 2002, determined on the basis of the most recent effective date of retirement, as follows:*

<i>Most recent effective date of retirement</i>	<i>Percentage factor</i>
<i>July 2, 1988, through July 1, 1990</i>	<i>8.0%</i>
<i>July 2, 1983, through July 1, 1988</i>	<i>10.0%</i>
<i>July 2, 1980, through July 1, 1983</i>	<i>15.0%</i>
<i>Prior to July 2, 1980</i>	<i>25.0%</i>

(c) *Payment.*—*The supplemental annuity provided under this section shall be paid automatically unless the annuitant files a written notice with the board requesting that the additional monthly supplemental annuity not be paid.*

(d) *Conditions.*—*The supplemental annuity provided under this section shall be payable under the same terms and conditions as provided under the option plan in effect as of July 1, 2002.*

(e) *Benefits to beneficiaries or survivors.*—*No supplemental annuity provided under this section shall be payable to the beneficiary or survivor annuitant of a member who dies before July 1, 2002.*

(f) *Funding.*—*The additional liability for the increase in benefits provided in this section shall be funded in equal dollar annual installments over a period of ten years beginning July 1, 2003.*

(g) *Eligible benefit recipient.*—*As used in this section, the term “eligible benefit recipient” means a person who is receiving a superannuation, withdrawal or disability annuity on July 1, 2002, and whose most recent effective date of retirement is prior to July 2, 1990, but the supplemental annuities provided under this section shall not be payable to an annuitant receiving a withdrawal annuity prior to the first day of July coincident with or following the annuitant’s attainment of superannuation age.*

§ 8348.7. Supplemental annuities commencing 2003.

(a) *Benefits.*—*Commencing with the first monthly annuity payment after July 1, 2003, any eligible benefit recipient shall be entitled to receive an additional monthly supplemental annuity from the system. This shall be in addition to the supplemental annuities provided for in sections 8348 (relating to supplemental annuities), 8348.1 (relating to additional supplemental annuities), 8348.2 (relating to further additional supplemental annuities), 8348.3 (relating to supplemental annuities commencing 1994), 8348.4 (relating to special supplemental*

postretirement adjustment) and 8348.5 (relating to supplemental annuities commencing 1998).

(b) Amount of supplemental annuity.—The amount of the supplemental annuity payable pursuant to this section shall be a percentage of the amount of the monthly annuity payment on July 1, 2003, determined on the basis of the most recent effective date of retirement, as follows:

<i>Most recent effective date of retirement</i>	<i>Percentage factor</i>
<i>July 2, 2001, through July 1, 2002</i>	<i>2.27%</i>
<i>July 2, 2000, through July 1, 2001</i>	<i>3.08%</i>
<i>July 2, 1999, through July 1, 2000</i>	<i>4.87%</i>
<i>July 2, 1998, through July 1, 1999</i>	<i>6.35%</i>
<i>July 2, 1994, through July 1, 1998</i>	<i>7.50%</i>
<i>July 2, 1990, through July 1, 1994</i>	<i>9.00%</i>
<i>Prior to July 2, 1990</i>	<i>0.00%</i>

(c) Payment.—The supplemental annuity provided under this section shall be paid automatically unless the annuitant files a written notice with the board requesting that the additional monthly supplemental annuity not be paid.

(d) Conditions.—The supplemental annuity provided under this section shall be payable under the same terms and conditions as provided under the option plan in effect as of July 1, 2003.

(e) Benefits to beneficiaries or survivors.—No supplemental annuity provided under this section shall be payable to the beneficiary or survivor annuitant of a member who dies before July 1, 2003.

(f) Funding.—The additional liability for the increase in benefits provided in this section shall be funded in equal dollar annual installments over a period of ten years beginning July 1, 2004.

(g) Eligible benefit recipient.—As used in this section, the term “eligible benefit recipient” means a person:

(1) who is receiving a superannuation, withdrawal or disability annuity on July 1, 2003;

(2) whose most recent effective date of retirement is prior to July 2, 2002; and

(3) whose credited service does not include any service credited as either Class T-D, Class D-4 or Class AA service.

Notwithstanding the above, the supplemental annuities provided under this section shall not be payable to an annuitant receiving a withdrawal annuity prior to the first day of July coincident with or following the annuitant’s attainment of superannuation age.

Section 3. Sections 8349(b) and 8525(a) of Title 24 are amended to read:

§ 8349. Payment of benefits.

(b) Death benefits.—If the amount of a death benefit payable to a beneficiary under section 8347 (relating to death benefits) or under the provisions of Option 1 of section 8345(a)(1) (relating to member's options) is [~~\$5,000~~] **\$10,000** or more, such beneficiary may elect to receive payment according to one of the following options:

- (1) A lump sum payment.
- (2) An annuity actuarially equivalent to the amount payable.
- (3) A lump sum payment and an annuity such that the annuity is actuarially equivalent to the amount payable less the lump sum payment specified by the beneficiary.

* * *

§ 8525. Annuity reserve account.

(a) Credits and charges to account.—The annuity reserve account shall be the ledger account to which shall be credited the reserves held for the payment of annuities and death benefits on account of all annuitants and the contributions from the Commonwealth and other employers as determined in accordance with section 8328 (relating to actuarial cost method) for the payment of the supplemental annuities provided in sections 8348 (relating to supplemental annuities), 8348.1 (relating to additional supplemental annuities), 8348.2 (relating to further additional supplemental annuities), 8348.3 (relating to supplemental annuities commencing 1994), 8348.4 (relating to special supplemental postretirement adjustment) [and], 8348.5 (relating to supplemental annuities commencing 1998), **8348.6 (relating to supplemental annuities commencing 2002) and 8348.7 (relating to supplemental annuities commencing 2003)**. The annuity reserve account shall be credited with valuation interest. After the transfers provided in sections 8523 (relating to members' savings account) and 8524 (relating to State accumulation account), all annuity and death benefit payments shall be charged to the annuity reserve account and paid from the fund.

* * *

Section 4. The definitions of "creditable nonstate service," "State employee," "State service" and "total accumulated deductions" in section 5102 of Title 71 are amended to read:

§ 5102. Definitions.

The following words and phrases as used in this part, unless a different meaning is plainly required by the context, shall have the following meanings:

* * *

"Creditable nonstate service." Service other than:

- (1) service as a State employee [or];
 - (2) service converted to State service pursuant to section 5303.1 (relating to election to convert county service to State service); *or*
 - (3) *school service converted to State service pursuant to section 5303.2 (relating to election to convert school service to State service)*
- for which an active member may obtain credit.

* * *

“State employee.” Any person holding a State office or position under the Commonwealth, employed by the State Government of the Commonwealth, in any capacity whatsoever, except an independent contractor or any person compensated on a fee basis or *any person paid directly by an entity other than a State Employees’ Retirement System employer*, and shall include members of the General Assembly, and any officer or employee of the following:

(1) (i) The Department of Education.

(ii) State-owned educational institutions.

(iii) Community colleges.

(iv) The Pennsylvania State University, except an employee in the College of Agriculture who is paid wholly from Federal funds or an employee who is participating in the Federal Civil Service Retirement System. The university shall be totally responsible for all employer contributions under section 5507 (relating to contributions by the Commonwealth and other employers).

(2) The Pennsylvania Turnpike Commission, the Delaware River Port Authority, the Port Authority Transit Corporation, the Philadelphia Regional Port Authority, the Delaware River Joint Toll Bridge Commission, the State Public School Building Authority, The General State Authority, the State Highway and Bridge Authority, the Delaware Valley Regional Planning Commission, the Interstate Commission of the Delaware River Basin, and the Susquehanna River Basin Commission any time subsequent to its creation, provided the commission or authority agrees to contribute and does contribute to the fund, from time to time, the moneys required to build up the reserves necessary for the payment of the annuities of such officers and employees without any liability on the part of the Commonwealth to make appropriations for such purposes, and provided in the case of employees of the Interstate Commission of the Delaware River Basin, that the employee shall have been a member of the system for at least ten years prior to January 1, 1963.

(3) Any separate independent public corporation created by statute, not including any municipal or quasi-municipal corporation, so long as he remains an officer or employee of such public corporation, and provided that such officer or employee of such public corporation was an employee of the Commonwealth immediately prior to his employment by such corporation, and further provided such public corporation shall agree to contribute and contributes to the fund, from time to time, the moneys required to build up the reserves necessary for the payment of the annuities of such officers and employees without any liability on the part of the Commonwealth to make appropriations for such purposes.

* * *

“State service.” Service converted from county service pursuant to section 5303.1 (relating to election to convert county service to State

service), *converted from school service pursuant to section 5303.2 (relating to election to convert school service to State service)* or rendered as a State employee.

* * *

“Total accumulated deductions.” The sum of the regular accumulated deductions, additional accumulated deductions, the social security integration accumulated deductions, and all other contributions paid into the fund for the purchase, *transfer or conversion* of credit for service or other coverage together with all statutory interest credited thereon until the date of termination of service. In the case of a vestee or a special vestee, statutory interest shall be credited until the effective date of retirement. A member’s account shall not be credited with statutory interest for more than two years during a leave without pay.

* * *

Section 5. Title 71 is amended by adding a section to read:

§ 5103. Notice to members.

Notice by publication, including, without being limited to, newsletters, newspapers, forms, first class mail, letters, manuals and, to the extent authorized by a policy adopted by the board, electronically, including, without being limited to, e-mail or World Wide Web sites, distributed or made available to members in a manner reasonably calculated to give actual notice of those sections of the State Employees’ Retirement Code that require notice to members shall be deemed sufficient notice for all purposes.

Section 6. Section 5301(a) of Title 71 is amended by adding a paragraph and the section is amended by adding a subsection to read:

§ 5301. Mandatory and optional membership.

(a) **Mandatory membership.**—Membership in the system shall be mandatory as of the effective date of employment for all State employees except the following:

* * *

(16) Employees of the Juvenile Court Judges’ Commission who, before the effective date of this paragraph, were transferred from the State System of Higher Education to the Juvenile Court Judges’ Commission as a result of an interagency transfer of staff approved by the Office of Administration and who, while employees of the State System of Higher Education, had elected membership in an independent retirement program approved by the employer.

* * *

(f) **Additional optional membership.**—*The State employees listed in subsection (a)(16) shall be mandatory members of the system as of the effective date of employment with the Juvenile Court Judges’ Commission unless they elect membership in an independent retirement program approved by the Juvenile Court Judges’ Commission. Employees who elect membership in an independent retirement program approved by*

the Juvenile Court Judges' Commission shall be prohibited from being active members in the system while employed by the Juvenile Court Judges' Commission. If an employee described in this subsection becomes a State employee with an employer other than the Juvenile Court Judges' Commission, then membership for that employee shall be determined as otherwise provided for in this part. The election of membership in the independent retirement program approved by the Juvenile Court Judges' Commission must be made by the transferred employee filing written notice with the employer while a State employee no later than 90 days after the effective date of this subsection. Upon receipt of such an election, the Juvenile Court Judges' Commission shall certify the election to the board and the independent retirement program.

Section 7. Section 5302 of Title 71 is amended by adding a subsection to read:

§ 5302. Credited State service.

* * *

(d.2) Effect of converting school service.—A State employee who converts school service from the Public School Employees' Retirement System pursuant to section 5303.2 (relating to election to convert school service to State service) shall receive one year or fractional part of a year of State service credit for each year or fractional part of a year, as the case may be, of school service credited in the Public School Employees' Retirement System, provided, however, that no more than one year of State service of all classes will be credited for any one calendar year.

* * *

Section 8. Section 5303(b) of Title 71 is amended by adding a paragraph and the section is amended by adding a subsection to read:

§ 5303. Retention and reinstatement of service credits.

* * *

(b) Eligibility points for prospective credited service.—

* * *

(1.2) Every member of the system who elects to convert school service to State service pursuant to section 5303.2 (relating to election to convert school service to State service) shall receive eligibility points in accordance with section 5307 for converted school service. The class or classes of service in which the member may be credited for converted school service shall be determined in accordance with section 5306(d).

* * *

(g) Credit for employees of Juvenile Court Judges' Commission.—An employee of the Juvenile Court Judges' Commission who elects membership in an independent retirement program approved by the employer under section 5301(f) shall have all service credited pursuant to section 5302(a) (relating to credited State service) for State service with the Juvenile Court Judges' Commission on or after the effective date of

the interagency transfer canceled and thereafter ineligible to be credited as State service. Additionally, all creditable State service and nonstate service reinstated or purchased while an employee of the Juvenile Court Judges' Commission shall be canceled. Such employees shall be prohibited from receiving credited service for State service performed while a member of an alternate retirement system approved by an employer.

Section 9. Title 71 is amended by adding a section to read:

§ 5303.2. Election to convert school service to State service.

(a) **Eligibility.**—*An active member or inactive member on leave without pay who was an employee transferred from the Department of Education to the Department of Corrections pursuant to section 908-B of the act of April 9, 1929 (P.L.177, No.175), known as The Administrative Code of 1929, and who on the effective date of that transfer did not participate in an independent retirement program approved by the Department of Education under 24 Pa.C.S. § 8301(a)(1) (relating to mandatory and optional membership) or section 5301(a)(12) (relating to mandatory and optional membership), notwithstanding any other provision of law or any collective bargaining agreement, arbitration award, contract or term or conditions of any retirement system or pension plan, may make a one-time election to convert all service credited in the Public School Employees' Retirement System as of June 30, 1999, and transfer to the system all accumulated member contributions and statutory interest credited in the members' savings account in the Public School Employees' Retirement System as of June 30, 1999, plus statutory interest on that amount credited by the Public School Employees' Retirement System from July 1, 1999, to the date of transfer to the system.*

(b) **Time for making election.**—*An election pursuant to subsection (a) must be made by the member filing written notice with the board on or before 90 days after the effective date of this section or before the member terminates State service, whichever occurs first.*

(c) **Effect of election.**—*An election to have credited service and accumulated deductions in the Public School Employees' Retirement System transferred to the system shall become effective when the election is filed with the board. If a member elects to transfer credited service from the Public School Employees' Retirement System to the system, then all school service and nonschool service credited in the Public School Employees' Retirement System on June 30, 1999, shall be converted to State service and nonstate service respectively and credited in the system in accordance with section 5306(d) (relating to classes of service). All accumulated member contributions and statutory interest credited in the members' savings account in the Public School Employees' Retirement System on June 30, 1999, plus statutory interest on that amount credited by the Public School Employees' Retirement System from July 1, 1999, to the date of transfer to the system shall be transferred to the system and*

credited in the members' savings account in the system. School service which would have been service as a corrections officer as defined in section 5102 (relating to definitions) had the employee been a member of the system at the time it was performed shall be credited as corrections officer service. After the effective date of the conversion, the converted service shall not be considered school or nonschool service for any purpose, but shall be considered State and nonstate service for all purposes.

(d) Effect of failure to make election.—Failure to elect to convert school service and nonschool service to State service and nonstate service within the election period set forth in subsection (b) shall result in the credited service in the Public School Employees' Retirement System not being converted. Transferred employees who do not elect to convert school service and nonschool service shall not have the opportunity to make a subsequent conversion election should they later obtain different employment in the Department of Corrections or other State employment eligible for membership in the system.

(e) Transfer.—Within 180 days after the effective date of this subsection, the Public School Employees' Retirement System shall transfer to the board for each member electing to convert under this section the accumulated member contributions and statutory interest credited in the Public School Employees' Retirement System, plus an amount equal to the value of all annual employer contributions made to the Public School Employees' Retirement System with interest at the annual rate adopted by the board for the calculation of the normal contribution rate under section 5508(b) (relating to actuarial cost method), from the date of each contribution to the date of the transfer of the funds to the board. Any debt owed by a member to the Public School Employees' Retirement System for whatever reason shall be transferred to the system and shall be paid in a manner and in accordance with conditions prescribed by the board.

(f) Determination of additional actuarial liability for converted school service.—Notwithstanding any other provision of this part or other law, as part of the first annual valuation made after the effective date of this section, the board shall determine the total additional actuarial accrued liability resulting from the conversion of service under this section. The Department of Corrections shall pay the amount of the additional actuarial accrued liability to the board in one lump sum within 180 days of the board's certification of the amount to the Department of Corrections.

Section 10. Sections 5304 and 5306 of Title 71 are amended by adding subsections to read:

§ 5304. Creditable nonstate service.

* * *

(a.1) Additional eligibility upon transferring nonschool service.—A State employee who converts nonschool service from the Public School Employees' Retirement System to the system pursuant to section 5303.2 (relating to election to convert school service to State service) shall receive one year or fractional part of a year of nonstate service credit for each year or fractional part of a year, as the case may be, of nonschool service credited in the Public School Employees' Retirement System, provided, however, that no more than one year of State and nonstate service of all classes will be credited for any one calendar year. Converted nonschool service shall be credited as Class A as set forth in section 5306(d) (relating to classes of service).

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§ 5306. Classes of service.

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(d) Class of service for converted school service and nonschool service.—If a member elects to convert credited service from the Public School Employees' Retirement System to the system pursuant to section 5303.2 (relating to election to convert school service to State service), then Class T-C school service and all nonschool service credited in the Public School Employees' Retirement System shall be converted to credited service in the system and credited as Class A State service or nonstate service respectively, and Class T-D school service credited in the Public School Employees' Retirement System shall be converted to credited service in the system and credited as Class AA State service.

Section 11. Section 5508 of Title 71 is amended to read:

§ 5508. Actuarial cost method.

(a) Employer contribution rate on behalf of active members.—The amount of the Commonwealth and other employer contributions on behalf of all active members shall be computed by the actuary as a percentage of the total compensation of all active members during the period for which the amount is determined and shall be so certified by the board. The total employer contribution rate on behalf of all active members shall consist of the employer normal contribution rate, as defined in subsection (b), and the accrued liability contribution rate as defined in subsection (c). The total employer contribution rate shall be modified by the experience adjustment factor as calculated in subsection (f) but in no case shall it be less than zero. Beginning July 1, 2004, the total employer contribution rate shall be modified by the experience adjustment factor as calculated in subsection (f), but in no case shall it be less than 1%.

(b) Employer normal contribution rate.—The employer normal contribution rate shall be determined after each actuarial valuation on the basis of an annual interest rate and such mortality and other tables as shall be adopted by the board in accordance with generally accepted actuarial principles. The employer normal contribution rate shall be determined as a level percentage of the compensation of the average new active member,

which percentage, if contributed on the basis of his prospective compensation through his entire period of active State service, would be sufficient to fund the liability for any prospective benefit payable to him, except for the supplemental benefits provided for in sections 5708 (relating to supplemental annuities), 5708.1 (relating to additional supplemental annuities), 5708.2 (relating to further additional supplemental annuities), 5708.3 (relating to supplemental annuities commencing 1994), 5708.4 (relating to special supplemental postretirement adjustment) [and], 5708.5 (relating to supplemental annuities commencing 1998), *5708.6 (relating to supplemental annuities commencing 2002)*, *5708.7 (relating to supplemental annuities commencing 2003)* and *5708.8 (relating to special supplemental postretirement adjustment of 2002)*, in excess of that portion funded by his prospective member contributions.

(c) **Accrued liability contribution rate.**—For the fiscal year beginning July 1, 2002, the accrued liability contribution rate shall be computed as the rate of total compensation of all active members which shall be certified by the actuary as sufficient to fund over a period of ten years from July 1, 2002, the present value of the liabilities for all prospective benefits, except for the supplemental benefits as provided in sections 5708, 5708.1, 5708.2, 5708.3, 5708.4 [and], 5708.5, *5708.6, 5708.7 and 5708.8*, in excess of the total assets in the fund (calculated recognizing all investment gains and losses over a five-year period), excluding the balance in the supplemental annuity account, and the present value of employer normal contributions and of member contributions payable with respect to all active members on [**July 1, 2002**] *December 31, 2001*, and excluding contributions to be transferred by county retirement systems or pension plans pursuant to section 5507(c) (relating to contributions by the Commonwealth and other employers). The amount of each annual accrued liability contribution shall be equal to the amount of such contribution for the fiscal year beginning July 1, 2002, except that, if the accrued liability is increased by legislation enacted subsequent to June 30, 2002, such additional liability shall be funded over a period of ten years from the first day of July, coincident with or next following the effective date of the increase. The amount of each annual accrued liability contribution for such additional legislative liabilities shall be equal to the amount of such contribution for the first annual payment.

(d) **Special provisions on calculating contributions.**—In calculating the contributions required by subsections (a), (b) and (c), the active members of Class C shall be considered to be members of Class A. In addition, the actuary shall determine the Commonwealth or other employer contributions required for active members of Class C and officers of the Pennsylvania State Police and enforcement officers and investigators of the Pennsylvania Liquor Control Board who are members of Class A to finance their benefits in excess of those to which other members of Class A are entitled. Such additional contributions shall be determined separately for officers and employees of the Pennsylvania State Police and for enforcement officers and

investigators of the Pennsylvania Liquor Control Board. Such contributions payable on behalf of officers and employees of the Pennsylvania State Police shall include the amounts received by the system under the provisions of the act of May 12, 1943 (P.L.259, No.120), referred to as the Foreign Casualty Insurance Premium Tax Allocation Law, and on behalf of enforcement officers or investigators of the Pennsylvania Liquor Control Board, the amounts received by the system under the provisions of the act of April 12, 1951 (P.L.90, No.21), known as the Liquor Code.

(e) Supplemental annuity contribution rate.—Contributions from the Commonwealth required to provide for the payment of supplemental annuities as provided in sections 5708, 5708.1, 5708.2, 5708.3, 5708.4 and 5708.5 shall be paid over a period of ten years from July 1, 2002. *The funding for the supplemental annuities commencing 2002 provided for in section 5708.6 shall be as provided in section 5708.6(f). The funding for the supplemental annuities commencing 2003 provided for in section 5708.7 shall be as provided in section 5708.7(f). The funding for the special supplemental postretirement adjustment of 2002 under section 5708.8 shall be as provided in section 5708.8(g).* The amount of each annual supplemental annuities contribution shall be equal to the amount of such contribution for the fiscal year beginning July 1, 2002. In the event that supplemental annuities are increased by legislation enacted subsequent to June 30, 2002, the additional liability for the increase in benefits shall be funded in equal dollar annual installments over a period of ten years from the July first, coincident with or next following the effective date of such legislation.

(f) Experience adjustment factor.—For each year after the establishment of the accrued liability contribution rate for the fiscal year beginning July 1, 2002, any increase or decrease in the [accrued] *unfunded* liability, including liability for supplemental annuities, due to actual experience differing from assumed experience, changes in actuarial assumptions, changes in the terms and conditions of the benefits provided by the system by judicial, administrative or other processes other than legislation, including, but not limited to, reinterpretation of the provisions of this part, shall be amortized in equal dollar annual installments over a period of ten years beginning with the July 1 succeeding the actuarial valuation.

(g) Determination of liability for special vestee.—Notwithstanding any other provision of this part or other law, the total additional accrued actuarial liability resulting from eligibility of special vestees for benefits upon the attainment of superannuation age shall be determined by the actuary as part of the first annual valuation made after June 30, 1997. The resulting additional accrued actuarial liability shall be paid by The Pennsylvania State University to the board in one lump sum payment within 90 days of the board's certification of the amount to The Pennsylvania State University.

Section 12. Title 71 is amended by adding a section to read:

§ 5701.1. Transfer of accumulated deductions.

When an employee of the Juvenile Court Judges' Commission elects membership in an independent retirement program pursuant to section 5301(f) (relating to mandatory and optional membership), the board shall transfer directly to the trustee or administrator of the independent retirement program all accumulated deductions resulting from service credited while an employee of the Juvenile Court Judges' Commission.

Section 13. Sections 5704(c) and (f) and 5706(a.2) of Title 71 are amended to read:

§ 5704. Disability annuities.

* * *

(c) Reduction on account of earned income.—Subsequent to January 1, 1972, payments on account of disability shall be reduced by that amount by which the earned income of the annuitant, as reported in accordance with section 5908(b) (relating to rights and duties of annuitants), for the preceding calendar [quarter] year together with the disability annuity payments provided in this section other than subsection (b), for the [quarter] year, exceeds the product of:

- (i) [the greater of \$1,250 or one-quarter of] the last year's salary of the annuitant as a State employee; *and*
- (ii) the ratio of the current monthly payment to the monthly payment at the effective date of disability; [and
- (iii) the percentage factor determined by the following table for the calendar year of the member's effective date of disability:

Calendar Year of Effective Date of Disability	Percentage Factor
1966 or earlier	135%
1967	130%
1968	125%
1969	120%
1970	115%
1971	110%
1972	105%]

Provided, That the annuitant shall not receive less than his member's annuity or the amount to which he may be entitled under section 5702 whichever is greater.

* * *

(f) Supplement for service connected disability.—If a member has been found to be eligible for a disability annuity and if the disability has been found to be a service connected disability *and if the member is receiving workers' compensation payments for other than medical benefits*, such member shall receive a supplement equal to 70% of his final average salary

less the sum of the annuity as determined under subsection (a) and any payments paid or payable on account of such disability under the act of June 2, 1915 (P.L.736, No.338), known as the Workers' Compensation Act, the act of June 21, 1939 (P.L.566, No.284), known as The Pennsylvania Occupational Disease Act, and the Social Security Act (49 Stat. 620, 42 U.S.C. § 301 et seq.). Such supplement shall continue as long as he is determined to be disabled *and is receiving workers' compensation payments for other than medical benefits* on account of his service connected disability in accordance with the Workers' Compensation Act or The Pennsylvania Occupational Disease Act. *If the member has received a lump sum workers' compensation payment in lieu of future weekly compensation payments, the length in weeks and calculation of the service connected disability supplement shall be determined by dividing the lump sum payment by the average weekly wage as determined by the Workers' Compensation Board.*

* * *

§ 5706. Termination of annuities.

* * *

(a.2) Return of benefits.—In the event an annuitant whose annuity ceases pursuant to this section receives any annuity payment, including a lump sum payment pursuant to section 5705 (relating to member's options) on or after the date of his return to State service or entering school service, the annuitant shall return to the board the amount so received plus statutory interest. The amount payable shall be certified in each case by the board in accordance with methods approved by the actuary and shall be paid in a lump sum within 30 days or in the case of an active member or school employee who is an active member of the Public School Employees' Retirement System may be amortized with statutory interest through salary deductions in amounts agreed upon by the member and the board. *The salary deduction amortization plans agreed to by the member and the board may include a deferral of payment amounts and statutory interest until the termination of school service or State service as the board in its sole discretion decides to allow. The board may limit salary deduction amortization plans to such terms as the board in its sole discretion determines.* In the case of a school employee who is an active member of the Public School Employees' Retirement System, the agreed upon salary deductions shall be remitted to the Public School Employees' Retirement Board, which shall certify and transfer to the board the amounts paid.

* * *

Section 14. Title 71 is amended by adding sections to read:

§ 5708.6. *Supplemental annuities commencing 2002.*

(a) *Benefits.—Commencing with the first monthly annuity payment after July 1, 2002, any eligible benefit recipient shall be entitled to receive an additional monthly supplemental annuity from the system. This shall be in addition to the supplemental annuities provided for in sections 5708*

(relating to supplemental annuities), 5708.1 (relating to additional supplemental annuities), 5708.2 (relating to further additional supplemental annuities), 5708.3 (relating to supplemental annuities commencing 1994), 5708.5 (relating to supplemental annuities commencing 1998) and the special supplemental postretirement adjustment provided for in section 5708.4 (relating to special supplemental postretirement adjustment).

(b) **Amount of supplemental annuity.**—The amount of the supplemental annuity payable pursuant to this section shall be a percentage of the amount of the monthly annuity payment on July 1, 2002, determined on the basis of the most recent effective date of retirement, as follows:

Most recent effective date of retirement	Percentage factor
July 2, 1988, through July 1, 1990	8.0%
July 2, 1983, through July 1, 1988	10.0%
July 2, 1980, through July 1, 1983	15.0%
Prior to July 2, 1980	25.0%

(c) **Payment.**—The supplemental annuity provided under this section shall be paid automatically unless the annuitant files a written notice with the board requesting that the additional monthly supplemental annuity not be paid.

(d) **Conditions.**—The supplemental annuity provided under this section shall be payable under the same terms and conditions as provided under the option plan in effect as of July 1, 2002.

(e) **Benefits to beneficiaries or survivors.**—No supplemental annuity provided under this section shall be payable to the beneficiary or survivor annuitant of a member who dies before July 1, 2002.

(f) **Funding.**—The additional liability for the increase in benefits provided in this section shall be funded in equal dollar annual installments over a period of ten years beginning July 1, 2003.

(g) **Eligible benefit recipient.**—As used in this section, the term “eligible benefit recipient” means a person who is receiving a superannuation, withdrawal or disability annuity on July 1, 2002, and whose most recent effective date of retirement is prior to July 2, 1990, but the supplemental annuities provided under this section shall not be payable to an annuitant receiving a superannuation or withdrawal annuity prior to the first day of July coincident with or following the annuitant’s attainment of superannuation age.

§ 5708.7. **Supplemental annuities commencing 2003.**

(a) **Benefits.**—Commencing with the first monthly annuity payment after July 1, 2003, any eligible benefit recipient shall be entitled to receive an additional monthly supplemental annuity from the system. This shall be in addition to the supplemental annuities provided for in sections 5708 (relating to supplemental annuities), 5708.1 (relating to additional

supplemental annuities), 5708.2 (relating to further additional supplemental annuities), 5708.3 (relating to supplemental annuities commencing 1994) and section 5708.5 (relating to supplemental annuities commencing 1998) and the special supplemental postretirement adjustments provided for in sections 5708.4 (relating to special supplemental postretirement adjustment) and 5708.8 (relating to special supplemental postretirement adjustment of 2002).

(b) *Amount of supplemental annuity.*—The amount of the supplemental annuity payable pursuant to this section shall be a percentage of the amount of the monthly annuity payment on July 1, 2003, determined on the basis of the most recent effective date of retirement, as follows:

<i>Most recent effective date of retirement</i>	<i>Percentage factor</i>
<i>July 2, 2001, through July 1, 2002</i>	<i>2.27%</i>
<i>July 2, 2000, through July 1, 2001</i>	<i>3.08%</i>
<i>July 2, 1999, through July 1, 2000</i>	<i>4.87%</i>
<i>July 2, 1998, through July 1, 1999</i>	<i>6.35%</i>
<i>July 2, 1994, through July 1, 1998</i>	<i>7.50%</i>
<i>July 2, 1990, through July 1, 1994</i>	<i>9.00%</i>
<i>Prior to July 2, 1990</i>	<i>0.00%</i>

(c) *Payment.*—The supplemental annuity provided under this section shall be paid automatically unless the annuitant files a written notice with the board requesting that the additional monthly supplemental annuity not be paid.

(d) *Conditions.*—The supplemental annuity provided under this section shall be payable under the same terms and conditions as provided under the option plan in effect as of July 1, 2003.

(e) *Benefits to beneficiaries or survivors.*—No supplemental annuity provided under this section shall be payable to the beneficiary or survivor annuitant of a member who dies before July 1, 2003.

(f) *Funding.*—The additional liability for the increase in benefits provided in this section shall be funded in equal dollar annual installments over a period of ten years beginning July 1, 2004.

(g) *Eligible benefit recipient.*—As used in this section, the term “eligible benefit recipient” means a person:

- (1) who is receiving a superannuation, withdrawal or disability annuity on July 1, 2003;
- (2) whose most recent effective date of retirement is prior to January 1, 2002; and
- (3) whose credited service does not include any service credited as either Class AA, Class D-4 or Class T-D service.

Notwithstanding the above, the supplemental annuities provided under this section shall not be payable to an annuitant receiving a superannuation or withdrawal annuity prior to the first day of July

coincident with or following the annuitant's attainment of superannuation age.

§ 5708.8. Special supplemental postretirement adjustment of 2002.

(a) Benefits.—Commencing with the first monthly annuity payment after June 30, 2002, any eligible benefit recipient shall be entitled to receive a special supplemental postretirement adjustment in the form of an adjustment to the monthly annuity payable from the system. This shall be in addition to the supplemental annuities provided for in sections 5708 (relating to supplemental annuities), 5708.1 (relating to additional supplemental annuities), 5708.2 (relating to further additional supplemental annuities), 5708.3 (relating to supplemental annuities commencing 1994), 5708.5 (relating to supplemental annuities commencing 1998), 5708.7 (relating to supplemental annuities commencing 2003) and the special supplemental postretirement adjustment provided for in section 5708.4 (relating to special supplemental postretirement adjustment).

(b) Calculation of adjustment.—The monthly amount of the special supplemental postretirement adjustment under this section shall be equal to one-twelfth of the difference between the sum of the maximum single life annuity, or, if a disability annuitant, the disability annuity, the member was eligible to receive on the effective date of retirement plus any annuity the member was eligible to receive pursuant to 24 Pa.C.S. Pt. IV (relating to retirement for school employees) on the effective date of retirement, compared to the maximum single life annuity, or disability annuity if applicable, that the member would have been eligible to receive had section 5303.2 (relating to election to convert school service to State service) been in effect on the annuitant's effective date of retirement. This difference is to be adjusted by and paid according to any applicable option factors for payment under an optional payment plan.

(c) Payment.—The special supplemental postretirement adjustment provided under this section shall be paid automatically unless the annuitant files a written notice with the board requesting that the additional monthly supplemental postretirement adjustment not be paid.

(d) Conditions.—The special supplemental postretirement adjustment provided under this section shall be payable under the same terms and conditions as provided under the option plan in effect as of July 1, 2002.

(e) Benefits paid to beneficiaries or survivors.—No special supplemental postretirement adjustment provided under this section shall be payable to the beneficiary or survivor annuitant of a member who dies before the effective date of this section.

(f) Future supplemental annuities.—The special supplemental postretirement adjustment under this section shall be included in the total annuity in determining all supplemental annuities enacted after the effective date of this section.

(g) Funding.—*The additional liability for the increase in benefits provided in this section shall be funded in equal dollar annual installments over a period of ten years beginning July 1, 2003.*

(h) Eligible benefit recipient.—*As used in this section, the term “eligible benefit recipient” means a person who is receiving a superannuation, withdrawal or disability annuity on the effective date of this section and who:*

(1) terminated State service on or after July 1, 1999; and

(2) if immediately prior to termination was a State employee, would have qualified to convert credited service and transfer accumulated deductions from the Public School Employees’ Retirement System to the system pursuant to section 5303.2.

The term also includes a member who is a vestee on the effective date of this section but who, if an annuitant, would qualify for the special supplemental postretirement adjustment under this section. In the case of a vestee, the special supplemental postretirement adjustment under this section shall be effective upon and calculated as of the effective date of retirement.

Section 15. Section 5709(b) of Title 71 is amended to read:
§ 5709. Payment of benefits.

* * *

(b) Death benefits.—*If the amount of a death benefit payable to a beneficiary under section 5707 (relating to death benefits) or under the provisions of Option 1 of section 5705(a)(1) (relating to member’s options) is [~~\$5,000~~] \$10,000 or more, such beneficiary may elect to receive payment according to one of the following options:*

(1) a lump sum payment;

(2) an annuity actuarially equivalent to the amount payable; or

(3) a lump sum payment and an annuity such that the annuity is actuarially equivalent to the amount payable less the lump sum payment specified by the beneficiary.

* * *

Section 16. Sections 5903 and 5904 of Title 71 are amended by adding subsections to read:

§ 5903. Duties of the board to advise and report to heads of departments and members.

* * *

(f) Former school employees.—*Upon receipt of an election by a former employee of the Department of Education transferred to the Department of Corrections pursuant to section 908-B of the act of April 9, 1929 (P.L.177, No.175), known as The Administrative Code of 1929, to convert school service to State service, the board shall certify to the member the amount of service so converted and the class at which such service is credited.*

§ 5904. Duties of the board to report to the Public School Employees' Retirement Board.

* * *

(d) Election to convert school service to State service.—Upon receipt of an election by a former employee of the Department of Education to convert school service to State service pursuant to section 5303.2 (relating to election to convert school service to State service), the board shall certify the information necessary for the Public School Employees' Retirement System to transfer the funds and credit required to the board.

Section 17. Sections 5908(b), 5933(a) and (c), 5934 and 5938 of Title 71 are amended to read:

§ 5908. Rights and duties of annuitants.

* * *

(b) Periodic earnings statements by disability annuitants.—It shall be the duty of an annuitant receiving a disability annuity prior to the attainment of superannuation age to furnish a written statement within 30 days of the close of each calendar [quarter] year of all earned income during that [quarter] year and information showing whether or not he is able to engage in a gainful occupation and such other information as may be required by the board. On failure, neglect, or refusal to furnish such information for the period of the preceding [quarter] year, the board may refuse to make further payments due to disability to such annuitant until he has furnished such information to the satisfaction of the board. Should such refusal continue for six months, all of his rights to the disability annuity payments in excess of any annuity to which he is otherwise entitled shall be forfeited from the date of his last written statement to the board. Any moneys received in excess of those to which he was entitled shall be deducted from the present value of the annuity to which he is otherwise entitled.

* * *

§ 5933. Members' savings account.

(a) Credits to account.—The members' savings account shall be the ledger account to which shall be credited the amounts of the pickup contributions made by the Commonwealth or other employer and contributions or lump sum payments made by active members in accordance with the provisions of sections 5501 (relating to regular member contributions for current service), 5502 (relating to social security integration member contributions), 5503 (relating to joint coverage member contributions), 5504 (relating to member contributions for the purchase of credit for previous State service or to become a full coverage member), 5505.1 (relating to additional member contributions) and 5505 (relating to contributions for the purchase of credit for creditable nonstate service) and transferred from the members' savings account of the Public School Employees' Retirement System in accordance with the provisions of

section 5303.2 (relating to election to convert school service to State service).

* * *

(c) Charges to account.—Upon the election of a member to withdraw his total accumulated deductions *or upon the transfer of accumulated deductions pursuant to section 5701.1 (relating to transfer of accumulated deductions)*, the payment of such amount shall be charged to the members' savings account.

§ 5934. State accumulation account.

The State accumulation account shall be the ledger account to which shall be credited all contributions of the Commonwealth or other employers whose employees are members of the system and made in accordance with the provisions of section 5507(a) (relating to contributions by the Commonwealth and other employers) except that the amounts received under the provisions of the act of May 12, 1943 (P.L.259, No.120), and the amounts received under the provisions of the Liquor Code, act of April 12, 1951 (P.L.90, No.21), shall be credited to the State Police benefit account or the enforcement officers' benefit account as the case may be. All amounts transferred to the fund by county retirement systems or pension plans in accordance with the provisions of section 5507(c) also shall be credited to the State accumulation account. *All amounts transferred to the fund by the Public School Employees' Retirement System in accordance with section 5303.2(e) (relating to election to convert school service to State service), except amounts credited to the members' savings account, and all amounts paid by the Department of Corrections in accordance with section 5303.2(f) also shall be credited to the State accumulation account.* The State accumulation account shall be credited with valuation interest. The reserves necessary for the payment of annuities and death benefits as approved by the board and as provided in Chapter 57 (relating to benefits) shall be transferred from the State accumulation account to the annuity reserve account provided for in section 5935 (relating to annuity reserve account), except that the reserves necessary on account of a member who is an officer of the Pennsylvania State Police or an enforcement officer shall be transferred from the State accumulation account to the State Police benefit account provided for in section 5936 (relating to State Police benefit account) or to the enforcement officers' benefit account as provided for in section 5937 (relating to enforcement officers' benefit account) as the case may be.

§ 5938. Supplemental annuity account.

The supplemental annuity account shall be the ledger account to which shall be credited all contributions from the Commonwealth in accordance with section 5507(b) (relating to contributions by the Commonwealth and other employers) for the payment of the supplemental annuities provided in sections 5708 (relating to supplemental annuities), 5708.1 (relating to additional supplemental annuities), 5708.2 (relating to further additional

supplemental annuities), 5708.3 (relating to supplemental annuities commencing 1994), 5708.4 (relating to special supplemental postretirement adjustment) [and], 5708.5 (relating to supplemental annuities commencing 1998), 5708.6 (relating to supplemental annuities commencing 2002), 5708.7 (relating to supplemental annuities commencing 2003) and 5708.8 (relating to special supplemental postretirement adjustment of 2002). The supplemental annuity account shall be credited with valuation interest. The reserves necessary for the payment of such supplemental annuities shall be transferred from the supplemental annuity account to the annuity reserve account as provided in section 5935 (relating to annuity reserve account).

Section 18. Notwithstanding any other provision of law, the Public School Employees' Retirement Board shall, effective for fiscal year July 1, 2002, recertify to the Secretary of the Budget and the employers, within ten days of the effective date of this section, the contributions, rates, factors and amounts set forth in 24 Pa.C.S. § 8502(k) to reflect the impact of the amendments contained in this act. The board's recertification shall reflect all changes in the contributions, rates and amounts previously certified by the board prior to the effective date of this section for the fiscal year beginning July 1, 2002, required to comply with 24 Pa.C.S. § 8328 caused by the amendments contained in this act, provided that the total contribution rate for the fiscal year beginning July 1, 2002, shall not exceed 1.15%. This recertification shall supersede the prior certification for all purposes.

Section 19. Notwithstanding any other provision of law, for the tax year beginning July 1, 2002, all school entities shall base that portion of their school real estate tax millage rate attributable to funding the employer contribution rate required under 24 Pa.C.S. Pt. IV on the employer contribution rate recertified pursuant to this act. To the extent that a school entity's school real estate tax millage for the tax year beginning July 1, 2002, already includes an increase to fund the previously certified employer contribution rate of 5.64% for the fiscal year beginning July 1, 2002, then the school entity shall reduce its school real estate tax millage to reflect, dollar for dollar, the savings generated by the recertification of the employer contribution rate required by this act, but not more than the actual increase to fund the previously certified employer contribution rate of 5.64% for the fiscal year beginning July 1, 2002.

Section 20. The Public School Employees' Retirement System shall recognize for purposes of calculating the actuarial value of the system's assets, and to the extent not previously recognized, any realized and unrealized gains and losses for fiscal years 1998-1999 and 1999-2000 in calculating the rates for fiscal year 2002-2003 pursuant to 24 Pa.C.S. § 8328. The five-year smoothing method referenced in 24 Pa.C.S. § 8328(c), relating to recognizing the difference between the actual investment return and the actuarially expected investment return, shall

commence with fiscal year 2000-2001 and shall be reflected in calculating the rates for fiscal year 2002-2003.

Section 21. Notwithstanding the definition of "final average salary" contained in 71 Pa.C.S. § 5102, if a member who elects to convert school service to State service pursuant to 71 Pa.C.S. § 5303.2 terminates State service before having been a member of the State Employees' Retirement System for three nonoverlapping periods of four consecutive calendar quarters, the final average salary shall be determined on the basis of the compensation received as a State employee and as a school employee before the transfer to State employment and shall be calculated over any three nonoverlapping periods of four consecutive calendar quarters during which the member was a State employee or a school employee, with the compensation for part-time service being annualized on the basis of the fractional portion of the year for which credit is received.

Section 22. School service and nonschool service that is converted to State service and nonstate service pursuant to 71 Pa.C.S. § 5303.2 shall be canceled in all other retirement systems in which it was previously credited and shall lose all characteristics of school or nonschool service. Benefits and eligibility for benefits in the Public School Employees' Retirement System shall be modified as set forth in this act. The Public School Employees' Retirement Board shall not be obligated to pay benefits pursuant to the Public School Employees' Retirement Code or any other law based upon service converted to State service or nonstate service, except to the extent necessary to fund the benefits provided for under this act. The Public School Employees' Retirement Board shall provide such information regarding its members and former members as requested by the State Employees' Retirement Board for the administration and implementation of this act.

Section 23. Notwithstanding the provisions of 71 Pa.C.S. § 5903(b), the statement for each member prepared by the State Employees' Retirement Board for the period ending December 31, 2002, and any other statements or estimates of benefits prepared by the board pursuant to the State Employees' Retirement Code from the effective date of this section to June 30, 2003, need not reflect the provisions of this act.

Section 24. Notwithstanding the provisions of 71 Pa.C.S. Pt. XXV, the obligation of the State Employees' Retirement Board to make payments within specified time periods of the receipt of applications for benefits or other information shall not apply from the effective date of this section to June 30, 2003.

Section 25. Contributions and other money transferred from the Public School Employees' Retirement System to the State Employees' Retirement System shall retain the same attributes for Federal, State and local tax laws to the extent allowed by law.

Section 26. It is the expressed intention of the General Assembly that this act is to provide credit in the State Employees' Retirement System for service credited in the Public School Employees' Retirement System that

was not transferred to the State Employees' Retirement System or converted to State service or nonstate service by section 913-B of the act of April 9, 1929 (P.L.177, No.175), known as The Administrative Code of 1929. Service converted or transferred pursuant to section 913-B of that act shall not be creditable in the State Employees' Retirement System more than once and shall not be creditable as State service or nonstate service under this act. Service claimed to be creditable in the State Employees' Retirement System by former employees of the Department of Education that were transferred to the Department of Corrections by section 913-B of that act and that has been denied by the State Employees' Retirement System shall be creditable to the extent allowed by this act, as interpreted by the State Employees' Retirement Board, but to the extent claimed and creditable under this act shall result in a waiver of claims for credit under section 913-B of that act.

Section 27. This act shall take effect as follows:

- (1) The amendment of 71 Pa.C.S. §§ 5704(c) and 5908(b) shall take effect January 1, 2003.
- (2) The remainder of this act shall take effect immediately.

APPROVED—The 23rd day of April, A.D. 2002.

MARK S. SCHWEIKER