

No. 2004-81

AN ACT

HB 2467

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," further providing for contents of actuarial valuation report.

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

Section 1. Section 202(b) of the act of December 18, 1984 (P.L.1005, No.205), known as the Municipal Pension Plan Funding Standard and Recovery Act, amended December 19, 1997 (P.L.611, No.61), is 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:

(1) An exhibit of the normal cost of the benefits provided by the benefit plan as of the date of the actuarial valuation, expressed as a percentage of the future covered payroll of the active membership of the pension plan as of the date of the actuarial valuation.

(2) An exhibit of the actuarial accrued liability of the benefit plan as of the date of the actuarial valuation in total which shall be the actuarial present value of all projected benefits provided by the benefit plan reduced by the actuarial present value of future normal costs, and in particular, which shall include the following required actuarial present values for pension plan benefits of related items:

(i) Required actuarial present values on account of active members:

(A) Retirement benefits.

(B) Disability benefits.

(C) Survivor benefits.

(D) Refund liability due to withdrawal from active service or death.

(E) Other benefits, specifying the nature of each type.

This item shall include a footnote indicating the amount of accumulated member contributions without accrued interest.

(ii) Required actuarial present values on account of former members with a deferred, vested or otherwise nonforfeitable right to a retirement benefit.

(iii) Required actuarial present values on account of former members who do not have a deferred, vested or otherwise nonforfeitable right to the retirement benefit and who have not withdrawn any accumulated member contributions.

(iv) Required actuarial present values on account of benefit recipients:

(A) Retirement benefits.

(B) Disability benefits.

(C) Surviving spouse benefits.

(D) Surviving child benefits.

(E) Other benefits, specifying the nature of each type.

(v) Required actuarial present values for other benefits provided by the benefit plan, specifying the nature of each type.

(vi) Actuarial present value of future normal cost.

(3) An exhibit of the unfunded actuarial accrued liability of the pension plan in total, which shall be the actuarial accrued liability of the pension plan calculated pursuant to paragraph (2) less the actuarial value of assets of the pension plan calculated pursuant to subsection (e)(1), and which, in particular, shall include the following:

(i) The remaining balance of the unfunded actuarial accrued liability in existence as of the first actuarial valuation report required by this section occurring next following the date of enactment of this section.

(ii) The remaining balance of each increment of unfunded actuarial accrued liability attributable to modifications in the benefit plan governing the pension plan which were applicable to active members, separately indicating each and designating each by the plan year in which the benefit plan modification was made effective.

(iii) The remaining balance of each increment of unfunded actuarial accrued liability attributable to modifications in the benefit plan governing the pension plan which were applicable to retired members and other benefit recipients, separately indicating each and designating each by the plan year in which the benefit plan modification was made effective.

(iv) The remaining balance of each increment of net unfunded actuarial accrued liability attributable to modifications in the actuarial assumptions used to calculate the actuarial accrued liability of the pension plan separately indicating each and designating each by the plan year in which the actuarial assumption modification was made effective.

(v) The remaining balance of each increment or decrement of net unfunded actuarial accrued liability attributable to net actuarial experience losses or gains, separately indicating each and designating each by the plan year in which the actuarial experience loss or gain was recognized.

(vi) *The remaining balance of each increment of unfunded actuarial accrued liability attributable to the provision of survivor benefits payable under section 5(e)(2) of the act of May 29, 1956 (1955 P.L.1804, No.600), referred to as the Municipal Police Pension Law, separately indicating each and designating each by the plan year in which the actuarial experience loss was recognized.*

The initial determination of the unfunded actuarial accrued liability attributable to a modification in the benefit plan governing the pension plan or to a modification in the actuarial assumptions used to calculate the actuarial accrued liability of the pension plan shall be made by calculating

the unfunded actuarial accrued liability of the pension plan in accordance with the benefit plan provisions and actuarial assumptions which were in effect prior to the modification and by calculating the unfunded actuarial accrued liability of the pension plan in accordance with the modification in the provisions of the benefit plan governing the pension plan or the actuarial assumptions used to calculate the actuarial accrued liability of the pension plan, whichever is applicable, and the remaining benefit plan provisions and actuarial assumptions. The initial determination of the unfunded actuarial accrued liability attributable to an actuarial loss shall be made in conjunction with the analysis of increases or decreases in the unfunded actuarial accrued liability of the pension plan required pursuant to paragraph (6).

(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) (A) 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.

(B) Notwithstanding any other provision of this act or other law, as of the beginning of the plan year occurring in calendar year 2003, the outstanding balance of the increment of unfunded actuarial accrued liability attributable to the net actuarial investment losses incurred in calendar years 2001 and 2002 may, at the sole discretion of the municipality, be amortized with the amortization target date being the end of the plan year occurring 30 years after January 1, 2003. In order for a municipality to extend the applicable amortization period pursuant to this clause, the municipality must file a revised actuarial valuation report reflecting the amortization period extension provided for under this clause with the executive director of the commission no later than September 30, 2004. Any such revised actuarial valuation report may not be filed in lieu of the actuarial valuation report prepared in compliance with clause (A) and required to be filed on or before March 31, 2004, and may be used only for the purposes of recalculating the 2004 minimum municipal obligation of the municipality and calculating the 2005 minimum municipal obligation of the municipality to reflect the amortization period extension. Any such revised actuarial valuation report shall not affect distributions under the General Municipal Pension System State Aid Program under Chapter 4.

(vi) *Increment of unfunded actuarial accrued liability attributable to the provision of survivor benefits payable under section 5(e)(2) of the Municipal Police Pension Law at the end of the plan year occurring 40 years after the calendar year in which the survivor benefits were first payable.*

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)(A), 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. With respect to any plan year beginning after December 31, 1997, if, as of the beginning of the plan year, the ratio of

the actuarial value of assets to the actuarial accrued liability exceeds 0.70 and the governing body of the municipality has passed a resolution to irrevocably commit the municipality to apply the limit on the additional funding costs, as provided herein, in the preparation of the current and all future exhibits under this paragraph, then the sum of the additional funding costs for subparagraphs (i), (ii), (iii), (iv) and (v) above shall not exceed the amount required to amortize the remaining unfunded actuarial accrued liability as of the beginning of the plan year over 10 years in level annual dollar contributions. 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.

(5) An exhibit of the total administrative cost of the pension plan for the plan year occurring immediately prior to the plan year for which the actuarial valuation report is made.

(6) An exhibit containing an analysis of the increase or decrease in the unfunded actuarial accrued liability of the pension plan since the most recent prior actuarial valuation report, including specifically an indication of increases or decreases due to the following:

- (i) Modifications in the benefit plan or plans of the pension plan.
- (ii) Changes in actuarial assumptions.
- (iii) Deviations in the actual experience of the pension plan from the experience expected by virtue of the actuarial assumptions.
- (iv) Presence or absence of payments to amortize the unfunded accrued liability of the pension plan.
- (v) Other reasons.

The analysis shall be based on the best professional judgment of the approved actuary reached after preparing the various applicable actuarial exhibits of the actuarial valuation report. If, in the opinion of the approved actuary, the inclusion of any portion of this information is not appropriate,

that portion of the analysis may be omitted with the provision of adequate explanation or justification of the appropriateness of the omission.

(7) An exhibit summarizing the economic and demographic actuarial assumptions used in the preparation of the actuarial exhibits.

(8) A summary of the principal provisions of the benefit plan of the pension plan upon which the actuarial exhibits are based.

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Section 2. This act shall take effect in 60 days.

APPROVED—The 15th day of July, A.D. 2004.

EDWARD G. RENDELL