

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 503 Session of
2003

INTRODUCED BY HARHART, BAKER, BEBKO-JONES, BELARDI, ARMSTRONG, BELFANTI, BENNINGHOFF, BROWNE, CAPPELLI, COY, CRUZ, DALLY, DeLUCA, DeWEESE, EACHUS, FAIRCHILD, GEIST, GEORGE, GODSHALL, GOODMAN, GRUCELA, HARHAI, HENNESSEY, HERMAN, HESS, HORSEY, HUTCHINSON, JAMES, KIRKLAND, LAUGHLIN, LEH, LEWIS, McILHATTAN, R. MILLER, S. MILLER, MUNDY, PALLONE, PETRARCA, PRESTON, READSHAW, REED, REICHLEY, RUBLEY, SANTONI, SATHER, SAYLOR, SCAVELLO, SCHRODER, SEMMEL, SOLOBAY, STABACK, STERN, R. STEVENSON, T. STEVENSON, E. Z. TAYLOR, THOMAS, TIGUE, TRAVAGLIO, WATSON, WRIGHT, YOUNGBLOOD, YUDICHAK AND ZUG, FEBRUARY 26, 2003

REFERRED TO COMMITTEE ON EDUCATION, FEBRUARY 26, 2003

AN ACT

1 Amending Title 24 (Education) of the Pennsylvania Consolidated
2 Statutes, adding definitions; further providing for actuarial
3 cost method, for the Public School Employees' Retirement
4 Fund, for the State accumulation account and for the annuity
5 reserve account; and establishing the supplemental annuity
6 reserve account.

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

9 Section 1. The definition of "valuation interest" in section
10 8102 of Title 24 of the Pennsylvania Consolidated Statutes is
11 amended and the section is amended by adding definitions to
12 read:

13 § 8102. Definitions.

14 The following words and phrases when used in this part shall
15 have, unless the context clearly indicates otherwise, the

1 meanings given to them in this section:

2 * * *

3 "Set-aside." Amounts credited annually to the supplemental
4 annuity reserve account calculated by multiplying the difference
5 of the fund's time-weighted rate of return for the preceding
6 year minus the board's actuarial interest rate assumption for
7 the preceding year, times the mean amount of the annuity reserve
8 account for the preceding year.

9 * * *

10 "Time-weighted rate of return." The fund's total investment
11 return, expressed as a percentage, including both realized and
12 unrealized gains and losses, based on the actuarial value of
13 assets used for determining annual contribution rates.

14 "Valuation interest." Interest at 5 1/2% per annum,
15 compounded annually and applied to all accounts other than the
16 members' savings account and the supplemental annuity reserve
17 account.

18 * * *

19 Section 2. Sections 8328(c), 8522, 8524 and 8525(a) of Title
20 24 are amended to read:

21 § 8328. Actuarial cost method.

22 * * *

23 (c) Accrued liability contribution rate.--For the fiscal
24 year beginning July 1, 2002, the accrued liability contribution
25 rate shall be computed as the rate of total compensation of all
26 active members which shall be certified by the actuary as
27 sufficient to fund over a period of ten years from July 1, 2002,
28 the present value of the liabilities for all prospective
29 benefits of active members, except for the supplemental benefits
30 provided in sections 8348, 8348.1, 8348.2, 8348.3, 8348.4,

1 8348.5, 8348.6 and 8348.7, in excess of the total assets in the
2 fund (calculated by recognizing the actuarially expected
3 investment return immediately and recognizing the difference
4 between the actual investment return and the actuarially
5 expected investment return over a five-year period), excluding
6 the balance in the annuity reserve account and the balance in
7 the supplemental annuity reserve account, and of the present
8 value of normal contributions and of member contributions
9 payable with respect to all active members on July 1, 2002,
10 during the remainder of their active service. Thereafter, the
11 amount of each annual accrued liability contribution shall be
12 equal to the amount of such contribution for the fiscal year,
13 beginning July 1, 2002, except that, if the accrued liability is
14 increased by legislation enacted subsequent to June 30, 2002,
15 such additional liability shall be funded over a period of ten
16 years from the first day of July, coincident with or next
17 following the effective date of the increase. The amount of each
18 annual accrued liability contribution for such additional
19 legislative liabilities shall be equal to the amount of such
20 contribution for the first annual payment.

21 * * *

22 § 8522. Public School Employees' Retirement Fund.

23 The fund shall consist of all moneys in the several separate
24 funds in the State Treasury set apart to be used under the
25 direction of the board for the benefit of members of the system;
26 and the Treasury Department shall credit to the fund all moneys
27 received from the Department of Revenue arising from the
28 contributions required under the provisions of Chapter 83
29 (relating to membership, contributions and benefits) and all
30 earnings from investments or moneys of said fund. There shall be

1 established and maintained by the board the several ledger
2 accounts specified in sections 8523 (relating to members'
3 savings account), 8524 (relating to State accumulation account),
4 8525 (relating to annuity reserve account), 8525.1 (relating to
5 supplemental annuity reserve account) and 8526 (relating to
6 health insurance account).

7 § 8524. State accumulation account.

8 The State accumulation account shall be the ledger account to
9 which shall be credited all contributions of the Commonwealth
10 and other employers as well as the earnings of the fund, except
11 the premium assistance contributions and earnings thereon in the
12 health insurance account and the supplemental annuity
13 contributions and earnings on the assets in the supplemental
14 annuity reserve account. Valuation interest shall be allowed on
15 the total amount of such account less any earnings of the fund
16 credited during the year. The reserves necessary for the payment
17 of annuities and death benefits as approved by the board and as
18 provided in Chapter 83 (relating to membership, contributions
19 and benefits) shall be transferred from the State accumulation
20 account to the annuity reserve account. At the end of each year
21 the required interest shall be transferred from the State
22 accumulation account to the credit of the members' savings
23 account and the annuity reserve account[.] and beginning June
24 30, 2003, the required amounts representing the set-aside shall
25 be transferred from the State accumulation account to the credit
26 of the supplemental annuity reserve account. In addition, at the
27 end of each year beginning July 1, 2003, the transfer of any
28 amounts from the supplemental annuity reserve account, in
29 accordance with section 8525.1 (relating to supplemental annuity
30 reserve account), shall be credited to the State accumulation

1 account. The administrative expenses of the board shall be
2 charged to the State accumulation account.

3 § 8525. Annuity reserve account.

4 (a) Credits and charges to account.--The annuity reserve
5 account shall be the ledger account to which shall be credited
6 the reserves held for the payment of annuities and death
7 benefits on account of all annuitants and the contributions from
8 the Commonwealth and other employers as determined in accordance
9 with section 8328 (relating to actuarial cost method) for the
10 payment of the supplemental annuities provided in sections 8348
11 (relating to supplemental annuities), 8348.1 (relating to
12 additional supplemental annuities), 8348.2 (relating to further
13 additional supplemental annuities), 8348.3 (relating to
14 supplemental annuities commencing 1994), 8348.4 (relating to
15 special supplemental postretirement adjustment)[,] and 8348.5
16 (relating to supplemental annuities commencing 1998)[, 8348.6
17 (relating to supplemental annuities commencing 2002) and 8348.7
18 (relating to supplemental annuities commencing 2003)]. The
19 annuity reserve account shall be credited with valuation
20 interest. After the transfers provided in sections 8523
21 (relating to members' savings account) and 8524 (relating to
22 State accumulation account), all annuity and death benefit
23 payments, except supplemental annuities provided in sections
24 8348.6 (relating to supplemental annuities commencing 2002) and
25 8348.7 (relating to supplemental annuities commencing 2003),
26 shall be charged to the annuity reserve account and paid from
27 the fund.

28 * * *

29 Section 3. Title 24 is amended by adding a section to read:
30 § 8525.1. Supplemental annuity reserve account.

The supplemental annuity reserve account shall be the ledger account to which shall be credited the annual set-aside amounts and contributions from the Commonwealth and other employers as determined in accordance with sections 8328(d) (relating to actuarial cost method), 8348.6(f) (relating to supplemental annuities commencing 2002) and 8348.7(f) (relating to supplemental annuities commencing 2003). In addition, all earnings derived from investment of the reserves of the supplemental annuity reserve account, determined by using the fund's time-weighted rate of return, shall be credited to this account. In any year in which the fund's time-weighted rate of return is less than the board's actuarial interest rate assumption for the year, the mean amount in the annuity reserve account for the preceding year shall be multiplied by the difference of the board's actuarial rate assumption for the preceding year minus the actual time-weighted rate of return and such amount shall be debited to the supplemental annuity reserve account and credited to the State accumulation account regardless of the resulting balance in the supplemental annuity reserve account. Effective July 1, 2003, payment of the supplemental annuities provided in section 8348.6, effective July 1, 2004, payment of the supplemental annuities provided in section 8348.7, and any additional supplemental annuity enacted subsequent to July 1, 2005, shall be charged to the supplemental annuity reserve account and paid by the fund.

Section 4. This act shall take effect in 60 days.