

MUNICIPAL PENSION PLAN FUNDING STANDARD AND RECOVERY ACT - AMEND
Act of Dec. 19, 1997, P.L. 611, No. 61
Session of 1997
No. 1997-61

CL. 72

HB 21

AN ACT

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)(4) of the act of December 18, 1984
(P.L.1005, No.205), known as the Municipal Pension Plan Funding
Standard and Recovery Act, amended February 14, 1986 (P.L.23,
No.9), 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:

* * *

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

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

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

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

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

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

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

With respect to any applicable pension plan other than a plan which comprises all or part of a moderately distressed or a severely distressed municipal pension system, if the remaining average period between the current average attained age of active members as of the valuation date and the later of their earliest average normal retirement age or their average assumed retirement age is less than the applicable period or periods ending with the amortization target date or dates specified in subparagraph (i), (ii), (iii) or (v), the appropriate amortization target date for the applicable subparagraph determined with reference to the longest applicable remaining average period rounded to the next largest whole number shall be used. **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.

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Section 2. This act shall apply to actuarial exhibits of additional funding costs associated with the amortization of any unfunded actuarial accrued liability prepared for plan years beginning after December 31, 1997.

Section 3. This act shall take effect immediately.

APPROVED--The 19th day of December, A. D. 1997.

THOMAS J. RIDGE