

## THE GENERAL ASSEMBLY OF PENNSYLVANIA

## HOUSE BILL

No. 28

Session of  
2001

INTRODUCED BY LEWIS, NICKOL, ALLEN, ARMSTRONG, BELFANTI,  
CALTAGIRONE, CAPPELLI, CLARK, L. I. COHEN, CRUZ, DALLY,  
FAIRCHILD, FICHTER, FLICK, GEIST, GEORGE, HARHART, HASAY,  
HENNESSEY, LAUGHLIN, MANDERINO, MARSICO, McILHATTAN,  
McNAUGHTON, MICHLOVIC, ORIE, ROSS, SAYLOR, SCHRODER, SEMMEL,  
STEELMAN, STERN, T. STEVENSON, SURRA, E. Z. TAYLOR,  
J. TAYLOR, TULLI, VANCE, WOJNAROSKI, YOUNGBLOOD, WILT,  
HORSEY, WATERS, CIVERA, WASHINGTON AND HERMAN,  
JANUARY 31, 2001

AS AMENDED ON THIRD CONSIDERATION, HOUSE OF REPRESENTATIVES,  
MARCH 12, 2001

## AN ACT

1 Amending Titles 24 (Education) and 71 (State Government) of the  
2 Pennsylvania Consolidated Statutes, further providing for  
3 partial advance funding of future supplemental annuities, FOR <—  
4 TERMINATION OF ANNUITIES and amortization payments for  
5 liabilities arising out of future supplemental annuities.

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

8 Section 1. Section 8328(a) and (d) of Title 24 of the  
9 Pennsylvania Consolidated Statutes are amended and the section  
10 is amended by adding a subsection to read:

11 § 8328. Actuarial cost method.

12 (a) Employer contribution rate on behalf of active  
13 members.--The amount of the total employer contributions on  
14 behalf of all active members shall be computed by the actuary as  
15 a percentage of the total compensation of all active members

1 during the period for which the amount is determined and shall  
2 be so certified by the board. The total contribution rate on  
3 behalf of all active members shall consist of the normal  
4 contribution rate as defined in subsection (b) [and], the  
5 accrued liability contribution rate as defined in subsection (c)  
6 and the supplemental annuity advance funding contribution rate  
7 as defined in subsection (g). The total contribution rate shall  
8 be modified by the experience adjustment factors as calculated  
9 in subsection (e) but in no case shall it be less than zero.

10 \* \* \*

11 (d) Supplemental annuity contribution rate.--Contributions  
12 from the Commonwealth and other employers required to provide  
13 for the payment of the supplemental annuities provided for in  
14 sections 8348, 8348.1 and 8348.2 shall be paid over a period of  
15 20 years from July 1, 1991. The amount of each annual  
16 supplemental annuities contribution shall be 5% greater than the  
17 amount of such contribution for the previous fiscal year. In the  
18 event that supplemental annuities are increased by legislation  
19 enacted subsequent to July 1, 1991, and before January 1, 2001,  
20 the additional liability for the increased benefits shall be  
21 funded in annual installments increasing by 5% each year over a  
22 period of 20 years from the July 1, coincident with or next  
23 following the effective date of such legislation.

24 Notwithstanding the preceding, the funding for the supplemental  
25 annuities commencing 1994 provided for in section 8348.3 shall  
26 be as provided in section 8348.3(f)[.] and the funding for the  
27 supplemental annuities commencing 1998 provided for in section  
28 8348.5 (relating to supplemental annuities commencing 1998)  
29 shall be as provided in section 8348.5(f). Notwithstanding the  
30 preceding, in the event that supplemental annuities are

1 increased by legislation enacted after December 31, 2000, the  
2 additional unfunded actuarial accrued liability to be amortized  
3 shall be calculated under section 8510(d) (relating to partial  
4 advance funding of future supplemental annuities) and funded in  
5 annual level dollar installments over a period of ten years from  
6 the first July 1 occurring 360 or more days after the effective  
7 date of the legislation.

8 \* \* \*

9 (g) Supplemental annuity advance funding contribution  
10 rate.--For the fiscal year beginning July 1, 2001, the total  
11 contribution rate as calculated annually according to this  
12 section shall include as a separate component the rate certified  
13 by the board as necessary to partially advance fund future  
14 supplemental annuities in accordance with section 8510  
15 notwithstanding any other provision of this section.

16 Section 2. ~~Section 8502(k) of Title 24 is~~ SECTIONS 8502(K) <—  
17 AND 8346 OF TITLE 24 ARE amended to read:

18 § 8346. TERMINATION OF ANNUITIES. <—

19 (A) GENERAL RULE.--IF AN ANNUITANT RETURNS TO SCHOOL SERVICE  
20 OR ENTERS STATE SERVICE AND ELECTS MULTIPLE SERVICE MEMBERSHIP,  
21 ANY ANNUITY PAYABLE TO HIM UNDER THIS PART SHALL CEASE AND IN  
22 THE CASE OF AN ANNUITY OTHER THAN A DISABILITY ANNUITY THE  
23 PRESENT VALUE OF SUCH ANNUITY, ADJUSTED FOR FULL COVERAGE IN THE  
24 CASE OF A JOINT COVERAGE MEMBER WHO MAKES THE APPROPRIATE BACK  
25 CONTRIBUTIONS FOR FULL COVERAGE, SHALL BE FROZEN AS OF THE DATE  
26 SUCH ANNUITY CEASES. AN ANNUITANT WHO IS CREDITED WITH AN  
27 ADDITIONAL 10% OF MEMBERSHIP SERVICE AS PROVIDED IN SECTION  
28 8302(B.2) (RELATING TO CREDITED SCHOOL SERVICE) AND WHO RETURNS  
29 TO SCHOOL SERVICE, EXCEPT AS PROVIDED IN SUBSECTION (B), SHALL  
30 FORFEIT SUCH CREDITED SERVICE AND SHALL HAVE HIS FROZEN PRESENT

1 VALUE ADJUSTED AS IF HIS 10% RETIREMENT INCENTIVE HAD NOT BEEN  
2 APPLIED TO HIS ACCOUNT. IN THE EVENT THAT THE COST-OF-LIVING  
3 INCREASE ENACTED DECEMBER 18, 1979, OCCURRED DURING THE PERIOD  
4 OF SUCH STATE OR SCHOOL EMPLOYMENT, THE FROZEN PRESENT VALUE  
5 SHALL BE INCREASED, ON OR AFTER THE MEMBER ATTAINS  
6 SUPERANNUATION AGE, BY THE PERCENT APPLICABLE HAD HE NOT  
7 RETURNED TO SERVICE.

8 (B) RETURN TO SCHOOL SERVICE DURING EMERGENCY.--WHEN, IN THE  
9 JUDGMENT OF THE EMPLOYER, AN EMERGENCY CREATES AN INCREASE IN  
10 THE WORK LOAD SUCH THAT THERE IS SERIOUS IMPAIRMENT OF SERVICE  
11 TO THE PUBLIC OR IN THE EVENT OF A SHORTAGE OF APPROPRIATE  
12 SUBJECT CERTIFIED TEACHERS, AN ANNUITANT MAY BE RETURNED TO  
13 SCHOOL SERVICE FOR A PERIOD NOT TO EXCEED [95] 120 FULL-DAY  
14 SESSIONS IN ANY SCHOOL YEAR WITHOUT LOSS OF HIS ANNUITY. IN  
15 COMPUTING THE NUMBER OF DAYS AN ANNUITANT HAS RETURNED TO SCHOOL  
16 SERVICE, ANY AMOUNT OF TIME LESS THAN ONE-HALF OF A DAY SHALL BE  
17 COUNTED AS ONE-HALF OF A DAY.

18 (C) SUBSEQUENT DISCONTINUANCE OF SERVICE.--UPON SUBSEQUENT  
19 DISCONTINUANCE OF SERVICE, SUCH MEMBER OTHER THAN A FORMER  
20 ANNUITANT WHO HAD THE EFFECT OF HIS FROZEN PRESENT VALUE  
21 ELIMINATED IN ACCORDANCE WITH SUBSECTION (D) OR A FORMER  
22 DISABILITY ANNUITANT SHALL BE ENTITLED TO AN ANNUITY WHICH IS  
23 ACTUARIALLY EQUIVALENT TO THE SUM OF THE PRESENT VALUE AS  
24 DETERMINED UNDER SUBSECTION (A) AND THE PRESENT VALUE OF A  
25 MAXIMUM SINGLE LIFE ANNUITY BASED ON YEARS OF SERVICE CREDITED  
26 SUBSEQUENT TO REENTRY IN THE SYSTEM AND HIS FINAL AVERAGE SALARY  
27 COMPUTED BY REFERENCE TO HIS COMPENSATION DURING HIS ENTIRE  
28 PERIOD OF SCHOOL AND STATE SERVICE.

29 (D) ELIMINATION OF THE EFFECT OF FROZEN PRESENT VALUE.--

30 (1) AN ANNUITANT WHO RETURNS TO SCHOOL SERVICE AND EARNS

1 THREE ELIGIBILITY POINTS BY PERFORMING CREDITED SCHOOL  
2 SERVICE FOLLOWING THE MOST RECENT PERIOD OF RECEIPT OF AN  
3 ANNUITY UNDER THIS PART, OR AN ANNUITANT WHO ENTERS STATE  
4 SERVICE AND:

5 (I) IS A MULTIPLE SERVICE MEMBER; OR

6 (II) WHO ELECTS MULTIPLE SERVICE MEMBERSHIP, AND  
7 EARNS THREE ELIGIBILITY POINTS BY PERFORMING CREDITED STATE  
8 SERVICE OR CREDITED SCHOOL SERVICE FOLLOWING THE MOST RECENT  
9 PERIOD OF RECEIPT OF AN ANNUITY UNDER THIS PART, AND WHO HAD  
10 THE PRESENT VALUE OF HIS ANNUITY FROZEN IN ACCORDANCE WITH  
11 SUBSECTION (A), SHALL QUALIFY TO HAVE THE EFFECT OF THE  
12 FROZEN PRESENT VALUE RESULTING FROM ALL PREVIOUS PERIODS OF  
13 RETIREMENT ELIMINATED, PROVIDED THAT ALL PAYMENTS UNDER  
14 OPTION 4 AND ANNUITY PAYMENTS PAYABLE DURING PREVIOUS PERIODS  
15 OF RETIREMENT PLUS INTEREST AS SET FORTH IN PARAGRAPH (3)  
16 SHALL BE RETURNED TO THE FUND IN THE FORM OF AN ACTUARIAL  
17 ADJUSTMENT TO HIS SUBSEQUENT BENEFITS OR IN SUCH FORM AS THE  
18 BOARD MAY OTHERWISE DIRECT.

19 (2) UPON SUBSEQUENT DISCONTINUANCE OF SERVICE AND THE  
20 FILING OF AN APPLICATION FOR AN ANNUITY, A FORMER ANNUITANT  
21 WHO QUALIFIES TO HAVE THE EFFECT OF A FROZEN PRESENT VALUE  
22 ELIMINATED UNDER THIS SUBSECTION SHALL BE ENTITLED TO RECEIVE  
23 THE HIGHER OF EITHER:

24 (I) AN ANNUITY (PRIOR TO OPTIONAL MODIFICATION)  
25 CALCULATED AS IF THE FREEZING OF THE FORMER ANNUITANT'S  
26 ACCOUNT PURSUANT TO SUBSECTION (A) HAD NOT OCCURRED,  
27 ADJUSTED ACCORDING TO PARAGRAPH (3), PROVIDED THAT A  
28 FORMER ANNUITANT OF THE SYSTEM OR A FORMER ANNUITANT OF  
29 THE STATE EMPLOYEES' RETIREMENT SYSTEM WHO RETIRED UNDER  
30 A PROVISION OF LAW GRANTING ADDITIONAL SERVICE CREDIT IF

1           TERMINATION OF SCHOOL OR STATE SERVICE OR RETIREMENT  
2           OCCURRED DURING A SPECIFIC PERIOD OF TIME SHALL NOT BE  
3           PERMITTED TO RETAIN THE ADDITIONAL SERVICE CREDIT UNDER  
4           THE PRIOR LAW WHEN THE ANNUITY IS COMPUTED FOR HIS MOST  
5           RECENT RETIREMENT; OR

6           (II) AN ANNUITY (PRIOR TO OPTIONAL MODIFICATION)  
7           CALCULATED AS IF THE FORMER ANNUITANT DID NOT QUALIFY TO  
8           HAVE THE EFFECT ON THE FROZEN PRESENT VALUE ELIMINATED,  
9           UNLESS THE FORMER ANNUITANT NOTIFIES THE BOARD IN WRITING BY  
10          THE LATER OF THE DATE THE APPLICATION FOR ANNUITY IS FILED OR  
11          THE EFFECTIVE DATE OF RETIREMENT THAT THE FORMER ANNUITANT  
12          WISHES TO RECEIVE THE LOWER ANNUITY.

13          (3) IN ADDITION TO ANY OTHER ADJUSTMENT TO THE PRESENT  
14          VALUE OF THE MAXIMUM SINGLE LIFE ANNUITY THAT A MEMBER MAY BE  
15          ENTITLED TO RECEIVE THAT OCCURS AS A RESULT OF ANY OTHER  
16          PROVISION OF LAW, THE PRESENT VALUE OF THE MAXIMUM SINGLE  
17          LIFE ANNUITY SHALL BE REDUCED BY ALL AMOUNTS PAID OR PAYABLE  
18          TO HIM DURING ALL PREVIOUS PERIODS OF RETIREMENT PLUS  
19          INTEREST ON THESE AMOUNTS UNTIL THE DATE OF SUBSEQUENT  
20          RETIREMENT. THE INTEREST FOR EACH YEAR SHALL BE CALCULATED  
21          BASED UPON THE ANNUAL INTEREST RATE ADOPTED FOR THAT SCHOOL  
22          YEAR BY THE BOARD FOR THE CALCULATION OF THE NORMAL  
23          CONTRIBUTION RATE PURSUANT TO SECTION 8328(B) (RELATING TO  
24          ACTUARIAL COST METHOD).

25 § 8502. Administrative duties of board.

26          \* \* \*

27          (k) Certification of employer contributions.--The board  
28          shall, each year in addition to the itemized budget required  
29          under section 8330 (relating to appropriations by the  
30          Commonwealth), certify to the employers and the Commonwealth the

1 employer contribution rate expressed as a percentage of members'  
2 payroll necessary for the funding of prospective annuities for  
3 active members and the annuities of annuitants, and certify the  
4 rates and amounts of the normal contributions as determined  
5 pursuant to section 8328(b) (relating to actuarial cost method),  
6 accrued liability contributions as determined pursuant to  
7 section 8328(c), supplemental annuities contribution rate as  
8 determined pursuant to section 8328(d) [and], the experience  
9 adjustment factor as determined pursuant to section 8328(e)  
10 [and], premium assistance contributions as determined pursuant  
11 to section 8328(f) and supplemental annuity advance funding  
12 contribution rate as determined pursuant to section 8328(g),  
13 which shall be paid to the fund and credited to the appropriate  
14 accounts. These certifications shall be regarded as final and  
15 not subject to modification by the Budget Secretary.

16 \* \* \*

17 Section 3. Title 24 is amended by adding a section to read:

18 § 8510. Partial advance funding of future supplemental  
19 annuities.

20 (a) Program for partial advance funding of future  
21 supplemental annuities established.--Beginning with fiscal year  
22 2001-2002, the annual certification of the employers'  
23 contribution rate by the board pursuant to section 8502(k)  
24 (relating to administrative duties of board) shall include a  
25 specified supplemental annuity advance funding contribution rate  
26 as a separate component. The contributions resulting from the  
27 application of the supplemental annuity advance funding  
28 contribution rate to the total compensation of all active  
29 members during each applicable period shall be credited to the  
30 supplemental annuity advance funding account together with the

actual investment earnings thereon. The balance in the supplemental annuity advance funding account shall be transferred to the annuity reserve account on the first July 1 that occurs 360 or more days after the effective date of each instance of future legislation providing supplemental annuities and shall be applied to reduce the unfunded actuarial accrued liability to be amortized as a result of the enacted supplemental annuities.

(b) Initial supplementary annuity advance funding contribution rate.--For the fiscal year 2001-2002, and each fiscal year thereafter until changed by the board as provided in subsection (c), the supplemental annuity advance funding contribution rate established in section 8328(g) (relating to actuarial cost method) shall be 0.3%.

(c) Subsequent supplemental annuity advance funding contribution rate.--In making the annual valuation under section 8502(j) as of the first July 1 that occurs 360 or more days after the effective date of legislation increasing supplemental annuities enacted after December 31, 2000, the actuary shall certify a new supplemental annuity advance funding contribution rate calculated as being sufficient to accumulate an amount equal to 25% of the actuarial accrued liability of the increased supplemental annuities under the legislation over the subsequent five-year period using the established interest and salary assumptions utilized for the conduct of the annual actuarial valuation under section 8502(j). The board shall certify the rate calculated by the actuary as the supplemental annuity advance funding contribution rate pursuant to subsection (a) and section 8502(k).

(d) Calculation of unfunded actuarial accrued liability to



1 be amortized.--The actuary shall calculate the unfunded  
2 actuarial accrued liability for the increased supplemental  
3 annuities under legislation enacted after December 31, 2000, to  
4 be amortized under section 8328(g), as the difference resulting  
5 from subtracting the balance in the supplemental annuity advance  
6 funding account transferable to the annuity reserve account  
7 under section 8526.1(c) (relating to supplemental annuity  
8 advance funding account) from the actuarial accrued liability of  
9 the supplemental annuities being implemented, with the account  
10 balance and actuarial accrued liability both calculated as of  
11 the first July 1 occurring 360 or more days after the effective  
12 date of the legislation.

13       Section 4. Sections 8524 and 8525 of Title 24 are amended to  
14 read:

15       § 8524. State accumulation account.

16       The State accumulation account shall be the ledger account to  
17 which shall be credited all contributions of the Commonwealth  
18 and other employers as well as the earnings of the fund, except  
19 the premium assistance contributions and earnings thereon in the  
20 health insurance account and the supplemental annuity advance  
21 funding contributions and earnings thereon in the supplemental  
22 annuity advance funding account. Valuation interest shall be  
23 allowed on the total amount of such account less any earnings of  
24 the fund credited during the year. The reserves necessary for  
25 the payment of annuities and death benefits as approved by the  
26 board and as provided in Chapter 83 (relating to membership,  
27 contributions and benefits) shall be transferred from the State  
28 accumulation account to the annuity reserve account. At the end  
29 of each year the required interest shall be transferred from the  
30 State accumulation account to the credit of the members' savings

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

4 § 8525. Annuity reserve account.

5 (a) Credits and charges to account.--The annuity reserve  
6 account shall be the ledger account to which shall be credited  
7 the reserves held for the payment of annuities and death  
8 benefits on account of all annuitants and the contributions from  
9 the Commonwealth and other employers as determined in accordance  
10 with section 8328 (relating to actuarial cost method) for the  
11 payment of the supplemental annuities provided in sections 8348  
12 (relating to supplemental annuities), 8348.1 (relating to  
13 additional supplemental annuities) and 8348.2 (relating to  
14 further additional supplemental annuities), 8348.3 (relating to  
15 supplemental annuities commencing 1994), 8348.4 (relating to  
16 special supplemental postretirement adjustment) and 8348.5  
17 (relating to supplemental annuities commencing 1998). The  
18 annuity reserve account shall be credited with valuation  
19 interest. After the transfers provided in sections 8523  
20 (relating to members' savings account) [and], 8524 (relating to  
21 State accumulation account) and 8526.1(c) (relating to  
22 supplemental annuity advance funding account), all annuity and  
23 death benefit payments shall be charged to the annuity reserve  
24 account and paid from the fund.

25 (b) Transfers from account.--Should an annuitant be  
26 subsequently restored to active service, the present value of  
27 his member's annuity at the time of reentry into school service  
28 shall be transferred from the annuity reserve account and placed  
29 to his individual credit in the members' savings account. In  
30 addition, the actuarial reserve for his annuity less the amount

1 transferred to the members' savings account shall be transferred  
2 from the annuity reserve account to the State accumulation  
3 account.

4 Section 5. Title 24 is amended by adding a section to read:

5 § 8526.1. Supplemental annuity advance funding account.

6 (a) Purpose of account.--The supplemental annuity advance  
7 funding account shall be a ledger account to which shall be  
8 credited the reserves held to offset actuarial accrued  
9 liabilities incurred in the provision of future supplemental  
10 annuities.

11 (b) Credits to account.--The supplemental annuity advance  
12 funding account shall be credited with the contributions from  
13 the Commonwealth and other employers as determined in accordance  
14 with section 8510 (relating to partial advance funding of future  
15 supplemental annuities) and contributed in accordance with  
16 section 8328(g) (relating to actuarial cost method). The actual  
17 investment earnings attributable to the balance of the  
18 supplemental annuity advance funding account shall be credited  
19 to the account.

20 (c) Transfers from account.--In the event that supplemental  
21 annuities are provided by legislation enacted after December 31,  
22 2000, the balance in the supplemental annuity advance funding  
23 account shall be transferred to the annuity reserve account on  
24 the first July 1 occurring 360 or more days after the effective  
25 date of the legislation.

26 Section 6. Section 5508(a) and (e) of Title 71 are amended  
27 and the section is amended by adding a subsection to read:

28 § 5508. Actuarial cost method.

29 (a) Employer contribution rate on behalf of active  
30 members.--The amount of the Commonwealth and other employer

1 contributions on behalf of all active members shall be computed  
2 by the actuary as a percentage of the total compensation of all  
3 active members during the period for which the amount is  
4 determined and shall be so certified by the board. The total  
5 employer contribution rate on behalf of all active members shall  
6 consist of the employer normal contribution rate, as defined in  
7 subsection (b), [and] the accrued liability contribution rate as  
8 defined in subsection (c) and the supplemental annuity advance  
9 funding contribution rate as defined in subsection (h). The  
10 total employer contribution rate shall be modified by the  
11 experience adjustment factor as calculated in subsection (f) but  
12 in no case shall it be less than zero.

13 \* \* \*

14 (e) Supplemental annuity contribution rate.--Contributions  
15 from the Commonwealth required to provide for the payment of  
16 supplemental annuities as provided in sections 5708, 5708.1 and  
17 5708.2 shall be paid over a period of 20 years from July 1,  
18 1991. The amount of each annual supplemental annuities  
19 contribution shall be 5% greater than the amount of such  
20 contribution for the previous fiscal year. In the event that  
21 supplemental annuities are increased by legislation enacted  
22 subsequent to July 1, 1991, and before January 1, 2001, the  
23 additional liability for the increase in benefits shall be  
24 funded in annual installments increasing by 5% each year over a  
25 period of 20 years from the July first, coincident with or next  
26 following the effective date of such legislation.

27 Notwithstanding the preceding, the funding for the supplemental  
28 annuities commencing 1994 provided for in section 5708.3 shall  
29 be as provided in section 5708.3(f)[.] and the funding for the  
30 supplemental annuities commencing 1998 provided for in section

1 5708.5 (relating to supplemental annuities commencing 1998)  
2 shall be as provided in section 5708.5(f). Notwithstanding the  
3 preceding, in the event that supplemental annuities are  
4 increased by legislation enacted after December 31, 2000, the  
5 additional unfunded actuarial accrued liability to be amortized  
6 shall be calculated under section 5909(d) (relating to partial  
7 advance funding of future supplemental annuities) and funded in  
8 annual level dollar installments over a period of ten years from  
9 the first July 1 occurring 360 or more days after the effective  
10 date of the legislation.

11 \* \* \*

12 (h) Supplemental annuity advance funding contribution  
13 rate.--For the fiscal year beginning July 1, 2001, the total  
14 contribution rate as calculated annually according to this  
15 section shall include as a separate component the rate certified  
16 by the board as necessary to partially advance fund future  
17 supplemental annuities in accordance with section 5909  
18 notwithstanding any other provision of this section.

19 Section 7. Section 5902(k) of Title 71 is amended to read:  
20 § 5902. Administrative duties of the board.

21 \* \* \*

22 (k) Certification of employer contributions.--The board  
23 shall, each year in addition to the itemized budget required  
24 under section 5509 (relating to appropriations and assessments  
25 by the Commonwealth), certify, as a percentage of the members'  
26 payroll, the employers' contributions as determined pursuant to  
27 section 5508 (relating to actuarial cost method) necessary for  
28 the funding of prospective annuities for active members and the  
29 annuities of annuitants and certify the rates and amounts of the  
30 employers' normal contributions as determined pursuant to

1 section 5508(b), accrued liability contributions as determined  
2 pursuant to section 5508(c), supplemental annuities contribution  
3 rate as determined pursuant to section 5508(e) [and], the  
4 experience adjustment factor as determined pursuant to section  
5 5508(f) and the supplemental annuity advance funding  
6 contribution rate as determined pursuant to section 5508(h),  
7 which shall be paid to the fund and credited to the appropriate  
8 accounts. These certifications shall be regarded as final and  
9 not subject to modification by the Budget Secretary.

10 \* \* \*

11 Section 8. Title 71 is amended by adding a section to read:

12 § 5909. Partial advance funding of future supplemental  
13 annuities.

14 (a) Program for partial advance funding of future  
15 supplemental annuities established.--Beginning with fiscal year  
16 2001-2002, the annual certification of the employers'  
17 contribution rate by the board pursuant to section 5902(k)  
18 (relating to administrative duties of the board) shall include a  
19 specified supplemental annuity advance funding contribution rate  
20 as a separate component. The contributions resulting from the  
21 application of the supplemental annuity advance funding  
22 contribution rate to the total compensation of all active  
23 members during each applicable period shall be credited to the  
24 supplemental annuity advance funding account together with the  
25 actual investment earnings thereon. The balance in the  
26 supplemental annuity advance funding account shall be  
27 transferred to the annuity reserve account on the first July 1  
28 that occurs 360 or more days after the effective date of each  
29 instance of future legislation providing supplemental annuities  
30 and shall be applied to reduce the unfunded actuarial accrued

1 liability to be amortized as a result of the enacted  
2 supplemental annuities.

3 (b) Initial supplementary annuity advance funding  
4 contribution rate.--For the fiscal year 2001-2002, and each  
5 fiscal year thereafter until changed by the board as provided in  
6 subsection (c), the supplemental annuity advance funding  
7 contribution rate established in section 5508(h) (relating to  
8 actuarial cost method) shall be 0.3%.

9 (c) Subsequent supplemental annuity funding contribution  
10 rate.--In making the annual valuation under section 5902(j),  
11 that calculates the amortization contribution to be made under  
12 section 5508(h) as of the first July 1 that occurs 360 or more  
13 days after the effective date of legislation increasing the  
14 supplemental annuities enacted after December 31, 2000, the  
15 actuary shall certify a new supplemental annuity advance funding  
16 contribution rate calculated as sufficient to accumulate an  
17 amount equal to 25% of the actuarial accrued liability of the  
18 increased supplemental annuities over the subsequent five-year  
19 period using the established interest and salary assumptions  
20 utilized for the conduct of the annual actuarial valuation under  
21 section 5902(j). The board shall certify the rate calculated by  
22 the actuary as the supplemental annuity advance funding  
23 contribution rate pursuant to subsection (a) and section  
24 5902(k).

25 (d) Calculation of unfunded actuarial accrued liability to  
26 be amortized.--The actuary shall calculate the unfunded  
27 actuarial accrued liability of the increased supplemental  
28 annuities under legislation enacted after December 31, 2000, to  
29 be amortized under section 5508(h), as the difference resulting  
30 from subtracting the balance in the supplemental annuity advance

1 funding account transferable to the annuity reserve account  
2 under section 5939.1 (relating to supplemental annuity advance  
3 funding account) from the actuarial accrued liability of the  
4 supplemental liabilities being implemented, with the account  
5 balance and the actuarial accrued liability both calculated as  
6 of the first July 1 occurring 360 or more days after the  
7 effective date of the legislation.

8 Section 9. Sections 5934 and 5935(a) of Title 71 are amended  
9 to read:

10 § 5934. State accumulation account.

11 The State accumulation account shall be the ledger account to  
12 which shall be credited all contributions of the Commonwealth or  
13 other employers whose employees are members of the system and  
14 made in accordance with the provisions of section 5507(a)  
15 (relating to contributions by the Commonwealth and other  
16 employers) except that the amounts received under the provisions  
17 of the act of May 12, 1943 (P.L.259, No.120), [and] the amounts  
18 received under the provisions of the Liquor Code, act of April  
19 12, 1951 (P.L.90, No.21), and section 5508(h) (relating to  
20 actuarial cost method) shall be credited to the State Police  
21 benefit account [or], the enforcement officers' benefit account  
22 or the supplemental annuity advance funding account as the case  
23 may be. All amounts transferred to the fund by county retirement  
24 systems or pension plans in accordance with the provisions of  
25 section 5507(c) also shall be credited to the State accumulation  
26 account. The State accumulation account shall be credited with  
27 valuation interest. The reserves necessary for the payment of  
28 annuities and death benefits as approved by the board and as  
29 provided in Chapter 57 (relating to benefits) shall be  
30 transferred from the State accumulation account to the annuity



1 reserve account provided for in section 5935 (relating to  
2 annuity reserve account), except that the reserves necessary on  
3 account of a member who is an officer of the Pennsylvania State  
4 Police or an enforcement officer shall be transferred from the  
5 State accumulation account to the State Police benefit account  
6 provided for in section 5936 (relating to State Police benefit  
7 account) or to the enforcement officers' benefit account as  
8 provided for in section 5937 (relating to enforcement officers'  
9 benefit account) as the case may be.

10 § 5935. Annuity reserve account.

11 (a) Credits and charges to account.--The annuity reserve  
12 account shall be the ledger account to which shall be credited  
13 the reserves held for payment of annuities and death benefits on  
14 account of all annuitants except in the case of members who are  
15 officers of the Pennsylvania State Police or enforcement  
16 officers. The annuity reserve account shall be credited with  
17 valuation interest. After the transfers provided in sections  
18 5933 (relating to members' savings account), 5934 (relating to  
19 State accumulation account) [and], 5938 (relating to  
20 supplemental annuity account) and 5939.1 (relating to  
21 supplemental annuity advance funding account), all annuity and  
22 death benefit payments except those payable to any member who  
23 retires as an officer of the Pennsylvania State Police or an  
24 enforcement officer shall be charged to the annuity reserve  
25 account and paid from the fund.

26 \* \* \*

27 Section 10. Title 71 is amended by adding a section to read:  
28 § 5939.1. Supplemental annuity advance funding account.

29 (a) Purpose of account.--The supplemental annuity advance  
30 funding account shall be a ledger account to which shall be

1 credited the reserves held to offset actuarial accrued  
2 liabilities incurred in the provision of future supplemental  
3 annuities.

4 (b) Credits to account.--The supplemental annuity advance  
5 funding account shall be credited with the contributions from  
6 the Commonwealth and other employers as determined in accordance  
7 with section 5909 (relating to partial advance funding of future  
8 supplemental annuities) and contributed in accordance with  
9 section 5508(h) (relating to actuarial cost method). The actual  
10 investment earnings attributable to the balance of the  
11 supplemental annuity advance funding account shall be credited  
12 to the account.

13 (c) Transfers from account.--In the event that supplemental  
14 annuities are increased by legislation enacted after December  
15 31, 2000, the balance in the supplemental annuity advance  
16 funding account shall be transferred to the annuity reserve  
17 account on the first July 1 occurring 360 or more days after the  
18 effective date of the legislation.

19 Section 11. In the event that supplemental annuities under  
20 the Public School Employees' Retirement Code and the State  
21 Employees' Retirement Code are increased by legislation enacted  
22 after December 31, 2000, the Public Employee Retirement  
23 Commission shall review the prefunding target percentage and  
24 overall operation of the advance funding mechanism and report  
25 its findings and recommendations to the General Assembly and the  
26 Governor no later than one year after the July 1 on which the  
27 new supplemental annuity advance funding contribution rates are  
28 implemented.

29 Section 12. This act applies to fiscal years commencing July  
30 1, 2001, and thereafter.

1       Section 13.   This act shall take effect immediately.