

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 545 Session of
2007

INTRODUCED BY O'NEILL, BUXTON, CALTAGIRONE, CAUSER, CURRY,
FABRIZIO, FAIRCHILD, GIBBONS, GINGRICH, GRUCELA, HESS, JAMES,
KAUFFMAN, M. KELLER, MANN, McILHATTAN, PETRONE, RAMALEY,
READSHAW, REED, SAINATO, SCAVELLO, SCHRODER, SOLOBAY, STERN,
SURRA AND YOUNGBLOOD, MARCH 6, 2007

REFERRED TO COMMITTEE ON FINANCE, MARCH 6, 2007

AN ACT

1 Amending Title 24 (Education) of the Pennsylvania Consolidated
2 Statutes, further providing for definitions and for actuarial
3 cost method; providing for supplemental annuities commencing
4 in 2007; and further providing for management of fund and
5 accounts.

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

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

12 § 8102. Definitions.

13 The following words and phrases when used in this part shall
14 have, unless the context clearly indicates otherwise, the
15 meanings given to them in this section:

16 * * *

17 "Actual interest." Amounts credited annually to the annuity
18 reserve account calculated by multiplying the difference of the

1 fund's time-weighted rate of return for the preceding year minus
2 the board's actuarial interest rate assumption for the preceding
3 year, times the mean amount of the annuity reserve account for
4 the preceding year.

5 * * *

6 "Time-weighted rate of return." The fund's total investment
7 return, including both realized and unrealized gains and losses,
8 based on the actuarial value of assets used for determining
9 annual contribution rates.

10 "Valuation interest." Interest at 5 1/2% per annum,
11 compounded annually and applied to all accounts other than the
12 members' savings account and the annuity reserve account.

13 * * *

14 Section 2. Section 8328 of Title 24 is amended to read:

15 § 8328. Actuarial cost method.

16 (a) Employer contribution rate on behalf of active
17 members.--The amount of the total employer contributions on
18 behalf of all active members shall be computed by the actuary as
19 a percentage of the total compensation of all active members
20 during the period for which the amount is determined and shall
21 be so certified by the board. The total contribution rate on
22 behalf of all active members shall consist of the normal
23 contribution rate as defined in subsection (b), the accrued
24 liability contribution rate as defined in subsection (c) and the
25 supplemental annuity contribution rate as defined in subsection
26 (d). Beginning July 1, 2004, the total contribution rate shall
27 be modified by the experience adjustment factors as calculated
28 in subsection (e) but in no case shall it be less than 4% plus
29 the premium assistance contribution rate.

30 (b) Normal contribution rate.--The normal contribution rate

1 shall be determined after each actuarial valuation. Until all
2 accrued liability contributions have been completed, the normal
3 contribution rate shall be determined, on the basis of an annual
4 interest rate and such mortality and other tables as shall be
5 adopted by the board in accordance with generally accepted
6 actuarial principles, as a level percentage of the compensation
7 of the average new active member, which percentage, if
8 contributed on the basis of his prospective compensation through
9 the entire period of active school service, would be sufficient
10 to fund the liability for any prospective benefit payable to
11 him, in excess of that portion funded by his prospective member
12 contributions, except for the supplemental benefits provided in
13 sections 8348 (relating to supplemental annuities), 8348.1
14 (relating to additional supplemental annuities), 8348.2
15 (relating to further additional supplemental annuities), 8348.3
16 (relating to supplemental annuities commencing 1994), 8348.4
17 (relating to special supplemental postretirement adjustment),
18 8348.5 (relating to supplemental annuities commencing 1998),
19 8348.6 (relating to supplemental annuities commencing 2002)
20 [and], 8348.7 (relating to supplemental annuities commencing
21 2003) and 8348.8 (relating to supplemental annuities commencing
22 2007).

23 (c) Accrued liability contribution rate.--

24 (1) For the fiscal year beginning July 1, 2002, the
25 accrued liability contribution rate shall be computed as the
26 rate of total compensation of all active members which shall
27 be certified by the actuary as sufficient to fund over a
28 period of [ten] 20 years from July 1, 2002, the present value
29 of the liabilities for all prospective benefits of active
30 members, except for the supplemental benefits provided in

1 sections 8348, 8348.1, 8348.2, 8348.3, 8348.4, 8348.5, 8348.6
2 [and], 8348.7 and 8348.8, in excess of the total assets in
3 the fund (calculated by recognizing the actuarially expected
4 investment return immediately and recognizing the difference
5 between the actual investment return and the actuarially
6 expected investment return over a five-year period),
7 excluding the balance in the annuity reserve account, and of
8 the present value of normal contributions and of member
9 contributions payable with respect to all active members on
10 July 1, 2002, during the remainder of their active service.

11 (2) Thereafter, the amount of each annual accrued
12 liability contribution shall be equal to the amount of such
13 contribution for the fiscal year, beginning July 1, 2002,
14 except that, if the accrued liability is increased by
15 legislation enacted subsequent to June 30, 2002, but before
16 July 1, 2003, such additional liability shall be funded over
17 a period of [ten] 20 years from the first day of July,
18 coincident with or next following the effective date of the
19 increase. The amount of each annual accrued liability
20 contribution for such additional legislative liabilities
21 shall be equal to the amount of such contribution for the
22 first annual payment.

23 (3) Notwithstanding any other provision of law,
24 beginning July 1, 2004, the outstanding balance of the
25 increase in accrued liability due to the change in benefits
26 enacted in 2001 and the outstanding balance of the net
27 actuarial loss incurred in fiscal year 2000-2001 shall be
28 amortized in equal dollar annual contributions over a period
29 that ends 30 years after July 1, 2002, and the outstanding
30 balance of the net actuarial loss incurred in fiscal year

1 2001-2002 shall be amortized in equal dollar annual
2 contributions over a period that ends 30 years after July 1,
3 2003. For fiscal years beginning on or after July 1, 2004, if
4 the accrued liability is increased by legislation enacted
5 subsequent to June 30, 2003, such additional liability shall
6 be funded in equal dollar annual contributions over a period
7 of ten years from the first day of July coincident with or
8 next following the effective date of the increase.

9 (d) Supplemental annuity contribution rate.--Contributions
10 from the Commonwealth and other employers required to provide
11 for the payment of the supplemental annuities provided for in
12 sections 8348, 8348.1, 8348.2, 8348.4 and 8348.5 shall be paid
13 over a period of [ten] 20 years from July 1, 2002. The funding
14 for the supplemental annuities commencing 2002 provided for in
15 section 8348.6 shall be as provided in section 8348.6(f). The
16 funding for the supplemental annuities commencing 2003 provided
17 for in section 8348.7 shall be as provided in section 8348.7(f).
18 The amount of each annual supplemental annuities contribution
19 shall be equal to the amount of such contribution for the fiscal
20 year beginning July 1, 2002. [In the event that supplemental
21 annuities are increased by legislation enacted subsequent to
22 June 30, 2002, the additional liability for the increased
23 benefits to be amortized shall be funded in equal dollar annual
24 installments over a period of ten years.] The additional
25 liabilities for supplemental annuities provided in section
26 8348.8 shall be calculated by the actuary as the supplemental
27 annuity contribution attributable to the additional liability
28 for the benefit increase, less the supplemental annuity
29 adjustment factor calculated in subsection (g), but in no case
30 shall it be less than zero. The sums calculated by the actuary

1 shall be funded in equal dollar annual installments over periods
2 of 20 years.

3 (e) Experience adjustment factor.--

4 (1) For each year after the establishment of the accrued
5 liability contribution rate for the fiscal year beginning
6 July 1, 2002, any increase or decrease in the unfunded
7 accrued liability, excluding the gains or losses on the
8 assets of the health insurance account, due to actual
9 experience differing from assumed experience, changes in
10 actuarial assumptions, changes in the terms and conditions of
11 the benefits provided by the system by judicial,
12 administrative or other processes other than legislation,
13 including, but not limited to, reinterpretation of the
14 provisions of this part, shall be amortized in equal dollar
15 annual contributions over a period of ten years beginning
16 with the July 1 second succeeding the actuarial valuation.

17 (2) Notwithstanding the provisions of paragraph (1), for
18 each year after the establishment of the accrued liability
19 contribution rate for the fiscal year beginning July 1, 2003,
20 any increase or decrease in the unfunded accrued liability,
21 excluding the gains or losses on the assets of the health
22 insurance account, due to actual experience differing from
23 assumed experience, changes in actuarial assumptions, changes
24 in the terms and conditions of the benefits provided by the
25 system by judicial, administrative or other processes other
26 than legislation, including, but not limited to,
27 reinterpretation of the provisions of this part, shall be
28 amortized in equal dollar annual contributions over a period
29 of 30 years beginning with the July 1 second succeeding the
30 actuarial valuation determining said increases and decreases.

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

8 (g) Supplemental annuity adjustment factor.--Beginning with
9 the fiscal year ending June 30, 2007, and continuing annually
10 thereafter, any increase or decrease in the accrued liability
11 for annuitant member benefits due to the crediting of actual
12 interest shall be amortized in equal dollar annual installments
13 over a period of 20 years beginning with July 1 next succeeding
14 the actuarial valuation.

15 Section 3. Title 24 is amended by adding a section to read:
16 § 8348.8. Supplemental annuities commencing 2007.

17 (a) Benefits.--Commencing with the first monthly annuity
18 payment after July 1, 2007, and annually thereafter, any
19 eligible benefit recipient shall be entitled to receive further
20 additional monthly supplemental annuities from the system. These
21 shall be in addition to the supplemental annuities provided for
22 in sections 8348 (relating to supplemental annuities), 8348.1
23 (relating to additional supplemental annuities), 8348.2
24 (relating to further additional supplemental annuities), 8348.3
25 (relating to supplemental annuities commencing 1994), 8348.5
26 (relating to supplemental annuities commencing 1998), 8348.6
27 (relating to supplemental annuities commencing 2002) and 8348.7
28 (relating to supplemental annuities commencing 2003).

29 (b) Amounts of supplemental annuities.--Beginning July 1,
30 2007, and annually thereafter, the amounts of the supplemental

annuities payable pursuant to this section shall be calculated by applying the lesser of 3% or the percentage change in the Consumer Price Index for All Urban Consumers (CPI-U) for the Pennsylvania, New Jersey, Delaware and Maryland area, for the most recent 12-month period for which figures have been officially reported by the Bureau of Labor Statistics of the United States Department of Labor, immediately prior to the date the adjustment is due to take effect, to the then-current annuity amount.

(c) Payment.--The additional monthly supplemental annuities provided under this section shall be paid automatically unless the intended recipient files a written notice with the system requesting that the additional monthly supplemental annuities not be paid.

(d) Conditions.--The additional supplemental annuities provided under this section shall be payable under the same terms and conditions as provided under the option plan in effect July 1, 2007.

(e) Benefits paid to beneficiaries or survivors.--No supplemental annuity effective after the death of the member shall be payable to the beneficiary or survivor annuitant of the deceased member.

(f) Funding.--The additional liability for the increase in benefits provided by this section shall be funded in equal dollar annual installments over a period of 20 years beginning July 1, 2008.

(g) Definition.--As used in this section, the term "eligible benefit recipient" means a person who is receiving a superannuation, withdrawal or disability annuity and who commenced receipt of that annuity on or prior to July 1, 2007.

1 Section 4. This act shall take effect immediately.