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THE GENERAL ASSEMBLY OF PENNSYLVANIA

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HOUSE BILL

No. 778 Session of  
2017

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INTRODUCED BY MCGINNIS, METCALFE, BLOOM, COX, CUTLER, DIAMOND,  
IRVIN, KAUFER, KAUFFMAN, KEEFER, F. KELLER, KNOWLES, MILLARD,  
MUSTIO, O'NEILL, ORTITAY, ROTHMAN, SANKEY, SCHEMEL, STAATS,  
TOPPER AND WARD, MARCH 9, 2017

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REFERRED TO COMMITTEE ON STATE GOVERNMENT, MARCH 9, 2017

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AN ACT

1 Amending Titles 24 (Education) and 71 (State Government) of the  
2 Pennsylvania Consolidated Statutes, in retirement for school  
3 employees, further providing for actuarial cost method; and,  
4 in retirement for State employees and officers, further  
5 providing for actuarial cost method.

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

8 Section 1. Section 8328(c)(4), (d)(2), (e) and (g)(2) of  
9 Title 24 of the Pennsylvania Consolidated Statutes are amended  
10 to read:

11 § 8328. Actuarial cost method.

12 \* \* \*

13 (c) Accrued liability contribution rate.--

14 \* \* \*

15 (4) (i) For the fiscal year beginning July 1, 2011, the  
16 accrued liability contribution rate shall be computed as  
17 the rate of total compensation of all active members  
18 which shall be certified by the actuary as sufficient to

1 fund as a level percentage of compensation over a period  
2 of 24 years from July 1, 2011, the present value of the  
3 liabilities for all prospective benefits calculated as of  
4 June 30, 2010, including the supplemental benefits as  
5 provided in sections 8348, 8348.1, 8348.2, 8348.3,  
6 8348.4, 8348.5, 8348.6 and 8348.7, in excess of the  
7 actuarially calculated assets in the fund (calculated  
8 recognizing all realized and unrealized investment gains  
9 and losses each year in level annual installments over a  
10 ten-year period).

11 (ii) The balance of any recognized accrued liability  
12 net of market value of assets as of June 30, 2016, shall  
13 be funded in annual graduated contributions from July 1,  
14 2017, until the balance equals zero. The first annual  
15 payment shall be equal to 7.4% of the balance of the  
16 recognized accrued liability net of market value of  
17 assets as of June 30, 2016. Each subsequent annual  
18 payment shall be equal to the previous annual payment  
19 plus an amount equal to 3.5% of the previous annual  
20 payment. In the event that the remaining balance is less  
21 than the previous annual payment, the final payment shall  
22 be equal to the remaining balance plus an amount equal to  
23 7.25% of the balance.

24 (iii) In the event that the accrued liability is  
25 increased by legislation enacted subsequent to June 30,  
26 2010, and before July 1, 2016, such additional liability  
27 shall be funded as a level percentage of compensation  
28 over a period of ten years from the July 1 second  
29 succeeding the date such legislation is enacted.

30 (iv) In the event that the accrued liability is

1 changed by legislation enacted subsequent to June 30,  
2 2016, such additional liability shall be funded in equal  
3 dollar annual contributions over a period of 20 years  
4 from the July 1 second succeeding the date such  
5 legislation is enacted.

6 (d) Supplemental annuity contribution rate.--

7 \* \* \*

8 (2) (i) For fiscal years beginning July 1, 2011,  
9 contributions from the Commonwealth and other employers  
10 whose employees are members of the system required to  
11 provide for the payment of supplemental annuities as  
12 provided in sections 8348, 8348.1, 8348.2, 8348.3,  
13 8348.4, 8348.5, 8348.6 and 8348.7 shall be paid as part  
14 of the accrued liability contribution rate as provided  
15 for in subsection (c) (4), and there shall not be a  
16 separate supplemental annuity contribution rate  
17 attributable to those supplemental annuities.

18 (ii) In the event that supplemental annuities are  
19 increased by legislation enacted subsequent to June 30,  
20 2010, and before July 1, 2016, the additional liability  
21 for the increase in benefits shall be funded as a level  
22 percentage of compensation over a period of ten years  
23 from the July 1 second succeeding the date such  
24 legislation is enacted.

25 (iii) In the event that supplemental annuities are  
26 increased by legislation enacted subsequent to June 30,  
27 2016, the additional liability for the increase in  
28 benefits shall be funded in equal dollar annual  
29 contributions over a period of 20 years from the July 1  
30 second succeeding the date such legislation is enacted.

1 (e) Experience adjustment factor.--

2 (1) For each year after the establishment of the accrued  
3 liability contribution rate for the fiscal year beginning  
4 July 1, 2011, any increase or decrease in the unfunded  
5 accrued liability, excluding the gains or losses on the  
6 assets of the health insurance account, due to actual  
7 experience differing from assumed experience, changes in  
8 actuarial assumptions, changes in contributions caused by the  
9 final contribution rate being different from the actuarially  
10 required contribution rate, active members making shared-risk  
11 contributions or changes in the terms and conditions of the  
12 benefits provided by the system by judicial, administrative  
13 or other processes other than legislation, including, but not  
14 limited to, reinterpretation of the provisions of this part,  
15 shall be amortized as a level percentage of compensation over  
16 a period of 24 years beginning with the July 1 second  
17 succeeding the actuarial valuation determining said increases  
18 or decreases[.] when the actuarial valuation occurs on or  
19 before June 30, 2015, and in equal dollar annual  
20 contributions over a period of 20 years beginning with the  
21 July 1 second succeeding the actuarial valuation determining  
22 said increases or decreases when the actuarial valuation  
23 occurs after June 30, 2016. When the actuarial valuation  
24 occurs after June 30, 2016, the actuarial value of system  
25 assets used to determine the experience adjustment factor  
26 shall be the market value of assets as of the date of the  
27 actuarial valuation.

28 (2) (Reserved).

29 \* \* \*

30 (g) Temporary application of collared contribution rate.--

1 \* \* \*

2 (2) If, for any of the fiscal years beginning July 1,  
3 2011, July 1, 2012, [and on or after] July 1, 2013, July 1,  
4 2014, July 1, 2015, and July 1, 2016, the actuarially  
5 required contribution rate, calculated without regard for the  
6 costs added by legislation, is more than 3%, 3.5%, 4.5%,  
7 4.5%, 4.5% and 4.5%, respectively, of the total compensation  
8 of all active members greater than the prior year's final  
9 contribution rate, then the collared contribution rate shall  
10 be applied and be equal to the prior year's final  
11 contribution rate increased by 3%, 3.5%, 4.5%, 4.5%, 4.5% and  
12 4.5%, respectively, of total compensation of all active  
13 members. Otherwise, and for all other fiscal years, the  
14 collared contribution rate shall not be applicable. In no  
15 case shall the collared contribution rate be less than 4% of  
16 the total compensation of all active members.

17 \* \* \*

18 Section 2. Section 5508(c)(3), (e)(2), (f)(1) and (h) of  
19 Title 71 are amended to read:  
20 § 5508. Actuarial cost method.

21 \* \* \*

22 (c) Accrued liability contribution rate.--

23 \* \* \*

24 (3) (i) For the fiscal year beginning July 1, 2010, the  
25 accrued liability contribution rate shall be computed as  
26 the rate of total compensation of all active members  
27 which shall be certified by the actuary as sufficient to  
28 fund in equal dollar installments over a period of 30  
29 years from July 1, 2010, the present value of the  
30 liabilities for all prospective benefits calculated as of

1 the immediately prior valuation date, including the  
2 supplemental benefits as provided in sections 5708,  
3 5708.1, 5708.2, 5708.3, 5708.4, 5708.5, 5708.6, 5708.7  
4 and 5708.8, but excluding the benefits payable from the  
5 retirement benefit plan established pursuant to section  
6 5941 (relating to benefits completion plan), in excess of  
7 the actuarially calculated assets in the fund (calculated  
8 recognizing all realized and unrealized investment gains  
9 and losses each year in level annual installments over  
10 five years), including the balance in the supplemental  
11 annuity account, and the present value of employer normal  
12 contributions and of member contributions payable with  
13 respect to all active members, inactive members on leave  
14 without pay, vestees and special vestees on December 31,  
15 2009.

16 (ii) The balance of any recognized accrued liability  
17 net of market value of assets as of December 31, 2016,  
18 shall be funded in annual graduated contributions from  
19 July 1, 2017, until the balance equals zero. The first  
20 annual payment shall be equal to 8.15% of the balance of  
21 the recognized accrued liability net of market value of  
22 assets as of December 31, 2016. Each subsequent annual  
23 payment shall be equal to the previous annual payment  
24 plus an amount equal to 2.50% of the previous annual  
25 payment. In the event that the remaining balance is less  
26 than the previous annual payment, the final payment shall  
27 be equal to the remaining balance plus an amount equal to  
28 7.5% of the balance.

29 (iii) If the accrued liability is changed by  
30 legislation enacted subsequent to December 31, 2009, and

1 before January 1, 2017, such change in liability shall be  
2 funded in equal dollar installments over a period of ten  
3 years from the first day of July following the valuation  
4 date coincident with or next following the date such  
5 legislation is enacted.

6 (iv) If the accrued liability is changed by  
7 legislation enacted subsequent to December 31, 2016, such  
8 change in liability shall be funded in equal dollar  
9 annual contributions over a period of 20 years from the  
10 first day of July following the valuation date coincident  
11 with or next following the date such legislation is  
12 enacted.

13 \* \* \*

14 (e) Supplemental annuity contribution rate.--

15 \* \* \*

16 (2) (i) For fiscal years beginning on or after July 1,  
17 2010, contributions from the Commonwealth and other  
18 employers whose employees are members of the system  
19 required to provide for the payment of supplemental  
20 annuities as provided in sections 5708, 5708.1, 5708.2,  
21 5708.3, 5708.4, 5708.5, 5708.6, 5708.7 and 5708.8 shall  
22 be paid as part of the accrued liability contribution  
23 rate as provided for in subsection (c)(3), and there  
24 shall not be a separate supplemental annuity contribution  
25 rate attributable to those supplemental annuities.

26 (ii) In the event that supplemental annuities are  
27 increased by legislation enacted subsequent to December  
28 31, 2009, and before January 1, 2017, the additional  
29 liability for the increase in benefits shall be funded in  
30 equal dollar installments over a period of ten years from

1 the first day of July following the valuation date  
2 coincident with or next following the date such  
3 legislation is enacted.

4 (iii) In the event that supplemental annuities are  
5 increased by legislation enacted subsequent to December  
6 31, 2016, the additional liability for the increase in  
7 benefits shall be funded in equal dollar annual  
8 contributions over a period of 20 years from the first  
9 day of July following the valuation date coincident with  
10 or next following the date such legislation is enacted.

11 (f) Experience adjustment factor.--

12 (1) (i) For each year after the establishment of  
13 the accrued liability contribution rate and the  
14 supplemental annuity contribution rate for the fiscal  
15 year beginning July 1, 2010, any increase or decrease in  
16 the unfunded accrued liability and any increase or  
17 decrease in the liabilities and funding for supplemental  
18 annuities, due to actual experience differing from  
19 assumed experience (recognizing all realized and  
20 unrealized investment gains and losses over a five-year  
21 period), changes in contributions caused by the final  
22 contribution rate being different from the actuarially  
23 required contribution rate, State employees making  
24 shared-risk member contributions, changes in actuarial  
25 assumptions or changes in the terms and conditions of the  
26 benefits provided by the system by judicial,  
27 administrative or other processes other than legislation,  
28 including, but not limited to, reinterpretation of the  
29 provisions of this part, shall be amortized in equal  
30 dollar annual contributions over a period of 30 years

1 beginning with the July 1 succeeding the actuarial  
2 valuation determining said increases or decreases[.] when  
3 the actuarial valuation occurs on or before December 31,  
4 2015.

5 (ii) For each year after the establishment of the  
6 accrued liability contribution rate and the supplemental  
7 annuity contribution rate for the fiscal year beginning  
8 July 1, 2017, any increase or decrease in the unfunded  
9 accrued liability and any increase or decrease in the  
10 liabilities and funding for supplemental annuities, due  
11 to actual experience differing from assumed experience,  
12 changes in contributions caused by the final contribution  
13 rate being different from the actuarially required  
14 contribution rate, State employees making shared-risk  
15 member contributions, changes in actuarial assumptions or  
16 changes in the terms and conditions of the benefits  
17 provided by the system by judicial, administrative or  
18 other processes other than legislation, including, but  
19 not limited to, reinterpretation of the provisions of  
20 this part, shall be amortized in equal dollar annual  
21 contributions over a period of 20 years beginning with  
22 the July 1 succeeding the actuarial valuation determining  
23 said increases or decreases when the actuarial valuation  
24 occurs after December 31, 2016, and the actuarial value  
25 of system assets used to determine the experience  
26 adjustment factor shall be the market value of assets as  
27 of the date of the actuarial valuation.

28 \* \* \*

29 (h) Temporary application of collared contribution rate.--

30 The collared contribution rate for each year shall be determined

1 by comparing the actuarially required contribution rate  
2 calculated without regard for costs added by legislation to the  
3 prior year's final contribution rate. If, for any of the fiscal  
4 years beginning July 1, 2011, July 1, 2012, [and on or after]  
5 July 1, 2013, July 1, 2014, July 1, 2015, and July 1, 2016, the  
6 actuarially required contribution rate calculated without regard  
7 for costs added by legislation is more than 3%, 3.5%, 4.5%,  
8 4.5%, 4.5% and 4.5%, respectively, of the total compensation of  
9 all active members greater than the prior year's final  
10 contribution rate, then the collared contribution rate shall be  
11 applied and be equal to the prior year's final contribution rate  
12 increased by the respective percentage above of total  
13 compensation of all active members. Otherwise, and for all  
14 subsequent fiscal years, the collared contribution rate shall  
15 not be applicable. In no case shall the collared contribution  
16 rate be less than 4% of total compensation of all active  
17 members.

18 \* \* \*

19 Section 3. The Public School Employees' Retirement Board  
20 shall, notwithstanding any other provision of law, recertify to  
21 the Secretary of the Budget the contributions, rates, factors  
22 and amounts under 24 Pa.C.S. § 8502(k). The board's  
23 recertification shall reflect all changes in the contributions,  
24 rates, factors and amounts previously certified by the board for  
25 the fiscal year beginning July 1, 2017, which are required to  
26 comply with 24 Pa.C.S. § 8328. The recertification shall occur  
27 within 15 days of the effective date of this section and shall  
28 supersede the prior certification.

29 Section 4. The State Employees' Retirement Board shall,  
30 notwithstanding any other provision of law, recertify to the

1 Secretary of the Budget the contributions, rates, factors and  
2 amounts under 71 Pa.C.S. § 5902(k). The board's recertification  
3 shall reflect all changes in the contributions, rates, factors  
4 and amounts previously certified by the board prior to the  
5 effective date of this section for the fiscal year beginning  
6 July 1, 2017, which are required to comply with 71 Pa.C.S. §  
7 5508. The recertification shall occur within 15 days of the  
8 effective date of this section and shall supersede the prior  
9 certification.

10 Section 5. This act shall take effect immediately.