



# HOUSE COMMITTEE ON APPROPRIATIONS

## FISCAL NOTE

HOUSE BILL NO. 546

PRINTERS NO. 580

PRIME SPONSOR: Turzai

### COST / (SAVINGS)

FUND	FY 2012/13	FY 2013/14
General	\$0	\$0
Allegheny County Employees' Retirement System	\$0	See fiscal impact

**SUMMARY:** House Bill 546, printer's number 580, amends the act of July 28, 1953 (P.L. 723, No. 230), known as the Second Class County Code, as amended, to further define compensation, provide for retirement board and tax qualification, and to further provide for employees eligible for retirement allowances and for amount of retirement allowances. The effective date is 60 days after enactment.

**ANALYSIS:** The bill amends the Second Class County Code to: 1) alter the membership composition of the Allegheny County Retirement Board; 2) allow the board to make technical amendments to the Allegheny County Retirement System to ensure the System maintains its tax qualification under the Internal Revenue Code of 1986, and 3) establish a new mandatory benefit tier for Allegheny County employees hired on or after the effective date of the bill.

The bill amends Section 1703 of the Second Class County Code to modify the membership composition of the Allegheny County Retirement Board. The county commissioners are removed from board membership and replaced with the chief executive, one retirement system member to be appointed by the chief executive with consent of the county council, and one retirement system member to be appointed by the county council. The county treasurer and controller shall remain members of the board. In addition, the bill makes the terms of the two board members to be elected by ballot from among the retirement system members consistent at four years. Currently, one elected member serves an initial term of two years while the other serves an initial term of four years.

A new section is added by the bill (proposed as Section 1704.1) to authorize the board to make technical changes to the Allegheny County Retirement System plan as necessary in order to maintain the System's tax exempt qualification under section 401(a) of the Internal Revenue Code of 1986 (Public Law 99-514, 26 U.S.C. § 401(c)).

The bill also makes a number of benefit modifications for Allegheny County employees hired on or after the effective date of the bill. Benefit modifications include the changes listed below.

- Amend the definition of "compensation" in Section 1701 to exclude overtime pay from the retirement benefit calculation.

- Increase the length of service required to receive normal retirement benefits for nonuniformed employees from 20 to 25 years, while maintaining normal retirement age at 60.
- Increase the length of service required to receive normal retirement benefits for public safety employees from 20 to 25 years, while maintaining normal retirement age at 50 for police and firefighters, and at age 55 for the county sheriff, deputy sheriffs, prison guards, and probation officers.
- Increase the length of service required to vest from 8 years to 10 years for all classes of employees.
- Change the methodology for calculating final average salary from the highest 24 months of the last four years of employment to the highest 48 months of the last eight years of employment, or the last four years (rather than the last two years) of employment if compensated on a bi-weekly basis.
- Increase the length of service required to receive service increment benefits from 20 years to 25 years. Currently, the service increment benefit is an additional two percent retirement benefit per year for each completed year of service beyond 20 years, up to a maximum of 20 years. The proposed modification would continue the additional two percent benefit but it would not be provided until after 25 completed years of service.
- Increase the minimum length of service required to be eligible for an early retirement from eight years to ten years. Early retirement benefits are provided to employees who voluntarily retire early but defer receipt of retirement benefits until age 60. Depending on the age of the early retiring member and length of service, the member may receive a retirement benefit that is actuarially reduced by one-half of one percent for each month the employee is under 60.
- Increase the minimum length of service required to provide survivor benefits from eight to ten years.
- Increase the length of service required to provide survivor benefits under disability retirement from 20 to 25 years.

**FISCAL IMPACT:** According to an actuarial note prepared by the Public Employee Retirement Commission, the enactment of the bill will not change the System's current actuarial accrued liability, but will gradually reduce employer normal cost as current Allegheny County employees retire and new employees are hired at the reduced benefit tier. Employer normal costs decline because new hires will receive lower monthly retirement benefits than current system members. The reduction in normal cost will reduce the amount Allegheny County has to pay in employer contributions each year. The following table shows the estimated decreases in future normal costs assuming the Allegheny County Pension System maintains similar levels of current membership of 7,408 active members.

<b>Years after Enactment of HB 546</b>	<b><u>Decrease in Normal Cost</u></b>	<b><u>Decrease in Normal Cost as % of Payroll (based on 1/1/12 payroll)</u></b>
5	\$2,440,000	0.74%
10	\$5,894,000	1.79%
15	\$10,435,000	3.17%
20	\$16,567,000	5.03%

**PREPARED BY:** Lisa Taglang  
House Appropriations Committee (R)

**DATE:** March 12, 2013

*Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.*