

**SENATE APPROPRIATIONS COMMITTEE  
FISCAL NOTE**

**BILL NO.** House Bill 414

**PRINTER NO.** 2545

**AMOUNT**

No Fiscal Impact

**FUND**

General Fund and Local Funds

**DATE INTRODUCED**

February 9, 2015

**PRIME SPONSOR**

Representative Briggs

**DESCRIPTION AND PURPOSE OF BILL**

House Bill 414 amends the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) by exempting municipal pension plans with less than 100 members from procurement requirements of the Act and adds a new chapter providing for pension stabilization and future pension designs.

House Bill 414 amends the definition of “professional services contract” in Section 701-A of the Municipal Pension Plan Funding Standard and Recovery Act (“the Act”) to specify that such contracts apply only to municipal pension systems having 100 or more active members. Professional services contracts are contracts for the purchase of professional services, including investment services, legal services, real estate services and other consulting services and are not subject to a requirement that the lowest bid be accepted. Act 44 of 2009 had added the requirement that all municipal pension systems regardless of their size undergo public procurement processes for professional legal, investment and advisory services.

The legislation provides special procedures for obtaining professional services contracts for municipal pension plans with fewer than 100 active members. Governing bodies of municipal pension plans with less than 100 active employees shall be able to select the most qualified person to administer, manage or service the municipal pension plan without undertaking a formal bidding process so long as the governing bodies announce at two consecutive regularly scheduled public meetings the availability of the contract and post the availability of the contract on the official Internet website of the municipality for a period of no less than two weeks.

House Bill 414 adds Chapter 12, entitled “Special Provisions to Stabilize Municipal Retirement Plans,” to the Act to require the recommendations of the Governor’s Task Force on Municipal Pensions to be implemented by all municipal employers with a uniformed (police officer and firefighter) union pension plan (including the City of Philadelphia). The legislation stipulates that no action by a municipality or collective bargaining agreement nor any arbitration award or settlement between the municipality and its employees may alter any of the provisions of this subchapter nor require the municipality to administer pension benefits not set forth in this chapter.

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Under the Task Force recommendations, all municipal pension plans shall:

- Use an assumed actuarial rate of return not to exceed Pennsylvania Municipal Retirement System (“PMRS”) rate plus one percentage point within 10 years (except current and future PMRS member plans which shall maintain the exact PMRS rate);
- Pay annual minimal municipal obligations in full or forfeit Act 205 funding;
- Limit total compensation so as not to exceed 110% of base salary annually (in other words, a 10% cap on overtime);
- Not use state aid under Act 205 for administrative fees;
- Not authorize Deferred Retirement Option Programs;
- Adopt Governmental Accounting Standards Board accounting standards;
- Publicly disclose data on pension liabilities; and
- Not be permitted to enhance or diminish pension plans by ordinance or through collective bargaining or arbitration.

Municipal employers with a pension plan funded at 90% and higher:

- May maintain current pension plan structure for all employees, current and future;
- May, for future employees, choose either:
  - Cash Balance Defined Benefit (see Subchapter C which includes the same provisions as House Bill 316 requiring municipalities to establish a cash balance pension plan applicable to full-time municipal police and fire personnel), or
  - Defined Contribution Benefit (see Subchapter D which includes the same provisions as Senate Bill 755 requiring municipalities to establish a defined contribution benefit plan for its newly hired municipal police and fire personnel).

Cash Balance Plan: A “cash balance pension plan” is a defined benefit plan wherein a member’s benefit is determined on the basis of the member’s savings account. “Employer crediting rate” is 4.5%. “Interest crediting rate” for any calendar month is one-twelfth of the 30-year yield on U.S. Treasury Securities for the last business day of the preceding calendar year. The minimum interest crediting rate for any calendar months is 0% and the maximum is 0.375%. Interest will continue to accrue until any earned benefits begin to be paid out. “Member contribution rate” is 6% for a member who participates in Social Security and 9% for a member who does not participate in Social Security.

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"Member savings account" is an individual ledger account established and maintained for a member solely for purposes of reflecting the accumulation of his member credits, employer credits and interest credits. "Superannuation age" is the date that a vested member of the cash balance pension plan attains age 55, and has or would have completed 25 years of service.

Defined Contribution Plan: Municipalities would be required to contribute 4.5% of an employee's total compensation, including overtime, up to the limit provided in section 401(a)(17) of the Internal Revenue Code (26 U.S.C. § 401(a)(17)). Employees would vest in municipal contributions to their account according to a schedule, with 100% vesting after 10 years of service. An employee's vested contributions and associated investment returns are portable and may be rolled-over into another retirement plan. Normal retirement age for members of the plan would be 55. Distributions are to commence promptly, at least no later than April 1 of the year following the year of retirement. If a distribution is to commence prior to the member's attainment of normal retirement age, the member must consent in writing to that distribution. An employee may elect to have his vested account balance paid in one of the following forms:

1. Single lump sum;
2. Annuity; or
3. Substantially equal installments occurring at least annually for a specified number of years. If a member fails to request a distribution of his account, the default distribution shall be 50% in a lump sum and 50% in an annuity to ensure an income stream for the employee.

Municipal employers that maintain a pension plan with a funding ratio of more than 50% and less than 90%:

- Shall choose one of two pension plan structures for future employees, either Subchapter C cash balance defined benefit plan, or Subchapter D defined contribution benefit plan for regular, full-time municipal police officers or firefighters hired on or after the effective date of Subchapter B.

Municipal employers that maintain a pension plan with a funding ratio of no more than 50%:

- Shall shift the administration of both current and future plans to the PMRS.
- Future regular, full-time municipal police officers or firefighters hired after the effective date of Subchapter B shall receive PMRS-designed and managed cash balance defined benefit plan.

The act shall take effect in 60 days.

# SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

## **FISCAL IMPACT:**

House Bill 414 will have no adverse impact on Commonwealth funds.

House Bill 414 will be re-reported to the Senate Finance Committee for additional amendments. At that time, the Public Employee Retirement Commission will fulfill its responsibility to review any legislative changes that affect public employee retirement systems in order to determine any actuarial cost impact upon the municipal pension plans affected by the legislation.

Subsequent to the completion of the PERC actuarial analysis, this fiscal note will be updated as necessary.