

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 1518 Session of
2013

INTRODUCED BY O'NEILL, BIZZARRO, B. BOYLE, K. BOYLE, COHEN,
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MARSHALL, MICOZZIE, MILNE, MURT, NEILSON, O'BRIEN, READSHAW,
WHITE AND YOUNGBLOOD, JUNE 12, 2013

REFERRED TO COMMITTEE ON STATE GOVERNMENT, JUNE 12, 2013

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 2014; 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 * * *

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

14 * * *

15 Section 2. Section 8328 of Title 24 is amended to read:
16 § 8328. Actuarial cost method.

17 (a) Employer contribution rate.--The amount of the total
18 employer contributions shall be computed by the actuary as a
19 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 employer contribution
22 rate shall be the sum of the final contribution rate as computed
23 in subsection (h) plus the premium assistance contribution rate
24 as computed in subsection (f). The actuarially required
25 contribution rate shall consist of the normal contribution rate
26 as defined in subsection (b), the accrued liability contribution
27 rate as defined in subsection (c) and the supplemental annuity
28 contribution rate as defined in subsection (d). Beginning July
29 1, 2004, the actuarially required contribution rate shall be
30 modified by the experience adjustment factors as calculated in

1 subsection (e).

2 (b) Normal contribution rate.--The normal contribution rate
3 shall be determined after each actuarial valuation. Until all
4 accrued liability contributions have been completed, the normal
5 contribution rate shall be determined, on the basis of an annual
6 interest rate and such mortality and other tables as shall be
7 adopted by the board in accordance with generally accepted
8 actuarial principles, as a level percentage of the compensation
9 of the average new active member, which percentage, if
10 contributed on the basis of his prospective compensation through
11 the entire period of active school service, would be sufficient
12 to fund the liability for any prospective benefit payable to
13 him, in excess of that portion funded by his prospective member
14 contributions, excluding the shared-risk contributions.

15 (c) Accrued liability contribution rate.--

16 (1) For the fiscal years beginning July 1, 2002, and
17 ending June 30, 2011, the accrued liability contribution rate
18 shall be computed as the rate of total compensation of all
19 active members which shall be certified by the actuary as
20 sufficient to fund over a period of [ten] 20 years from July
21 1, 2002, the present value of the liabilities for all
22 prospective benefits of active members, except for the
23 supplemental benefits provided in sections 8348 (relating to
24 supplemental annuities), 8348.1 (relating to additional
25 supplemental annuities), 8348.2 (relating to further
26 additional supplemental annuities), 8348.3 (relating to
27 supplemental annuities commencing 1994), 8348.4 (relating to
28 special supplemental postretirement adjustment), 8348.5
29 (relating to supplemental annuities commencing 1998), 8348.6
30 (relating to supplemental annuities commencing 2002) [and], _____

1 8348.7 (relating to supplemental annuities commencing 2003)
2 and 8348.8 (relating to supplemental annuities commencing
3 2014), in excess of the total assets in the fund (calculated
4 by recognizing the actuarially expected investment return
5 immediately and recognizing the difference between the actual
6 investment return and the actuarially expected investment
7 return over a five-year period), excluding the balance in the
8 annuity reserve account, and of the present value of normal
9 contributions and of member contributions payable with
10 respect to all active members on July 1, 2002, during the
11 remainder of their active service.

12 (2) For the fiscal years beginning July 1, 2003, and
13 ending June 30, 2011, the amount of each annual accrued
14 liability contribution shall be equal to the amount of such
15 contribution for the fiscal year, beginning July 1, 2002,
16 except that, if the accrued liability is increased by
17 legislation enacted subsequent to June 30, 2002, but before
18 July 1, 2003, such additional liability shall be funded over
19 a period of [ten] 20 years from the first day of July,
20 coincident with or next following the effective date of the
21 increase. The amount of each annual accrued liability
22 contribution for such additional legislative liabilities
23 shall be equal to the amount of such contribution for the
24 first annual payment.

25 (3) Notwithstanding any other provision of law,
26 beginning July 1, 2004, and ending June 30, 2011, the
27 outstanding balance of the increase in accrued liability due
28 to the change in benefits enacted in 2001 and the outstanding
29 balance of the net actuarial loss incurred in fiscal year
30 2000-2001 shall be amortized in equal dollar annual

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

12 (4) For the fiscal year beginning July 1, 2011, the
13 accrued liability contribution rate shall be computed as the
14 rate of total compensation of all active members which shall
15 be certified by the actuary as sufficient to fund as a level
16 percentage of compensation over a period of 24 years from
17 July 1, 2011, the present value of the liabilities for all
18 prospective benefits calculated as of June 30, 2010,
19 including the supplemental benefits as provided in sections
20 8348, 8348.1, 8348.2, 8348.3, 8348.4, 8348.5, 8348.6 and
21 8348.7, in excess of the actuarially calculated assets in the
22 fund (calculated recognizing all realized and unrealized
23 investment gains and losses each year in level annual
24 installments over a ten-year period). In the event that the
25 accrued liability is increased by legislation enacted
26 subsequent to June 30, 2010, such additional liability shall
27 be funded as a level percentage of compensation over a period
28 of ten years from the July 1 second succeeding the date such
29 legislation is enacted.

30 (d) Supplemental annuity contribution rate.--

1 (1) For the period of July 1, 2002, to June 30, 2011,
2 contributions from the Commonwealth and other employers
3 required to provide for the payment of the supplemental
4 annuities provided for in sections 8348, 8348.1, 8348.2,
5 8348.4 and 8348.5 shall be paid over a period of [ten] 20
6 years from July 1, 2002. The funding for the supplemental
7 annuities commencing 2002 provided for in section 8348.6
8 shall be as provided in section 8348.6(f). The funding for
9 the supplemental annuities commencing 2003 provided for in
10 section 8348.7 shall be as provided in section 8348.7(f). The
11 amount of each annual supplemental annuities contribution
12 shall be equal to the amount of such contribution for the
13 fiscal year beginning July 1, 2002.

14 (2) For fiscal years beginning July 1, 2011,
15 contributions from the Commonwealth and other employers whose
16 employees are members of the system required to provide for
17 the payment of supplemental annuities as provided in sections
18 8348, 8348.1, 8348.2, 8348.3, 8348.4, 8348.5, 8348.6 and
19 8348.7 shall be paid as part of the accrued liability
20 contribution rate as provided for in subsection (c)(4), and
21 there shall not be a separate supplemental annuity
22 contribution rate attributable to those supplemental
23 annuities. In the event that supplemental annuities are
24 increased by legislation enacted subsequent to June 30, 2010,
25 the additional liability for the increase in benefits shall
26 be funded as a level percentage of compensation over a period
27 of ten years from the July 1 second succeeding the date such
28 legislation is enacted.

29 (3) The additional liabilities for supplemental
30 annuities provided in section 8348.8 shall be calculated by

1 the actuary as the supplemental annuity contribution
2 attributable to the additional liability for the benefit
3 increase, less the supplemental annuity adjustment factor
4 calculated in subsection (h.1), but in no case shall it be
5 less than zero. The sums calculated by the actuary shall be
6 funded in equal dollar annual installments over periods of 20
7 years.

8 (e) Experience adjustment factor.--

9 (1) For each year after the establishment of the accrued
10 liability contribution rate for the fiscal year beginning
11 July 1, 2011, any increase or decrease in the unfunded
12 accrued liability, excluding the gains or losses on the
13 assets of the health insurance account, due to actual
14 experience differing from assumed experience, changes in
15 actuarial assumptions, changes in contributions caused by the
16 final contribution rate being different from the actuarially
17 required contribution rate, active members making shared-risk
18 contributions or changes in the terms and conditions of the
19 benefits provided by the system by judicial, administrative
20 or other processes other than legislation, including, but not
21 limited to, reinterpretation of the provisions of this part,
22 shall be amortized as a level percentage of compensation over
23 a period of 24 years beginning with the July 1 second
24 succeeding the actuarial valuation determining said increases
25 or decreases.

26 (2) (Reserved).

27 (f) Premium assistance contribution rate.--For each fiscal
28 year beginning with July 1, 1991, the total contribution rate as
29 calculated according to this section shall be increased annually
30 in the full amount certified by the board as necessary to fund

1 the premium assistance program in accordance with section 8509
2 (relating to health insurance premium assistance program),
3 notwithstanding any other provisions of this section.

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

5 (1) The collared contribution rate for each year shall
6 be determined by comparing the actuarially required
7 contribution rate, calculated without regard for the costs
8 added by legislation, to the prior year's final contribution
9 rate.

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

24 (h) Final contribution rate.--

25 (1) For the fiscal year beginning July 1, 2010, the
26 final contribution rate is 5% of the total compensation of
27 all active members. For each subsequent fiscal year for which
28 the collared contribution rate is applicable, the final
29 contribution rate shall be the collared contribution rate as
30 calculated in subsection (g), plus the costs added by

1 legislation.

2 (2) For all other fiscal years, the final contribution
3 rate shall be the actuarially required contribution rate,
4 provided that the final contribution rate shall not be less
5 than the normal contribution rate as provided in subsection
6 (b).

7 (h.1) Supplemental annuity adjustment factor.--Beginning
8 with the fiscal year ending June 30, 2014, and continuing
9 annually thereafter, any increase or decrease in the accrued
10 liability for annuitant member benefits due to the crediting of
11 actual interest shall be amortized in equal dollar annual
12 installments over a period of 20 years beginning with July 1
13 next succeeding the actuarial valuation.

14 (i) Definitions.--As used in this section, the following
15 words and phrases shall have the meanings given to them in this
16 subsection unless the context clearly indicates otherwise:

17 "Actuarially required contribution rate." The sum of the
18 following:

19 (1) the normal contribution rate as calculated in
20 subsection (b);

21 (2) the accrued liability contribution rate as
22 calculated in subsection (c);

23 (3) the supplemental annuity contribution rate as
24 calculated in subsection (d);

25 (4) the experience adjustment factor as calculated in
26 subsection (e); and

27 (5) any costs added by legislation enacted prior to the
28 last actuarial valuation.

29 "Costs added by legislation." The sum, if positive, of all
30 changes in the actuarially required contribution rate resulting

1 from legislation enacted in the year since the last actuarial
2 valuation and not included in the determination of the prior
3 year's final contribution rate, computed as the rate of total
4 compensation of all active members certified by the actuary as
5 sufficient to make the employer normal contributions and
6 sufficient to amortize legislatively created changes in the
7 unfunded actuarial liability as a level percentage of
8 compensation over a period of ten years from the July 1 second
9 succeeding the date of enactment.

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

11 § 8348.8. Supplemental annuities commencing 2014.

12 (a) Benefits.--Commencing with the first monthly annuity
13 payment after July 1, 2014, and annually thereafter, any
14 eligible benefit recipient shall be entitled to receive further
15 additional monthly supplemental annuities from the system. These
16 shall be in addition to the supplemental annuities provided for
17 in sections 8348 (relating to supplemental annuities), 8348.1
18 (relating to additional supplemental annuities), 8348.2
19 (relating to further additional supplemental annuities), 8348.3
20 (relating to supplemental annuities commencing 1994), 8348.5
21 (relating to supplemental annuities commencing 1998), 8348.6
22 (relating to supplemental annuities commencing 2002) and 8348.7
23 (relating to supplemental annuities commencing 2003).

24 (b) Amounts of supplemental annuities.--Beginning July 1,
25 2014, and annually thereafter, the amounts of the supplemental
26 annuities payable pursuant to this section shall be calculated
27 by applying the lesser of 3% or the percentage change in the
28 Consumer Price Index for All Urban Consumers (CPI-U) for the
29 Pennsylvania, New Jersey, Delaware and Maryland area, for the
30 most recent 12-month period for which figures have been

1 officially reported by the Bureau of Labor Statistics of the
2 United States Department of Labor, immediately prior to the date
3 the adjustment is due to take effect, to the then-current
4 annuity amount.

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

10 (d) Conditions.--The additional supplemental annuities
11 provided under this section shall be payable under the same
12 terms and conditions as provided under the option plan in effect
13 July 1, 2014.

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

18 (f) Funding.--The additional liability for the increase in
19 benefits provided by this section shall be funded in equal
20 dollar annual installments over a period of 20 years beginning
21 July 1, 2015.

22 (g) Definition.--As used in this section, the term "eligible
23 benefit recipient" means a person who is receiving a
24 superannuation, withdrawal or disability annuity and who
25 commenced receipt of that annuity on or prior to July 1, 2014.

26 Section 4. This act shall take effect immediately.