

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 21

Session of  
1997

INTRODUCED BY NICKOL, JANUARY 27, 1997

REFERRED TO COMMITTEE ON LOCAL GOVERNMENT, JANUARY 27, 1997

AN ACT

1 Amending the act of December 18, 1984 (P.L.1005, No.205),  
2 entitled "An act mandating actuarial funding standards for  
3 all municipal pension systems; establishing a recovery  
4 program for municipal pension systems determined to be  
5 financially distressed; providing for the distribution of the  
6 tax on the premiums of foreign fire insurance companies; and  
7 making repeals," further providing for contents of actuarial  
8 valuation report.

9 The General Assembly of the Commonwealth of Pennsylvania  
10 hereby enacts as follows:

11 Section 1. Section 202(b)(4) of the act of December 18, 1984  
12 (P.L.1005, No.205), known as the Municipal Pension Plan Funding  
13 Standard and Recovery Act, amended February 14, 1986 (P.L.23,  
14 No.9), is amended to read:

15 Section 202. Contents of actuarial valuation report.

16 \* \* \*

17 (b) Contents of actuarial exhibits; defined benefit plans  
18 self-insured in whole or in part.--For any pension plan which is  
19 a defined benefit plan and which is self-insured in whole or in  
20 part, all applicable actuarial exhibits shall be prepared in

1 accordance with the entry age normal actuarial cost method with  
2 entry age established as the actual entry age for all plan  
3 members unless the municipality applies for and is granted  
4 authorization by the commission to use an alternative actuarial  
5 cost method. Authorization shall be granted if the municipality  
6 demonstrates on an individual pension plan basis that there are  
7 compelling reasons of an actuarial nature for the use of an  
8 alternative actuarial cost method. The commission shall issue  
9 rules and regulations specifying the criteria which the  
10 commission will use to determine the question of the existence  
11 of compelling reasons for the use of an alternative actuarial  
12 cost method, the documentation which a municipality seeking the  
13 authorization will be required to supply and the acceptable  
14 alternative actuarial cost methods which the commission may  
15 authorize. The actuarial cost method shall be used to value all  
16 aspects of the benefit plan or plans of the pension plan unless  
17 the municipality applies for and is granted authorization by the  
18 commission to use approximation techniques other than the  
19 actuarial cost method for aspects of the benefit plan or plans  
20 of the pension plan other than the retirement benefit.  
21 Authorization shall be granted if the municipality demonstrates  
22 on an individual pension plan basis that there are compelling  
23 reasons of an actuarial nature for the use of these  
24 approximation techniques. The commission shall issue rules and  
25 regulations specifying the criteria which the commission will  
26 use to determine the question of the existence of compelling  
27 reasons for the use of approximation techniques, the  
28 documentation which a municipality seeking the authorization  
29 will be required to supply and the acceptable approximation  
30 technique which the commission may authorize. The actuarial

1 exhibits shall use actuarial assumptions which are, in the  
2 judgment of the actuary and the governing body of the plan, the  
3 best available estimate of future occurrences in the case of  
4 each assumption. With respect to economic actuarial assumptions,  
5 the assumptions shall either be within the range specified in  
6 rules and regulations issued by the commission or documentation  
7 explaining and justifying the choice of assumptions outside the  
8 range shall accompany the report. The actuarial exhibits shall  
9 measure all aspects of the benefit plan or plans of the pension  
10 plan in accordance with modifications in the benefit plan or  
11 plans, if any, and salaries which as of the valuation date are  
12 known or can reasonably be expected to be in force during the  
13 ensuing plan year. The actuarial valuation report shall contain  
14 the following actuarial exhibits:

15 \* \* \*

16 (4) An exhibit of any additional funding costs  
17 associated with the amortization of any unfunded actuarial  
18 accrued liability of the pension plan, indicating for each  
19 increment of unfunded actuarial accrued liability specified  
20 in paragraph (3), the level annual dollar contribution  
21 required to pay an amount equal to the actuarial assumption  
22 as to investment earnings applied to the principal amount of  
23 the remaining balance of the increment of unfunded actuarial  
24 accrued liability and to retire by the applicable  
25 amortization target date specified in this paragraph the  
26 principal amount of the remaining balance of the increment of  
27 unfunded actuarial accrued liability. The amortization target  
28 date applicable for each type of increment of unfunded  
29 actuarial accrued liability shall be as follows:

30 (i) (A) In the case of a pension plan established

1 on or prior to January 1, 1985 for the unfunded  
2 actuarial accrued liability in existence as of the  
3 beginning of the plan year occurring in calendar year  
4 1985, at the end of the plan year occurring in  
5 calendar year 2015; or

6 (B) In the case of a pension plan established  
7 after January 1, 1985, for the unfunded actuarial  
8 accrued liability then or subsequently determined to  
9 be or to have been in existence as of the date of the  
10 establishment of the plan, at the end of the plan  
11 year occurring 30 years after the calendar year in  
12 which the pension plan was established.

13 (ii) Increment or decrement of net unfunded  
14 actuarial accrued liability attributable to a change in  
15 actuarial assumptions, at the end of the plan year  
16 occurring 20 years after the calendar year in which  
17 actuarial assumption modification was effective.

18 (iii) Increment of net unfunded actuarial accrued  
19 liability attributable to a modification in the benefit  
20 plan applicable to active members, at the end of the plan  
21 year occurring 20 years after the calendar year in which  
22 the benefit plan modification was effective.

23 (iv) Increment of unfunded actuarial accrued  
24 liability attributable to a modification in the benefit  
25 plan applicable to retired members and other benefit  
26 recipients, at the end of the plan year occurring 10  
27 years after the calendar year in which the benefit plan  
28 modification was effective.

29 (v) Increment or decrement of net unfunded actuarial  
30 accrued liability attributable to an actuarial experience

1           loss or gain, at the end of plan year occurring 15 years  
2           after the calendar year in which the actuarial experience  
3           loss or gain was recognized.

4   With respect to any plan year beginning after December 31,  
5   1996, if the ratio of the actuarial value of assets to the  
6   actuarial accrued liability exceeds 0.70, then for all  
7   following years, the sum of the additional funding cost for  
8   subparagraphs (i), (ii), (iii), (iv) and (v) above shall not  
9   exceed the amount required to amortize the remaining unfunded  
10   actuarial accrued liability as of the beginning of the plan  
11   year over ten years in level annual dollar contributions.

12   With respect to any applicable pension plan other than a plan  
13   which comprises all or part of a moderately distressed or a  
14   severely distressed municipal pension system, if the  
15   remaining average period between the current average attained  
16   age of active members as of the valuation date and the later  
17   of their earliest average normal retirement age or their  
18   average assumed retirement age is less than the applicable  
19   period or periods ending with the amortization target date or  
20   dates specified in subparagraph (i), (ii), (iii) or (v), the  
21   appropriate amortization target date for the applicable  
22   subparagraph determined with reference to the longest  
23   applicable remaining average period rounded to the next  
24   largest whole number shall be used. The exhibit shall  
25   indicate the total dollar amount of additional funding costs  
26   associated with the amortization of any unfunded actuarial  
27   accrued liability of the pension plan applicable for that  
28   plan year and any subsequent plan year occurring prior to the  
29   preparation of the next required actuarial valuation report,  
30   which shall be the total of the additional funding costs

1 associated with the amortization of each increment of  
2 unfunded actuarial accrued liability. The exhibit shall also  
3 indicate the plan year in which any unfunded actuarial  
4 accrued liability of the pension plan would be fully  
5 amortized if the total annual additional funding cost  
6 calculated pursuant to this paragraph were met continuously  
7 without increase or decrease in amount until the total  
8 unfunded actuarial accrued liability currently existing was  
9 fully amortized. In calculating the additional funding costs  
10 associated with the amortization of any unfunded actuarial  
11 accrued liability of the pension plan in any plan year, any  
12 amortization contribution made in the interval since the last  
13 actuarial valuation report shall be allocated to each type of  
14 increment of unfunded actuarial accrued liability in  
15 proportion to the remaining dollar amount of each type.

16 \* \* \*

17 Section 2. This act shall take effect immediately.