

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL**No. 21**Session of
1997

INTRODUCED BY NICKOL, JANUARY 27, 1997

AS AMENDED ON THIRD CONSIDERATION, HOUSE OF REPRESENTATIVES,
OCTOBER 28, 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 applicable pension plan other than a plan
5 which comprises all or part of a moderately distressed or a
6 severely distressed municipal pension system, if the
7 remaining average period between the current average attained
8 age of active members as of the valuation date and the later
9 of their earliest average normal retirement age or their
10 average assumed retirement age is less than the applicable
11 period or periods ending with the amortization target date or
12 dates specified in subparagraph (i), (ii), (iii) or (v), the
13 appropriate amortization target date for the applicable
14 subparagraph determined with reference to the longest
15 applicable remaining average period rounded to the next
16 largest whole number shall be used. With respect to any plan
17 year beginning after December 31, 1997, if, AS OF THE ←
18 BEGINNING OF THE PLAN YEAR, the ratio of the actuarial value
19 of assets to the actuarial accrued liability exceeds 0.70 AND ←
20 THE GOVERNING BODY OF THE MUNICIPALITY HAS PASSED A
21 RESOLUTION TO IRREVOCABLY COMMIT THE MUNICIPALITY TO APPLY
22 THE LIMIT ON THE ADDITIONAL FUNDING COSTS, AS PROVIDED
23 HEREIN, IN THE PREPARATION OF THE CURRENT AND ALL FUTURE
24 EXHIBITS UNDER THIS PARAGRAPH, then the sum of the additional
25 funding ~~cost~~ COSTS for subparagraphs (i), (ii), (iii), (iv) ←
26 and (v) above shall not exceed the amount required to
27 amortize the remaining unfunded actuarial accrued liability
28 as of the beginning of the plan year over ten years in level
29 annual dollar contributions. The exhibit shall indicate the
30 total dollar amount of additional funding costs associated

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

21 * * *

22 Section 2. This act shall apply to actuarial exhibits of
23 additional funding costs associated with the amortization of any
24 unfunded actuarial accrued liability prepared for plan years
25 beginning after December 31, 1997.

26 Section 3. This act shall take effect immediately.