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THE GENERAL ASSEMBLY OF PENNSYLVANIA

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HOUSE BILL

No. 28

Session of  
2001

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INTRODUCED BY LEWIS, NICKOL, ALLEN, ARMSTRONG, BELFANTI,  
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JANUARY 31, 2001

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REFERRED TO COMMITTEE ON STATE GOVERNMENT, JANUARY 31, 2001

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AN ACT

1 Amending Titles 24 (Education) and 71 (State Government) of the  
2 Pennsylvania Consolidated Statutes, further providing for  
3 partial advance funding of future supplemental annuities and  
4 amortization payments for liabilities arising out of future  
5 supplemental annuities.

6 The General Assembly of the Commonwealth of Pennsylvania  
7 hereby enacts as follows:

8 Section 1. Section 8328(a) and (d) of Title 24 of the  
9 Pennsylvania Consolidated Statutes are amended and the section  
10 is amended by adding a subsection to read:

11 § 8328. Actuarial cost method.

12 (a) Employer contribution rate on behalf of active  
13 members.--The amount of the total employer contributions on  
14 behalf of all active members shall be computed by the actuary as  
15 a percentage of the total compensation of all active members  
16 during the period for which the amount is determined and shall

1 be so certified by the board. The total contribution rate on  
2 behalf of all active members shall consist of the normal  
3 contribution rate as defined in subsection (b) [and], the  
4 accrued liability contribution rate as defined in subsection (c)  
5 and the supplemental annuity advance funding contribution rate  
6 as defined in subsection (g). The total contribution rate shall  
7 be modified by the experience adjustment factors as calculated  
8 in subsection (e) but in no case shall it be less than zero.

9 \* \* \*

10 (d) Supplemental annuity contribution rate.--Contributions  
11 from the Commonwealth and other employers required to provide  
12 for the payment of the supplemental annuities provided for in  
13 sections 8348, 8348.1 and 8348.2 shall be paid over a period of  
14 20 years from July 1, 1991. The amount of each annual  
15 supplemental annuities contribution shall be 5% greater than the  
16 amount of such contribution for the previous fiscal year. In the  
17 event that supplemental annuities are increased by legislation  
18 enacted subsequent to July 1, 1991, and before January 1, 2001,  
19 the additional liability for the increased benefits shall be  
20 funded in annual installments increasing by 5% each year over a  
21 period of 20 years from the July 1, coincident with or next  
22 following the effective date of such legislation.

23 Notwithstanding the preceding, the funding for the supplemental  
24 annuities commencing 1994 provided for in section 8348.3 shall  
25 be as provided in section 8348.3(f)[.] and the funding for the  
26 supplemental annuities commencing 1998 provided for in section  
27 8348.5 (relating to supplemental annuities commencing 1998)  
28 shall be as provided in section 8348.5(f). Notwithstanding the  
29 preceding, in the event that supplemental annuities are  
30 increased by legislation enacted after December 31, 2000, the

1 additional unfunded actuarial accrued liability to be amortized  
2 shall be calculated under section 8510(d) (relating to partial  
3 advance funding of future supplemental annuities) and funded in  
4 annual level dollar installments over a period of ten years from  
5 the first July 1 occurring 360 or more days after the effective  
6 date of the legislation.

7 \* \* \*

8 (g) Supplemental annuity advance funding contribution  
9 rate.--For the fiscal year beginning July 1, 2001, the total  
10 contribution rate as calculated annually according to this  
11 section shall include as a separate component the rate certified  
12 by the board as necessary to partially advance fund future  
13 supplemental annuities in accordance with section 8510  
14 notwithstanding any other provision of this section.

15 Section 2. Section 8502(k) of Title 24 is amended to read:  
16 § 8502. Administrative duties of board.

17 \* \* \*

18 (k) Certification of employer contributions.--The board  
19 shall, each year in addition to the itemized budget required  
20 under section 8330 (relating to appropriations by the  
21 Commonwealth), certify to the employers and the Commonwealth the  
22 employer contribution rate expressed as a percentage of members'  
23 payroll necessary for the funding of prospective annuities for  
24 active members and the annuities of annuitants, and certify the  
25 rates and amounts of the normal contributions as determined  
26 pursuant to section 8328(b) (relating to actuarial cost method),  
27 accrued liability contributions as determined pursuant to  
28 section 8328(c), supplemental annuities contribution rate as  
29 determined pursuant to section 8328(d) [and], the experience  
30 adjustment factor as determined pursuant to section 8328(e)

[and], premium assistance contributions as determined pursuant to section 8328(f) and supplemental annuity advance funding contribution rate as determined pursuant to section 8328(g), which shall be paid to the fund and credited to the appropriate accounts. These certifications shall be regarded as final and not subject to modification by the Budget Secretary.

\* \* \*

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

§ 8510. Partial advance funding of future supplemental annuities.

(a) Program for partial advance funding of future supplemental annuities established.--Beginning with fiscal year 2001-2002, the annual certification of the employers' contribution rate by the board pursuant to section 8502(k) (relating to administrative duties of board) shall include a specified supplemental annuity advance funding contribution rate as a separate component. The contributions resulting from the application of the supplemental annuity advance funding contribution rate to the total compensation of all active members during each applicable period shall be credited to the supplemental annuity advance funding account together with the actual investment earnings thereon. The balance in the supplemental annuity advance funding account shall be transferred to the annuity reserve account on the first July 1 that occurs 360 or more days after the effective date of each instance of future legislation providing supplemental annuities and shall be applied to reduce the unfunded actuarial accrued liability to be amortized as a result of the enacted supplemental annuities.

(b) Initial supplementary annuity advance funding

contribution rate.--For the fiscal year 2001-2002, and each fiscal year thereafter until changed by the board as provided in subsection (c), the supplemental annuity advance funding contribution rate established in section 8328(g) (relating to actuarial cost method) shall be 0.3%.

(c) Subsequent supplemental annuity advance funding contribution rate.--In making the annual valuation under section 8502(j) as of the first July 1 that occurs 360 or more days after the effective date of legislation increasing supplemental annuities enacted after December 31, 2000, the actuary shall certify a new supplemental annuity advance funding contribution rate calculated as being sufficient to accumulate an amount equal to 25% of the actuarial accrued liability of the increased supplemental annuities under the legislation over the subsequent five-year period using the established interest and salary assumptions utilized for the conduct of the annual actuarial valuation under section 8502(j). The board shall certify the rate calculated by the actuary as the supplemental annuity advance funding contribution rate pursuant to subsection (a) and section 8502(k).

(d) Calculation of unfunded actuarial accrued liability to be amortized.--The actuary shall calculate the unfunded actuarial accrued liability for the increased supplemental annuities under legislation enacted after December 31, 2000, to be amortized under section 8328(g), as the difference resulting from subtracting the balance in the supplemental annuity advance funding account transferable to the annuity reserve account under section 8526.1(c) (relating to supplemental annuity advance funding account) from the actuarial accrued liability of the supplemental annuities being implemented, with the account

1 balance and actuarial accrued liability both calculated as of  
2 the first July 1 occurring 360 or more days after the effective  
3 date of the legislation.

4 Section 4. Sections 8524 and 8525 of Title 24 are amended to  
5 read:

6 § 8524. State accumulation account.

7 The State accumulation account shall be the ledger account to  
8 which shall be credited all contributions of the Commonwealth  
9 and other employers as well as the earnings of the fund, except  
10 the premium assistance contributions and earnings thereon in the  
11 health insurance account and the supplemental annuity advance  
12 funding contributions and earnings thereon in the supplemental  
13 annuity advance funding account. Valuation interest shall be  
14 allowed on the total amount of such account less any earnings of  
15 the fund credited during the year. The reserves necessary for  
16 the payment of annuities and death benefits as approved by the  
17 board and as provided in Chapter 83 (relating to membership,  
18 contributions and benefits) shall be transferred from the State  
19 accumulation account to the annuity reserve account. At the end  
20 of each year the required interest shall be transferred from the  
21 State accumulation account to the credit of the members' savings  
22 account and the annuity reserve account. The administrative  
23 expenses of the board shall be charged to the State accumulation  
24 account.

25 § 8525. Annuity reserve account.

26 (a) Credits and charges to account.--The annuity reserve  
27 account shall be the ledger account to which shall be credited  
28 the reserves held for the payment of annuities and death  
29 benefits on account of all annuitants and the contributions from  
30 the Commonwealth and other employers as determined in accordance

1 with section 8328 (relating to actuarial cost method) for the  
2 payment of the supplemental annuities provided in sections 8348  
3 (relating to supplemental annuities), 8348.1 (relating to  
4 additional supplemental annuities) and 8348.2 (relating to  
5 further additional supplemental annuities), 8348.3 (relating to  
6 supplemental annuities commencing 1994), 8348.4 (relating to  
7 special supplemental postretirement adjustment) and 8348.5  
8 (relating to supplemental annuities commencing 1998). The  
9 annuity reserve account shall be credited with valuation  
10 interest. After the transfers provided in sections 8523  
11 (relating to members' savings account) [and], 8524 (relating to  
12 State accumulation account) and 8526.1(c) (relating to  
13 supplemental annuity advance funding account), all annuity and  
14 death benefit payments shall be charged to the annuity reserve  
15 account and paid from the fund.

16 (b) Transfers from account.--Should an annuitant be  
17 subsequently restored to active service, the present value of  
18 his member's annuity at the time of reentry into school service  
19 shall be transferred from the annuity reserve account and placed  
20 to his individual credit in the members' savings account. In  
21 addition, the actuarial reserve for his annuity less the amount  
22 transferred to the members' savings account shall be transferred  
23 from the annuity reserve account to the State accumulation  
24 account.

25 Section 5. Title 24 is amended by adding a section to read:  
26 § 8526.1. Supplemental annuity advance funding account.

27 (a) Purpose of account.--The supplemental annuity advance  
28 funding account shall be a ledger account to which shall be  
29 credited the reserves held to offset actuarial accrued  
30 liabilities incurred in the provision of future supplemental

1 annuities.

2 (b) Credits to account.--The supplemental annuity advance  
3 funding account shall be credited with the contributions from  
4 the Commonwealth and other employers as determined in accordance  
5 with section 8510 (relating to partial advance funding of future  
6 supplemental annuities) and contributed in accordance with  
7 section 8328(g) (relating to actuarial cost method). The actual  
8 investment earnings attributable to the balance of the  
9 supplemental annuity advance funding account shall be credited  
10 to the account.

11 (c) Transfers from account.--In the event that supplemental  
12 annuities are provided by legislation enacted after December 31,  
13 2000, the balance in the supplemental annuity advance funding  
14 account shall be transferred to the annuity reserve account on  
15 the first July 1 occurring 360 or more days after the effective  
16 date of the legislation.

17 Section 6. Section 5508(a) and (e) of Title 71 are amended  
18 and the section is amended by adding a subsection to read:  
19 § 5508. Actuarial cost method.

20 (a) Employer contribution rate on behalf of active  
21 members.--The amount of the Commonwealth and other employer  
22 contributions on behalf of all active members shall be computed  
23 by the actuary as a percentage of the total compensation of all  
24 active members during the period for which the amount is  
25 determined and shall be so certified by the board. The total  
26 employer contribution rate on behalf of all active members shall  
27 consist of the employer normal contribution rate, as defined in  
28 subsection (b), [and] the accrued liability contribution rate as  
29 defined in subsection (c) and the supplemental annuity advance  
30 funding contribution rate as defined in subsection (h). The



1 total employer contribution rate shall be modified by the  
2 experience adjustment factor as calculated in subsection (f) but  
3 in no case shall it be less than zero.

4 \* \* \*

5 (e) Supplemental annuity contribution rate.--Contributions  
6 from the Commonwealth required to provide for the payment of  
7 supplemental annuities as provided in sections 5708, 5708.1 and  
8 5708.2 shall be paid over a period of 20 years from July 1,  
9 1991. The amount of each annual supplemental annuities  
10 contribution shall be 5% greater than the amount of such  
11 contribution for the previous fiscal year. In the event that  
12 supplemental annuities are increased by legislation enacted  
13 subsequent to July 1, 1991, and before January 1, 2001, the  
14 additional liability for the increase in benefits shall be  
15 funded in annual installments increasing by 5% each year over a  
16 period of 20 years from the July first, coincident with or next  
17 following the effective date of such legislation.

18 Notwithstanding the preceding, the funding for the supplemental  
19 annuities commencing 1994 provided for in section 5708.3 shall  
20 be as provided in section 5708.3(f)[.] and the funding for the  
21 supplemental annuities commencing 1998 provided for in section  
22 5708.5 (relating to supplemental annuities commencing 1998)  
23 shall be as provided in section 5708.5(f). Notwithstanding the  
24 preceding, in the event that supplemental annuities are  
25 increased by legislation enacted after December 31, 2000, the  
26 additional unfunded actuarial accrued liability to be amortized  
27 shall be calculated under section 5909(d) (relating to partial  
28 advance funding of future supplemental annuities) and funded in  
29 annual level dollar installments over a period of ten years from  
30 the first July 1 occurring 360 or more days after the effective

1 date of the legislation.

2 \* \* \*

3 (h) Supplemental annuity advance funding contribution  
4 rate.--For the fiscal year beginning July 1, 2001, the total  
5 contribution rate as calculated annually according to this  
6 section shall include as a separate component the rate certified  
7 by the board as necessary to partially advance fund future  
8 supplemental annuities in accordance with section 5909  
9 notwithstanding any other provision of this section.

10 Section 7. Section 5902(k) of Title 71 is amended to read:

11 § 5902. Administrative duties of the board.

12 \* \* \*

13 (k) Certification of employer contributions.--The board  
14 shall, each year in addition to the itemized budget required  
15 under section 5509 (relating to appropriations and assessments  
16 by the Commonwealth), certify, as a percentage of the members'  
17 payroll, the employers' contributions as determined pursuant to  
18 section 5508 (relating to actuarial cost method) necessary for  
19 the funding of prospective annuities for active members and the  
20 annuities of annuitants and certify the rates and amounts of the  
21 employers' normal contributions as determined pursuant to  
22 section 5508(b), accrued liability contributions as determined  
23 pursuant to section 5508(c), supplemental annuities contribution  
24 rate as determined pursuant to section 5508(e) [and], the  
25 experience adjustment factor as determined pursuant to section  
26 5508(f) and the supplemental annuity advance funding  
27 contribution rate as determined pursuant to section 5508(h),  
28 which shall be paid to the fund and credited to the appropriate  
29 accounts. These certifications shall be regarded as final and  
30 not subject to modification by the Budget Secretary.

1       \* \* \*

2       Section 8. Title 71 is amended by adding a section to read:

3   § 5909. Partial advance funding of future supplemental  
4       annuities.

5       (a) Program for partial advance funding of future  
6   supplemental annuities established.--Beginning with fiscal year  
7   2001-2002, the annual certification of the employers'  
8   contribution rate by the board pursuant to section 5902(k)  
9   (relating to administrative duties of the board) shall include a  
10   specified supplemental annuity advance funding contribution rate  
11   as a separate component. The contributions resulting from the  
12   application of the supplemental annuity advance funding  
13   contribution rate to the total compensation of all active  
14   members during each applicable period shall be credited to the  
15   supplemental annuity advance funding account together with the  
16   actual investment earnings thereon. The balance in the  
17   supplemental annuity advance funding account shall be  
18   transferred to the annuity reserve account on the first July 1  
19   that occurs 360 or more days after the effective date of each  
20   instance of future legislation providing supplemental annuities  
21   and shall be applied to reduce the unfunded actuarial accrued  
22   liability to be amortized as a result of the enacted  
23   supplemental annuities.

24       (b) Initial supplementary annuity advance funding  
25   contribution rate.--For the fiscal year 2001-2002, and each  
26   fiscal year thereafter until changed by the board as provided in  
27   subsection (c), the supplemental annuity advance funding  
28   contribution rate established in section 5508(h) (relating to  
29   actuarial cost method) shall be 0.3%.

30       (c) Subsequent supplemental annuity funding contribution

1 rate.--In making the annual valuation under section 5902(j),  
2 that calculates the amortization contribution to be made under  
3 section 5508(h) as of the first July 1 that occurs 360 or more  
4 days after the effective date of legislation increasing the  
5 supplemental annuities enacted after December 31, 2000, the  
6 actuary shall certify a new supplemental annuity advance funding  
7 contribution rate calculated as sufficient to accumulate an  
8 amount equal to 25% of the actuarial accrued liability of the  
9 increased supplemental annuities over the subsequent five-year  
10 period using the established interest and salary assumptions  
11 utilized for the conduct of the annual actuarial valuation under  
12 section 5902(j). The board shall certify the rate calculated by  
13 the actuary as the supplemental annuity advance funding  
14 contribution rate pursuant to subsection (a) and section  
15 5902(k).

16 (d) Calculation of unfunded actuarial accrued liability to  
17 be amortized.--The actuary shall calculate the unfunded  
18 actuarial accrued liability of the increased supplemental  
19 annuities under legislation enacted after December 31, 2000, to  
20 be amortized under section 5508(h), as the difference resulting  
21 from subtracting the balance in the supplemental annuity advance  
22 funding account transferable to the annuity reserve account  
23 under section 5939.1 (relating to supplemental annuity advance  
24 funding account) from the actuarial accrued liability of the  
25 supplemental liabilities being implemented, with the account  
26 balance and the actuarial accrued liability both calculated as  
27 of the first July 1 occurring 360 or more days after the  
28 effective date of the legislation.

29 Section 9. Sections 5934 and 5935(a) of Title 71 are amended  
30 to read:

1 § 5934. State accumulation account.

2 The State accumulation account shall be the ledger account to  
3 which shall be credited all contributions of the Commonwealth or  
4 other employers whose employees are members of the system and  
5 made in accordance with the provisions of section 5507(a)  
6 (relating to contributions by the Commonwealth and other  
7 employers) except that the amounts received under the provisions  
8 of the act of May 12, 1943 (P.L.259, No.120), [and] the amounts  
9 received under the provisions of the Liquor Code, act of April  
10 12, 1951 (P.L.90, No.21), and section 5508(h) (relating to  
11 actuarial cost method) shall be credited to the State Police  
12 benefit account [or], the enforcement officers' benefit account  
13 or the supplemental annuity advance funding account as the case  
14 may be. All amounts transferred to the fund by county retirement  
15 systems or pension plans in accordance with the provisions of  
16 section 5507(c) also shall be credited to the State accumulation  
17 account. The State accumulation account shall be credited with  
18 valuation interest. The reserves necessary for the payment of  
19 annuities and death benefits as approved by the board and as  
20 provided in Chapter 57 (relating to benefits) shall be  
21 transferred from the State accumulation account to the annuity  
22 reserve account provided for in section 5935 (relating to  
23 annuity reserve account), except that the reserves necessary on  
24 account of a member who is an officer of the Pennsylvania State  
25 Police or an enforcement officer shall be transferred from the  
26 State accumulation account to the State Police benefit account  
27 provided for in section 5936 (relating to State Police benefit  
28 account) or to the enforcement officers' benefit account as  
29 provided for in section 5937 (relating to enforcement officers'  
30 benefit account) as the case may be.

1 § 5935. Annuity reserve account.

2 (a) Credits and charges to account.--The annuity reserve  
3 account shall be the ledger account to which shall be credited  
4 the reserves held for payment of annuities and death benefits on  
5 account of all annuitants except in the case of members who are  
6 officers of the Pennsylvania State Police or enforcement  
7 officers. The annuity reserve account shall be credited with  
8 valuation interest. After the transfers provided in sections  
9 5933 (relating to members' savings account), 5934 (relating to  
10 State accumulation account) [and], 5938 (relating to  
11 supplemental annuity account) and 5939.1 (relating to  
12 supplemental annuity advance funding account), all annuity and  
13 death benefit payments except those payable to any member who  
14 retires as an officer of the Pennsylvania State Police or an  
15 enforcement officer shall be charged to the annuity reserve  
16 account and paid from the fund.

17 \* \* \*

18 Section 10. Title 71 is amended by adding a section to read:  
19 § 5939.1. Supplemental annuity advance funding account.

20 (a) Purpose of account.--The supplemental annuity advance  
21 funding account shall be a ledger account to which shall be  
22 credited the reserves held to offset actuarial accrued  
23 liabilities incurred in the provision of future supplemental  
24 annuities.

25 (b) Credits to account.--The supplemental annuity advance  
26 funding account shall be credited with the contributions from  
27 the Commonwealth and other employers as determined in accordance  
28 with section 5909 (relating to partial advance funding of future  
29 supplemental annuities) and contributed in accordance with  
30 section 5508(h) (relating to actuarial cost method). The actual

1 investment earnings attributable to the balance of the  
2 supplemental annuity advance funding account shall be credited  
3 to the account.

4 (c) Transfers from account.--In the event that supplemental  
5 annuities are increased by legislation enacted after December  
6 31, 2000, the balance in the supplemental annuity advance  
7 funding account shall be transferred to the annuity reserve  
8 account on the first July 1 occurring 360 or more days after the  
9 effective date of the legislation.

10 Section 11. In the event that supplemental annuities under  
11 the Public School Employees' Retirement Code and the State  
12 Employees' Retirement Code are increased by legislation enacted  
13 after December 31, 2000, the Public Employee Retirement  
14 Commission shall review the prefunding target percentage and  
15 overall operation of the advance funding mechanism and report  
16 its findings and recommendations to the General Assembly and the  
17 Governor no later than one year after the July 1 on which the  
18 new supplemental annuity advance funding contribution rates are  
19 implemented.

20 Section 12. This act applies to fiscal years commencing July  
21 1, 2001, and thereafter.

22 Section 13. This act shall take effect immediately.