

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 1828 Session of  
2009

INTRODUCED BY WILLIAMS AND D. EVANS, JULY 3, 2009

REFERRED TO COMMITTEE ON APPROPRIATIONS, JULY 3, 2009

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, for minimum funding standard and for  
9 alternative funding mechanism.

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

12 Section 1. Section 202(b)(4)(v) of the act of December 18,  
13 1984 (P.L.1005, No.205), known as the Municipal Pension Plan  
14 Funding Standard and Recovery Act, is amended by adding a clause  
15 to read:

16 Section 202. Contents of actuarial valuation report.

17 \* \* \*

18 (b) Contents of actuarial exhibits; defined benefit plans  
19 self-insured in whole or in part.--For any pension plan which is  
20 a defined benefit plan and which is self-insured in whole or in  
21 part, all applicable actuarial exhibits shall be prepared in  
22 accordance with the entry age normal actuarial cost method with

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

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

14 \* \* \*

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

29 \* \* \*

30 (v) \* \* \*

1           (C) Notwithstanding any other provision of this  
2           act or other law, a city of the first class, in its  
3           sole discretion, may amortize its entire unfunded  
4           actuarial accrued liability, as measured on a  
5           valuation date selected by the city of the first  
6           class and occurring in the plan year commencing after  
7           January 1, 2009, and ending before December 31, 2010,  
8           as a level dollar amount with the amortization target  
9           date being the end of the plan year occurring 30  
10           years after the plan year commencing after January 1,  
11           2009, and ending before December 31, 2010, with  
12           payments to commence in the next plan year. In order  
13           for a city of the first class to extend the  
14           applicable amortization period pursuant to this  
15           clause, the city of the first class must file a  
16           revised actuarial valuation report reflecting the  
17           amortization period extension provided for under this  
18           clause with the executive director of the commission  
19           no later than March 31, 2010. Any such revised  
20           actuarial valuation report may not be filed in lieu  
21           of the actuarial valuation report prepared in  
22           compliance with clause (A) and required to be filed  
23           on or before March 31, 2009, and may be used only for  
24           the purposes of recalculating the minimum municipal  
25           obligation of the city of the first class for plan  
26           years commencing after January 1, 2009, and  
27           calculating the minimum municipal obligation of the  
28           city of the first class for the plan year commencing  
29           after January 1, 2009, to reflect the amortization  
30           period extension. Any such revised actuarial

1           valuation report shall not affect distributions under  
2           the General Municipal Pension System State Aid  
3           Program under Chapter 4.

4           \* \* \*

5           Section 2. Section 302 of the act is amended by adding a  
6 subsection to read:

7           Section 302. Minimum funding standard; defined benefit plans  
8           self-insured in whole or in part.

9           \* \* \*

10          (f) Cities of the first class.--Notwithstanding any other  
11 provision of this act or other law, a city of the first class is  
12 authorized to defer a portion of the minimum municipal  
13 obligation provided for in this section:

14           (1) for the plan year ending June 30, 2010, in an amount  
15 not to exceed \$155,000,000; and

16           (2) for the plan year ending June 30, 2011, in an amount  
17 not to exceed \$80,000,000.

18 The amounts deferred shall bear interest at the actuarial  
19 assumed rate of 8.25%, which shall be calculated from the  
20 beginning of the plan year in which the deferral was made.

21 Accrued interest on any amounts deferred shall be paid yearly on  
22 or before June 30, 2010, June 30, 2011, and June 30, 2012. On or  
23 before June 30, 2013, the city of the first class shall repay at  
24 least \$90,000,000 of any amounts deferred, plus interest accrued  
25 on all amounts deferred; or, if the total amount deferred is  
26 less than \$90,000,000, the total amount deferred, plus interest  
27 accrued on that amount, shall be repaid. The balance of all  
28 amounts deferred, including interest accrued and unpaid on  
29 amounts deferred, shall be repaid by June 30, 2014. Any of the  
30 amounts deferred, including interest accrued on deferred

amounts, which remain unpaid at the end of the plan year ending  
June 30, 2014, shall be added to the minimum municipal  
obligation of the city of the first class for the following plan  
year, with interest calculated and due until the date that the  
amounts due are paid. The calculation of the unfunded actuarial  
accrued liability made by and certified by an approved actuary  
under section 202 shall not include any amounts deferred  
pursuant to this subsection, so long as the city of the first  
class is paying interest accrued on such deferred amounts and  
repaying such deferred amounts in accordance with the terms of  
this subsection. The repayment of any amounts deferred,  
including interest accrued on deferred amounts, as and when  
required in this subsection, shall constitute a commitment and  
obligation, binding and absolute, on the city of the first  
class; and the city of the first class shall include all amounts  
due to be paid under this subsection in the budget of the city,  
and all amounts due to be paid shall be appropriated and paid in  
order to make timely repayment of any amounts deferred,  
including interest accrued on deferred amounts, with such  
payment being unconditional and without setoff. Any person who  
is beneficially interested in the city of the first class paying  
its minimum municipal obligation under this subsection shall  
have standing to institute a legal proceeding for mandamus to  
enforce the obligation of the city of the first class to make  
payments under this subsection in the same manner as payment  
requirements of an alternative funding mechanism may be enforced  
under section 1001. A person who is beneficially interested  
under this subsection is any person who is a beneficially  
interested person under section 1001(f).

Section 3. Section 1001(b) of the act, added June 18, 1998

(P.L.626, No.82), is amended and the section is amended by  
adding a subsection to read:

Section 1001. Alternative funding mechanism.

\* \* \*

(b) Period of payment requirements prior to July 1, 2009.--  
The period of the city's payment requirements under an  
alternative funding mechanism implemented prior to December 31,  
2002, shall be the greater of:

(1) the remaining period not exceeding 30 years during  
which the city would have amortized the unfunded actuarial  
accrued liability reported in its last actuarial valuation  
report filed under Chapter 2 using the total amortization  
payment and interest assumption, reported in that actuarial  
valuation report; or

(2) 30 years.

If an alternative funding mechanism is implemented after  
December 31, 2002, but before July 1, 2009, the period described  
in paragraph (1) shall be the period of the city's payment  
requirements.

(b.1) Period of payment requirements beginning July 1,  
2009.--The period of the city's payment requirements under an  
alternative funding mechanism implemented or refinanced in whole  
or in part on or after July 1, 2009, and prior to the beginning  
of the plan year that commences in 2019, shall be the greater  
of:

(1) the remaining period not exceeding 30 years during  
which the city would have amortized the unfunded actuarial  
accrued liability reported in its last actuarial valuation  
report filed under Chapter 2 using the total amortization  
payment and interest assumption, reported in that actuarial

1       valuation report; or

2           (2) 30 years.

3   If an alternative funding mechanism is implemented after July 1,  
4   2019, the period described in paragraph (1) shall be the period  
5   of the city's payment requirements.

6       \* \* \*

7       Section 4. This act shall take effect immediately.