

PLAN DESIGN: FUNDING AND REALITIES

Local Perspectives—County and Municipal Pension Plans

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Agenda

- ▣ 3 Basic Systems in Pennsylvania
- ▣ Plan Design
- ▣ Funding Rules and Practices
- ▣ Act 44 of 2010
- ▣ Where Are We Now?
- ▣ GASB Changes

The Systems

- ▣ State Plans
 - SERS covers State employees
 - PSERS covers educators—funded by State and local school districts
 - Funding rules set by legislature
 - Spiraling cost increases
- ▣ County Plans—Act 96 of 1971
 - No funding requirements (GASB)
- ▣ Municipal Pension Plans
 - Funding governed by Act 205 (1984)

Plan Design– Counties

- ▣ County Annuity: % of pay times service
- ▣ Member's Annuity
 - Mandatory and voluntary contributions
 - Can elect refund or annuity at retirement

Plan Design-Local

- ▣ Police (townships and boroughs)
 - Act 600 of 1956 (3+ officers)
 - 50% of final average pay (36 mo.)
 - Retirement Age 55/25 (50/25)
 - Service increment (\$100/\$500)
 - Cost-of-living increases
 - Death and Disability (in-svc.)
Pensions
 - Member Contributions (5%)

Act 51 of 2009

- ▣ Killed-in-service pension was added to Act 600 by Act 30 of 2002.
- ▣ Benefit was 100% of pay for the remainder of widow's life
- ▣ Effect of unlikely but catastrophic event (insurance)
- ▣ Now payable by state fund (if removed from pension plan ordinances, CBA)

Plan Design–Local

- ▣ Police–Cities (3rd class city code)
 - 50% of final month's pay
 - Retirement at 50/20 (–/20)
 - Service increment (1/40, \$500)
 - Cost–of–living increases (50% of active salary)
 - Death and Disability Pensions
 - Member Contributions (4%/1%/\$1)

Plan Design–Local

- ▣ Non–Uniformed, Authorities
 - Few restrictions on plan design
 - Defined benefit plans proliferated after Act 205 (State aid)
 - Current trend toward defined contribution plans for new employees

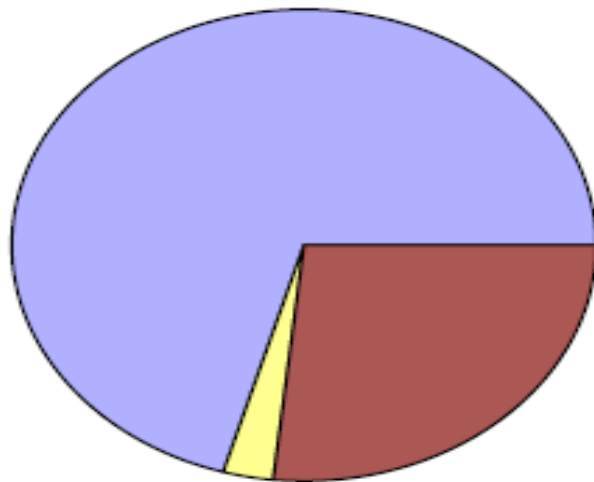
Plan Design-Local

GRAPH III

LOCAL GOVERNMENT PENSION PLAN DISTRIBUTION

Pension Plan Distribution
by Plan Type

SELF-INSURED
DEFINED BENEFIT
2,253 (70.6%)

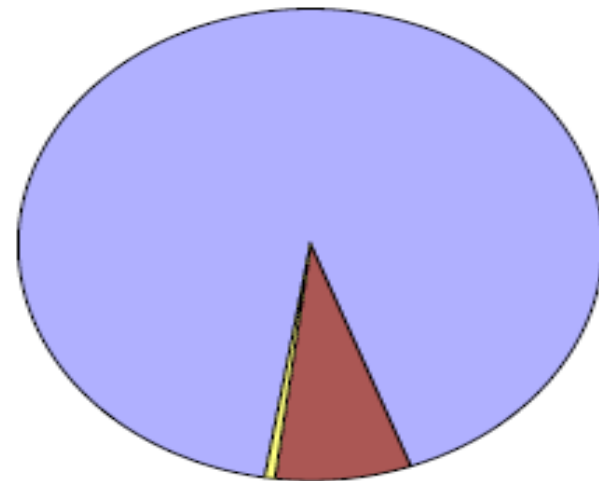


OTHER
144 (4.5%)

DEFINED CONTRIBUTION
794 (24.9%)

Employee Distribution
by Plan Type

SELF-INSURED
DEFINED BENEFIT
126,091 (92.1%)



OTHER
1,071 (0.8%)

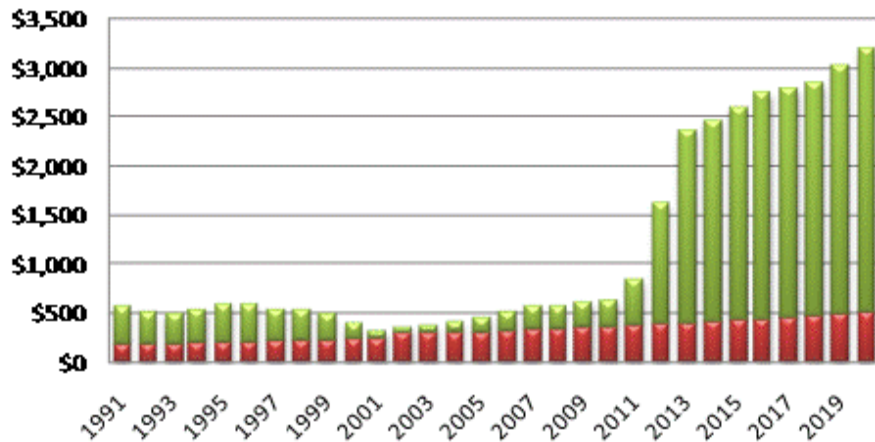
DEFINED CONTRIBUTION
9,763 (7.1%)

Funding – State Plans

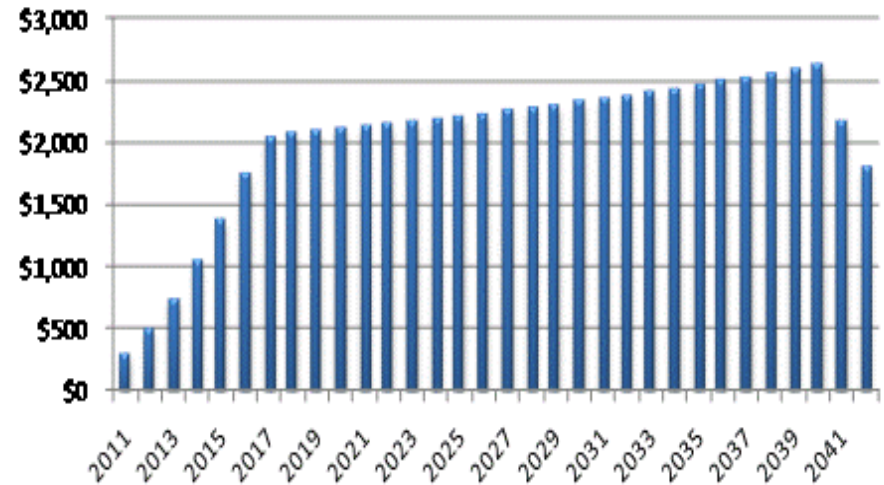
- ▣ Legislature determines contributions
- ▣ Influence on assumptions/methods

**SERS Projected Contributions
(\$millions)**

■ Employee ■ Employer



**PSERS Projected Employer Contribution
(\$ millions)**



Funding-County Plans

- ▣ No state regulations requiring minimum funding
- ▣ Most counties fund the ARC in order to not show a liability in GASB statements
- ▣ Cost-of-Living increases are not funded until granted

Funding – County Plans

- ▣ Choice of actuarial cost methods
 - Most use aggregate
 - Trend towards Entry Age Normal Cost (level % of pay)
- ▣ Most use actuarial asset smoothing
 - No limits
 - Methods

Funding – County Plans

CHART IV

MUNICIPAL GOVERNMENT RETIREMENT SYSTEMS COMPARED WITH COUNTY GOVERNMENT RETIREMENT SYSTEMS

	Active Members	Actuarial Accrued Liability	Actuarial Assets	Unfunded Actuarial Accrued Liability
Municipal Government Retirement Systems	78,098	\$18,926,649,610	\$11,957,415,704	\$7,197,030,510 ¹
County Government Retirement Systems	58,827	\$ 7,202,907,183	\$6,972,999,944	\$290,730,513 ¹

¹ Represents total of unfunded actuarial accrued liabilities reported for individual pension plans.

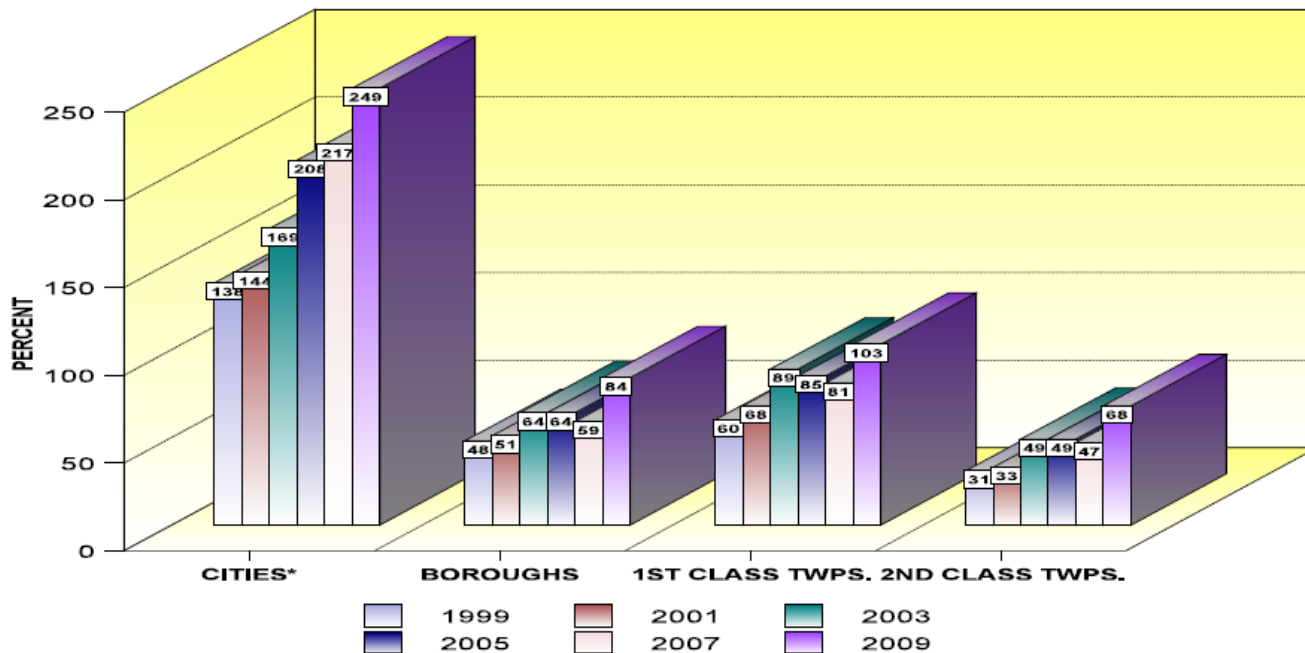
Funding-Local Plans

- ▣ Municipal Minimum Obligation (Act 205 of 1984)
- ▣ Budget requirement presented to governing body each September
- ▣ Based on most recent actuarial valuation (2-year)
- ▣ Timing differences

Funding-Local Plans

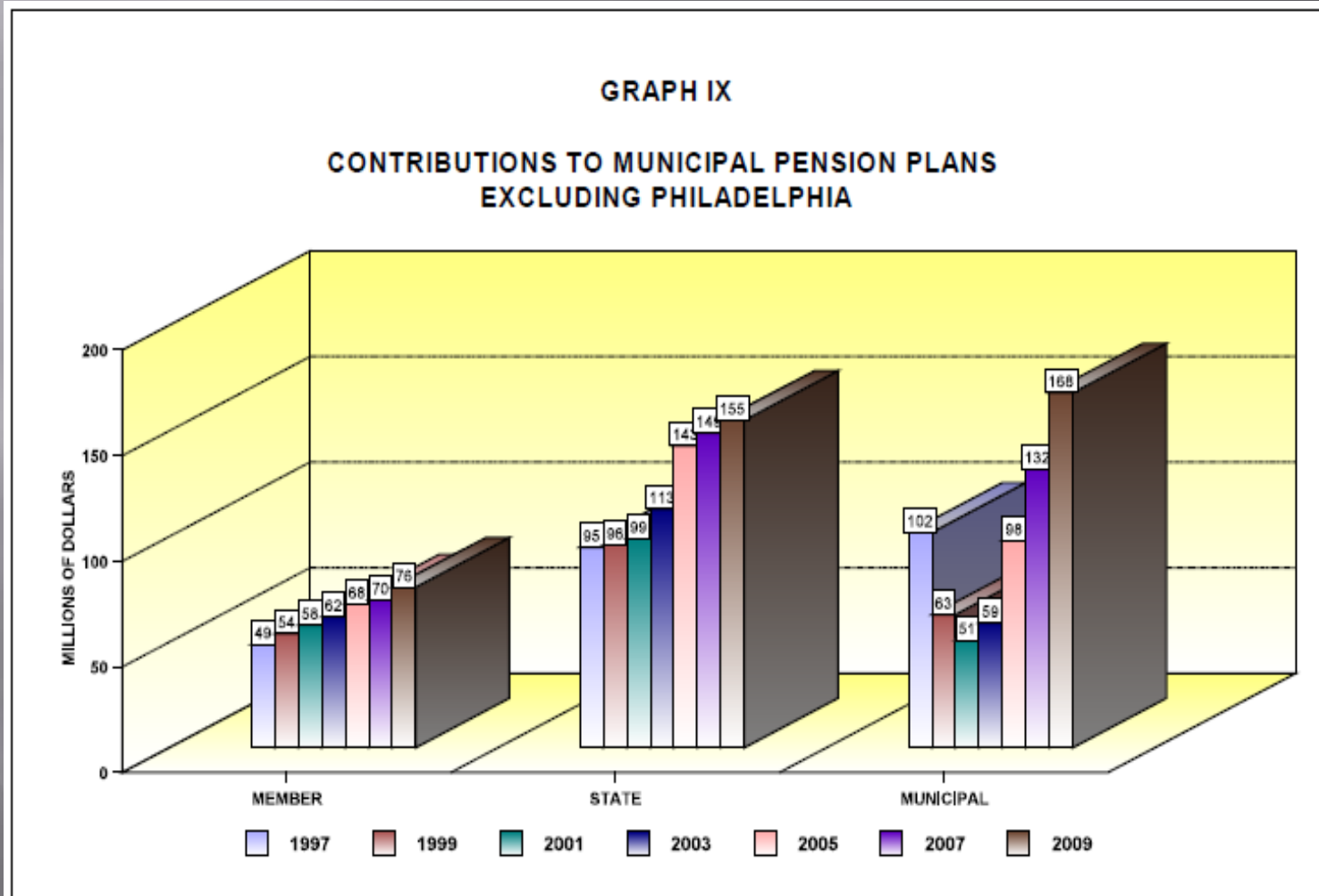
GRAPH VIII

TOTAL UNFUNDED ACCRUED LIABILITIES AS A PERCENTAGE OF PAYROLL BY MUNICIPAL CLASS



*Excluding Philadelphia

Funding-Local Plans



Funding – The Downturn

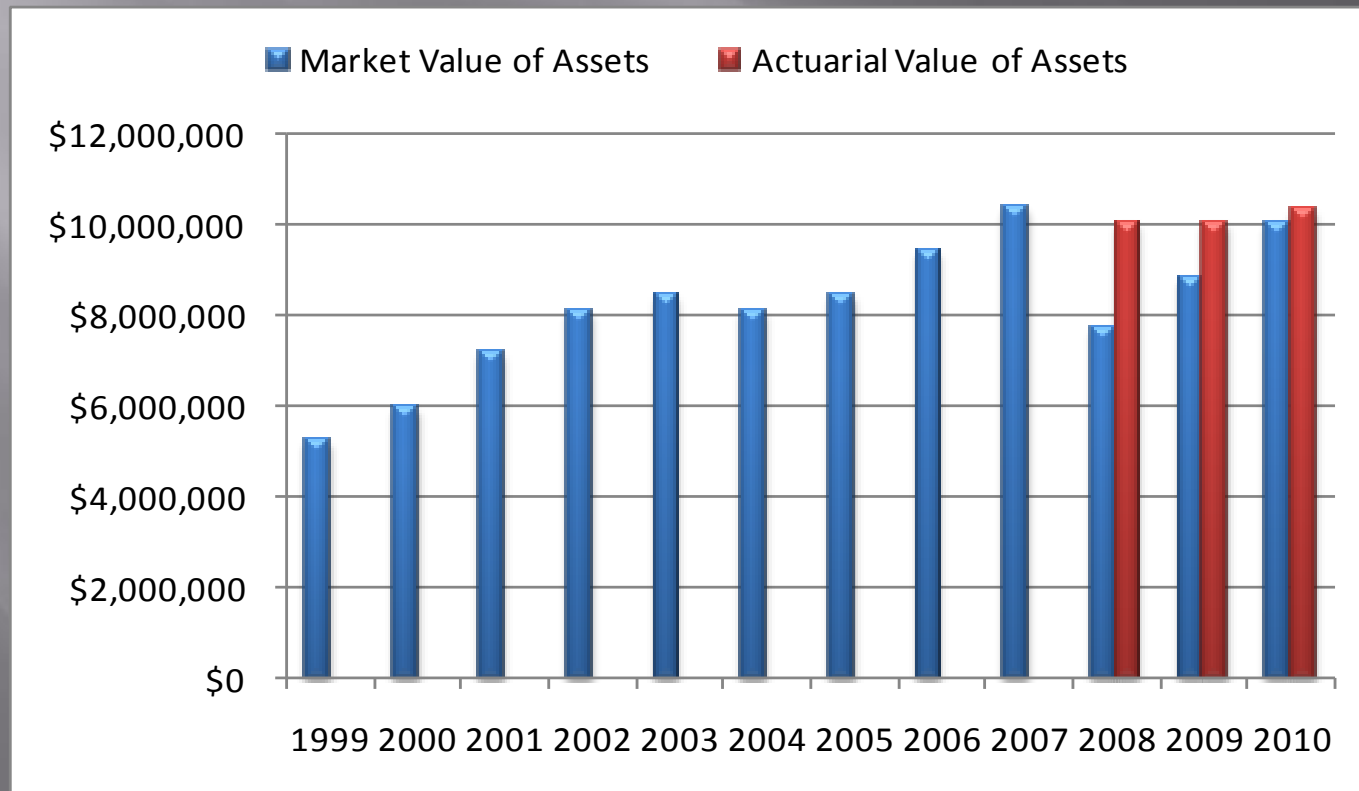
- ▣ Like any storm, this affected more vulnerable areas more than others
- ▣ The earthquake of the financial market downturn was exacerbated by the tsunami of drops in tax revenue

Act 44 of 2009

- ▣ Longer amortization periods
- ▣ Distress levels/remedies
- ▣ Greater asset smoothing
(120%→130%)
- ▣ Deferral of amortization payments
(25%)
- ▣ Aggregation of Trust Funds
- ▣ Plans for Administrative Improvements

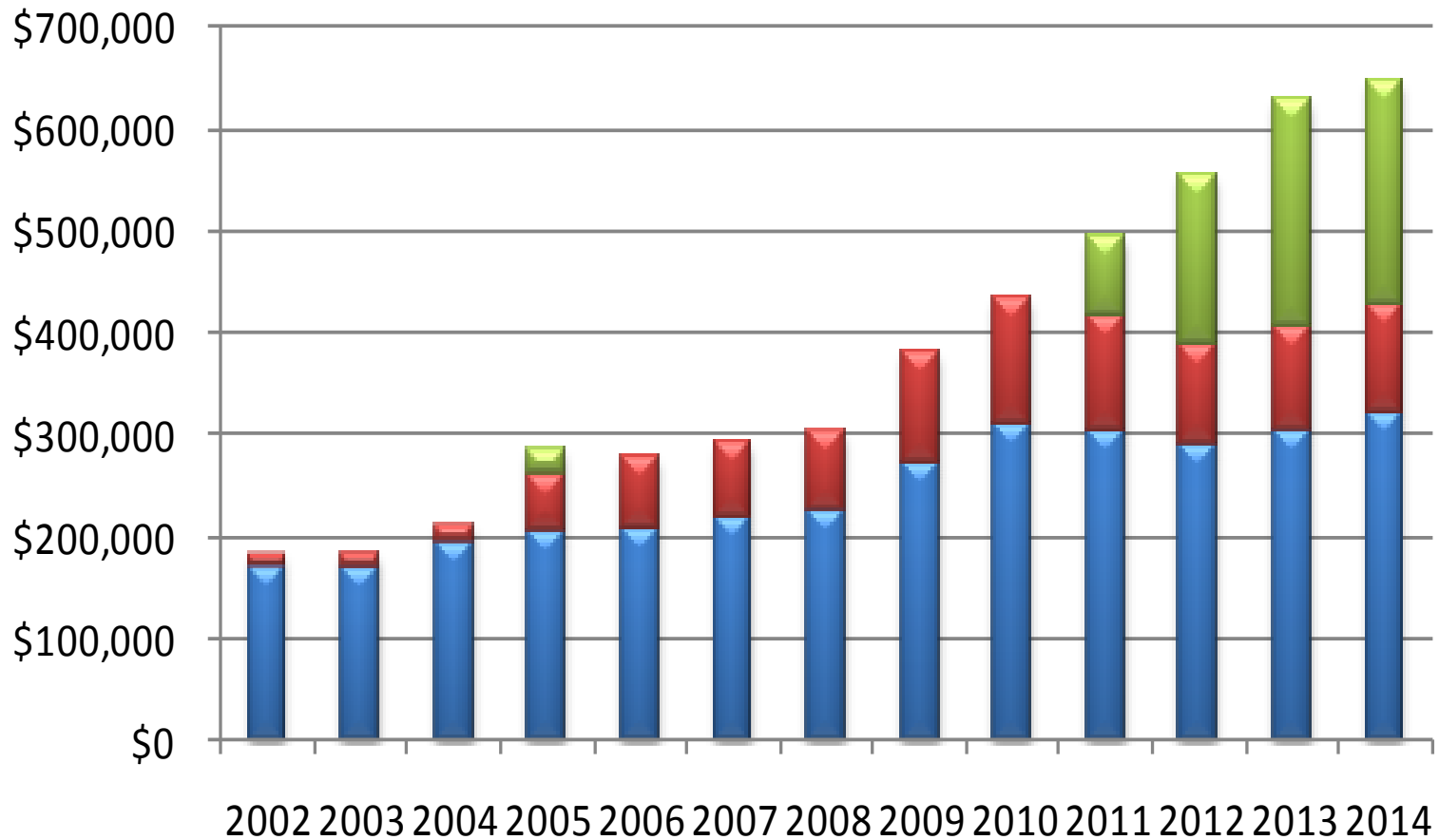
Funding—the Recovery

- ▣ Effects of Asset Smoothing (until economic cycles are repealed)



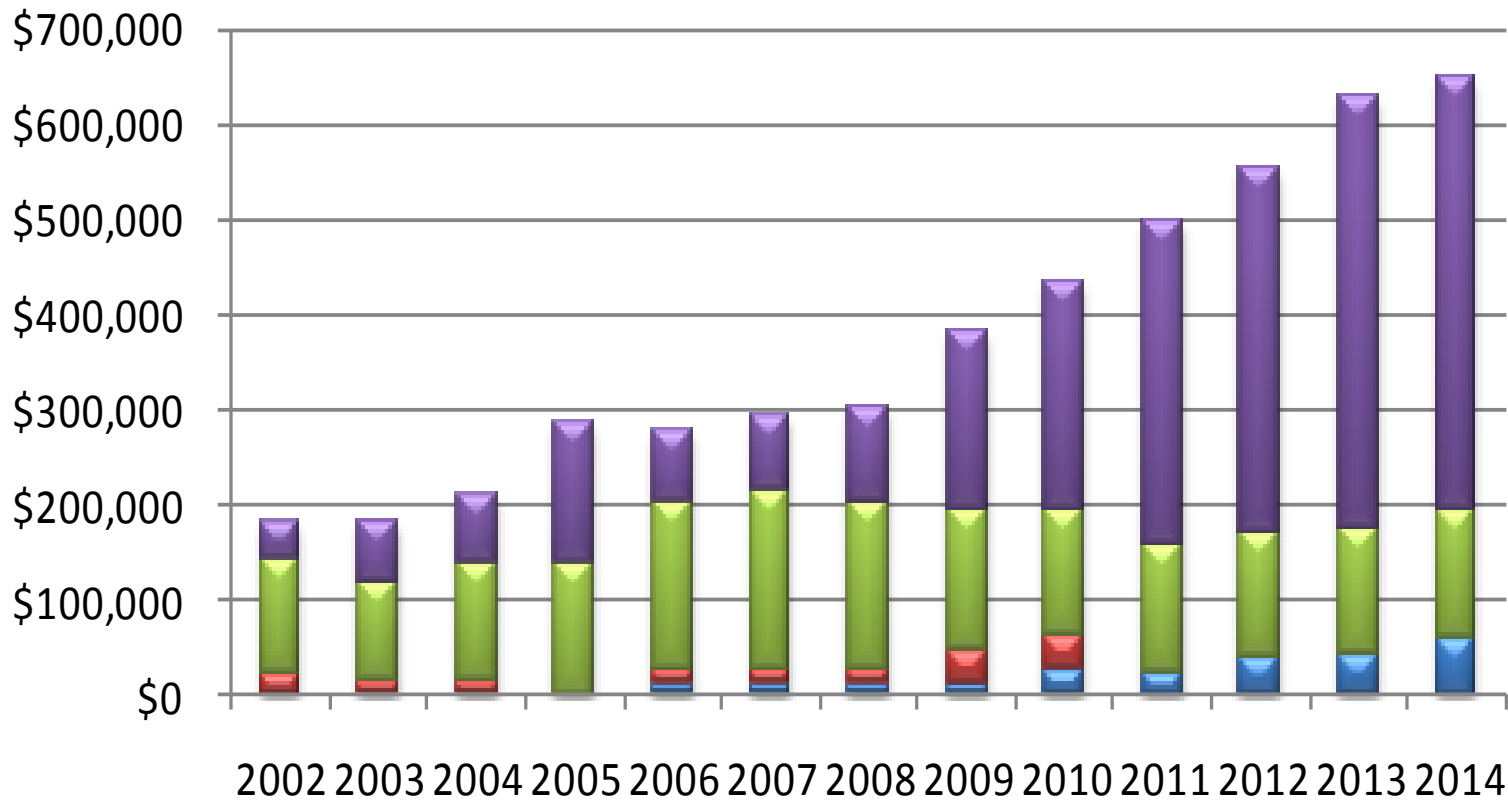
Effect on the MMO

■ Normal Cost ■ Administrative Expense ■ Amortization Payment



Funding the MMO

- Member Contributions
- Funding Adjustment
- State Aid (Expected)
- Net Municipal Obligation



Crisis, What Crisis?

- ▣ Most county and locally sponsored plans are fairly well funded
- ▣ State and a few local (generally city) plans are troublesome
- ▣ Impact of Act 205 of 1984
- ▣ Cutbacks across the nation, necessary or political?

GASB 25 & 27

- ▣ Government Accounting Standards Board currently in process of revamping disclosures
- ▣ Increased disclosure
- ▣ Projection of insolvency date; lower discount rate for unfunded liabilities
- ▣ Likely effective in 2013

Financial Economics

- ▣ What are your pension liabilities worth on the open market?
 - Market interest rates
 - Use of risk-free rates
- ▣ Contrast to corporations which can go bankrupt (current funding rules)
- ▣ Question: Why does this matter?