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Experience matters

Messages from Mockenhaupt – June 2023

Here are some Hot Pension Topics to get your summer started!

Proposed Pension Legislation

There are currently two bills in the state legislature that would affect municipal pension plans provided for uniformed employees – House Bill No. 1379 and Senate Bill No. 464.

House Bill No. 1379 (PN 1539): Ad Hoc COLA for Retired Municipal Police and Firefighters

Introduced in the House on June 12, 2023, this Act would amend Act 147 of 1988, known as the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act. Eligible retirees in payment status would receive a one-time cost-of-living increase in their monthly pension benefit, effective January 1, 2024, determined based on retirement date as follows:

Retirement Date	COLA*
January 2, 2014 - January 1, 2019	\$75
January 2, 2004 - January 1, 2014	\$150
On or before January 1, 2004	\$300

* This amount is reduced by 65% of any increases the retiree received between January 1, 2002 and December 31, 2023

Current Status: Referred to the Local Government Committee on June 12

Senate Bill No. 464 (PN 449): Municipal Police Pension Buyback

This bill was introduced in the Senate on March 14, 2023. It is virtually identical to Senate Bill No. 669 (PN 1674) from last session that passed the House but was never reported out of the House Local Government committee. A summary of that bill appeared in our [July 2022 edition of Messages from Mockenhaupt](#).

Current Status: Referred to the Appropriations Committee on May 1

Latest Pension Plan Status Report Brings Good News!

Biennially, the Municipal Pension Reporting Program issues a [Status Report on Local Government Pension Plans in Pennsylvania](#) based on the results of the most recently filed Act 205 filings. Due to delinquent filings for hundreds of plans, the publication of the Status Report based on January 1, 2021 Act 205 results was delayed, only recently being released in May 2023.

Among the statistics included in the Status Report, those involving Pension Distress Scores are of particular interest since they are issued based on guidelines contained in Act 205 (as amended by Act 44 of 2009) and may require a municipal entity to take certain measures under the Act's recovery program. The Pension Distress Level of a municipality or authority is based on the aggregate funded ratio of all the plans sponsored by the municipal entity, which is determined by dividing the total reported actuarial value of assets by the total reported actuarial accrued liabilities of the plans. Each Pension Distress Level corresponds to a range of funded ratios shown below.

Pension Distress Level	Aggregate Funded Ratio
Not Distressed (Level 0)	90% and above
Minimally Distressed (Level 1)	70% to 89%
Moderately Distressed (Level 2)	50% to 69%
Severely Distressed (Level 3)	Less than 50%

This new Status Report indicates that as of January 1, 2021, 78% of municipal entities that sponsor pension plans were determined to be Pension Distress Level 0 ("Not Distressed"). This percentage has steadily increased since the first Pension Distress Scores were issued based on information reported in the January 1, 2009 Act 205 filings at which point only 53.9% of municipal entities were at Level 0!

As of January 1, 2021, 18.9% of municipal entities were Distress Level 1 (Minimally Distressed); 2.8% were Level 2 (Moderately Distressed) and 0.3% were Level 3 (Severely Distressed).

You can access this and other information from the report on the [Department of the Auditor General's website](#).

Growing Interest in Regionalizing Police Departments

According to the Governor's Center for Local Government Services [Regional Police Guide](#), there are more than 35 regional departments statewide. Based on news reports and client inquiries we've received in recent months there seems to be a surge of interest in considering regionalization.

Consolidation of police services between two or more small municipalities that share borders or are very close to each other could provide significant cost-saving benefits along with an opportunity to improve and expand service. But one aspect of regionalization that many municipal officials often overlook is the police pension plan. There are three primary responsibilities regarding pension benefits that the law requires be addressed.

One - A pension plan must be established for the full-time officers of a regional police department which has a uniform benefit structure and complies with the provisions of state law Act 600, the Municipal Police Pension Law.

Two - Officers of the participating municipalities who are hired by the regional department within six months of establishment must receive pension service credit for all of their full-time service with the municipality.

Three - The participating municipalities must obtain an actuarial cost study for the regional plan. This should be one of the first things that the committee studying the merger should do. Some proposed mergers have failed due to the challenges associated with merging the individual pension plans and establishing the new regional plan. The most common challenges are related to developing a uniform benefit structure that doesn't lessen what participants were entitled to

under their prior municipal pension plan, and the allocable cost of the new regional plan to each municipality relative to the cost of each prior municipal pension plan.

Because of differences in the statutes governing police pension plans, collectively bargained optional benefits among individual departments, and other issues, specific pension benefits can vary from department to department. That can make it difficult to come up with a set of provisions for the regional plan that both complies with Act 600 and does not adversely affect the benefits any of the officers were already entitled to under their prior plan. Before an actuarial cost analysis is prepared, those involved in studying the proposed merger should compare the benefits provided under each municipality's police pension plan and come up with one or more proposed benefit structures for the regional plan to be evaluated. A pension consultant (ideally, someone representing the actuarial firm of one or more of the municipalities involved) can provide valuable guidance in this process.

In addition to the liability associated with active members who will be transferring to the regional department, a pension plan will likely also have obligations for retirees and/or terminated vested participants that will still exist if the municipality's police force is disbanded and a regional department is formed. Most commonly, assets and liabilities of the individual plans are simply combined into the regional plan with the regional commission accepting the responsibility of guaranteeing the promised benefits to former officers of the individual plans as well as the future benefits for current and future active officers. The actuarial study will provide a financial picture of what that combined plan will look like. In other cases, the participating municipalities may retain responsibility for their inactive liabilities and continue to administer their plan until all of those liabilities are satisfied. Deciding how to approach the issue of which entity will be responsible for what liabilities can become complicated, especially if there is a significant disparity between the funded levels of the plans involved. Expert actuarial advice is critical in making these decisions.

Other pension-related decisions and tasks that should be considered:

- Negotiating the pension benefits for the regional plan with the union
- Having a legal pension plan document prepared and adopted for the new regional plan
- Naming a chief administrative officer for the pension plan
- Hiring an actuary, investment manager, custodian/trustee, and any other professional service providers needed to administer the plan
- Identifying who will be responsible for certain administrative tasks through the transition and the timing or deadlines for them (*e.g., notification to the state of the merger of existing plans into the new plan, last valuation reports for individual plans and first report for regional plan, set-up/update of accounts through the Municipal Statistics website, etc.*)

Ideally, the major issues involving the pension plans (including the impact of a potential withdrawal of a charter municipality) will be addressed prior to entering into an Inter-Municipal Cooperation Agreement (IMCA) with details written into the IMCA so that there are no disagreements or surprises down the road.

The regional committee should also review other employee benefits such as medical, dental, vision, disability and life insurance and post retirement health care benefits. The individual municipalities may have different levels of coverage and different providers. It could take time to make changes to plans or move to a new provider. The committee will want to consider this when negotiating the new contract, and plan to get quotes for each benefit using the combined regional group census.

The better informed all of the parties involved in the regional are, the greater the likelihood of a successful merger. Mockenhaupt has been involved in the analysis of proposed regional pension plans and their implementation. Our staff includes experts in the areas of preparing the required actuarial studies, drafting plan documents, and comparing insurance plans.

Where We'll be Next

Mockenhaupt representatives will be at the following events. We hope to see you there!

Local Government Academy Golf Outing	Cranberry Highlands Golf Course Cranberry, PA	August 17
Local Government Academy 40 th Anniversary Luncheon and Intern Celebration Event	Edgewood Country Club Churchill, PA	August 24
Beaver County Local Government Conference	Hilton Garden Inn Monaca, PA	August 24
PA Municipal League Summit	Wind Creek Hotel Bethlehem, PA	October 5-8
Allegheny County & Western PA Association of Township Commissioners Joint Fall Conference	Erie Bayfront Convention Center Erie, PA	October 20-22

Please feel free to reach out to any Mockenhaupt representative if you have a question about any of these topics or a suggestion for a future issue.

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