Pension Fund in Crisis?
News of Jersey’s underfunded plan reinforces PMRS Board’s decisions

Remember the Aesop fable about the ant and the grasshopper? While the grasshopper happily basked in the summer sun, the ant collected and stored food in preparation for winter. When winter came, the ant was safe from hunger and was able to live comfortably through the cold season. Meanwhile, the grasshopper who spent more time enjoying the fruits of summer, perished during the winter from starvation. The moral of this story of course is the importance of planning for the future, especially for possible difficult times. This is an all too painful lesson being re-taught to pension plan administrations throughout the nation. We were reminded of the fable due to a recent news story involving local government pension plans in the state of New Jersey.

D. McNichol of the New Jersey newspaper The Star-Ledger, recently reported that state taxpayers would likely be experiencing local property tax hikes of approximately $208 million this year to fund increases in pension costs. Apparently New Jersey’s municipal retirement plans are underfunded by as much as $35 billion which is expected to lead to tax increases of as much as 110% in some municipalities for the year 2006. How did this happen?

In the 1990’s when the stock market soared, New Jersey local officials, like many pension plan officials, did not see the necessity of saving. As the stock market continued to perform well, officials tended to enjoy the good times by taking funding breaks or increasing benefits. As we all know now, the spectacular market performance did
not continue long into the new century. Stocks actually plummeted sharply between the years 2000 and 2002. Now, those retirement funds that did not save their previous good bounty are forced to recover from the hard times.

This unfortunate turn for New Jersey residents, however, confirms the System's wisdom of building a reserve for less plentiful times. The Board's ability to enforce discipline and strictly adhere to its fiduciary responsibilities has enabled PMRS plan members to escape the recent ravages of the less generous market.

Commenting on the situation, Secretary J. Allen, stressed the importance of understanding the Board's recent decisions. In keeping with the Board's financial goals, he said that mathematically it made more sense to take a conservative approach for the future and award excess interest only after a reserve had been put in place. Much like the ant in the fable, the Board's strategy will help to ensure that the System is able to continue funding the 6.0% regular rate of interest, even during poor performing market years. It will be less likely that PMRS-administered plans will need a massive infusion of taxpayer dollars.

The following example may demonstrate the story more graphically.

**Example**

It is first important to realize that municipalities who have their pension plans enrolled in a typical PMRS plan have less risk associated with their retirement funds than those who are not members. The chart demonstrates what actually happened to PMRS plans versus a hypothetical plan solely invested in a Standard & Poor's 500 Index fund. If we loosely assume that underfunded plans such as those in New Jersey followed the same path as the S&P 500, we see that slow and steady wins the race. To confirm this theory, we've tracked what both types of plans would have been credited over the last ten years (assuming both plans started with $100 on December 31, 1994). Keep in mind, each PMRS member plan is assured a regular rate of interest even during poor market years. This is due to the Board's reserve standards. A plan that chooses to relax its reserve efforts diminishes its chances of successfully riding a rough market cycle.

A non-PMRS member plan (one that invested only in the S&P 500 index) would have seen their fund balance grow significantly to $255 by 1999. Just three years later, however, the value of the S&P 500 investment would have dropped dramatically to $159. The PMRS plan on the other hand, would have steadily increased to a value of $231. By December 31, 2004, the PMRS plan would have outperformed the S&P 500 by approximately $35 over the ten-year timeframe.

The Aesop fable tells us that preparing for the future during the good times will help to carry one through the rough times. The chart validates this philosophy. It also shows that the Board's conservative approach to
**Defined Benefit Plans**

Defined Benefit Plans use State Aid to pay the plan’s MMO (Bill). If the State Aid is more than the MMO, the total State Aid amount must be forwarded to PMRS to be deposited into their pension plan. If the State Aid is less than the MMO, the balance of the MMO must be paid with Municipal Funds. Although the State Aid must be deposited into a Pension Plan within 30 days of receipt, the balance of the MMO is not due until December 31. To insure accuracy, complete a Revenue Transmittal Form (PMRB-20) to list the State Aid and Municipal Funds.

A Defined Benefit Plan that has already paid the MMO should notify PMRS of the amount reimbursed to the Municipal or General Fund. If the State Aid received is more than the paid MMO, the balance must be deposited into a Pension Plan within 30 days of receipt accompanied by a PMRS Revenue Transmittal Form (PMRB-20).

**Defined Contribution Plans**

Defined Contribution Plans must total all expenses for the current year that were previously remitted to PMRS. This includes the Annual Bill for Administration Costs, Municipal for Member Contributions, and New Member Applications Fees. If the amount of State Aid received is less than the total paid expenses, inform PMRS of the amount of State Aid used to reimburse the General Fund for paid expenses. If the State Aid received is more than the total expenses, the balance must be remitted to PMRS accompanied by a PMRS Revenue Transmittal Form (PMRB-20). This amount must be used as a credit against the plan’s 4th quarter obligation. Any excess State Aid not used for current year expenses must be returned to the Auditor General’s Office.

**Municipalities with more than one pension plan**

State Aid may be allocated among the plans at the discretion of the municipality. Please inform PMRS of the amount of State Aid received or allocated to each pension plan. Below is a sample memo to PMRS:

<table>
<thead>
<tr>
<th>Amount of State Aid received</th>
<th>$9999.99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimburse General Fund Plan A</td>
<td>-1111.11</td>
</tr>
<tr>
<td>Reimburse General Fund Plan B</td>
<td>-2222.22</td>
</tr>
<tr>
<td>Remaining State Aid</td>
<td>$6666.66</td>
</tr>
<tr>
<td>Allocate State Aid to Plan A</td>
<td>?? ??</td>
</tr>
<tr>
<td>Allocate State Aid to Plan B</td>
<td>?? ??</td>
</tr>
<tr>
<td><strong>Total State Aid to PMRS</strong></td>
<td>$6666.66</td>
</tr>
</tbody>
</table>

While this review of State Aid may not answer all questions, we hope that you'll find it a useful tool in the years to come. Should you have questions that were not addressed in this issue, please do not hesitate to contact us. We welcome the opportunity to provide you with assistance.

**State Aid (pg 1)**

reserving funds during financial prosperity, helped to stabilize, even strengthen, the System’s funds. Unlike many pension plans throughout New Jersey and the nation, there should be little need to dramatically increase taxpayer funding for the System’s plans.


**State Aid (pg 1)**

![The 2005 unit value for State Aid is $2,926.7726.](image-url)
What Does it Mean?
Focusing on retirement terminology

Understanding your retirement plan and how it benefits you can be tricky if you are not familiar with retirement vocabulary. When in doubt, please take a moment to check the glossary on the home page of our website at www.pmrs.state.pa.us. If you are unable to locate a particular definition, please contact us and we will be happy to add it to our list or to answer any questions.

To avoid leaving anyone behind, we wanted to briefly review vesting and how it relates to your plan in general. Vesting allows a member to terminate employment before they are eligible for normal retirement and defer receipt of their monthly benefit until they are eligible to receive a normal retirement benefit.

That means that a member who terminates employment after completing sufficient years of service to vest, may elect to leave their total accumulated deductions in the fund and wait to receive their retirement benefit until they have reached normal retirement age.

Eligibility requirements for vesting vary from plan to plan and typically range from one to twelve years of service. While many people commonly refer to a member as being “vested” once the individual has completed the required service to be eligible for vesting, PMRS does not consider a member to be “vested” until that member has terminated employment and has filed the necessary application for a vested benefit.

A member who terminates employment and is eligible to vest must file an Application for Retirement electing a vested benefit within 90 days of termination. Failure to file the application within 90 days of termination will result in the forfeiture of the vested benefit and the member will only be entitled to a refund of personal contributions and credited interest. If you have any questions concerning your plan’s vesting requirements, please contact Ben Mader at 717-787-2065 or by email at bmader@state.pa.us.

What does it mean?
October 5  
PMRS pre-retirement seminar in Danville, PA  

Note: The pre-retirement seminars are primarily designed for those individuals who are within five years of normal retirement. A registration form has been mailed to these employees, however, the conferences are free to all members. Spouses and/or beneficiaries are encouraged to attend.

October 26  
PMRS pre-retirement seminar in Allentown, PA

October 28  
Retiree checks mailed from PMRS.

October 31  
State Aid must be deposited into a pension plan.

November 1  
Deadline for returning the Quarterly Reports for the 3rd Quarter to PMRS.

November 9  
PMRS pre-retirement seminar in York, PA

November 17  
Pennsylvania Municipal Retirement Board Meeting.

November 29  
Retiree checks mailed from PMRS.

December 15  
PMRS deadline to pay current year MMO to insure the payment is properly credited to plan’s account in the current year.

Note: The legal deadline for payment is December 31.

December 20  
Next year’s pension bill (based on MMO prepared in September) mailed from PMRS.

December 29  
Retiree checks mailed from PMRS.
Below is a list that provides you with information on the four divisions within PMRS. Brought to you by our Division Chiefs, this segment includes tips on who to contact, things to remember, or other bits of information that might be of interest. Please check our website for continued updates and future newsletter publications featuring this helpful information.

**Divisions**

**Accounting**
- Renny Witmer, Chief
- Manages the System’s investments, prepares financial reports, and maintains municipal and member financial accounts.

In accordance with Act 205 of 1984, the legal deadline for yearly payment of the MMO is December 31st. The deadline to submit 2005 MMO payments to PMRS, however, is December 15, 2005. Any unpaid 2005 MMOs as of January 1, 2006, will be assessed interest of 6.0% from January 1, 2005 to the date of payment. The interest is credited to your pension plan to make up for interest lost due to the late payment of your municipality’s obligation.

**Membership Services**
- Ben Mader, Acting Chief
- Manages individual member records, prepares year-end member statements, and processes monthly payments to retirees.

The annual Pre-Retirement Seminars are in full swing. For dates, locations, and directions, please check our website or feel free to contact us with any questions. For members who are unable to attend, we hope to have a slideshow presentation available on our website in the near future.

**Municipal Services**
- Ben Mader, Chief
- Visits prospective member municipalities, maintains municipal records and contracts, conducts cost study analysis, and administers plan upgrades.

The Public Employee Retirement Commission (PERC) has begun mailing the January 1, 2005 Act 205 Reporting Forms to municipalities. The completed reports must be filed with the PERC by March 31, 2006. If your municipality’s pension plan was administered by PMRS as of January 1, 2005, we will complete the Act 205 Report for you. There is no need to send us the blank form.

**Operations**
- Cynthia Davis, Chief
- Consists of several sections that assist in various areas such as information technology, human resources, administration, and communications.

The Operations Division is conducting a search for a new Chief of the Membership Services Division. Chief Ben Mader of Membership Services has permanently transferred to the position of Chief of Municipal Services due to the recent resignation of Lee Hughey. B. Mader will continue to serve as Acting Chief of the Membership Services Division until a replacement has been named.

**Contact Us**
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