Survivor Benefits
A Closer Look at Option IV Benefits

In the last edition of the Spotlight, we discussed several of the options available to members upon retirement. Important to the decision is the type of “guaranteed” benefit the retiring member wants to provide in the way of survivor benefits upon their death. We also detailed the four standard options – Single Life Annuity, Option I, Option II, and Option III – which are available in almost all of PMRS’s plans.

There are two options that are not as common but can, in most cases, be added to the municipality’s plan. These are the “Option IV” benefit and the “Spouse’s Pension” benefit. In this article, we will explain the “Option IV” choice. In the next issue of the Spotlight, we will discuss the Spouse’s Benefit option.

Adding the “Option IV” benefit to a plan allows the member to receive a lump sum payment at the time of retirement. This single check will equal the member’s personal contributions to the plan and the regular interest that has been credited to these contributions. The lump sum does not include any excess investment monies (excess interest) that may have been awarded to the member.

The member will then receive a monthly annuity from the municipality’s contributions and excess interest. Because the retiring member has taken a portion of the value of their retirement benefit in a single payment, the monthly benefit payable to them becomes a “reduced” benefit.

The monthly benefit is calculated on only the “remaining” present value of the account (the municipal contributions and excess investment monies). The member still can choose to provide for survivor benefits by selecting the standard options (Single Life, Option I, Option II, or Option III) but now they will be referred to as Reduced Single Life, Reduced Option I, Reduced Option II, or Reduced Option III.

Adding the Option IV benefit to a plan does not increase the cost of the pension plan to either the municipality or the member. There is no change in the value of the benefit earned and being paid. What is different is that the member has several more ways to receive that benefit. As a result, a cost study is not needed for a municipality to add Option IV to its plan. (Article continued on page 2...)

PA Municipal Retirement Board Actions

Seven months into 2008, the Pennsylvania Municipal Retirement Board (Board) determined that this was not going to be a “typical” year. The markets were not acting normally, fear had crept into the markets and trust had vanished. The Board was faced with several very important decisions and it wanted to be prepared for the instability that had started to grip the financial markets. We believe you should know about the fiduciaries entrusted with your pension plan and how they are attempting to act in your best interest.

PMRS’s investment consultant, Richard Dahab, noticed the first hint of abnormality in late July. Merrill Lynch had announced the sell of securities (bonds) at a value of 75% less than they had been traded days earlier. Taking the precautionary approach to his and our charge of managing the assets, he recommended that the Board lend the System’s securities only to those who would provide government securities as collateral. The securities lending program could not implement this restriction and, as a result, the Board held a special meeting in the first week of August to discuss withdrawing from the securities lending program. (Article continued on page 3...)

WHAT’S NEW?

Please visit www.pmrs.state.pa.us/forms/index.html to view and access the latest versions of PMRS forms. Recently revised and now available on the web is a user-friendly version of PMRB-20. Please check back often for updates.

PMRS has released a statement regarding the current volatility in the stock markets which addresses our stability and our continued ability to meet your expectations. To read the letter from the Secretary, go to www.pmrs.state.pa.us and click on “Board Issues Statement About Financial Market Crisis” on the main page under “In the Spot Light.”

Also on the main page, PMRS has posted the 2007 SAS-70 audit for your perusal.

Do you keep checking the mailbox for your 1/1/2008 Act 205 report? Stop! Since the reports are issued every other year, you will not be receiving one in the spring. Instead, look for the 1/1/2009 report in the first quarter of 2010. ♦
As part of our outreach initiative, PMRS unveiled our brand new display in September at the Pennsylvania Municipal Authorities Association (PMAA) Annual Conference. Pictured to the left at the PMRS booth are Municipal Services Division Chief Ben Mader, the current PMAA representative to the PMRS board, Duane Filchner, and past PMAA representative and former Board Chairman, Doug Bowen.

The display, which features the new PMRS logo and agency vision statement, was warmly received. Both conference attendees and fellow exhibitors especially enjoyed the rocking chairs, and the relaxing backdrop allowed them to envision their own retirement. The new exhibit will be displayed at the various municipal association conferences in 2009. We encourage you to stop by and envision your retirement from PMRS!

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In The Know

Welcome to “In the Know!” Do you have a question regarding your pension plan? Would you like to know how your benefits are calculated? Funded? Or maybe you want to know how they are paid? Send your queries to “In the Know.” All questions will be answered via a response sent directly to the individual requesting the information. Some will be used as features for this newsletter. If you would like to remain anonymous, please let us know. Questions can be e-mailed to us at “ra-staff@state.pa.us” (please insert in the Subject: “In the Know”) or they can be sent to:

In the Know column
c/o PMRS
P.O. Box 1165
Harrisburg, PA 17108-1165

Our first question involves the issue of rollovers. It and the answer are presented below as the first of (hopefully) many to appear in the “In the Know” column. We hope to hear from you soon!

Q. Some of our employees have money in Individual Retirement Accounts (IRAs) that they would like to rollover into the PMRS plan. Is this allowed?

A. Most important is the type of plan or vehicle from which the employee is attempting to roll monies. In many cases, PMRS can accept rollovers from other pension plans. In some cases the rollovers from specific IRAs are prohibited.

The answer also depends on the specific plan benefits contained in the municipality’s contract with PMRS. It is very important that members check with the Membership Services Division staff in our office prior to initiating any rollover of funds to PMRS.

If PMRS can accept the rollover, here are a few other things that members should keep in mind when making a decision to rollover monies to a PMRS plan:

✔ PMRS Law does not allow members to make any kind of in-service withdrawals nor take loans against their account. This means that once the money is deposited to the PMRS account, members may not access these funds prior to termination of employment or retirement.

✔ The PMRS regular interest rate (currently 6%) is set annually by the PMRS Board. This rate is only guaranteed on a yearly basis and may increase or decrease in the future. The value will remain 6% for 2009.

✔ If the PMRS plan is a “defined benefit” plan, the municipality will decide how any excess interest awarded by the PMRS Board will be allocated. There is no guarantee that any excess earnings above the regular interest rate earned on the member’s rollover monies will be credited to the member’s account. In “defined contribution” plans, excess interest earned on the member’s money is automatically allocated to the member’s account.

Rollovers must be processed using a Trustee-to-Trustee Transfer Form which can be obtained by contacting PMRS at 1-800-622-7968.

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The best time to start thinking about your retirement is before your boss does. –Unknown–
The Board Actions... article continued from page 1

The Board agreed with R. Dahab that the markets had become much riskier and that the risk was no longer worth the potential investment income that had been derived from the activity – approximately $600,000 year-to-date. The Board voted to call back all of the System’s securities that were out on loan as soon as prudently possible. This was a decision that saved the System from exposure to the significant losses others incurred in defaults and liquidity traps.

The second tough decision faced by the Board came in September. In light of continuing investment losses in the various markets, the Board took additional action to protect the stability of the fund. Consulting actuary to the Board, Ken Kent of Cheiron Inc, reported that, based on 2007 investment performance and previously established Board policy, the excess interest formula would produce an excess interest award in 2008 of 1.25%. The Board decided, for the first time in twenty-four years of the policy’s existence, against making a distribution of excess interest in 2008. The Board felt that it would be more prudent to maintain the excess interest earnings in the fund as a cushion to help the System meet its obligation to pay the regular interest of 6% set for 2008, regardless of actual earnings. It was noted that, if the investments recovered before year-end and the fund earned more than the 6% it needed to pay regular interest, the surplus monies that had been retained this year would be added to the surplus available for distribution in 2009. Given the further erosion in the various financial markets, that decision looks to have been very prudent.

Finally, at the November Board meeting, the Board took what may have appeared to be a counter intuitive action. It set the regular rate of interest the System will pay in 2009 at the same 6.0% rate we have been crediting our funds since January 1, 2005. When the question was asked should the Board lower the rate given the dismal news being generated by the investment community in general, the response was to examine the issue with a long-term perspective. It was noted that, based on the System’s returns for the last three year, the last five year and the last ten year periods, the System was able to earn more than 6.0% on an annual basis. (As of June 30, 2008, the three year number was 7.2% annually, the five year number was 10.0% and the ten year number was 6.7%). This was no small feat given the major shock which affected the markets in 2000-2001 and the current fiasco. The Board agreed that, while it was important to be conservative, it would NOT be prudent to be reactionary and lower the rate. It was with this confidence and commitment that the Board elected to continue to credit the regular rate of interest in 2009 at the 6.0% level.

Throughout 2008, the Board has made many difficult decisions managing the trust placed in their hands. No three decisions could better reflect the concern, the commitment, and the character the Board has shown in fulfilling their obligations.

Seasons Greetings from PMRS!

The Board and staff of PMRS want to send to you and yours a wish of joy and hope. May your holiday season be the most heartwarming and jovial one ever. ’Tis the season for anticipation and dreams. May all of yours come true in 2009.

We know that the events that unfold around us can be disheartening. Perhaps what we should remember is that there is always one thing that we as individuals can control - that is our attitude and how we react to the uncertainty that will greet us in the New Year. Let us all resolve to meet that unknown with a smile and a bit of optimism! ♦
Calendar of Events

January 1 - December 31
Annual Minimum Municipal Obligation (MMO) due (should be paid before December 15 to insure the payment is credited to the current year).

January 1 - Office closed, State Holiday

January 15
Pennsylvania Municipal Retirement Board Meeting.

January 15
State aid certification form (AG-385) and the police and firefighters post-retirement adjustment (Act 1988-147) certification form (AG-490) mailed to municipalities by the Auditor General’s Department; AG-385 form Allocations for volunteer fire relief associations and for State pension aid for cities, boroughs, and townships; AG-490 form used to apply for reimbursement of ad hoc (Act 147) pension increases paid to retired firefighters or police officers.

January 19 - January 23
1099-Rs mailed from PMRS.

January 19 - Office closed, State Holiday

January 29
Retiree checks mailed from PMRS. (Directly deposited pension payments deposited to retirees’ accounts on January 30.)

February 1
Deadline for returning the Quarterly Reports (PMRB-21) for the 4th Quarter 2008 to PMRS.

February 1 - May 31
Governmental Accounting Standards Board (GASB Statement No. 25) information (financial statements and accompanying notes for 2008) mailed to plan contacts. (Actual mailing date dependent upon processing date. See www.pmrs.state.pa.us for updated schedule.)

February 1 - May 31
Individual “annual statements” mailed to members’ home addresses with a copy to employing municipality. (Actual mailing date dependent upon processing date. See www.pmrs.state.pa.us for updated schedule.)

Note: Financial and member statements will be prepared on a “first-come, first-served” basis, based on when the municipality submitted the completed information. Municipalities and members can track mailing progress via monitoring daily posting of schedule on PMRS web site.

February 16 - Office closed, State Holiday

February 26
Retiree checks mailed from PMRS. (Directly deposited pension payments deposited to retirees’ accounts on February 27.)

March 18 & 19
Pennsylvania Municipal Retirement Board Meeting (Annual Investment Review).

March 20
Quarterly Reports for the 1st Quarter 2009 mailed to municipalities.

March 30
Retiree checks mailed from PMRS. (Directly deposited pension payments deposited to retirees’ accounts on March 31.)

March 31
Act 293 Actuarial Valuation Report for January 1, 2008, due at the Public Employee Retirement Commission (County plans only).

Note: The reports are completed by PMRS. Upon receipt of the valuation from PMRS, the county’s chief administrative officer for the pension plan must review, sign and forward the valuation to the PERC.

March 31
Deadline for filing state aid certification form (AG-385) with the Auditor General’s Office (cities, borough, towns, and townships only).