Truth, Transparency & Integrity

Of late, there seems to be more than just a little confusion associated with “the funding crisis” involving public pension plans. PMRS does not want to get into the middle of the finger pointing or the casting of aspersions on any one party or actor in the mix of things. There is enough of that going on already. What we do want to do is offer some observations on truth, transparency, and integrity surrounding the considerations. It seems in all of the lobbying and arguing going on, these three virtues have been overlooked.

Let’s start with one truth - we have a number of large public pension plans right here in Pennsylvania that are seriously underfunded by their own admission. When one looks at just the public statements and reports that are coming from the Pennsylvania Public School Employees’ Retirement System (PSERS), the Pennsylvania State Employees Retirement System (SERS), and the cities of Philadelphia and Pittsburgh there is combined an unfunded liability of $47 billion. Yes, that is a “b” as in billions of dollars. To be precise about the unfunded liability, let’s look at the following unfunded liabilities by plan/employer:

- PSERS: $29.5 billion (66%) unfunded
- SERS: $17.8 billion (59%) unfunded
- Philadelphia: $4.8 billion (50%) unfunded
- Pittsburgh: $380 million (62%) unfunded

A second truth is that the Pennsylvania Municipal Retirement System, while a large public pension system which is responsible for close to 1,000 pension plans, is not in the same predicament as these other funds. As of January 2012, the combined assets and liabilities of all the plans we administer yields an overfunded status of $66 million. Stated another way the PMRS was nearly 104% funded as of January 1, 2012, which is the date of the last actuarial valuation.

IN THE SPOTLIGHT!

The Pennsylvania Municipal Retirement System is currently reviewing and updating all their PMRB forms. As each form is updated, it will be placed on the PMRS website. We realize that some municipalities are using our older forms and we ask that you discard these older forms and only use the new ones that are currently available online.

If you have any questions on the forms or need any assistance in completing them, feel free to contact the Membership Services Division at PMRS. They can be reached at 1-800-622-7968.

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IN THE SPOTLIGHT!

Please Let Us Know!

If your municipality’s address, phone or fax numbers have changed, please contact PMRS to update your information.
If a new Point-of-Contact has been named for your municipality, please let us know as soon as possible so that we can get the right information to the right person.

Thanks!

Municipal Services
Putting Municipalities First

As Municipal Services Division Chief Anthony Pinto sits behind his desk in the PMRS office, the stacks of neatly arranged folders in front of him seem to change in number every day, and he hopes they are decreasing. “We are in the midst of a significant project here that is occupying a majority of my time as well as that of my staff,” he adds. That project is the implementation of a new contract format for each of the more than 960 plans administered by the System. These new contracts, once approved by the PMRS Board, will ensure that each of our municipality’s pension plan contracts is in compliance with the Internal Revenue Code.

Anthony stated that PMRS began rolling out these new contracts in 2011 in response to the increased level of scrutiny aimed at public pension plans by the Federal government. As a result of these efforts for greater transparency, the division continues to work extensively with its member municipalities and the PMRS legal counsel to see to it that each of the plans adopt this new format.

(See Truth..., Page 2)

(See Municipal Services, Page 3)
Let us turn to the issue of transparency with a popular quote in mind—“Figures never lie but liars often figure.” While it may appear that the confusion that exists is caused by all of the liars throwing out different figures, we would argue that this is not the case. We believe that part of the problem is many, perhaps too many, good people are using numbers and terms that are not transparent. Each profession or field of study has developed its own special language and terms. In the current debate, at least two professions, actuaries and accountants, are bantering about terms that are not transparent—not to each other’s practitioners and certainly not to the general public.

How many among us understands the difference between a plan’s “actuarial value of assets” and its “market value of assets”? More importantly how many understand the impact of substituting one of these numbers for the other in a discussion of a plan’s unfunded liability? And to drive the point home, should we use the market value of assets in reporting PMRS’ aggregate funded status, we would then have to say the system is only 86% funded as opposed to 104% funded. Imagine what those other large plans would have to identify as their funded status if they used the market value of assets in their calculations.

Those of us participating in the debates surrounding public pension plan funding owe it to our constituents and the general public to be as transparent and informative as we can be. We should not try to hide behind the terms we use just to promote one side of the debate or the other. Let’s use commonsense terms and language that conveys the principle issue being discussed. Frankly, from an actuarial perspective, using the actuarial value of assets to define a plan’s unfunded status makes a great deal of sense. We should be seeking clarity and understanding, not promoting ambiguity just to sway the argument.

The issue of transparency leads to a concern for the integrity of the numbers. That concern is the confusion that stems from transparency issues glosses over a bigger issue—that of the integrity of the numbers and the process being used to try and frame the debate. Pension administration is very simple and at the same time very complicated. At its simplest, it’s a matter of paying a person a monthly benefit for the rest of their life. No matter who is administering the pension plan, in the long run the cost will be exactly the same. If we owe Joe Employee $1,000 a month for the rest of his life, when he dies we will know exactly how much the pension benefit has cost. It will be $1,000 times the number of months Joe Employee gets a check.

At its most complicated though, pension plan administration is steeped in measuring risk and probabilities. It is about making reasonable assumptions and not taking unnecessary risks. Our hope is that when making the decisions about risks and assumptions they are being made by people with integrity—people whose judgment is not clouded by factors other than their obligation to pay Joe Employee that $1,000 a month for the remainder of his life. People who understand that the risk associated with making that payment is not a 50/50 probability but rather a 100% obligation. The debate needs people who are willing to address lifetime expectancies rather than short-term expediencies. We believe the trustees and staff at PMRS have proven themselves willing to address the truth, transparency, and integrity of pension administration and the pension funding debates. We encourage our members to challenge us on our belief. We also encourage the general public to seek the truth and transparency surrounding those on all sides of the issue.

In our next issue of The Spotlight we will address the integrity issues surrounding actuarial assumptions versus realized experience. We will also explain why PMRS’ conservative approach has been helpful in preventing the system from undergoing the kind of crisis that the other large public funds in the state have had to face. And finally, we will be touching upon the “other” decisions that have set PMRS apart from these funds.

**Accounting Division**

**A Friendly Reminder**

We would like to remind our municipal contacts that when forwarding any payment to PMRS for deposit, please complete a Revenue Transmittal Form (PMRB-20). The municipality may issue ONE check for multiple plans (Non-Uniform, Police, Fire or Authority) but must complete a separate PMRB-20 for each plan. Conversely, if a municipality must issue multiple checks for one plan, only one PMRB-20 needs to be completed and the total amount of all checks should be listed as “The Check Amount $”.

This form enables PMRS to properly credit the payment to the appropriate account. Please indicate the source of the payment and the account to which the payment should be credited. Any supporting documents such as Application for Membership Form (PMRB-1) and Nomination of Beneficiaries Form (PMRB-2), Municipal Yearly Bill (MMO), or Purchase of Service Form of Payment Option (PMRB-7) should also accompany the remittance.

If the township has access to the internet, the PMRB-20 can be completed online, printed, and mailed to PMRS (See http://www.pmrs.state.pa.us/forms/money/pmrb20.pdf).
On August 26, the Pennsylvania Municipal Retirement System welcomed Nat Raney to its staff to serve as the agency’s investment relationship manager. This new position will serve as the agency’s liaison with the fourteen money managers that PMRS currently has under contract. He will visit with both current money managers along with potential investment managers and seek to develop strong working relationships between the managers and the PMRS Board.

According to PMRS Secretary James Allen, “My experience tells me we have a number of good professional people involved in managing the trust’s $1.7 billion corpus. What the Board needs is someone they know and trust, who is loyal only to the trust, and available to monitor, coordinate, and report on the activities of all the investment professionals. This new Investment Relationship Manager is going to fill that role.”

Mr. Raney comes to PMRS after working for the Pennsylvania Emergency Management Agency as well as time served in the private sector. He is a ten-year veteran of the U.S. Air Force where he was stationed in England and Japan. He has a business and management degree from the University of Maryland and an MBA from the City University of Seattle.

PMRS is excited about Nat joining the staff and look forward to his contribution in the continued growth of the portfolio.

“I commend the work of my staff and all the municipalities for all they have done in getting us to this stage of the process.” With almost a third of the plans now in the new format, they hope to see this undertaking completed within the next two to three years.

“The response of the municipalities to this point has been excellent,” he says. Each of the municipalities receive a three to four page contract checklist they must complete and return to the PMRS office. “Their willingness to assist us with this transition is most appreciated. Without the cooperation and active participation of our members this effort would not be successful.”

Though they are just a three man unit, they have an efficient group that is staying on top of the issues they face on a daily basis. Plan amendments are finalized, cost studies continue to be processed and of course they are always available to field questions concerning the System from municipalities across the Commonwealth.

Anthony’s staff consists of Bob Porambo and Larry Taliani. “Bob has been with PMRS for 11 years and is the veteran of the group with a strong knowledge of PMRS and its operations. Larry is the newest member of the team and brings a great deal of enthusiasm and dedication to his work.” Anthony himself took over as chief in 2012 following the retirement of long-time PMRS employee Tina Eisenhart. Prior to that, he served as a Field Operations Coordinator within the division.

One of the aspects of his job that Anthony enjoys most is interacting with a wide variety of individuals each day. “During a normal day I might speak with municipal employees, bargaining representatives, actuaries, attorneys, and elected officials. Every day is an opportunity to learn, not just about pension administration, but also about the people directly impacted by the plans we are responsible for administering.”

On the national stage, pensions and pension benefits continue to be a political “hot button issue.” Nationwide, on both the state and local level, there is a great deal of conversation taking place on how to safeguard the retirements of scores of municipal and state employees. He acknowledges the importance of this issue and believes that PMRS, with its record of plan administration, is well positioned to be a valued part of the conversation.

“Our members choose to enroll in the system and from their choice comes our obligation” he asserts. He goes on to relate how PMRS works with each municipality in order to tailor its plan(s) to their specifications. He noted he expects the number of field visits to increase with visits to existing plans as well as those who may have some interest in joining PMRS.

“To Anthony, client service is a critical part of his job. “While I enjoy bringing in new plans, I want to continue to provide excellent customer service to our existing plans. I try to put myself in the shoes of whoever I am working with. If it is important to them, it must be important to me.”

For questions about your pension plan, please contact the staff of Municipal Services at 1-800-622-7968.
PMRS on PCN

Pennsylvania Municipal Retirement System Secretary James Allen recently participated in one of a series of panel discussions on the topic “Local Governments in Distress”. The series was filmed by the Pennsylvania Cable Network. Secretary Allen participated in the third segment on municipal pension obligations and OPEB (Other Post-Employment Benefits). The series in its entirety can be seen at the link below:

http://pcntv.com/local-governments-in-distress/

October 11
Deadline to send completed and signed MMO form to PMRS.

October 14
Holiday: Columbus Day (Office Closed)

October 25
Deadline to deposit State Aid into your pension plan(s). Notify PMRS of the amount of State Aid received and allocated to your pension plan(s).

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

November 11
Holiday: Veterans Day (Office Closed)

November 21
Pennsylvania Municipal Retirement Board Meeting.

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

November 28 & 29
Holiday: Thanksgiving (Office Closed)

December 23
Quarterly Reports for the 4th Quarter mailed to municipalities.

December 25
Holiday: Christmas (Office Closed)

December 26
PMRS deadline for municipalities to pay current year MMO to insure the payment is properly credited to plan’s account for current year. The legal deadline for payment is December 31.

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

January 1
Holiday: New Year’s Day (Office Closed)
**Our Mission**
The Pennsylvania Municipal Retirement System seeks to help Pennsylvania’s local governments, regardless of size or resources, secure the future retirement of their employees by providing comprehensive, cost-efficient and professional pension administration services through a pension plan tailored to the participants’ and sponsor’s requirements.

**Our History**
Years ago, PMRS came into existence with just over 170 plans. In sharp contrast, the agency now provides full-service plan administration to nearly 1,000 plans. The objective of the PMRS board is to provide customized plan benefits to all local government entities in Pennsylvania while instituting policies that safeguard the investments of more than 14,000 individual members in the most cost-effective manner.

**ROLLING WITH IT**

PMRS currently has approximately 10,000 active members working for various municipalities across the commonwealth. There are another nearly 5,000 retired members who are currently receiving pension benefits through a monthly payroll of over $5 million. As the baby boomer generation advances in years, more and more members of PMRS will make that long-awaited transition from active member to retiree. While the average PMRS member will some day simply receive a monthly pension check for their credited service, some members will be faced with a decision to make regarding a lump sum payment.

The two types of lump sum payments we see the most of are “terminations” and Option IV payments. A termination simply refers to a member’s separation from his or her employer that results in a subsequent termination of membership from PMRS. While this could be the involuntary termination of a position in the municipality, it also refers to the employee leaving his or her position to seek other opportunities with an employer who is not a PMRS member municipality. For example, if you leave your employer to go to another employer not in the PMRS system, and you do not qualify for retirement benefits or the ability to vest, you will terminate your membership with PMRS and be refunded any personal contributions you have ever made along with interest attributable to those contributions in a lump sum check.

Another lump sum situation we encounter is from what is known as Option IV. All member municipalities offer their employees at retirement the options of a Single Life Annuity, Option I, Option II, and Option III. However, some municipalities also include Option IV; which can be confusing because it’s not an option entirely by itself. When you enter retirement from a municipality that offers Option IV, you will select Single Life Annuity, Option I, Option II or Option III; but, you also have the ability to take a reduced monthly pension payment and withdraw all of your personal contributions and regular interest in a lump sum.

Whether it’s a membership termination or an Option IV payment, you have some choices in how the lump sum is distributed. Some members decide to simply receive a check for the entire amount. If you do that, PMRS must withhold 20% for federal income tax on the taxable portion of your distribution. The amount withheld will be sent to the IRS and credited towards any income tax liability you may have for that year. Depending on your individual circumstances, you may be eligible for a refund of some of the tax when you file your tax return at the end of the year, or you may owe additional tax. You also have the opportunity to roll over all or a portion of your distribution to an IRA or other qualified plan. As there can be more to making the decision of a rollover than you may think,
What’s New
PMRS Membership Services welcomes Bryant S. Taylor to the team. Although Bryant has been with PMRS since 2007, June marked the beginning of his new adventure as a Retirement Technician.

Taking over for Janis Rhodes, who left PMRS in May, Bryant will be serving members from Pennsylvania’s cities and authorities. Some of the duties he’ll be performing include processing enrollment applications for new employees, preparing retirement estimates, and providing customer service to thousands of members.

A 2006 graduate of Central Dauphin East High School in Harrisburg, Bryant is no stranger to the state capitol. Prior to joining PMRS, he worked for Probation & Parole and The Department of Public Welfare Office of Mental Health and Substance Abuse. He is also a lifelong resident of the Harrisburg area.

In his free time, Bryant enjoys sports and volunteering. As an avid runner, he’s raced in many charitable 5k and 10k fundraisers. As an amateur boxer, he’s a force to be reckoned with in the ring. However, his fierce fighting style is no comparison to his big heart as someone who’s donated many hours to Habitat for Humanity.

If you work for one of PA’s fine cities or municipal authorities, Bryant is sure to be a valuable asset to you.

Moving Forward

Getting ready for retirement can be a scary thing. There’s no doubt about it, your life will be different and there are some important choices to make that will impact the rest of your life. In an effort to provide added service, PMRS is preparing an educational video on those choices.

Soon through the PMRS website, you will be able to watch at your leisure a video that highlights the various retirement choices through PMRS and what they mean to you.

Each person has different goals for their retirement. By having a good understanding of what each retirement option means to you, you will be better equipped to make wise choices when it comes to pick the best retirement option to meet your needs.

Look for the video to be ready this fall on the PMRS website at www.pmrs.state.pa.us.

“Rolling With It”, Continued-

we encourage people to consult the expertise of a qualified financial advisor. Here, we will touch on a few of the basic considerations of a rollover.

As many options as there are in deciding how to receive a monthly pension payment through PMRS, there are many more options to consider in a rollover. To begin, you have to decide to which financial institution you want your money to go. While you may have the opportunity to roll over your pension to a new employer’s retirement plan, most rollover transactions that we process are to a financial institution. This could be a bank, credit union, brokerage firm, or investment advisory firm.

Next, you will need to know into what type of investment vehicle you want to make your deposit. While not all investment vehicles can accept a rollover, the most common are CD IRAs, mutual fund IRAs, and annuity IRAs.

After you decide to where and to what you are making your rollover, you will next decide how much. PMRS allows you to roll over all or a portion of the transfer. If you make a partial rollover, you can take a portion made payable to you, invest some in a traditional IRA, and even put some into a Roth IRA.

When deciding where your money should go, consider what’s taxable. When you process your termination or retirement, we will be able to tell you how much is taxable and how much will be tax-free. If you are planning to roll over the entire lump-sum amount, be sure that the rollover company will keep the taxable and non-taxable monies separate. By commingling your tax-able money with your non-taxable money in an IRA, you are creating a potential problem for yourself when you later withdraw the funds. While a traditional IRA is appropriate to defer taxes on otherwise taxable money, a Roth IRA may be more suitable to create a tax free investment for your already-taxed funds.

If you are considering a lump sum distribution because of a termination, make sure you review your benefit summary or call PMRS to insure you aren’t eligible for a monthly benefit.

If you are taking an Option IV payment, keep in mind that it will reduce your monthly pension. Prior to retiring, contact us for a retirement estimate which provides a detailed description of each option, including the Option IV.

Neither a Borrower nor a Lender Be

PMRS often receives calls from members asking what the value of their “account” is and/or whether they can borrow from their pension. Unlike some Defined Contribution Plans (such as some 401k’s), the Defined Benefit and Cash Balance Plans administered by PMRS do not have a cash value that can be redeemed in-service or borrowed against for any reason. There are only two ways to receive a lump sum from PMR: (a) Terminate Membership or (b) Select Option IV at retirement (if it is available in your employer’s plan).

If you leave municipal employment before you become “vested” in the plan, you must apply for a refund of your contributions made while you were employed plus the interest those contributions accrued. Being vested means that you have earned enough service credit to be eligible for a monthly annuity when you reach a particular age specified by your plan.

Ending employment before you can vest is referred to as “termination”. Doing so ends your relationship with PMRS unless you take another job with a municipal employer in the system at a later date, in which case you would be eligible to purchase back any service that you cashed out.

Selecting “Option 4” upon retirement, if you are eligible to do so, is the other circumstance under which you could receive a lump sum. Under “Option 4”, you may elect to withdraw some or all of the member contributions you paid while you were employed plus regular interest. If you elect Option IV, your monthly annuity and/or survivor benefits will be reduced accordingly.

The PMRS Membership Services Team

Division Chief
Sean E. Christine, CFP®
Oversees division staff, processes monthly payroll for retirees, and produces 1099-Rs

Retirement Counselor
Heather Selhamer
Counsels members approaching retirement on the various options available to them

Retirement Technicians
Complete benefit estimates and handle the majority of administrative changes for members
Janet Davenport
-Technical Supervisor
Lorain Payne
-Townsships
-Regionals
Diane Reisinger
-Boroughs
-Counties
Bryant Taylor
-Cities
-Municipal Authorities

Retirement Benefits Specialist
Beth Malone
Handles complex issues such as disabilities and Domestic Relations Orders

Auditor
Lisa Greene
Reviews all pending calculations of retirement benefits that relate to members

Contact Us...

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