



December 14, 2020

Dear Employers,

Like you, we have dedicated our careers to local government service in Pennsylvania. And, like you, we take very seriously our obligations to manage the public funds entrusted to us so that we may care for the people who work in the organizations alongside us. In many ways, these two principles are the bedrock of our work with the Pennsylvania Municipal Retirement System.

As chairman and vice chairman of the Pennsylvania Municipal Retirement Board, we write to you today to update you on our efforts to modernize our system to better serve you, and your employees and retirees, in the future.

The modernization process, along with the COVID-19 pandemic, has brought unforeseen challenges that we are working to rectify. We understand you are still waiting for 2019 year-end financial statements and GASB 68 reports, for example, and that our delays directly and negatively disturb your operations. We also know that your employees and retirees have not yet received 2019 member statements and are waiting longer than usual for basic responses from the system.

We cannot change the past, but we can tell you some of the steps we are taking to correct the current situation to ensure that the service we provide going forward is vastly improved from what you've experienced in the past year.

We have made a change in leadership. Mr. Steve Vaughn's vision was necessary to lead PMRS' operations out of its often paper-based, hand-calculated era. He left the system in October and we thank him for his service. In the near term, we have retained Mr. Timothy Reese to provide executive direction for PMRS. Mr. Reese's credentials are strong, including more than 25 years of expertise in the finance industry, prior service as Treasurer of the Commonwealth, and work with Temple University and the Ben Franklin Technology Partners among other achievements.

We are dramatically increasing the number of staff. Among other changes, our client relations staff will grow from two people to six. We are doubling the number of PMRS benefits specialists to get through the existing backlog and ensure quick, efficient transaction processing in the future. We are adding two staff people dedicated to systems management and analysis.

We are revisiting and reprioritizing our modernization projects. We remain fully committed to offering easy-access, real-time convenience to benefit administration. However, given current circumstances, we believe it is appropriate to pause to ensure that the fundamental elements of all of PMRS' system modernization efforts are working accurately and on time before introducing additional variables.

Please be assured that we are taking active measures to solve the issues caused by the modernization process and COVID-19 pandemic. We look forward to providing you with information on when your reports will be distributed and when processing backlogs will be resolved.

We know you are looking for specific information, like the dates that you can expect to receive critical reports or when your members' processing backlogs will be resolved. We assure you that we will keep you apprised of our progress and will share that information as soon as we have it. We are aware of the challenges and are actively taking aggressive measures to solve every issue standing in the way of accurate resolutions to your frustrations.

Our commitments to you are twofold:

- 1) To continue this level of assertive intervention — and more, if necessary — for as long as it takes to return to smooth, responsive operations.
- 2) To communicate with you quickly and directly as events unfold, so that you can plan for and complete your business obligations and share accurate information with your employees and retirees.

Thank you for your patience and understanding during this time of concern; we are truly sorry. We hope that you, your families, your colleagues, and your communities stay safe during this holiday season.

Respectfully,



Mr. Barry Sherman
Chairman, PA Municipal Retirement Board



Mr. Cory Adams
Vice-Chairman, PA Municipal Retirement Board



Q4 2020 Update

pennsylvania municipal retirement system

Action Items: Key Dates & Deadlines

- ✓ **December 21, 2020** – You must complete and return your plan’s **2021 minimum municipal obligation**, or MMO, **worksheet** to PMRS.
- ✓ **December 31, 2020** – You must provide **fourth quarter 2020 member contributions** to PMRS. Interest will be assessed on amounts received on or after January 1, 2021. Copies of the report and transmittal forms are enclosed for your convenience. You are also welcome to download them from www.PMRS.state.pa.us on the “Forms” page. Select “PMRB-20” and “PMRB-21.”
- ✓ **December 31, 2020** – You must provide the **2020 employer contributions** to meet your plan’s minimum municipal obligation, or MMO, to PMRS. Interest will be assessed *retroactively for the entire 2020 plan year* on amounts received on or after January 1, 2021. As a reminder, all revenue transmittals to PMRS must be accompanied by a “PMRB-20” form.
- ✓ **January 1, 2021** – **Changes to the actuarial assumptions** used to calculate the cost of your pension plan will go into effect. Changes are summarized on page 3 of PMRS’ “Experience Study Results and Recommendations for the Period Covering January 1, 2014 – December 31, 2018,” which is available at www.PMRS.state.pa.us on the “Publications” page, select “Actuarial Reports,” then click “2019 Experience Study.” On a related note, PMRS’ board voted last month to retain a 5.25% interest rate for the coming year.
- ✓ **January 11, 2021** – You will receive your **2021 minimum municipal obligation**, or MMO, **bill** which is not due until the end of the 2021.
- ✓ **January 31, 2021** – You must submit a **number of plan year 2020 reports** to PMRS: quarterly reports “PMRB-21”; enrollments “PMRB-1 & 2”; terminations/deaths “PMRB-4 & 13”; retirements/vestees “PMRB-8 or 50.”
- ✓ **January 31, 2021** – **Tax forms 1099** will be mailed to members of your retirement plan who received disbursements in 2020.
- ✓ **March 31, 2021** – Pursuant to Act 293 of 1972, **county plans** must file its **2020 Actuarial Valuation Report** to the Pennsylvania Auditor General’s Municipal Pension Reporting Program. PMRS will reach out to counties on a plan-by-plan basis to prepare, review, and approve your retirement plan’s valuation prior to this date.



Vital Updates from PMRS

2019 Year-End Close

As you well know, PMRS has been working through fundamental systems-upgrade-related and operational challenges. We are sorry for the severe disruptions in our operations and service to you.

We have retained expert support to assist in project management and resolution of system-upgrade-related challenges in order to finish closing our 2019 books, complete our 2019 audit, publish our 2019 Comprehensive Annual Financial Report (CAFR), prepare your 2019 year-end plan financial activity statements, and issue 2019 annual member account statements.

As in past years, plan-level reports will be e-mailed directly to you and member statements will be sent to members in hard copy via regular mail. Copies of member statements will not be sent to you, as the plan administrator, unless you specifically request them after they've been mailed.

Also pursuant to our past practice, we will generate reports on a "first come, first served" basis based on when each pension plan completed its data submission to PMRS. You can view your plan's place in the 2019 order at www.PMRS.state.pa.us. Click "Municipalities," then select "Year-End Financial Activity Reports."

2019 GASB 68 Reports

PMRS' "first come, first served" policy does *not* pertain to GASB 68 reports; rather, we prioritize plans that have fiscal year ends prior to December 31. We are working to post as many reports as possible to our website by March 31, 2021. As we do, you will be able to find them at www.PMRS.state.pa.us. Click "Municipalities," then select "GASB 68 Reports."

Your plan's 2019 GASB 68 report should be used to complete your plan's 2020 financial audit and Municipal Annual Audit and Financial Report for the PA Department of Community and Economic Development (DCED). (Net pension liability is always one year less than your audit and DCED report – see paragraph 20 of GASB 68.) If you need help, the PMRS webpage above offers a "DCED Report Mapping Tool" which explains how to transfer data from your GASB report to your DCED report.

Information Important for Your Auditor

Many of the records/calculations your auditor needs to issue an opinion on your plan's net pension liability are maintained only by PMRS.



PMRS engaged an independent auditor to issue an SSAE 18 (SOC 1 Type 2) report on our controls over census data maintenance as well as the allocation of additions and deductions to municipality accounts. A qualified opinion was issued for period of January 1, 2019 through December 31, 2019. You can view the report in the “Publications” section of PMRS’ website. We expect to have the 2020 report prepared and posted during the second quarter of 2021.

PMRS’ independent auditor will also be issuing an opinion on the system-wide “Statement of Changes in Fiduciary Net Position by Participating Plan,” with an expected posting date in Q2 2021.

To assist your auditors in reconciling your plan’s year-end financial activity statements, a “Market Value of Asset Reconciliation” is included in Appendix D of the 2019 GASB 68 reports. It is important to note that GASB 68 information is more comprehensive than your year-end financial activity reports, as GASB 68 includes all assets and liabilities of your plan. An “assets, liabilities, and funded ratios” graph is included that shows total pension liability; market value of assets; actuarial value of assets; and resulting funding ratios.

For GASB 68 purposes, the *market* value of assets is the plan net fiduciary position. The *actuarial* value of assets is used for determining the required employer contributions (i.e. minimum municipal obligation, or MMO).

2020 Year End Close

Despite delays in completing 2019 work, we are already laying the groundwork for 2020 reporting and obligations so that we can begin as soon as possible after wrapping up this year’s work. As indicated previously in this update, we need to receive your PMRB-20 and PMRB-21 forms by December 31 and we will prioritize year-end work on a “first come, first served” basis. Likewise, we will need your 2020 Quarterly Reports “PMRB-21”; 2020 Enrollments “PMRB-1 & 2”; 2020 Terminations/Deaths “PMRB-4 & 13”; 2020 Retirements/Vestees “PMRB-8 or 50” by January 31, 2021.

It typically takes about four weeks from when we confirm that your paperwork is complete and accurate to get your plan on the list. You will be able to view the list on PMRS website.



Changes to Lump Sum Payments

In recent years PMRS has moved away from its practice of documenting and issuing information about system changes via “Pension Administration Bulletins.” As part of our renewed commitment to you, we are resuming this work. Enclosed and posted on the home page of our website please find an explanation of IRS-driven changes to how we calculate the base sum and taxability of lump-sum withdrawals at the time of a member’s retirement. You will see more of these and they will be more timely as future activity warrants.

IRS Compliant Pension Plan Documents

While the majority of PMRS-participating pensions plans are fully compliant, a number do require further action to ensure that their plans do not run afoul of IRS requirements.

Thus, we may be reaching out to you to urge your municipality to complete the governance work necessary to adopt base plan documents or to amend your existing documents to ensure correct reflection of contribution rates. If so, we cannot stress how important it is that you provide us with timely responses.

Need Help?

PMRS’ client relations division is here to help you. Please feel free to contact our division director or employer services specialists with any questions or concerns you may have:

- ✓ Dominique Scott DomiScott@PA.gov
- ✓ Rhonda Joy RJoy@PA.gov
- ✓ Vicki Long ViLong@PA.gov

You are also always welcome to call (800) 622-7968 and you can conveniently submit completed forms electronically by sending to ra-rsCompletedForms@PA.gov.

Changes in Lump-Sum Cash Withdrawals in Connection with the Start of Annuity Payments

Previous PMRS Practice

Depending on the explicit provisions of specific retirement plans, PMRS members may or may not have both taxable and non-taxable moneys available for lump-sum distribution upon retirement. Such lump-sum distributions are often informally referred to as “option IV pay outs” but are defined by the Internal Revenue Service as “nonperiodic distributions.”

Prior to February 2020, the non-taxable *payment* amount was determined to be equal to a member’s *contribution* amount, i.e., if a member made \$10,000 in post-tax contributions to the retirement plan, then the member could receive \$10,000, non-taxed, as part of his or her lump-sum distribution. Any amount contributed by the member for any reason was included.

Current PMRS Practice

For the purposes of determining member contributions for lump sum payments, PMRS does not include sums paid by a member to purchase service because those contributions have been converted to credited service in which the employee is 100% vested.

Moreover, IRS Publication 575 explains taxation of nonperiodic distributions from pension or annuity plans. According to the IRS, “Nonperiodic distributions are also known as amounts not received as an annuity. They include all payments other than periodic and correcting distributions” including “cash withdrawals” and “single-sum payments” in connection with the start of annuity payments.

The IRS states that a member who receives a nonperiodic distribution from a qualified retirement plan can only allocate part of it. Members may *exclude* from income the part that is allocated to the cost of the contract but must *include* the remainder in their gross income.

Publication 575 states that single-sum payments made on or after an annuity starting date in connection with the start of annuity payments must apply the following equation to determine taxability:

$$\text{Amount Received} \times \text{Cost of Contract/Account Balance} = \text{Tax-Free Amount}$$

For purposes of PMRS members, "Cost of Contract" is the total amount of post-tax member contributions paid during employment, with the exception of sums paid by a member to purchase service, and "Account Balance" is the present value of the account calculated at the time of retirement.

Impact on Members

What will change:

- 1) The proportion deemed taxable vs. non-taxable at the time of distribution will be calculated and reported to the IRS based the guidance in IRS Publication 575.

For example, if a member receives a lump sum payout of \$50,000 with \$10,000 of those dollars being the member's own previously-taxed contributions to the plan (the cost of the contract) and a total present value of the benefit (the account balance) of \$100,000, the formula is:

$$\$50,000 \times \$10,000/\$100,000 = \$5,000$$

- 2) PMRS will no longer pay out any member contributions used to purchase service.
- 3) PMRS will no longer accept "Lump-Sum Distribution Supplement" forms (PMRB-6) dated prior to February 2020.
- 4) Lump-sum and retirement estimates prepared prior to January 8, 2020 may no longer be accurate. If in doubt, members should request new estimates prior to making retirement decisions.

Rationale for Current Practice

Should PMRS pay out member contributions used to purchase service, it would have the effect of allowing the employee to receive twice the benefit than has been funded.

Publication 575 sets forth the correct method for determining distribution of partially taxable payments. IRS Topics 410 and 411 discuss partially taxable payments and identify Publication 575 as the current and correct authority for calculating partially taxable payments. The current practice complies with Publication 575.



Commonwealth of Pennsylvania

REVENUE TRANSMITTAL FORM

PMRB-20

07/09

INSTRUCTIONS: This form should be completed when sending any remittances to PMRS for deposit with your pension plan. Please identify the source and purpose of the funds.

**Please mail this form and any related documents, including a check made payable to Pennsylvania Municipal Retirement System, to:
P.O. BOX 1165
HARRISBURG, PA 17108-1165**

PLEASE TYPE OR PRINT ALL ENTRIES IN INK AND SIGN WHERE REQUESTED.

PART A: To be completed by municipality.

1. MUNICIPAL PLAN NAME _____	2. MUNICIPAL CODE ____-____-____	3. CHECK AMOUNT \$ _____
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4. SOURCE OF THIS PAYMENT

\$ _____ Fund Money (Municipal, General, or Special)

\$ _____ State Aid - Act 205

\$ _____ Employee Deductions for

Month / Quarter / Pay Period

\$ _____ Other (Please Explain)

5. CREDIT THIS PAYMENT TO

\$ _____ Municipal Account

\$ _____ Member Account

\$ _____ Administrative Cost
_____ Annual Bill
_____ New Member(s) Fee for Name & SSN:
(If more than three, attach list.)

_____-____-____

_____-____-____

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6. I CERTIFY THAT THE INFORMATION CONTAINED IN PART A IS TRUE AND ACCURATE.

Signature of Issuing Officer

____/____/____
MM DD YYYY

PLEASE USE ONE FORM FOR EACH MUNICIPAL CODE OR RETIREMENT PLAN. AMOUNTS ITEMIZED MUST EQUAL THE TOTAL DOLLAR AMOUNT TRANSMITTED. PLEASE KEEP A COPY FOR YOUR FILE.

PMRS USE:
ACCTG. DIV.:
DATE STAMP:

RETURN ONE COPY TO PMRS; RETAIN ONE COPY FOR YOUR FILES.