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COUNTY PENSION ISSUES
HOUSE REPUBLICAN POLICY COMMITTEE

Harrisburg, Pennsylvania

Presented By
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August 18, 2009

Good morning. I am Kristen Goshorn, Government Relations Manager for the County Commissioners Association of Pennsylvania. CCAP is a non-profit, non-partisan association providing legislative and regulatory representation, education, research, insurance, technology and other services on behalf of all of the Commonwealth's 67 counties. Thank you to Representative Saylor for the opportunity to present county pension concerns at today's hearing.

I would like to begin by outlining some differences between county pension plans and municipal pension plans, because counties are experiencing a different set of problems from the rest of the local government units. Counties' primary interest is in legislative action that will reduce the volatility they have experienced in the amount of the Annual Required Contribution (ARC) over the last decade.

By way of background, county plans are primarily defined benefit plans, and all county employees generally fall under the same plan structure. Virtually every county has just one plan covering all county employees. Every county plan but Philadelphia and Allegheny is governed by Act 96 of 1971, which is also known as the County Pension Law. County plans are also subject to reporting requirements under Act 293, which requires county pension plans to submit periodic reports to the Public Employee Retirement Commission. Counties are not subject to the requirements of Act 205.

Counties do not have significant issues related to the funded status of their plans. Most county plans are fully funded today. According to the 2008 PERC report, 54 of the county pension plans were fully funded. Another nine plans were funded at 80 percent or higher. Two county plans were funded at less than 80 percent, but no lower than 73 percent. The relative health of county plans is attributed to the structure of the plans and conservative valuation, as well as a strong commitment by the counties to meet ARC requirements.

Although county plans as a whole are well-funded, as noted previously counties do have a need to access remedies that will smooth out the huge fluctuations in ARCs. The effects of this volatility are a relatively recent phenomenon - until the early 90s few counties had to make a General Fund contribution because plans were fully funded by interest. However, beginning with the market downturn in 1999, many counties made their first contributions from the General Fund. This recurred again in 2003 and 2008. The change was dramatic – many counties went from having to contribute zero dollars, to millions.

CCAP is advocating for methods to level off ARC payments. Currently counties have one small “smoothing” tool under which they average returns over the prior five years. HB 1874 has been endorsed by PERC and recently passed by the House. This bill amends Act 205 to provide other acceptable industry standards to credit returns on the fund, which have the effect of leveling contributions over a much longer term. It is our understanding that these methods are currently used by other industries such as insurance. PERC believes these standards are appropriate for government plans, and we agree.

Counties are requesting the ability to access an actuarial asset valuation methodology in HB 1874. In particular, we believe the temporary widening of the asset smoothing corridor from 20 percent to 30 percent will help counties cope with fluctuations in the ARC while maintaining responsible plan

administration. We were able to get an estimate from Erie County, which estimated a temporary widening of the asset smoothing corridor from 20% to 30% would reduce the county's ARC from just over \$6 million to \$4.7 million.

As noted, counties are not subject to the requirements of Act 205, nor do we wish to be. To accomplish our objective, counties only need an amendment to Act 293, our reporting law. House Bill 1902 has already been introduced and will allow counties to access the same actuarial value assessment methodologies available to municipalities under Act 205. HB 1902 will reduce fluctuations in the ARC and help counties maintain responsible management of their plans.

Thank you for the opportunity to offer testimony today. I will be happy to answer your questions.