

TO: Lester K. Fryer, Chairman, Local Government Committee

FROM: John H. Broujos, Counsel

SUBJECT: House Bill 865, Printer's No. 956 - Police Pension Fund--Reduction of Period Determining Average Salary

REF: 53 PS 571

LAW AND MUNICIPALITIES AFFECTED: Boroughs, Townships, and Towns; Act of May 29, 1956, PL 1804

SIMILAR LEGISLATION: Session of 1969-70 - House Bill 1159, Printer's No. 1338, was introduced providing for reduction of the period to determine monthly average salaries, identical to the present bill.

PURPOSE: To reduce the period of months to determine the average salary at which pension benefits are paid upon retirement.

Section 1 (Section 5): Provides for amendment of the period of employment from 60 months to 36 months on which the average salary of a member is determined, one-half of which will be paid as the retirement benefit.

COMMENT: This reduction restricts the period of averaging out, so that if within the last three years of employment a policeman receives a salary increase, this increase will not be diminished by averaging it with the lower salary for the period prior to the three years.

COMMENT: Each municipality will have to determine on its own the effect of such an amendment.

Actuarial determination is required to ascertain additional costs. It must be observed that in the event that the present effect of the decrease of the period of averaging out is determined to be relatively small, this does not necessarily indicate what the cost will be in the event that municipalities make substantial increases only during the last three years. In other words, an evaluation of present averages calculated over five years and calculated over three years will not necessarily be an accurate reflection of averaging out for three years if the policy of the municipality in granting increases is changed so that there is a substantial increase within the last three years.

EFFECT OF HB 865 AND HB 1341 ON ONE BOROUGH

BILL NO.	MUNICIPALITIES AFFECTED	PROVISIONS	EFFECT ON BOROUGH OF CARLISLE	NET EFFECT	FACTORS
HB 865 PN 956	Boroughs, Towns, Townships.	Reduces average salary rate from 5 to 3 years.	Salary increases of \$400/year; pension 50% of final salary; increase of \$200 per year.	Increase in lump sum retirement benefits of \$2,000 to \$2,500 resulting in increase in taxes to fund and/or contribution.	Salaries have been increasing over last several years.
HB 1341 PN 1550	Boroughs, Towns, Townships. Act of May 29, 1956 (PL 1804) 53 PS	Provides incremental payments of \$5 per month for each year over 20, not to exceed \$100 (in addition to regular benefits).	Increases in pension for most members. Average of 28 years of service, crediting an additional pension of \$40/month.	Requires an additional reserve at retirement of \$5,000 to \$6,500.	After 20 years, less incentive to remain on force.
FOR COMPARISON 3rd Class City Fireman Pension	3rd Class Cities Act of June 23, 1931, PL 932, s 4322, 53 PS 39322.	Provides service increment after 20 years at 1/40 of retirement allowance for each year.	EXAMPLE 5 years x 1/40 x \$5,000 = \$625	Required additional reserve at retirement	