

Concept Paper: **Pension Portability**¹

Idea: Pension portability is a concept that permits an individual to leave one employer (Employer "A") and go to work for another employer (Employer "B") and "port" or carry with him the years of service and benefits earned in Employer A's pension plan to Employer B's pension plan.

Proposal: One way to implement pension portability for municipal police officers would be to amend Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, to provide that every police pension plan that receives or has received state aid be required to grant and accept portability. Portability would be available to any officer who transfers from or to another police plan within a one year time period.

There are two parts to the proposal, the transfer of credited service and the transfer of assets. Under the first part portability would dictate that the officer's credited service time under Employer A's police pension plan would be credited as service time under Employer B's pension plan. The police officer would receive his retirement benefits based upon Employer B's pension plan but would determine the benefits by applying the combined service time with both Employer A and Employer B.

The transfer of assets would take place as follows. Within one hundred twenty days of formal notification that their former police officer was enrolled in Employer B's pension plan, Employer A would be required to transfer the accrued value of the employee's benefit as of the last date of coverage under Employer A's pension plan. The accrued value of the benefit would be calculated based upon Employer A's benefits but using the pre-established interest rate factors and salary assumptions which would be promulgated by the Public Employee Retirement Commission. The Auditor General would audit the transfers between plans to assure that the appropriate factors are being used.

To insure there is no forced reduction in benefits, the implementation of the portability provision would have to be elected by the police officer affected.

Advantages: Portability for police officers in Pennsylvania could be implemented through the state aid carrot and in such a fashion that the costs would not be prohibitive to any one class of employers. The officers would have freedom of movement within Pennsylvania's local government. No new pension plan would have to be established and the existing plans would retain their freedom to establish what they believe are appropriate benefit levels and actuarial assumptions.

See the following pages re: "Policy Issues" and "Potential Problems"

¹ This proposal was prepared by James B. Allen, Secretary of the Pennsylvania Municipal Retirement System at the request of Virgil F. Puskarich, Executive Director of the Local Government Commission

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Policy Issues:

Who should be allowed to "port" their pension benefits?

Options include:

- all employees,
- all public employees, or
- certain public employees (just police officers).

The focus of this proposal is on portability for only police officers enrolled in police pension plans but the concept could be applied to all public employees.

Who has the authority to mandate portability?

Pension plans are regulated almost exclusively by the federal government under the tax laws. The federal government allows monies held in trust to have untaxed income until distributed in the form of a pension benefit. While there are several other federal laws, the Internal Revenues Code is the major tool in the federal government's control of public pension policy. This proposal assumes state government has power to set pension plan rules so long as they are not contrary to the Internal Revenue Code rules. It is further assumed that, since state government authorizes local governments to establish pension plans and the state government provides state aid for municipal pension plans, authority exists to control police pension plans, including mandating portability.

What is to be portable?

Options include:

- the service time,
- the earned benefit, and/or
- the value of the benefit.

This is the most difficult policy issue to understand and resolve. This paper sets for a means to "port" not only the service time but the value of the earned benefit from the first employer as well.

Who bears the cost of portability?

This paper argues that Employer A should pay for only the present value of the benefit earned by the employee while in its employ. Employer B would assume the risk of paying not only the value of the benefit the employee earns while employed by Employer B but also the value of future salary growth and enhanced benefits being applied to Employer A's credited service time when the employee retires under Employer B's benefit plan.

Who insures compliance and equity when portability is undertaken?

In Pennsylvania two agencies already have an oversight role in monitoring local government pension plans, the Public Employee Retirement Commission and the Auditor General's Office. This concept paper would expand both of these agencies' responsibilities.

Potential Problems:

Using a neutral set of statewide factors and assumptions, Employer A might have to transfer to Employer B more or less money than Employer A had been attaching to the employee's accrued benefit. On average, however, there should be an equal number of winners and losers.

Employer B assumes significant costs because as the employee's salary grows so does the cost of providing benefits on the previously transferred time. This cost can be looked at in several different ways. It could be seen as a "cost" of getting an experienced police officer. It is also a disadvantage for taking a seasoned officer away from another plan.

Employer B's risks are offset in various ways. For example, if the officer leaves Employer B before being eligible for a benefit, the assets transferred from Employer A remain within B's plan, causing an actuarial gain. Also, Employer B's plan could be a less expensive benefit or have more aggressive assumptions so that the assets transferred actually exceed the liability.