

**CHAPTER 203. ACTUARIAL AND FINANCIAL REPORTS ON  
MUNICIPAL EMPLOYEE PENSION SYSTEMS**

*(Editor's Note: Under the act of July 20, 2016 (P.L. 849, No. 100), the Public Employee Retirement Commission was dissolved transferring certain powers and duties relating to municipal pension reporting and analysis to the Department of the Auditor General. Therefore, Chapter 203 is abrogated. Further information may be found at [www.PaAuditor.gov](http://www.PaAuditor.gov).)*

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**Authority**

The provisions of this Chapter 203 issued under the Municipal Pension Plan Funding Standard and Recovery Act (53 P. S. §§ 895.101—895.803), unless otherwise noted.

**Source**

The provisions of this Chapter 203 adopted December 18, 1987, effective December 19, 1987, 17 Pa.B. 5234, unless otherwise noted.

**§ 203.1. Municipalities required to file actuarial valuation reports with the Commission.****(a) Distribution of reporting forms.**

(1) A municipality shall complete and file with the Commission Form PC-200, Act 205 Questionnaire and Reporting Form Request. The chief administrative officer of the municipality shall certify on Form PC-200 the pension coverage provided by the municipality for each potential category of municipal employe: police, paid firefighter and nonuniformed employe. If, for a category of employe, the chief administrative officer of the municipality certifies that no pension coverage is provided, no further reporting applicable to that category of employe is required.

(2) On the basis of the information obtained from Form PC-200, the Commission will send the applicable reporting forms to the municipality for use in preparing an actuarial valuation report on the employe pension plans established and maintained by the municipality.

(3) The reporting forms shall include the following:

(i) Form PC-201A—Actuarial Valuation Report: Police Pension Plan Without Defined Benefits.

(ii) Form PC-202A—Actuarial Valuation Report: Fire Pension Plan Without Defined Benefits.

(iii) Form PC-203A—Actuarial Valuation Report: Nonuniformed Pension Plan Without Defined Benefits.

(iv) Form PC-201B—Actuarial Valuation Report: Police Pension Plan With Fully Insured Defined Benefits.

- (v) Form PC-202B—Actuarial Valuation Report: Fire Pension Plan With Fully Insured Defined Benefits.
  - (vi) Form PC-203B—Actuarial Valuation Report: Nonuniformed Pension Plan With Fully Insured Defined Benefits.
  - (vii) Form PC-201C—Actuarial Valuation Report: Police Pension Plan With Defined Benefits.
  - (viii) Form PC-202C—Actuarial Valuation Report: Fire Pension Plan With Defined Benefits.
  - (ix) Form PC-203C—Actuarial Valuation Report: Nonuniformed Pension Plan With Defined Benefits.
- (b) *Requirement to file actuarial valuation reports and experience investigations.*
- (1) A municipality shall file a complete actuarial valuation report with the Commission for a pension plan established and maintained by the municipality for its police officers, firefighters and nonuniformed employees.
    - (i) A complete actuarial valuation report consists of an original reporting form supplied by the Commission that is the applicable type of reporting form for the subject pension plan and that has been completed in accordance with the instructions of the Commission.
    - (ii) An actuarial valuation report required under section 201(a) of the act (53 P. S. § 895.201(a)) shall be filed in compliance with the filing date specified in section 201(b).
  - (2) A municipality shall file a quadrennial experience investigation with the Commission for an employe pension plan established or maintained by the municipality that has an active, vested inactive and benefit recipient membership equal to or greater than 1,000 as determined at the beginning of the plan year occurring in 1985 and every fourth year thereafter.
    - (i) The experience investigation shall be prepared in compliance with the requirements of section 203 of the act (53 P. S. § 895.203).
    - (ii) The experience investigation shall accompany the actuarial valuation report for the pension plan and shall be filed in compliance with the filing date specified in section 201(c) of the act.
- (c) *Receipt of actuarial valuation reports.*
- (1) The Commission will receive an actuarial valuation report or experience investigation mailed to the following address: Commonwealth of Pennsylvania, Public Employee Retirement Study Commission, Post Office Box 1429, Harrisburg, Pennsylvania 17105-1429.
  - (2) The Commission will accept as timely filed a complete actuarial valuation report or experience investigation which bears a United States Postal Service postmark dated on or before the applicable filing date specified in section 201 of the act.
- (d) *Notification of noncompliance.* If an actuarial valuation report or an experience investigation is received by the Commission and is not in compliance with

the requirements of the act or if a reporting form is received by the Commission and is not in compliance with the instructions of the Commission, the Commission will notify the municipality of the noncompliance within a reasonable time after the date of the Commission's receipt of the actuarial valuation report, experience investigation or reporting form.

(e) *Procedure for obtaining delinquent actuarial valuation reports and experience investigations.*

(1) *Delinquent actuarial valuation reports and experience investigations.*

(i) An actuarial valuation report is delinquent if a complete actuarial valuation report is not filed by the filing deadline specified in section 201(b) of the act.

(ii) An experience investigation is delinquent if a complete experience investigation complying with the applicable requirements of Chapter 2 of the act (53 P. S. §§ 895.201—895.208) does not accompany the complete actuarial valuation report that is filed by the filing deadline specified in section 201(c) of the act.

(2) *Consequences of delinquency.*

(i) If an actuarial valuation report or experience investigation is delinquent, financing that is provided to the applicable municipality by the Commonwealth under the General Municipal Pension System State Aid Program or another program providing financing that is dedicated for pension purposes shall be withheld until a complete actuarial valuation report or experience investigation is filed.

(ii) The Commission will notify the Department of the Auditor General of municipalities with one or more delinquent actuarial valuation reports or experience investigations as soon as practicable following the filing deadlines specified in section 201 of the act. The Commission will also notify the Department of the Auditor General on a monthly basis concerning a municipality with previously determined delinquent actuarial valuation reports or experience investigations that have complied with the actuarial valuation or experience investigations reporting requirements of the act.

(iii) Upon being notified of a municipality with delinquent actuarial valuation reports or experience investigations, the Department of the Auditor General shall withhold financing that is provided to the municipality by the Commonwealth and dedicated for pension plan purposes until notified by the Commission of compliance by the applicable municipality with the actuarial valuation or experience investigation reporting requirements of the act.

(iv) If an actuarial valuation report or experience investigation is delinquent and, subsequent to notification of the applicable municipality by the Commission, remains delinquent for a period in excess of 30 days, the Commission will issue an order compelling submission by the municipality of the delinquent actuarial valuation report or experience investigation.

(v) If the municipality fails, omits, neglects or refuses to comply with the order of the Commission compelling submission of the delinquent actuarial valuation report or experience investigation within 30 days of the date of the Commission order, the Commission will notify the municipality of its intent to have the actuarial valuation report or experience investigation prepared on behalf of the municipality, with payment by the municipality of the actual cost of the preparation of the actuarial valuation report or experience investigation.

(vi) Upon receipt of this notice of intent, the municipality shall indicate on a form provided by the Commission what steps have been taken or are being taken by the municipality to secure compliance with the actuarial valuation or experience investigation reporting requirements of the act and the anticipated date for that compliance. If the municipality fails to provide this indication within 15 days of the date of the notice of intent of the Commission, or if the indication discloses no substantial progress towards compliance with the actuarial valuation or experience investigation reporting requirements of the act, or if the anticipated date of compliance with the actuarial valuation or experience investigation reporting requirement of the act specified in the indication discloses a substantial delay in compliance, the Commission may initiate action for the preparation of the applicable actuarial valuation report or experience investigation.

(vii) The municipality, upon notification by the Commission, shall provide the financial, demographic and benefit plan information necessary for the Commission to secure preparation of the applicable actuarial valuation report or experience investigation.

(viii) If the municipality fails, omits, neglects or refuses to comply with the order of the Commission compelling submission of the delinquent actuarial valuation report or experience investigation, the Commission may institute legal proceedings for injunction, *mandamus* or other appropriate remedy at law or in equity to enforce compliance with the order of the Commission.

#### Source

The provisions of this § 203.1 adopted December 18, 1987, effective December 19, 1987, 17 Pa.B. 5234; amended July 24, 1992, effective July 25, 1992, 22 Pa.B. 3839. Immediately preceding text appears at serial pages (123161) to (123164).

### § 203.2. Procedures for the preparation of actuarial valuation report.

(a) *Actuarial value of pension plan assets.* The actuarial value of pension plan assets are the value of cash, investment securities and other property belonging to the municipal pension plan according to a method for valuing assets adopted by the governing body of the municipal pension plan upon the recommendation of the actuary. The method for valuing assets shall be adequately disclosed in the accompanying documentation or exhibits and may not produce a

result that in total is greater than 120% or less than 80% of the fair market value of the assets of the municipal pension plan.

(b) *Actuarial payroll.* If the amount of the payroll used in the preparation of the actuarial valuation report differs from the amount of the gross payroll of the active members of the pension plan, the actuary shall disclose the basis for the difference in the payroll amounts.

(c) *Aggregated amortization target date.* In an actuarial valuation report prepared after 1985, amortization target dates for each increment or decrement of the unfunded actuarial accrued liability occurring since the last actuarial valuation report filed under section 201 of the act (53 P. S. § 895.201) shall be established under section 202(b)(4) (53 P. S. § 895.202(b)(4)) of the act. An actuarial valuation report prepared after 1985 shall also establish an aggregated amortization target date for increments or decrements of unfunded actuarial accrued liability occurring since the actuarial valuation report prepared for the 1985 plan year. The aggregated amortization target date shall be based on the net amortization contribution of the individual amortization schedules being aggregated and shall maintain the actuarial present value equivalency of the individual amortization schedules being aggregated.

(d) *Cancellation of amortization schedules in certain instances.* If, in the preparation of an actuarial valuation report, the assets of the pension plan are determined to be in excess of the actuarial accrued liability, amortization schedules established under section 202(b)(4) of the act shall be cancelled and the funding adjustment to the minimum municipal obligation to the pension plan specified in section 302(c)(3) of the act (53 P. S. § 895.302(c)(3)) shall be applied.

(e) *Treatment of funding deviations.* If funding provided to a municipal pension plan exceeds or is less than the full financial requirements of the pension plan determined under section 302(b) of the act, the amount of the funding deviation shall be treated as an actuarial gain or loss and amortized under section 202(b)(4) of the act.

### § 203.3. Range of economic actuarial assumptions.

(a) *Selection of actuarial assumptions.* The actuarial valuation report shall be prepared using actuarial assumptions selected jointly by the actuary of the municipal pension plan and the governing body of the municipal pension plan. The actuarial assumptions shall represent the best available joint estimate of the actuary and the governing body of future occurrences in the case of each actuarial assumption. The economic actuarial assumptions shall additionally be either within the range for economic actuarial assumptions specified in subsection (b) or accompanied in the actuarial valuation report with the documentation specified in subsection (c) that explains and justifies the choice of one or more assumptions outside of the range.

(b) *Range of economic actuarial assumptions.* No explanatory or justificatory documentation as specified in subsection (c) is required to accompany the actuarial valuation report if the following conditions are met:

(1) Economic actuarial assumptions reflect annual percentage increase amounts.

(2) The actuarial assumption as to interest or investment earnings is not less than 5% or more than 9%.

(3) The actuarial assumption as to salary projection or individual pension plan member salary increase for municipal pension plans with a salary related benefit plan is not greater than the actuarial assumption as to interest or investment earnings and is not less than the amount of the actuarial assumption as to interest or investment earnings reduced by 3%. If the actuarial assumption as to salary projection or individual pension plan member salary increase applicable to the municipal pension plan is in the form of probability rates that differ for various ages, the rate to be used for this comparison shall be calculated by the actuary preparing the report, with appropriate accompanying documentation, and shall be the average rate under the probability table for the ages 30 through 50.

(4) The actuarial assumption as to total covered payroll increase, for a municipal pension plan of a municipality that has been determined to be financially distressed and to which a remedy of delayed implementation of the funding standard under section 607(g) or (h) of the act (53 P. S. § 895.607(g) or (h)) is applicable, is not greater than 4% nor less than .0%.

(5) The actuarial assumption as to inflation, for a municipal pension plan that provides for automatic cost-of-living postretirement adjustments based on increases in the Federal consumer price index or other recognized measure of inflation, is not greater than the amount of the actuarial assumption as to interest or investment earnings reduced by 2% and is not less than the amount of the actuarial assumption as to interest or investment earnings reduced by 5%.

(c) *Documentation required for certain actuarial assumptions.*

(1) If the economic actuarial assumptions used to prepare the actuarial valuation report are outside the range of economic actuarial assumptions specified in subsection (b), or if the economic actuarial assumptions utilize annuity rates or differ between preretirement experience and postretirement experience, the actuary preparing the actuarial valuation report shall submit documentation that explains the choice of economic actuarial assumptions made by the actuary and the governing body of the municipal pension plan and justifies their use in preparing the actuarial valuation report.

(2) The documentation, at a minimum, shall cite aspects of the benefit plan of the municipal pension plan in question that affect the choice of the particular economic actuarial assumptions in question and the particular circumstances and specific experience of the municipal pension plan and its investment performance and of the municipality and its salary structure that caused the actu-

ary and the governing body of the municipal pension plan to conclude that a set of actuarial assumptions within the range specified in subsection (b) is inappropriate and to conclude that the particular economic actuarial assumptions chosen are appropriate.

#### Cross References

This section cited in 16 Pa. Code § 205.8 (relating to Supplemental State Assistance).

### § 203.4. Procedure for authorization of alternative actuarial cost method for actuarial valuation reports.

(a) *Application for authorization.* A separate application to the Commission for authorization to utilize an alternative actuarial cost method for the actuarial valuation report shall be made by a municipality that desires the authorization. A separate application shall be made for each municipal pension plan for which the authorization is sought. The application shall be filed by the chief administrative officer of the municipality following adoption by the governing body of the municipality of a resolution requesting the authorization. No application filed on behalf of more than one municipality or more than one municipal pension plan or filed by a person other than the chief administrative officer of the affected municipality will be a valid application.

(b) *Deadline date for filing application for authorization.* The application for authorization to utilize an alternative actuarial cost method for the actuarial valuation report shall be filed by the last business day occurring 6 months prior to the date on which the actuarial valuation report is due to be filed with the Commonwealth.

(c) *Contents of the application for authorization.* The application for authorization to utilize an alternative actuarial cost method for the actuarial valuation report shall be prepared by the actuary of the municipal pension plan for which the authorization is sought. The application for authorization shall request a particular alternative actuarial cost method and shall indicate, in general, the impracticality, difficulty and undesirability that would result from utilizing the actuarial cost method prescribed in section 202(b) of the act (53 P. S. § 895.202(b)) and the greater practicality, facility and desirability of utilizing the requested alternative actuarial cost method. The application for authorization shall include the following:

(1) Reasons why use of the prescribed actuarial cost method is not in the best interests of the participants and beneficiaries of the municipal pension plan and why use of the requested alternative actuarial cost method is in the best interests of the participants and beneficiaries of the municipal pension plan.

(2) An algebraic demonstration of the conditions under which the alternative actuarial cost method recognizes accruing pension plan liabilities on a level basis over time as a percentage of covered payroll and produces stability in the annual actuarial cost of the pension plan from year to year. Alternatively,

if the Commission recognizes the actuarial cost method as a budgeting tool for municipal government for this particular expenditure item, an algebraic demonstration that the requested alternative actuarial cost method will produce a cost incidence pattern over time that corresponds to the adequately documented likely future revenue availability pattern of the municipality. Algebraic demonstrations shall be based on the actuarial assumptions used for the most recent prior actuarial valuation unless clearly unreasonable and on the demographics of the current active and benefit recipient pension plan population.

(d) *Additional documentation to accompany application.* An application for authorization to utilize an alternative actuarial cost method for the actuarial valuation report shall also include additional documentation that may be used by the Commission in evaluating the application. The additional documentation shall be supplied by the actuary of the municipal pension plan. The additional documentation shall be as follows:

(1) An indication of the number of instances in the prior practice of the actuary during which the actuary had occasion to use the requested alternative actuarial cost method.

(2) If the requested alternative actuarial cost method has been used previously by the actuary, an indication of the key relevant factors or attributes of the pension plan involved in a prior occurrence and a comparison of those factors or attributes with the pertinent factors or attributes of the municipal pension plan covered by the application.

(3) A copy of a published professional article, study or similar work known to the actuary that analyzes the requested alternative actuarial cost method and compares it to the actuarial cost method prescribed in section 202(b) of the act.

(e) *Acceptable alternative actuarial cost methods.* An acceptable alternative actuarial cost method shall be an actuarial cost method that meets the following criteria:

(1) Is considered to be a generally accepted actuarial method by the American Academy of Actuaries.

(2) Is permitted under regulations issued by the Internal Revenue Service for the determination of minimum funding requirements under section 412 of the Internal Revenue Code (26 U.S.C.A. § 412).

(3) Results in the accumulation of plan assets equal to or in excess of the present value of accrued pension plan benefits, which shall be demonstrated by the actuary of the applicable municipal pension plan.

(f) *Criteria for authorization.* The authorization of an alternative actuarial cost method for the actuarial valuation report shall be granted only if the following occurs:

(1) A valid application for authorization of an alternative actuarial cost method has been filed by the municipality.

(2) The application is filed in a timely fashion.



(3) The application specifies an alternative actuarial cost method that meets the requirements of subsection (e)(1) and (2), and for which the required demonstration specified in subsection (e)(3) has been prepared.

(4) The application, with clear specific identification of each item, includes the various application contents items in subsection (c) and relevant items of additional documentation in subsection (d).

(5) The application, on its face, presents the required indication of the reasons or the demonstration of results for each contents item set forth in the applicable paragraph of subsection (c).

(6) The application presents the following:

(i) Reasons with respect to the contents item in subsection (c)(1) that, in the opinion of a majority of the Commission members considering the question, are compelling.

(ii) A demonstration with respect to the contents item in subsection (c)(2) that, in the opinion of a majority of the Commission members considering the question, is clear, reasonably probable and compelling.

**§ 203.5. Procedure for authorization of the use of an approximation technique for the valuation of ancillary benefits.**

(a) *Authorization to utilize an approximation technique for the valuation of ancillary benefits.* An actuarial valuation report that uses an approximation technique for the valuation of ancillary benefits shall include a statement, signed by the actuary, justifying the use of the approximation technique. The statement shall indicate the following:

(1) In general, the impracticality, difficulty and undesirability to the municipality and to the participants and benefit recipients of the municipal pension plan of utilizing the actuarial cost method used to value the retirement benefit to also value ancillary benefits. The statement shall show the greater practicality, facility and desirability to the municipality and to the participants and benefits recipients of the municipal pension plan of utilizing the approximation technique for the valuation of ancillary benefits.

(2) Whether an approximation technique has been utilized for the valuation of ancillary benefits in prior actuarial valuations prepared for the municipal pension plan. If so, the approximation technique which was used. If no prior approximation technique has been used, the specific reasons why an approximation technique is currently being sought, although not utilized previously.

(3) In the best judgment of the actuary, the extent and magnitude of the risk of distortion in the actuarial valuation report data as a result of the use of the approximation technique rather than the actuarial cost method that is used to value the retirement benefit. The statement shall show special steps that the actuary intends to take to monitor a distortion in the actuarial valuation report data, if any, that results from the use of the approximation technique.

(b) *Acceptable approximation techniques.* The acceptable approximation technique for the valuation of ancillary benefits shall be a loading factor. The loading factor shall be percentage factors used to adjust the actuarial present value of future retirement benefits for active members of the municipal pension plan to reflect an expected increase in the accrued liability and normal cost attributable to ancillary benefits. The percentage loading factors utilized shall be set utilizing the best judgment of the actuary preparing the actuarial valuation report and may not result in an increase in the total normal cost attributable to ancillary benefits of more than 15% or an increase in the total normal cost attributable to an ancillary benefit of more than 10%.

(c) *Additional documentation required to accompany actuarial valuation report.* If an approximation technique for the valuation of ancillary benefits is used, the actuary preparing the actuarial valuation report shall also include the following:

- (1) Additional documentation specifying the ancillary benefits for which the approximation technique is used.
- (2) The percentage increase in normal cost resulting from the approximation techniques in total for ancillary benefits.
- (3) The percentage increase in normal cost resulting from the approximation technique for an ancillary benefit.

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