

TOWNSHIP OF LOWER MERION
Finance Committee
Issue Briefing

Topic: State Act 205 Resolution

Prepared By: Eric Traub, Chief Financial Officer

Date: October 4, 2019

I. Action To Be Considered By The Board:

Consider for recommendation to the Board of Commissioners a resolution allocating pension state aid and setting employee pension contributions for 2020.

II. Why This Issue Requires Board Consideration:

In accordance with the Municipal Pension Plan Funding Standard and Recovery Act of 1984 (State Act 205), the Municipality's governing body must authorize by resolution the amount of pension state aid that each pension plan receives.

III. Current Policy Or Practice (If Applicable):

Each September, the Township receives pension state aid funding according to the provisions of State Act 205. This funding is then deposited into our two employee pension funds upon the adoption of a resolution by the Board of Commissioners.

On September 18, 2019, the Township received \$2,642,177.52 of Act 205 State aid pension funding, of which \$1,651,234.52 is to be deposited into the Police Pension Fund and \$990,943 into the Employee Pension Fund. These amounts are \$355,100.48 less than the Township's overall 2019 Minimum Municipal Obligation (MMO) of \$2,997,278. Therefore, the Township's General Fund will make a contribution to the pension plans of \$355,100.48. The Township budgeted \$608,240 in 2019 for this expense. However, due to a large increase (9.3% versus 2018) in the pension state aid unit value, the Township received more pension state aid than projected and thus is able to reduce its Township contribution for 2019. The additional pension state aid provides savings of \$253,140 to the Township's General Fund in 2019.

IV. Other Relevant Background Information:

In accordance with the provisions of the Municipal Pension Plan Funding Standard and Recovery Act of 1984 (State Act 205), the Chief Administrative Officer (the Township Manager) must transmit to the governing body by the end of September what will be the following year's MMO for its pension funds. The full amount of the MMO must appear in the upcoming budget and be contributed to the pension funds in that following year. Per the analysis of Township staff in consultation with the Township's Actuary, the 2020 MMO is \$3,049,202, to be budgeted and

divided as follows: \$2,029,108 for the Police Pension Fund and \$1,020,094 for the Employee Pension Fund. The 2020 MMO is nearly \$52,000 or 1.7% higher than the previous year.

Also, each year, the Township must set the employee pension contribution rates for the following year, based upon the most recent actuarial valuation and MMO analysis. Per the provisions of the current labor agreement between the Township and the Lower Merion Workers Association (WA) and the pension plan's Plan Document, non-uniform employee pension contributions for 2020 will be as follows: for those employees hired prior to January 1, 2003, 4% (0 to 4.99 years of credited service), 4% (5 to 9.99 years of credited services), 3% (10 to 24.99 years of credited service), 2% (over 25 years of credited service). The employee pension contribution is 5% for employees hired after 2003.

The Management and Non-WA employee pension contributions for 2020 will be as follows: for those employees hired prior to January 1, 2003, 4% (0 to 4.99 years of credited service), 4% (5 to 9.99 years of credited services), 3% (10 to 24.99 years of credited service), 2% (over 25 years of credited service). The employee pension contribution is 5% for employees hired after 2003.

As determined by the Township Actuary and per the provisions of the current labor agreement between the Township and the Fraternal Order of Police (FOP) Lodge #28, the police officer employee pension contribution will be 5.0% for 2020.

In addition to pension state aid and employee contributions in 2020, the Township will be required to budget \$478,711 to fully fund the Township's pension plans. The MMOs may be revised prior to December 31, 2019.

V. Impact On Township Finances:

The Township contributions to the pension plans will be included in the 2020 Proposed Budget. Overall, these actions will support keeping the Township's pension plans fully funded.

VI. Staff Recommendation:

Staff recommends the resolution be approved at the October 16, 2019, Board of Commissioners meeting.