

Pennsylvania Municipal Retirement Board Policy Statement Rule Number 97-1	Allocation of Excess Interest to Municipal Account, Members' Accounts, and Retired Members' Reserve Account
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Purpose: To formalize the procedure used by the Pennsylvania Municipal Retirement System (the System) to allocate excess interest “. . . as each municipality deems appropriate to the credit of the Municipal accounts, member’s accounts, the member’s excess investment accounts, retired members reserve accounts and total disability reserve accounts.” (“Pennsylvania Municipal Retirement Law”: Section 110)

Authority: Act 15 of 1974, “Pennsylvania Municipal Retirement Law”: Section 110. Management and Investment of Fund; Interest Credits.

Specific Cites: Act 15 of 1974, “Pennsylvania Municipal Retirement Law”: Section 104. General Powers of the Board. (12.1) and (12.2); Section 110. Management and Investment of Fund; Interest Credits.

Policy: The Board has been directed to credit any excess investment monies, hereafter referred to as excess interest, earned by the System to the Municipal Account, Members’ Accounts, and Retired Members’ Reserve Account as directed by each member municipality. It is noted that the law speaks also to the crediting of excess interest to the member’s excess investment account and to the total disability reserve.

Whereas the member’s excess investment account is a sub-account of each member’s account maintained as part of the Members’ Reserve Account, the Board has determined that it does fulfill the obligation of allocating monies to the member’s excess investment account when a municipality directs that excess interest is to be allocated to the members’ accounts. The Board satisfies the obligation by crediting the directed excess interest to each member’s excess interest account maintained as a part of the Members’ Reserve Account.

The Board further declares that the total Disability Reserve Account is a pooled account of the System. This reserve account is used to fund a portion of a disability pension when a disability benefit is not fully funded by a member’s accrued benefit as of the date of disability. This account does not benefit a plan unless that plan has a member who seeks a disability pension in a given year. The Board declares that allocating excess interest to the Disability Reserve Account would not directly benefit a municipality in a subsequent year, nor would it benefit a municipality’s members (active or retired) in a subsequent year. Given these facts, the Board deems it illogical to have a municipality allocate excess interest to this account and therefore directs that the municipalities

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Policy: not be given the option of allocating excess interest to the total Disability Reserve Account.  
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The Board directs that the Secretary of the System or the Secretary's designee inform the municipalities of the excess interest award value to the municipalities' plan(s) within two weeks of the Board's adoption of the excess interest award. The written announcement shall be mailed to each plan's designated contact person and shall contain the specific dollar amount awarded as excess interest. This amount shall be calculated by multiplying each plan's assets by the percentage of the adopted excess interest award. Assets refer to monies held in the Members' Reserve, the Municipal Reserve, and the Retired Members' Reserve (the assets held in the name of a retired member – the present value as determined by the System's actuary) as of December 31 of the previous year. The announcement shall show not only the value of the total excess interest awarded to the plan but also the dollar amount of the award generated from the previous year-end balances of the reserve accounts (Municipal, Members, and Retired Members).

The plan's governing body shall notify the System in writing of the manner in which the governing board wants the excess interest allocated among the three reserves. In addition, if any excess interest is allocated to either active or retired members, it must be done in a non-discriminatory, systematic manner, and the process shall be uniformly applied to all members. The Board directs that staff monitor the allocation process and contact the municipality should a questionable or unusual allocation decision be presented to the System.

If the plan's allocation decision is not returned to the System by November 30, the System shall allocate all awarded excess interest to the plan's municipal account. The System will implement the municipalities' allocation decisions effective December 31 of the year the Board declared the excess interest award. Once the allocation has been made (December 31), the decision is irrevocable.

Active members who terminate membership in the System after December 31 of the previous year shall not be entitled to any excess interest award. Any award that would have been allocated to the member's account shall be deposited instead to the municipal account of the plan.

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Policy:  
(Cont'd) Retired members who terminate membership in the System after December 31 of the previous year shall not be entitled to any excess interest award. Instead, any award that would have been allocated to the retired member's benefit shall be deposited to the municipal account of the plan.

Members who would have been allocated excess interest money as an active member but who retired on or after December 31 of the previous year shall have said allocation annuitized and added to the monthly benefit said member is getting as a retired member of the plan.

Municipalities that withdraw their plan(s) from the System on or after December 31 of the previous year shall be entitled to any excess interest declared by the Board in the current year which is based upon the plan's assets as of December 31 of the previous year. The System shall award said excess interest to the governing board of the withdrawn plan on December 31 of the current year. A plan must be a member of the System on December 31 to participate in any allocation of excess interest in the following year.

Any former member who has lost rights to membership in the System due to termination of employment in a member plan but has not withdrawn the accumulated member deductions by December 31 of the year in which membership rights ended shall not be eligible for allocated excess interest.

Effective Date: This rule is to be implemented effective immediately and applicable only on a prospective basis.

Adoption Date: Adopted at the September 18, 1997, meeting of the Pennsylvania Municipal Retirement Board.