

Purpose: The Pennsylvania Municipal Retirement Law establishes a separate reserve fund, Total Disability Reserve Account (Disability Reserve), to assist plans in providing disability benefits through a pooled risk vehicle. This statement sets out the funding and utilization policy of the Disability Reserve.

Background: Municipalities may elect to provide disability retirement benefits. When a municipality has elected to provide disability benefits, a common design is to provide 30% income replacement for non-service or standard disability and 50% income replacement for an in-service disability. The law requires the Pennsylvania Municipal Retirement System (PMRS) to include in the plan's annual obligation a charged term cost for the value of these benefits.

When a participant of a plan with disability benefits applies and is approved by the Pennsylvania Municipal Retirement Board for a disability retirement benefit, all or a portion of the funding of the benefit is transferred from the Disability Reserve to the Retired Member's Reserve Account (Retiree Reserve). When determining the amount of the transfer from the Disability Reserve a value of the disability benefit is determined using the applicable actuarial factors consistent with the member's demographics and the plan's benefit formula.

Once the value of the disability benefit is determined, PMRS determines the accrued value of the member's normal retirement benefit. The value of the member's accrued normal retirement benefit is subtracted from the value of the member's approved disability benefit and the remainder is the amount of money that is transferred from the Disability Reserve to the Retiree Reserve to fully fund the approved disability benefit.

Any monies in the Member's Account (except those monies voluntarily contributed to fund an optional benefit and the regular interest credited to them) and any monies in the Member's Excess Interest Account are subtracted from the value of the accrued normal retirement benefit to determine the amount of monies charged to the member's employer's Municipal Account to fund the benefit not funded by monies from the Disability Reserve.

Authority: Pennsylvania Municipal Retirement Law, Act of February 1, 1974, P.L. 34, No. 15, § 104(5), 53 P.S. § 881.104(5).

Policy: The Pennsylvania Municipal Retirement Board adopts the following funding procedures to ensure adequate financial resources are available to provide for disability retirement liabilities for those participating municipalities that elect to provide disability benefits.

1. Funding – An annual cost, expressed as a percentage of a plan’s covered compensation, shall be determined by the system’s actuary and included in the Minimum Municipal Obligation of each plan that provides disability benefits. This cost is to be used for the funding of the Disability Reserve. The annual cost shall be equal to the projected disability cost in excess of the projected accrued benefit cost factoring in the probability of a disability occurrence for the one year term covered by the Minimum Municipal Obligation. Such amounts charged shall be deposited to the Disability Reserve.
2. Distributions – On approval of a disability retirement by the Pennsylvania Municipal Retirement Board, the difference in the value of the disability benefit and the funds identified for transfer to the Retiree Reserve based upon the member’s accrued normal retirement benefit as of the date of disability shall be determined and that amount shall be transferred from the Disability Reserve to the Retiree Reserve to fully fund the disabled retiree benefit.
3. Funding Limitation – The assets in the Disability Reserve shall be determined as of December 31 of each year. If the value exceeds 1.5 times the highest total of all required disability transfers to the Retiree Reserve in any one of the last three years, all assets in excess of 1.5 times the highest transfer value shall be transferred from the Disability Reserve and placed in the unallocated assets for distribution in the year of determination.
4. Shortfall Funding – To the extent that transfers from the Disability Reserve to the Retiree Reserve exceed the value of assets in the Disability Reserve and the balance in the Disability Reserve is determined to be a negative value as of December 31, assets from the unallocated earnings of PMRS shall be deposited in the Disability Reserve to bring the Disability Reserve balance to “0” at year end.

Effective This policy is to be effective immediately.

Date:

Adoption Adopted at the September 20, 2007 meeting of the Pennsylvania Municipal  
Date: Retirement Board.

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James B. Allen, Secretary

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