

August 11, 2022

Pension Service Buy Back of “Other” Police Service

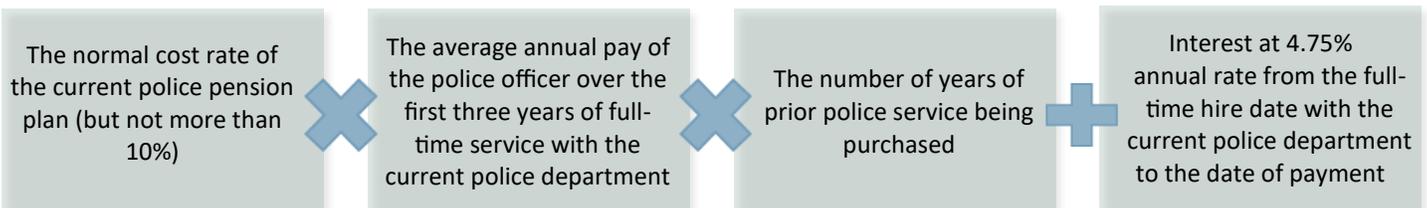


Pennsylvania State Senator Mike Regan (R-Cumberland & York counties) re-introduced legislation Senate Bill 669 to allow certain police officers to purchase up to five years of pension service credit for prior police service, including part-time service, in a police department.¹

All Pennsylvania cities (other than Philadelphia), boroughs, towns, townships and regional police departments would be required to amend their police pension plans to allow this type of service purchase. NOTE: Counties are excluded and pension plans that do not exclusively cover police officers are excluded.

Prior police service that is already credited under another pension plan may not be purchased, and only full-time police officers who are *already vested* are eligible. If your plan permits officers to purchase prior military service, then the combined purchases of prior police service under this bill and prior military service may not be more than five years.

The purchase price is:



This is the same formula used under Act 600 (police pensions of boroughs and townships) for the purchase of prior military service.

Since non-vested officers are not eligible to purchase prior police service in order to vest more rapidly it is expected that these purchases will be utilized most by officers hired at older ages to advance their pension starting date. In far fewer instances, it may be expected that some officers will purchase prior service to increase either their vested pension or their service increment pension (if applicable).

Examples:

#1: An officer in a Third Class City is hired at age 36. The earliest age she can start her pension is age 56. At age 54 her annual pay rate is \$70,000. Her vested annual pension beginning at age 56 is:

$$50\% \times \$70,000 \times (18\text{yrs.}/20\text{yrs.}) = \$31,500$$

She decides to purchase two years of prior police service with another police department for which she received no pension service credit. Her average annual pay over her first three years of service with her current department is \$45,000. The normal cost rate of the current police pension plan is more than 10%. Her cost to purchase two years is:

$$10\% \times \$45,000 \times 2\text{yrs.} \times 1.0475^{18\text{yrs.}} = \$20,750$$

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She begins her \$35,000 annual pension (50% x \$70,000) at age 54, 2 years earlier than otherwise permitted without a service purchase.

#2: An officer in a borough that is subject to Act 600 has reached normal retirement age. In addition to the base pension, the plan provides a service increment pension of \$100 per month for every whole year of service over 25 years, up to \$500 per month. She has 25 years and 7 months of actual service. She decides to purchase 2 years and 5 months of prior police service with another police department for which she received no pension service credit.

Her average annual pay over her first three years of service with her current department is \$45,000. The normal cost rate of the current police pension plan is more than 10%. Her cost to purchase two years and five months is:

$$10\% \times \$45,000 \times (2+5/12)\text{yrs.} \times 1.0475^{(25+7/12)\text{yrs.}} = \$35,600$$



She begins her \$3,600 annual service increment pension (\$100 x 3yrs x 12) that would have been \$0 without a service purchase.

The increase in accrued liability to the municipality in each example, using typical assumptions² for police pension plans, is \$83,000 in example 1 and \$11,000 in example 2.

While some police officers do have prior military service, it is likely that many more will have some prior service with your police department (as a part-time officer) and/or in other police departments (possibly both part-time and full-time). If this becomes law, your plan actuary may request prior service information for all of your active police officers and include an assumption in the actuarial valuation regarding prior service purchases of this type.

Senate Bill 669 was quickly passed in the Senate in June 2022 and is currently in the Local Government Committee of the House. At this time, we are not able to assess the likelihood of passage in the House but Cowden will keep you posted, or you can check its status online at <https://www.legis.state.pa.us/> by entering "SB669" in the *Legislation Quick Search* window in upper right-hand corner of the web page.

¹ "Police Department" in statute as defined by [PA General Assembly](#).

² 80% married, 3 year spouse age difference for continued 50% payment to surviving spouse after death of retired officer.



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