

COMPLIANCE AUDIT

City of Jeannette Police Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2012 to December 31, 2013

March 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of Jeannette
Westmoreland County
Jeannette, PA 15644

We have conducted a compliance audit of the City of Jeannette Police Pension Plan for the period January 1, 2012 to December 31, 2013. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.
- Whether refunds are made to eligible members in accordance with the plan provisions and applicable laws and regulations.
- Whether the pension plan is in compliance with state regulations for distressed municipalities.
- Whether Deferred Retirement Option Plan (DROP) participants' benefit payments are properly determined in accordance with the provisions of the DROP and any other applicable laws and regulations.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Jeannette Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our tests indicated that, in all significant respects, the City of Jeannette Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Recommendation - Failure To Implement Act 44 Mandatory Distressed Provisions
- Finding No. 2 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 3 – Late Filing Of Certification Form AG 490 Resulting In A Loss Of Reimbursement For Special 1989 Ad Hoc Postretirement Adjustment
- Finding No. 4 – Late Filing Of Certification Form AG 64 Resulting In A Loss Of Reimbursement For Special 2002 Ad Hoc Postretirement Adjustment

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by city officials. We are concerned by the city’s failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this report.

As previously noted, one of the objectives of our audit of the City of Jeannette Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

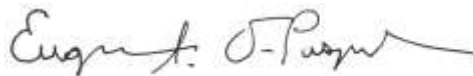
The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the plan. For example, **the plan’s funded ratio went from 66.3% as of January 1, 2009, to a ratio of 57.5% as of January 1, 2013, which is the most recent date available. Based in part on this information and when combined with the funded status of the city’s other pension plans, the Public Employee**

Retirement Commission issued a notification that the city is currently in Level II moderate distress status. We encourage city officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

As noted in the Comments section of this audit report, effective January 1, 2014, the City of Jeannette raised the Act 205 special municipal pension tax from .15% of earned income to .50% of earned income. The purpose of this tax is to enable municipalities to improve the funding status of its pension plans. Subsequent to this tax increase, on July 9, 2014, the City of Jeannette adopted Ordinance No. 14-05 that provides for a Deferred Retirement Option Plan (DROP) for its police officers. In addition, the city currently maintains a practice of promoting police officers a month before they retire and basing their pension calculations on the final monthly rate of pay, thereby increasing pension benefit determinations. These conditions will continue to exacerbate the plan's deteriorating funding status and increase the required municipal contributions necessary to fund the plan in accordance with Act 205 funding standards. We encourage city officials to make fiscally responsible decisions as plan fiduciaries that will benefit the City of Jeannette and its taxpayers to ensure the police pension plan has adequate resources to meet current and future benefit obligations to the city's hard working police officers.

The contents of this report were discussed with officials of the City of Jeannette and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

January 26, 2015



EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Jeannette Police Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

Act 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

The City of Jeannette Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 00-10, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established December 17, 1959. Active members are required to contribute 5 percent of compensation plus \$1 per month to the plan until age 65. As of December 31, 2013, the plan had 12 active members, no terminated members eligible for vested benefits in the future and 23 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2013, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Completion of 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

A monthly benefit, payable for life, equal to 50% of the greater of average compensation during the 5-year period that produces the highest average, or monthly longevity pay, holiday pay, night time differential and base pay during the last month of employment, plus a monthly service increment equal to 1/40 of the retirement benefit for each year of service in excess of 20. The maximum monthly service increment is \$100. Service after age 65 does not count towards the monthly service increment.

Survivor Benefit:

Before Retirement Eligibility:

The surviving spouse will receive 50% of the average compensation during the final 5 years of employment payable for life. In the event of the spouse's death, the participant's children will share the benefit until age 18.

After Retirement Eligibility or if Killed in Service:

The surviving spouse (if married prior to the participant's effective retirement date) will receive a monthly benefit for life, equal to 100% of the participant's benefit entitlement. If the spouse is or becomes ineligible for the benefit, the participant's children under age 18 share the benefit.

Service Related Disability Benefit:

For total and permanent disablement, the participant's normal retirement benefit calculated at date of disablement will be payable for life.

CITY OF JEANNETTE POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

The City of Jeannette has complied with the prior audit recommendation concerning the following:

- Failure To Pay The Minimum Municipal Obligation Of The Plan

The City paid the outstanding 2012 minimum municipal obligation in accordance with Act 205 requirements; however, a similar condition occurred during the current audit period as disclosed in Finding No. 2 of this report.

Noncompliance With Prior Audit Recommendation

The City has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendation section of this report:

- Failure To Implement Act 44 Mandatory Distressed Provisions

CITY OF JEANNETTE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Implement Act 44 Mandatory Distressed Provisions

Condition: As disclosed in the prior audit report, the city failed to implement the mandatory distressed provisions of Act 205, as amended. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009, and among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

Based on the plan’s funded ratio of 58.9% as of January 1, 2011, in aggregation with the funded ratios of the city’s other pension plans, the Public Employee Retirement Commission (PERC) issued a notification in 2012 that the city was in Level II moderate distress status. Based on the plan’s funded ratio of 57.5% as of January 1, 2013, in aggregation with the funded ratios of the city’s other pension plans, PERC issued another notification in 2014 that the city remains in Level II moderate distress status.

Included with the determination notices, PERC sent the city the Act 205 Recovery Program Election Form outlining the mandatory remedies that must be implemented and the voluntary remedies that the city could elect to implement. This form was required to be signed by the plan’s chief administrative officer and returned to PERC.

Although the city submitted the election forms to PERC, the city has not begun to take action to implement the mandatory remedies contained in Act 44 for municipalities in Level II distress regarding the aggregation of its 3 municipal pension funds and the submission of a plan for administrative improvement to PERC.

Criteria: Section 605(a) of Act 205, as amended, states:

Recovery program level II.

- (a) Mandatory remedies. Any municipality to which level II of the recovery program applies shall utilize the following remedies:
 - (1) The aggregation of trust funds pursuant to section 607(b).
 - (2) The submission of a plan for administrative improvement pursuant to section 607(i).

CITY OF JEANNETTE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the mandatory distress remedies have been implemented.

Effect: The city is not in compliance with the Act 205, as amended by Act 44, regarding mandatory distress remedy provisions applicable to Level II pension plans which are designed to improve the funding status and administrative efficiency of its pension plans.

Recommendation: We again recommend that city officials contact PERC for guidance in the implementation of the mandatory distress remedies applicable to Level II pursuant to Act 44 of 2009.

Management's Response: City officials agreed with the finding without exception.

Auditor Conclusion: We are concerned by the city's failure to correct this previously reported audit finding and strongly encourage timely implementation of the finding recommendation.

Finding No. 2 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the Status of Prior Findings section of this report, although the city paid the outstanding 2012 minimum municipal obligation (MMO) due the plan in accordance with Act 205 requirements, the city did not fully pay the MMO of the police pension plan for the year 2013, as required by Act 205. The municipality had an unpaid MMO balance of \$276,849 for the year 2013.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

CITY OF JEANNETTE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials did not comply with the Act 205 requirements because the city continues to be in financial distress and lacked the funds to fully pay the 2013 MMO as required.

Effect: The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2013 MMO by the December 31, 2013, deadline, the municipality must add the 2013 MMO balance to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the outstanding 2013 MMO due to the police pension plan, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the city for examination during our next audit of the plan.

Furthermore, we recommend that in the future, plan officials pay the full amount of the plan's MMO annually, by December 31, to avoid the additional payment of interest required by Act 205.

Management's Response: City officials agreed with finding without exception.

Auditor's Conclusion: Due to the potential withhold of state aid, compliance will be subject to verification subsequent to the release of the audit report and through our next audit of the plan.

CITY OF JEANNETTE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Late Filing Of Certification Form AG 490 Resulting In A Loss Of Reimbursement For Special 1989 Ad Hoc Postretirement Adjustment

Condition: The City failed to file the Certification Form AG 490 by the April 1, 2014, deadline, as required by Act 147.

Criteria: Pursuant to Act 147, Certification Form AG 490 should report only the amount of special ad hoc postretirement adjustments paid in the previous year to eligible retirees and/or their surviving spouses.

In addition, Section 502(b) of Act 147 states, in part:

Limitation of eligibility.

- (1) The Commonwealth shall not reimburse any municipality if the information required under section 901(a)(1) either was not certified to the Auditor General or was certified after April 1 of the year the certification was due.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the Certification Form AG 490 was filed timely in accordance with Act 147 requirements.

Effect: The data submitted on this certification form is used to calculate the reimbursement due the city for ad hoc postretirement adjustments granted pursuant to Chapter 3 of Act 147. As a result of the late filing, the city did not receive a \$3,900 reimbursement from the Commonwealth for the Special 1989 Ad-Hoc Postretirement Adjustments paid in 2013.

Recommendation: We recommend that city officials implement adequate internal control procedures to ensure that future Certification Forms AG 490 are filed timely in accordance with Act 147 requirements.

Management's Response: City officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

CITY OF JEANNETTE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Late Filing Of Certification Form AG 64 Resulting In A Loss Of Reimbursement For Special 2002 Ad Hoc Postretirement Adjustment

Condition: The city failed to file the Certification Form AG 64 by the April 1, 2014 deadline, as required by Act 147. This form is required to be annually submitted by municipalities to receive reimbursements for cost of living adjustments provided to retirees who meet the eligibility criteria.

Criteria: Section 502.1(a)(2) of Act 147 states, in part:

The determination of the reimbursable amount of the amortization contribution requirement attributable to the special ad hoc postretirement adjustment under Chapter 4 in any year shall be calculated as the amortization contribution requirement attributable to the special ad hoc postretirement adjustments under Chapter 4 and reflected in the determination of the financial requirements of the pension plan under Chapter 3 of the Municipal Pension Plan Funding Standard and Recovery Act for the immediate prior year less the product of that amortization contribution requirement multiplied by the ratio of the amount of general municipal pension system State aid allocated to the retirement system in the immediate prior year to the total amount of municipal contributions made to the retirement system from all sources other than employee contributions in the immediate prior year.

In addition, Section 502.1(b) of Act 147 states:

Limitation of eligibility. –

- (1) The Commonwealth shall not reimburse any municipality for a special ad hoc adjustment paid under Chapter 4 if the information required under section 901(a)(2) either was not certified to the Auditor General or was certified after April 1 of the year the certification was due.
- (2) The Commonwealth shall not reimburse a municipality for the reimbursable amount of the amortization contribution requirement attributable to the special ad hoc postretirement adjustment under Chapter 4 if the municipality fails to submit a complete certification of the reimbursable amount of the amortization contribution requirement determined under subsection (a) to the Auditor General before April 1 of the year in which the reimbursement is payable.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the Certification Form AG 64 was filed timely in accordance with Act 147 requirements.

CITY OF JEANNETTE POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: The data submitted on this certification form is used to calculate the reimbursement due to the city for ad hoc postretirement adjustments granted pursuant to Chapter 4 of Act 147. As a result of the late filing, the city did not receive a \$1,541 reimbursement from the Commonwealth for the Special 2002 Ad-Hoc Postretirement Adjustments paid in 2013.

Recommendation: We recommend that city officials implement adequate internal control procedures to ensure that future Certification Forms AG 64 are filed timely in accordance with Act 147 requirements.

Management Response: City officials agreed with the finding without exception.

Auditor Conclusion: Compliance will be subject to verification through our next audit.

CITY OF JEANNETTE POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 316-D Finance Building, Harrisburg, PA 17120.

CITY OF JEANNETTE POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2009, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-09	\$ 5,794,711	\$ 8,739,050	\$ 2,944,339	66.3%	\$ 1,042,985	282.3%
01-01-11	5,796,039	9,847,386	4,051,347	58.9%	1,014,282	399.4%
01-01-13	5,968,048	10,373,181	4,405,133	57.5%	1,070,622	411.5%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13, have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF JEANNETTE POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF JEANNETTE POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 217,836	100.0%
2009	254,809	100.2%
2010	255,258	100.0%
2011	347,276	100.0%
2012	414,406	100.0%
2013	536,956	48.4%

Note: As disclosed in Finding No. 2 contained in this report, the city did not fully pay the Annual Required Contribution (also referred to as the Minimum Municipal Obligation or MMO) of the police pension plan for the year 2013, as required by Act 205. There remains an unpaid 2013 MMO balance of \$276,849, plus interest, as of December 31, 2013.

CITY OF JEANNETTE POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	16 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

CITY OF JEANNETTE POLICE PENSION PLAN
COMMENTS

On January 1, 2011, the City implemented the special municipal taxing authority pursuant to Section 607(f) of Act 205 to assist the city in funding its pension plans. The special earned income tax rate was initially .15% of earned income. During the current audit period, the city increased the rate to .50% effective January 1, 2014.

Subsequently, on July 9, 2014, the City of Jeannette adopted Ordinance No. 14-05 that provides for a Deferred Retirement Option Plan (DROP) for its police officers. The DROP provision allows participants to collect a pension while continuing to work, up to a maximum of 5 years. The monthly pension benefit is calculated as of the date the member enters to DROP (retires) and is credited to a DROP account and held in escrow until the member leaves the DROP.

The city obtained an actuarial cost study estimate for providing the DROP to its members in accordance with Act 205 requirements. The study, dated June 5, 2014, revealed that providing the benefit modification would increase the plan's unfunded actuarial accrued liability by \$335,600 and will increase the City's minimum municipal obligation to properly fund the plan in accordance with Act 205 funding standards by \$40,500 annually.

Automatic Promotions Granted Prior To Retirement

The City of Jeannette has maintained a practice of promoting police officers to the next higher grade in rank for a period of at least one month immediately prior to retirement.

Section II of Ordinance No. 66-9 established a past practice, which the city continues to follow, which states, in part:

Any Participant in the Plan before retiring shall be promoted to the next higher grade in rank for a period of at least one month immediately prior to his retirement and said next higher grade in rank shall be at least that of a Lieutenant.

Section 4303(a) of the Third Class City Code states in part:

The basis of the appointment of the pension shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 4302.1 or retirement, or the highest average annual salary which the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 4302.1 or retirement, whichever is the higher, and except as to service increments provided for in subsection (b) of this section, shall not in any case exceed in any year one-half the annual pay of such member computed at such monthly or average annual rate, whichever is the higher. (Emphasis added)

CITY OF JEANNETTE POLICE PENSION PLAN
COMMENTS

While the city's practice is not considered to be in noncompliance with the Third Class City Code, it does serve to inflate the pension benefits of retirees from the city's police pension plan and increases the municipal contributions required to fund the plan in accordance with Act 205 funding standards. The additional unfunded liability resulting from the pre-retirement promotions contributes to the city's inability to meet its funding obligations to the plan as cited in Finding No. 2 contained in this report.

Given the funded status of the police pension plan and the City's imposition of a special municipal pension tax, we encourage City officials to continue to obtain the required cost studies prior to the implementation of any future benefit modifications in order that the City may assess the long-term effects on the plan's funding status.

CITY OF JEANNETTE POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of Jeannette Police Pension Plan
Westmoreland County
110 South Second Street
Jeannette, PA 15644

The Honorable Richard R. Jacobelli	Mayor
Mr. Bruce D. Jamison	City Manager
Mr. Jacob Milliron	City Controller

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