



**CITY OF CHESTER POLICE  
PENSION PLAN**

**DELAWARE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2011 TO DECEMBER 31, 2012**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

The Honorable Mayor and City Council  
City of Chester  
Delaware County  
Chester, PA 19013

We have conducted a compliance audit of the City of Chester Police Pension Plan for the period January, 2011, to December 31, 2012. 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 transfers were properly authorized, accurate, timely and properly recorded.
- 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 Chester 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 Chester 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 Audit Recommendation – Provision Of Benefits Inconsistent With The Third Class City Code

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Finding No. 3 – Failure To Appoint A Chief Administrative Officer

As previously noted, one of the objectives of our audit of the City of Chester 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:

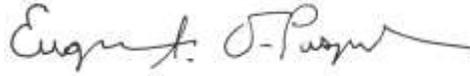
| <u>Level</u> | <u>Indication</u> | <u>Funding Criteria</u> |
|--------------|-------------------|-------------------------|
| I            | Minimal distress  | 70-89%                  |
| II           | Moderate distress | 50-69%                  |
| III          | Severe distress   | Less than 50%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

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 funded status of the plan contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. For example, **the plan's funded ratio went from 62.4% as of January 1, 2007, to a ratio of 44.5% as of January 1, 2011. 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 aggregate funded status of the city's plan's places the the city 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.

The deterioration of the plan's funded status has been exacerbated, as noted in the Comments section of this audit report, by the City's practice of determining pension benefits for its police officers based on their final 12 months accumulated earnings, which include overtime, vacation, sick and personal pay. This methodology has resulted in pension benefit determinations that approximate the respective retirees' final annual base pay. We encourage city officials to make fiscally responsible decisions as plan fiduciaries that will benefit the City of Chester and its taxpayers to ensure the city's police pension plan has adequate resources to meet current and

future benefit obligations to the city's hard working police officers that are determined in accordance with the provisions and the intent of the Third Class City Code.

The contents of this report were discussed with officials of City of Chester 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.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

February 5, 2014

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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 Chester 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 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 Chester Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 143 of the city's codified ordinances, 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 January 1, 1930. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2012, the plan had 91 active members, no terminated members eligible for vested benefits in the future and 123 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2012, selected plan benefit provisions are as follows:

### Eligibility Requirements:

|                   |                                 |
|-------------------|---------------------------------|
| Normal Retirement | 20 years of service.            |
| Early Retirement  | 60 years of age.                |
| Vesting           | 100% after 20 years of service. |

### Retirement Benefit:

Hired pre January 1, 1988: 50% of final pay plus 1.25% of pay times years of service over 20 years (Maximum \$150).

Hired after December 31, 1987: 50% of final 3 years average pay plus 1.25% of pay times years of service over 20 years (Maximum \$150).

### Survivor Benefit:

If retired or eligible for retirement - 50% of benefit to surviving spouse or children under the age of 18.

### Service Related Disability Benefit:

100% of pay at time of disability less worker's compensation and any earnings from other employment.

### Non-Service Related Disability Benefit:

Hired pre January 1, 1988: 2.5% of pay times years of service but not more than 50% of pay.

Hired after December 31, 1987: 2% of pay times years of service but not more than 50% of pay.

CITY OF CHESTER POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Compliance With Prior Audit Recommendation

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

Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The city reimbursed \$44,452 to the Commonwealth for the overpayment of state aid received.

Noncompliance With Prior Audit Recommendations

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

- Provision Of Benefits Inconsistent With Third Class City Code
- Inconsistent Pension Benefits

CITY OF CHESTER POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits Inconsistent With The Third Class City Code**

Condition: As disclosed in the prior audit report, the city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.). As disclosed in the prior audit report, the city has provided pension benefits to its police officers which are inconsistent with the Third Class City Code. The specific inconsistencies are as follows:

| Benefit Provision                                     | Governing Document   | Third Class City Code   |
|---|--|---|
| Definition of salary                                  | Salary includes regular wages (including personal, sick and vacation pay), overtime wages, longevity wages, holiday pay, education benefits and any payments for reimbursement of health premiums.   | Salary is the fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.   |
| Normal retirement/ service-related disability benefit | Disability pension calculations are to be based on an amount equal to one hundred percent (100%) of such police officer’s average monthly earnings reportable or reported on the police officer’s W-2 form in the twelve month period prior to his or her retirement. In addition, normal retirement pension calculations for officers hired prior to 1/1/88, are equal to one-half of such police officer’s yearly salary. Post 1/1/88 employees have pensions calculated on the last three years of service. | Notwithstanding any provision of this act, any police officer who becomes totally disabled due to injuries sustained in the line of duty shall be deemed to be fully vested in the police pension fund, regardless of the actual number of years of credited service, and shall be eligible for immediate retirement benefits.<br><br>The basis of the apportionment 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 or retirement, or the highest average annual salary which the member received during any five years of service preceding injury, death, honorable discharge, vesting or retirement, whichever is the higher, and except as to service increments, 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. |

CITY OF CHESTER POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

| Benefit Provision                  | Governing Document   | Third Class City Code   |
|------------------------------------|--|---|
| Early retirement benefit at age 60 | At age 60, a benefit equal to 2% for each year of service with a 50% maximum, regardless of years of service.  | Not provided  |
| Survivor benefit                   | The widow of a member of the police force, or a member who retires on pension who dies on or after January 1, 1960, or if no widow survives, or if she survives and subsequently dies or remarries, the child or children under the age of eighteen years of a member of the police force, or a member who retires on pension who dies on or after January 1, 1960, shall, during her lifetime, or so long as she does not remarry, in the case of a widow, or until reaching the age of eighteen years, in the case of a child or children, be entitled to receive a pension calculated at the rate of fifty percent (50%) of the pension the member was receiving or would have received had he been retired at the time of his death. | The spouse of a member of the police force or a member who retires on pension who dies or if no spouse survives or if such person survives and subsequently dies or remarries, then the child or children under the age of eighteen years of a member of the police force or a member who retires on pension who dies on or after the effective date of this amendment, <u>shall, during the lifetime of the surviving spouse, even if the surviving spouse remarries,</u> or until reaching the age of eighteen years in the case of a child or children, be entitled to receive a pension calculated at the rate of fifty per centum of the pension the member was receiving or would have been receiving had he been retired at the time of his death and may receive the pension the member was receiving or would have been receiving had he been retired at the time of his death. (Emphasis added) |
| Vesting                            | Employees hired before 1/1/88 – after 20 years of service;<br>Employees hired on or after 1/1/88 – after 25 years of service.<br>Benefit is 50% of salary.   | Provides for members with a minimum of 12 years of service to vest. Benefit is determined by applying the member's years of service to the years the member would have rendered by his minimum retirement date.   |

CITY OF CHESTER POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

| <u>Benefit Provision</u>       | <u>Governing Document</u>   | <u>Third Class City Code</u>   |
|--------------------------------|---|--|
| Non-service related disability | 0-5 years of service – 2.5% per year of service;<br>Greater than 5 years – 2.5% per year of service with a 25% minimum and a 50% maximum. | Less than 10 years of service – 25% of annual compensation;<br>More than 10 years of service - 50% of annual compensation. |

Criteria: On January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee*. Therein, the court held that section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), “clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600.” The court’s holding was in accord with the position taken by this Department since at least January 1995.

Cause: City officials were unable to implement compliance with the prior audit recommendation through the collective bargaining process.

Effect: The provision of unauthorized benefits could increase the plan’s pension costs and reduce the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the city received its state aid allocations based on unit value during the current audit period, it did not receive excess state aid allocations attributable to the unauthorized benefits provided; however, the provision of unauthorized benefits could result in the receipt of excess state aid in the future, or increase required municipal contributions to the plan.

Recommendation: The Department acknowledges that its position has changed over the years and that, until *Monroeville*, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. The Department seeks, therefore, to implement the decision in as equitable a fashion as possible, while paying necessary deference to the court’s ruling. Accordingly, the Department will not penalize a home rule municipality for granting benefits not authorized by the Third Class City Code to existing retirees or to individuals who began full-time employment before January 24, 2001 (the date *Monroeville* was issued). However, the Department expects the city to restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after that date.

CITY OF CHESTER POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Special note should be taken that the Department’s application of *Monroeville* only to employees hired on or after January 24, 2001, does not sanction (1) a municipality’s granting excess benefits to existing or future employees when none had been granted as of January 24, 2001, or (2) a municipality’s increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

In those instances where the city has failed to provide benefits mandated by the Third Class City Code, we again recommend that city officials consult with their solicitor to determine their obligation to provide these benefits, given the city’s distressed designation under Act 205.

Management’s Response: In conjunction with the negotiation of the next collective bargaining agreement between the Police Department and the City, if through the negotiating process, the City is able to restrict pension benefits to those authorized by the Third Class City Code, it will then be the intent of the City to amend the governing document as recommended by the Department.

Auditor’s Conclusion: We are concerned with the city’s failure to comply with this prior audit finding and encourage the city to comply with the recommendation at its earliest opportunity to do so.

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits**

Condition: As disclosed in the prior audit report, the pension plan’s governing document, Article 143 of the city’s codified ordinances, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the city, as follows:

| <u>Benefit Provision</u>     | <u>Governing Document</u>  | <u>Collective Bargaining Agreement</u> |
|------------------------------|--|--|
| Normal retirement criteria   | If hired before 1/1/88 – age 50 and 20 years service; if hired after 1/1/88 – age 53 and 25 years of service | After 20 years of service              |
| Retirement service increment | Maximum of \$100 per month   | Maximum of \$500 per month             |

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

CITY OF CHESTER POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: City officials were unable to implement compliance with the prior audit recommendation through the collective bargaining process.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that city officials ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management’s Response: In conjunction with the negotiation of the next collective bargaining agreement between the Police Department and the City, if through the negotiating process, the City is able to restrict pension benefits to those authorized by the Third Class City Code, it will then be the intent of the City to amend the governing documents as recommended by the Department.

Auditor’s Conclusion: We are concerned with the city’s failure to comply with this prior audit finding and encourage the city to comply with the recommendation at its earliest opportunity to do so.

**Finding No. 3 – Failure To Appoint A Chief Administrative Officer**

Condition: Municipal officials did not appoint a chief administrative officer (CAO) for the pension plan by ordinance, resolution or by a motion recorded in the minutes of a council meeting.

Criteria: Section 102 of Act 205 defines the CAO as “The person who has primary responsibility for the execution of the administrative affairs of the municipality in the case of the municipality, or of the pension plan in the case of the pension plan, or the designee of that person.”

CITY OF CHESTER POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Municipal officials may appoint two CAOs - one for the pension plan and one for the municipality or appoint one person to fill both positions. Act 205 identifies specific duties for each position, as follows:

CAO of the Municipality

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports with the Public Employee Retirement Commission (Section 201(b)); and
- Make actuarial report information available to plan members (Section 201(e)).

CAO of the Pension Plan

- Annually, determine and submit to the governing body of the municipality the financial requirements of the pension plan and minimum municipal obligation (Section 302(b), Section 302(c), Section 303(b), Section 303(c) and Section 304); and
- Provide the governing body of the municipality with a cost estimate of the effect of any proposed benefit plan modification (Section 305(a)).

Cause: Plan officials were unaware of the need to appoint a CAO for the pension plan in accordance with Act 205 provisions.

Effect: The failure to formally appoint a CAO could result in important filing deadlines being overlooked, state aid being adversely affected and delayed and investment opportunities being lost.

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and pension plan, we recommend that the CAO be formally appointed by ordinance, resolution or motion recorded in the minutes of a council meeting. Such ordinance, resolution or motion should detail the CAO's responsibilities and be filed with other plan documents.

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

CITY OF CHESTER 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, 2007, 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)] |
| 01-01-07                 | \$ 26,668,786                 | \$ 42,761,177                                     | \$ 16,092,391  | 62.4%                | \$ 5,379,321        | 299.2%   |
| 01-01-09                 | 25,877,310                    | 46,837,236  | 20,959,926   | 55.2%                | 6,176,704           | 339.3%   |
| 01-01-11                 | 23,542,691                    | 52,960,297  | 29,417,606   | 44.5%                | 6,568,456           | 447.9%   |

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses at 130 percent of market value. 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 CHESTER 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 CHESTER POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2007                   | \$ 1,414,455                 | 100.0%                 |
| 2008                   | 1,447,528                    | 100.0%                 |
| 2009                   | 1,957,189                    | 100.0%                 |
| 2010                   | 1,648,447                    | 100.0%                 |
| 2011                   | 1,809,741                    | 100.0%                 |
| 2012                   | 1,865,056                    | 100.0%                 |

CITY OF CHESTER POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

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, 2011  |
| Actuarial cost method         | Entry age normal   |
| Amortization method           | Level dollar   |
| Remaining amortization period | 22 years   |
| Asset valuation method        | Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 130% of the market value of assets. |
| Actuarial assumptions:        |  |
| Investment rate of return     | 7.5%   |
| Projected salary increases    | 5.0%   |
| Cost-of-living adjustments    | None assumed   |

CITY OF CHESTER POLICE PENSION PLAN  
COMMENTS

As previously noted in this audit report, the City of Chester Police Pension Plan is governed by local ordinances adopted pursuant to Act 177 and Act 317, the Third Class City Code. With regard to the determination of pension benefits for police officers, Section 4303 of the Third Class City Code states:

Allowances and Service Increments. (a) Payments for allowances shall not be a charge on any other fund in the treasury of the city or under its control save the police pension fund herein provided for. The basis of the apportionment 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)

Although the Code does not contain a definition for the term “pay”, at Section 4309, the Code defines the term salary as follows:

Definitions. As used in this subdivision, the term “salary” is defined as the fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

The city’s practice has been to calculate the police officers’ pension benefits based on the amount of the retiree’s final 12 months of pay. This includes regular monthly pay plus overtime, vacation, sick and personal pay that a police officer accumulates in his or her final 12 months of employment.

During the current audit period, 5 police officers retired on non-disability normal retirement pensions. During the final 12 months of 4 of the police officers’ respective employments, in addition to their regular hours, the police officers accumulated the following number of additional hours that were included in their final 12 month earnings. The additional hours included overtime, vacation, sick, and personal pay.

CITY OF CHESTER POLICE PENSION PLAN  
COMMENTS - (Continued)

| Retiree | Total<br>Additional<br>Hours | Overtime<br>Hours | Vacation<br>Hours | Sick<br>Hours | Personal<br>Hours |
|---------|------------------------------|-------------------|-------------------|---------------|-------------------|
| 1       | 1551.5                       | 1,094.5           | 218               | 161           | 78                |
| 2       | 1,628.5                      | 1,404.5           | 196               | -             | 28                |
| 3       | 1,755                        | 1,543             | 160               | 12            | 40                |
| 4       | 1037.5                       | 432.5             | 206               | 359           | 40                |

The following chart illustrates the effect that using the retiree's final 12 months accumulated earnings to determine the retiree's pension benefits instead of using the retiree's regular monthly base pay to determine the retiree's monthly pension benefit has on the pension calculation and ultimately the pension plan and the amount of money needed to fund it.

| Retiree –<br>Full<br>Years of<br>Service | Additional<br>Final<br>12 Month<br>Earnings<br>for extra<br>hours | Annual<br>Base Pay<br>per contract<br>(including<br>longevity) | Annual<br>Pension<br>Benefit | Monthly<br>Pension<br>Benefit | Monthly<br>Pension w/o<br>Additional<br>Final 12<br>Months<br>Earnings<br>Included | Excess<br>Monthly<br>Pension<br>Benefit due<br>to earnings<br>for extra<br>hours |
|--|---|--|------------------------------|-------------------------------|--|--|
| 1 - 20                                   | \$ 61,697   | \$ 69,585  | \$ 65,640                    | \$ 5,470                      | \$ 2,899   | \$ 2,571   |
| 2*- 22                                   | \$ 70,021   | \$ 81,897  | \$ 77,760                    | \$ 6,480                      | \$ 3,562   | \$ 2,918   |
| 3*- 21                                   | \$ 72,551   | \$ 84,307  | \$ 80,232                    | \$ 6,686                      | \$ 3,663   | \$ 3,023   |
| 4 - 20                                   | \$ 30,477   | \$ 45,576  | \$ 38,028                    | \$ 3,169                      | \$ 1,899   | \$ 1,270   |

Through the inclusion of large amounts of additional compensation in the police officers' final 12 month earnings, retirees are receiving pension benefits that approximate the amount of their total base pay earned during their final year of employment with the city.

\* The final monthly pension benefits include service increments determined pursuant to the Third Class City Code, which authorizes additional pension benefits based upon completed years of service in excess of 20 years, not to exceed \$150 per month.

CITY OF CHESTER POLICE PENSION PLAN  
COMMENTS - (Continued)

As previously noted in this audit report, the City of Chester is a home rule municipality and that until the *Monroeville* decision, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. Consequently, the Department seeks, therefore, to implement the decision in as equitable a fashion as possible, while paying necessary deference to the court's ruling. Accordingly, the Department will not penalize a home rule municipality for granting benefits not authorized by the Third Class City Code to existing retirees or to individuals who began full-time employment before January 24, 2001 (the date *Monroeville* was issued). However, the Department expects the city to restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after that date.

Given the funded status of the police pension plan, we encourage city officials to review the methodology they use to calculate pension benefits for its police officers. The city's practice of allowing police officers the opportunity to accumulate large amounts of overtime and other forms of compensation during their last 12 months of employment and including that compensation in the calculation of pension benefits has created apparent windfalls for some retirees, significantly increased the required municipal contributions to the pension funds, thwarted actuarial projections, and jeopardized the fiscal soundness of the pension plan.

CITY OF CHESTER POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

City of Chester Police Pension Plan  
Delaware County  
1 Fourth Street  
Chester, PA 19013

The Honorable John Linder    Mayor

Mr. Nafis J. Nichols            Councilman

Ms. Edith Blackwell            Controller

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