



**CITY OF CHESTER OFFICERS AND EMPLOYEES
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



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen**

**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 Officers and Employees Pension Plan for the period January 1, 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 finding 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 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 transfers were properly authorized, accurate, timely and properly recorded.
- Whether the pension plan is in compliance with state regulations for distressed municipalities.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Chester Officers and Employees 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 Officers and Employees 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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

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.

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

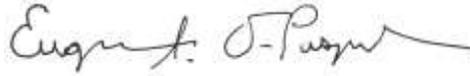
<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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 23.9% as of January 1, 2007, to a ratio of 15.8% 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 plans places the city currently in Level II moderate distress status.** We encourage city officials to monitor the funding of the Officers and Employees 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 non-uniformed employees based on their final 12 months accumulated earnings, which include overtime. Furthermore, based on the annual benefit payments disclosed in the plan's actuarial value of assets at January 1, 2011, the plan's actuarial value at January 1, 2011 represents less than 3 full years of benefit payments according to the data contained in the plan's financial statements. We therefore strongly 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 officers and employees pension plan has adequate resources to meet current and future benefit obligations to the city's hard working non-uniformed employees 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 the 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.

February 3, 2014

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

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 Chester Officers and Employees 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.
- Act 362 - The Third Class City Code, Act of May 23, 1945 (P.L. 903, No. 362), Article XLIII-A, Optional Retirement System for Officers and Employees, as amended, 53 P.S. § 39371 et seq.

The City of Chester Officers and Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 145 of the city's codified ordinances, adopted pursuant to Act 362. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. The plan was established January 1, 1941. Active members are required to contribute 6 percent of compensation if hired prior to January 1, 1988 and 1 percent of compensation if hired after December 31, 1987 to the plan. As of December 31, 2012, the plan had 118 active members, 2 terminated members eligible for vested benefits in the future and 64 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	If hired pre January 1, 1988: Age 60 and 20 years. If hired after December 31, 1987: Age 65 and 25 years.
Early Retirement	If hired pre January 1, 1988: Age 60 and 12 years. If hired after December 31, 1987: Age 65 and 12 years.
Vesting	100% after 12 years of service.

Retirement Benefit:

If hired pre January 1, 1988: 50% of final rate of compensation. If hired after December 31, 1987: 0.75% of average monthly compensation based on final 5 years of compensation times full years of service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

After 15 years of service and before age 55, normal retirement benefit.

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Provision Of Benefits Inconsistent With The Third Class City Code

CITY OF CHESTER OFFICERS AND EMPLOYEES 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 plan’s governing document contains a benefit provision that is in excess of Third Class City Code, as follows:

<u>Benefit</u>	<u>Governing Document</u>	<u>Third Class City Code</u>
Definition of salary	Salary includes regular wages, 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.

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.

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: As disclosed in the prior audit report, 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.

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.

Management’s Response: In conjunction with future benefit negotiations between the employees 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The city certified 1 ineligible firefighter (2 units) and certified 1 ineligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2012. The city also certified 1 ineligible firefighter (2 units) and certified 1 ineligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2013. The data contained on these certification forms are based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms are used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city’s state aid allocations were based on unit value, the incorrect certification of pension data affected the city’s state aid allocations, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2012	Officer’s & Employee’s	1	\$3,576	\$ 3,576
	Firemen’s	2	\$3,576	<u>7,152</u>
				<u>\$ 10,728</u>
2013	Officer’s & Employee’s	1	\$3,884	\$ 3,884
	Firemen’s	2	\$3,884	<u>7,768</u>
				<u>\$ 11,652</u>
			Total Overpayment of State Aid	<u>\$ 22,380</u>

Recommendation: We recommend that the total excess state aid, in the amount of \$22,380, be returned to the Commonwealth from the city’s general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management’s Response: Municipal officials agreed with the finding without exception.

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.”

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)).

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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: Municipal officials agreed with the finding without exception.

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 2 contained in this audit report cites an overpayment of state aid to the city in the amount of \$22,380. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120.

CITY OF CHESTER OFFICERS AND EMPLOYEES 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	\$ 2,086,355	\$ 8,719,204	\$ 6,632,849	23.9%	\$ 4,104,311	161.6%
01-01-09	1,697,146	9,054,477	7,357,331	18.7%	4,348,894	169.2%
01-01-11	1,428,535	9,066,136	7,637,601	15.8%	4,749,925	160.8%

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 OFFICERS AND EMPLOYEES 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 OFFICERS AND EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	\$ 261,219	100.0%
2008	292,315	100.0%
2009	346,478	100.0%
2010	316,091	100.0%
2011	373,181	100.0%
2012	399,962	100.0%

CITY OF CHESTER OFFICERS AND EMPLOYEES 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	14 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 OFFICERS AND EMPLOYEES PENSION PLAN
COMMENTS

As previously noted in this audit report, the City of Chester Officers and Employees Pension Plan is governed by local ordinances adopted pursuant to Act 177 and Act 362, Optional Retirement System for Officers and Employees. With regard to the determination of pension benefits for non-uniformed employees, Section 4 of Act 362 states, in part:

That every person now or hereafter elected or appointed to an office of, or employed by, any city which has created such retirement system and such board, as hereinafter provided, of the age of sixty (60) years and upwards who shall have so served as an officer or employe for a period of twenty (20) years, or more, shall, upon application to the board, be retired from service, and shall during the remainder of his life receive the compensation fixed by this act, subject to such qualifications as are hereinafter contained.

If any person shall have served twenty (20) years and voluntarily retires he shall, by continuing his contributions until the age of fifty-five (55), be entitled to the above compensation.

During the lifetime of any such person he shall be entitled to receive as compensation annually from the fund set aside for the purpose, fifty (50) per centum of the amount which would constitute the highest average annual salary or wages which he earned during any five (5) years of his service for the city, or which would be determined by the rate of the monthly pay of such person at the date of retirement, whichever is the higher. Said compensation to be paid in semi-monthly payments.

Furthermore, Act 362 at Section 4(b)(3)(ii)states, in part:

As used in this section, the term “salary” means 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 non-uniformed pension benefits based on the amount of the retiree’s final 12 months of pay. This includes regular monthly pay plus overtime that a non-uniformed employee accumulates in his or her final 12 months of employment.

During the current audit period, a non-uniformed employee retired on a non-disability normal retirement pension and had overtime payments included in the pension calculation. During the final 12 months of the retiree’s employment, in addition to regular hours, the non-uniformed employee accumulated 699 overtime hours that were included in their final 12 month earnings.

CITY OF CHESTER OFFICERS AND EMPLOYEES PENSION PLAN
COMMENTS - (Continued)

The following chart illustrates the effect that the inclusion of the overtime had on the retiree's monthly pension benefit and ultimately the pension plan and the amount of money needed to fund it.

Retiree – Full Years of Service	Additional Final 12 Month Earnings for extra hours	Annual Base Pay per contract (including longevity)	Annual Pension Benefit	Monthly Pension Benefit	Monthly Pension w/o Additional Final 12 Months Earnings Included	Excess Monthly Pension Benefit due to earnings for extra hours
33	\$ 23,865	\$ 47,342	\$ 35,604	\$ 2,967	\$ 1,973	\$ 994

Through the inclusion of overtime in the retiree's final 12 month earnings, the retiree is receiving pension benefits that approximate 75 percent of the amount of the total base pay earned during the final year of employment with the city.

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 officers and employees pension plan, we encourage city officials to review the methodology they use to calculate pension benefits for its non-uniformed employees. The city's practice of allowing employees the opportunity to accumulate large amounts of overtime 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 OFFICERS AND EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Chester Officers and Employees Pension Plan
Delaware County
1 West 4th Street
Chester, PA 19013

The Honorable John Linder	Mayor
Mr. Nafis J. Nichols	Councilman
Ms. Edith M. Blackwell	Controller

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