



**CITY OF CHESTER FIREMEN'S
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 Firemen's 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 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 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.
- 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 Firemen's 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 Firemen's 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 finding 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

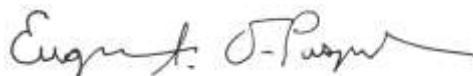
Finding No. 3 – Failure To Appoint A Chief Administrative Officer

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. We would like to point out that, although the funded status of the plan contained in the schedule of funding progress included in this report indicates a funded ratio of 156.0%, 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.

As noted in the Comments section of this audit report, the City maintains a practice of determining pension benefits for its firefighters based on their final 12 months accumulated earnings, which include overtime. 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 firemen's pension plan continues to have adequate resources to meet current and future benefit obligations to the city's hard working firefighters 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 4, 2014



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 Firemen's 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 Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 147 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 firefighters. The plan was established December 26, 1972. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2012, the plan had 42 active members, no terminated members eligible for vested benefits in the future and 61 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 None

Vesting 12 years of service.

Retirement Benefit:

50% of average monthly compensation plus a service increment of 1/40th of such pension per year of service. After January 1, 1972, over 20 years but not occurring after age 65. The maximum service increment is \$100 per month.

Survivor Benefit:

If retired or eligible for retirement, 100% of benefit to surviving spouse or child under 18.

Service Related Disability Benefit:

70% of pay at time of disability.

Non-Service Related Disability Benefit:

2.5% of pay times years of service but not more than 50% of pay.

CITY OF CHESTER FIREMEN'S PENSION PLAN
STATUS OF PRIOR FINDINGS

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 Finding and Recommendation section of this report:

- Provision Of Benefits Inconsistent With The Third Class City Code

CITY OF CHESTER FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

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 firefighters which are inconsistent with the Third Class City Code. In addition, the collective bargaining agreement between the firefighters and the city contains benefit provisions that are inconsistent with the pension plan's governing document. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</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.	None stated	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.
Survivor benefit	The widow of any paid fireman, so long as she does not remarry, shall receive a pension benefit of the amount payable to the paid fireman or which would have been payable had he retired at the time of his death.	No provision	Upon the death of a member who retires on pension or is killed in the service on or after January 1, 1960, or who dies in the service on or after January 1, 1968, payments as hereinafter provided shall be made to the member's surviving spouse during the life of the spouse.
Normal retirement eligibility	Hired pre 1-1-88, age 50 and 20 years service; Hired on or after 1-1-88, age 55 and 25 years service.	Effective 1-1-02, all members eligible after 20 years service.	At least 20 years of service and, when any minimum age is prescribed, a minimum age of 50.

CITY OF CHESTER FIREMEN’S PENSION PLAN
FINDING AND RECOMMENDATION

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Calculation of vested benefit	No provision	The number of years of completed service times 2.5% at the time of termination.	Benefit is determined by applying the percentage the member’s years of service bears to the years of service the member would have rendered by his minimum retirement date to the base pension.

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. Furthermore, inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension 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 FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

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 addition, 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 Fire Department and the City, if through the negotiation 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.

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

CITY OF CHESTER FIREMEN’S PENSION PLAN
FINDING AND RECOMMENDATION

Finding No. 2 – (Continued)

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.

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.

CITY OF CHESTER FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

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)).

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)).

CITY OF CHESTER FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding No. 3 – (Continued)

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 or delayed and investment opportunities being lost.

Recommendation: Because of the significance of the CAO's responsibilities to the municipality or 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 FIREMEN'S 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 FIREMEN'S PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (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	\$32,230,902	\$20,664,162	\$ (11,566,740)	156.0%	\$ 3,522,902	(328.3%)
01-01-09	29,582,395	22,601,709	(6,980,686)	130.9%	3,636,767	(191.9%)
01-01-11	31,307,765	26,312,596	(4,995,169)	119.0%	3,029,285	(164.9%)

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 contribution 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 FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(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 FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	None	N/A
2008	None	N/A
2009	None	N/A
2010	None	N/A
2011	None	N/A
2012	None	N/A

CITY OF CHESTER FIREMEN'S 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	N/A
Remaining amortization period	N/A
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 FIREMEN'S PENSION PLAN
COMMENTS

As previously noted in this audit report, the City of Chester Firemen's 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 firefighters, Section 4322 of the Third Class City Code states:

Section 4322. Pensions and Service Increments. (a) Payments of pensions shall not be a charge on any fund in the treasury of the city or under its control save the firemen's pension fund herein provided for. The basis of the pension of a member shall be determined by the monthly salary of the member at the date of vesting under section 4320.1 or retirement, or the highest average annual salary which he received during any five years of service preceding retirement, whichever is the higher, whether for disability, or by reason of age or service, and except as to service increments provided for in subsection (b) of this section, shall be one-half the annual salary of such member at the time of vesting under section 4320.1 or retirement computed at such monthly or average annual rate, whichever is the higher. In the case of the payment of pensions to members for permanent injury incurred in service, and to families of members killed or who die in service, the amount and commencement of the payment of pensions shall be fixed by regulations of the board. Such regulations shall not take into consideration the amount and duration of workmen's compensation allowed by law. Payments to surviving spouses of members retired on pension or killed in the service on or after January 1, 1960, or who die in the service on or after January 1, 1968, shall be the amount payable to the member or which would have been payable had he been retired at the time of his death.

Although the Code does not contain a definition for the term "pay", at Section 4328, 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 firefighters' pension benefits based on the amount of the retiree's final 12 months of pay. This includes regular monthly pay plus overtime that a firefighter accumulates in his or her final 12 months of employment.

During the current audit period, a firefighter retired on a non-disability normal retirement pension and had overtime payments included in the pension calculation. During the final 12 months of employment, in addition to regular hours, the firefighter accumulated 482.5 overtime hours that were included in the final 12 months of earnings.

CITY OF CHESTER FIREMEN’S PENSION PLAN
 COMMENTS - (Continued)

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 – Full Years of Service	Additional Final 12 Month Earnings for overtime	Annual Base Pay per contract (including longevity)	Annual Pension Benefit	Monthly Pension Benefit	Monthly Pension w/o Additional Overtime	Excess Monthly Pension Benefit due to earnings for extra hours
20	\$ 14,129	\$ 54,628	\$ 34,380	\$ 2,865	\$ 2,276	\$ 589

Through the inclusion of overtime in the retiree’s final 12 month earnings, the retiree is receiving pension benefits that approximate 63 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.

Although the city’s firemen’s pension plan is currently well funded, we encourage city officials to review the methodology they use to calculate pension benefits for its firefighters. The city’s practice of allowing firefighters 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, thwarted actuarial projections and can potentially jeopardize the fiscal soundness of the pension plan.

CITY OF CHESTER FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Chester Firemen's 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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