

COMPLIANCE AUDIT

City of Chester Firemen's Pension Plan Delaware County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

April 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and City Council
City of 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, 2016 to December 31, 2017. We also evaluated compliance with some requirements subsequent to that period when possible. 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for the plan member who retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, respectively, in accordance with Act 205 and whether 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 by comparing selected information to supporting source documentation.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether the pension plan is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period and through the completion of our fieldwork procedures.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

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 and as previously described, 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 procedures 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 – Noncompliance With Prior Audit Recommendation – Provision Of
Benefits Inconsistent With The Third Class City Code

The finding contained in this audit report repeats a condition that was cited in our previous eight audit reports that has not been corrected by city officials. We are concerned by the city's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendations noted in this audit report.

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 87.1% as of January 1, 2017, when combined with the funded status of the city's other pension plans, the Municipal Pension Reporting Program issued a notification that the aggregate funded status of the city's plans places the city currently in Level III severe distress status.**

Pursuant to Act 205 regulations, the actuarial assumption as to interest or investment earnings that may be utilized by municipalities is not less than 5% or more than 9%. As illustrated in the Supplementary Information contained in this report, using the city's current 7.5% investment return assumption, the city's reported Net Pension Liability for the Firemen's plan as of December 31, 2017 is \$6,793,924. Using a more conservative 6.5% assumption, the city's Net Pension Liability for the Firemen's plan would be \$11,287,421, an increase of \$4,493,497. Therefore, the city's reported Net Pension Liability is dependent on investment earnings at the high-end of the allowable assumptions, which could be difficult to sustain in this current economic environment.

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. During the prior audit period, this practice resulted in the average pension benefit determination being approximately 77.7% of the retirees' final average annual base pay. Furthermore, as previously noted, while the current funding ratio of the plan as of January 1, 2017 is 87.1%, this represents a significant decline from the plan's January 1, 2013 funding ratio which was 108.3%. Therefore, we continue to 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.

January 3, 2019



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 former 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.
- Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 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 67 (formerly Act 317). The plan is also affected by the provisions of collective bargaining agreements between the city and its paid 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, 2017, the plan had 51 active members, no terminated members eligible for vested benefits in the future, and 75 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows (*refer to the Finding noting inconsistencies between the plan governing document and collective bargaining agreement (CBA)*):

Eligibility Requirements:

| | |
|-------------------|---|
| Normal Retirement | If hired before 1/1/88 – age 50 and 20 years of service. If hired after 1/1/88 – age 55 and 25 years of service. 20 years of service, no minimum age. After 12/12/11, age 50 and 25 years of service. (CBA) |
| Early Retirement | None |
| Vesting | 100% after 12 years of service |

Retirement Benefit:

Benefit equals 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 \$500 per month.

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.

Service Related Disability Benefit:

Benefit equals 70% of pay at time of disability.

Non-Service Related Disability Benefit:

Benefit equals 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

Compliance With Prior Audit Recommendation

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

- Pension Benefits Modified Without Prior Cost Estimate

During the current audit period, benefit modifications were preceded by a cost estimate in accordance with applicable Act 205 provisions.

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 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits
Inconsistent With The Third Class City Code**

Condition: As previously disclosed in our prior eight audit reports, the city operates pursuant to 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.) and continues to provide 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, 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. | For all employees hired on or after December 12, 2011, the term “salary” will be defined as “base pay plus longevity.” | 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 service on or after January 1, 1960, or who dies in the service on or after January 1, 1968, payments as provided under this subchapter shall be made to the member’s surviving spouse during the life of the spouse. |

CITY OF CHESTER FIREMEN’S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

| <u>Benefit Provision</u> | <u>Governing Document</u> | <u>Collective Bargaining Agreement</u> | <u>Third Class City Code</u> |
|-------------------------------|--|--|---|
| Normal retirement eligibility | Hired pre 1-1-88, age 50 and 20 years of service; Hired on or after 1-1-88, age 55 and 25 years of service. | Effective 1-1-02, all members eligible after 20 years of service, with no minimum age requirement. All employees hired on or after December 12, 2011, will be eligible to retire after 25 years of service and age 50. All employees hired before December 12, 2011 shall be grandfathered. | At least 20 years of service and, when a minimum age is prescribed, a minimum age of 50. |
| Calculation of vested benefit | No provision | The number of years of completed service times 2.5% at the time of termination. Pension shall vest at 12 years of service with receipt of pension benefits at age 50. | Benefit is determined by applying to the base amount the percentage that the member’s years of service rendered bears to the years of service that would have been rendered had the member continued to be employed by the department until the member’s minimum retirement date. |

In addition, the actuarial valuation report for the firemen’s pension plan, with a valuation date of January 1, 2017, submitted to the Municipal Pension Reporting Program, reported the benefit provisions included in the collective bargaining agreement.

CITY OF CHESTER FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: As previously disclosed in prior audit reports, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee* on January 24, 2001. 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 again 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: We again recommend that the city restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after January 24, 2001 (the date *Monroeville* was issued) at its earliest opportunity to do so.

To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to employees who began employment on or after January 24, 2001, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan’s actuary may be required to determine the impact, if any, of the unauthorized benefits on the city’s future state aid allocations and submit this information to the department. If it is determined the unauthorized benefits had an impact on the city’s future state aid allocations after the submission of this information, the plan’s actuary would then be required to contact the department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

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.

CITY OF CHESTER FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: The city provided the following response:

The Solicitor's office has begun to update City Ordinances to comply with the Third Class City Code and has committed to having all pension related ordinances updated to comply with state legislation and audit recommendations by December 31, 2020. To insure compliance, the City has and will continue to have our consultants at Thomas J. Anderson and Associates review the updated ordinances prior to implementation.

Auditor's Conclusion: Based on the management response, it appears that municipal officials are striving to comply with the recommendation. Compliance will be evaluated during our next audit of the plan.

CITY OF CHESTER FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 8 through 10 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

| | <u>2014</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Total Pension Liability | | |
| Service cost | \$ 567,153 | \$ 559,539 |
| Interest | 2,268,377 | 2,527,069 |
| Changes of benefit terms | - | 450,201 |
| Differences between expected and actual experience | - | 1,881,060 |
| Changes of assumptions | - | 544,932 |
| Benefit payments, including refunds of member contributions | <u>(2,065,949)</u> | <u>(2,443,833)</u> |
| Net Change in Total Pension Liability | 769,581 | 3,518,968 |
| Total Pension Liability – Beginning | <u>30,710,851</u> | <u>31,480,432</u> |
| Total Pension Liability – Ending (a) | <u>\$ 31,480,432</u> | <u>\$ 34,999,400</u> |
| Plan Fiduciary Net Position | | |
| Contributions – employer | \$ 207,303 | \$ 111,792 |
| Contributions – member | 189,464 | 199,437 |
| Net investment income | 2,116,299 | (314,337) |
| Benefit payments, including refunds of member contributions | (2,065,949) | (2,443,833) |
| Administrative expense | <u>(9,500)</u> | <u>(18,900)</u> |
| Net Change in Plan Fiduciary Net Position | 437,617 | (2,465,841) |
| Plan Fiduciary Net Position – Beginning | <u>30,678,297</u> | <u>31,115,914</u> |
| Plan Fiduciary Net Position – Ending (b) | <u>\$ 31,115,914</u> | <u>\$ 28,650,073</u> |
| Net Pension Liability – Ending (a-b) | <u>\$ 364,518</u> | <u>\$ 6,349,327</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 98.8% | 81.9% |
| Estimated Covered Employee Payroll | \$ 4,871,554 | \$ 3,800,000 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 7.5% | 167.1% |

CITY OF CHESTER FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

| | <u>2016</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Total Pension Liability | | |
| Service cost | \$ 587,516 | \$ 629,037 |
| Interest | 2,571,703 | 2,777,245 |
| Change of benefit terms | - | (44,070) |
| Difference between expected and actual experience | - | 2,084,188 |
| Changes of assumptions | - | 76,172 |
| Benefit payments, including refunds of member contributions | <u>(2,595,089)</u> | <u>(2,557,850)</u> |
| Net Change in Total Pension Liability | 564,130 | 2,964,722 |
| Total Pension Liability – Beginning | 34,999,400 | 35,563,530 |
| Total Pension Liability – Ending (a) | <u>\$ 35,563,530</u> | <u>\$ 38,528,252</u> |
| | | |
| Plan Fiduciary Net Position | | |
| Contributions – state aid | \$ 118,972 | \$ 561,281 |
| Contributions – member | 198,032 | 197,739 |
| Net investment income | 2,368,926 | 4,823,744 |
| Benefit payments, including refunds of member contributions | (2,595,089) | (2,557,850) |
| Administrative expense | <u>(10,500)</u> | <u>(21,000)</u> |
| Net Change in Plan Fiduciary Net Position | 80,341 | 3,003,914 |
| Plan Fiduciary Net Position – Beginning | 28,650,073 | 28,730,414 |
| Plan Fiduciary Net Position – Ending (b) | <u>\$ 28,730,414</u> | <u>\$ 31,734,328</u> |
| | | |
| Net Pension Liability – Ending (a-b) | <u>\$ 6,833,116</u> | <u>\$ 6,793,924</u> |
| | | |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 80.8% | 82.4% |
| | | |
| Estimated Covered Employee Payroll | \$ 3,878,908 | \$ 4,200,000 |
| | | |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 176.2% | 161.8% |

CITY OF CHESTER FIREMEN'S PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city as of December 31, 2016 and 2017, calculated using the discount rate of 7.5%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|----------------------------------|-----------------------|------------------------------------|-----------------------|
| Net Pension Liability – 12/31/15 | \$ 10,479,268 | \$ 6,349,327 | \$ 2,897,458 |
| Net Pension Liability – 12/31/16 | \$ 11,055,788 | \$ 6,833,116 | \$ 3,299,323 |
| Net Pension Liability – 12/31/17 | \$ 11,287,421 | \$ 6,793,924 | \$ 3,043,657 |

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

| | |
|------|---------|
| 2017 | 16.77% |
| 2016 | 7.79% |
| 2015 | (0.73%) |
| 2014 | 7.30% |

CITY OF CHESTER FIREMEN'S 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, 2013, is as follows:

| | (1) | (2) | (3) | (4) |
|--------------------------------|--|--|--|----------------------------|
| 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) |
| 01-01-13 | \$ 32,323,327 | \$ 29,843,252 | \$ (2,480,075) | 108.3% |
| 01-01-15 | 33,100,351 | 34,356,625 | 1,256,274 | 96.3% |
| 01-01-17 | 32,822,001 | 37,679,820 | 4,857,819 | 87.1% |

Note: The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses subject to a maximum corridor of 130 percent of the market value of assets. The market values of the plan's assets at 01-01-15 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses subject to a maximum corridor of 120 percent of the market value of assets. These methods 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
(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.

CITY OF CHESTER FIREMEN'S PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2012 | None | N/A |
| 2013 | None | N/A |
| 2014 | \$ 207,303 | 100.0% |
| 2015 | 111,792 | 100.0% |
| 2016 | 118,972 | 100.0% |
| 2017 | 561,281 | 100.0% |

Note: The actuarially determined contribution for the year 2017 reflects the 25 percent reduction of the amortization contribution the city was permitted to defer pursuant to Act 44 of 2009.

CITY OF CHESTER FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the 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, 2017 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Remaining amortization period | 17 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 120% 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 67 (formerly Act 317), the Third Class City Code. With regard to the determination of pension benefits for firefighters, Section 14322 of the Third Class City Code states, in part:

§ 14322. Pensions and service increments.

(a) Payments.--The following apply:

(1) Payments of pensions shall only be a charge on the firefighters pension fund and shall not be a charge on any other fund under the control, or in the treasury, of the city.

(2) 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 14320.1 (relating to limited vested benefit for firefighters) or retirement or the highest average annual salary which the member received during any five years of service preceding retirement, whichever is higher, whether for disability or by reason of age or service, and, except as to service increments provided for in subsection (b), shall be one-half the annual salary of the member at the time of vesting under section 14320.1 or retirement computed at the monthly or average annual rate, whichever is higher.

(3) For 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 of managers. These regulations shall not take into consideration the amount and duration of workers' compensation allowed by law. Payments to surviving spouses of members retired on pension or killed in service on or after January 1, 1960, or who die in service on or after January 1, 1968, shall be the amount payable to the member or which would have been payable had the member been retired at the time of the member's death.

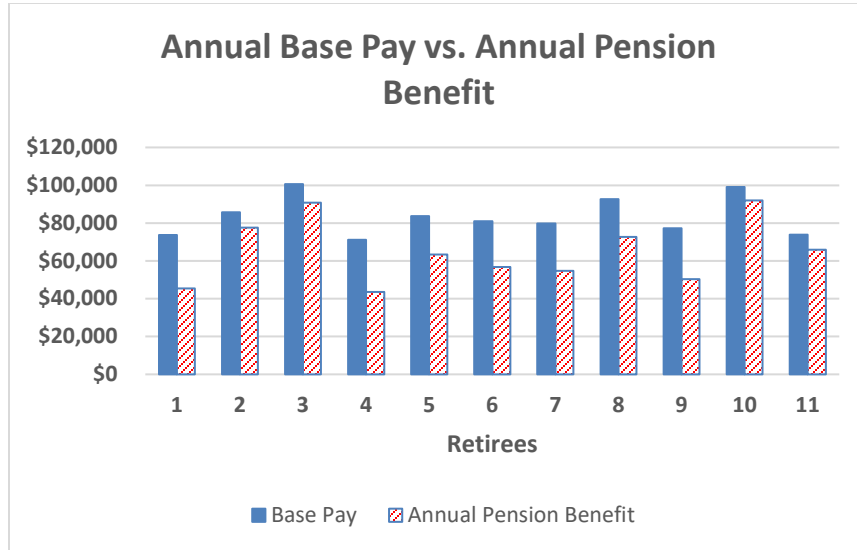
Section 14319 of the Third Class City Code defines the term salary as follows:

"Salary." The fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

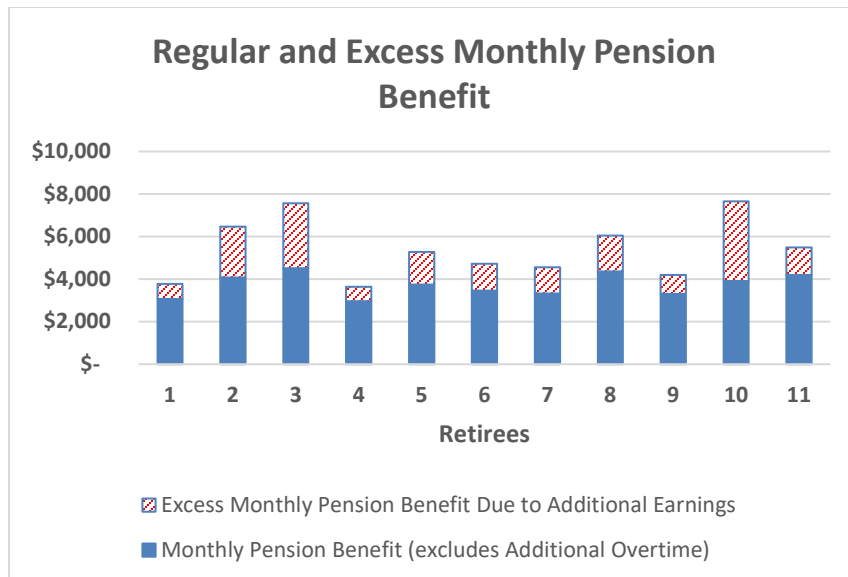
The city's practice has been to calculate the firefighters' pension benefits based on the amount of the retiree's final 12 months of salary. This includes regular monthly earnings plus overtime that a firefighter accumulates in his or her final 12 months of employment. As disclosed in the prior audit report, 11 firefighters previously retired (including a firefighter who retired 1/01/2016) with non-disability normal retirement pensions which included overtime earnings rather than their regular monthly base pay in the determination of their final 12 month earnings used in the calculation of their monthly pension benefits. The city's practice of including these additional overtime earnings had a significant impact on not only the individual pension calculations but ultimately the pension plan and the amount of money needed to fund it in the amount of approximately \$18,512 per month or \$222,144 annually. During the current audit period, no additional firefighters retired on non-disability normal retirement pensions based on their final 12 months' earnings.

**CITY OF CHESTER FIREMEN'S PENSION PLAN
COMMENTS**

As illustrated in the prior audit report, through the inclusion of additional earnings which were primarily for overtime in these 11 retirees' final 12 month earnings, the retirees are receiving pension benefits that approximate on average 77.7% of the amount of the total base pay earned during the final year of employment with the city. The annual pension benefits compared to the base pay for individual retirees is illustrated below:



The effect of the inclusion of additional earnings on the monthly pension benefits for individual retirees is illustrated below:



CITY OF CHESTER FIREMEN'S PENSION PLAN
COMMENTS

As previously noted in this audit report, the City of Chester is a home rule municipality, and until *Monroeville*, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. Consequently, the Department seeks 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 the date of that decision.

Although the city's firemen's pension plan is sufficiently funded currently (87.1% as of the most recent valuation), the plan's funding ratio percentage has been declining. We continue to encourage city officials to review the methodology used 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 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:

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Commonwealth of Pennsylvania

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Councilwoman

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Councilwoman

Mr. William A. Jacobs
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Mr. William Morgan
Councilman

Mr. Nafis J. Nichols
Chief Financial Officer

Ms. Edith Blackwell
City Comptroller

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