COMPLIANCE AUDIT

Lower Paxton Township Police Pension Plan

Dauphin County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2018

May 2019

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Lower Paxton Township
Dauphin County
Harrisburg, PA 17109

We have conducted a compliance audit of the Lower Paxton Township Police Pension Plan for the period January 1, 2015 to December 31, 2018. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 6 of the 10 plan members[1] 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients. We also determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.

- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016, and 2018, respectively, in accordance with Act 205 and whether selected information provided on these report 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 the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Lower Paxton Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016, and 2017, which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

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[1] We selected plan members randomly from the population of plan members who retired during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lower Paxton Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the Lower Paxton Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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.

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

May 14, 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 Lower Paxton Township Police 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 600 − Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Lower Paxton Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance 07-08, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established December 1, 1960. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 58 active members, 1 terminated member eligible for vested benefits in the future, and 46 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service.
Early Retirement	None
Vesting	100% after 12 years of service.

Retirement Benefit:

50% of final 36 months average salary, plus a service increment of $20 per month for each year of service in excess of 25 years, up to a maximum of $100 per month.

Survivor Benefit:

Before Retirement Eligibility	Refund of contributions plus interest, or if vested and married, 50% of amount that would have been payable to the Participant on his Superannuation Date.
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:

50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 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, 2015, 2016, 2017, AND 2018

	2014	2015	2016	2017	2018
Total Pension Liability					
Service cost	$ 589,923	$ 579,640	$ 583,904	$ 720,800	$ 760,444
Interest	1,821,744	1,892,821	1,985,406	2,042,291	2,136,850
Difference between expected and actual experience	-	(314,057)	-	(109,753)	-
Changes of assumptions	-	-	-	515,076	-
Benefit payments, including refunds of member contributions	(1,091,735)	(1,122,739)	(1,279,358)	(1,363,028)	(1,543,825)
Net Change in Total Pension Liability	1,319,932	1,035,665	1,289,952	1,805,386	1,353,469
Total Pension Liability – Beginning	25,073,903	26,393,835	27,429,500	28,719,452	30,524,838
Total Pension Liability – Ending (a)	$ 26,393,835	$ 27,429,500	$ 28,719,452	$ 30,524,838	$ 31,878,307
Plan Fiduciary Net Position					
Contributions – employer	$ 868,304	$ 1,063,399	$ 1,165,107	$ 1,163,830	$ 1,181,408
Contributions – member	225,150	228,477	230,727	241,314	254,312
Net investment income	1,294,725	165,482	1,136,341	3,077,444	(915,505)
Benefit payments, including refunds of member contributions	(1,091,735)	(1,122,739)	(1,279,358)	(1,363,028)	(1,543,825)
Administrative expense	(6,520)	(6,965)	(3,397)	(2,900)	(8,944)
Other	-	-	-	-	8
Net Change in Plan Fiduciary Net Position	1,289,924	327,654	1,249,420	3,116,660	(1,032,546)
Plan Fiduciary Net Position – Beginning	19,147,103	20,437,027	20,764,681	22,014,101	25,130,761
Plan Fiduciary Net Position – Ending (b)	$ 20,437,027	$ 20,764,681	$ 22,014,101	$ 25,130,761	$ 24,098,215
Net Pension Liability – Ending (a-b)	$ 5,956,808	$ 6,664,819	$ 6,705,351	$ 5,394,077	$ 7,780,092
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.4%	75.7%	76.7%	82.3%	75.6%
Estimated Covered Employee Payroll	$ 4,436,005	$ 4,519,407	$ 4,685,623	$ 4,919,546	$ 5,076,864
Net Pension Liability as a Percentage of Covered Employee Payroll	134.3%	147.5%	143.1%	109.6%	153.2%

LOWER PAXTON TOWNSHIP POLICE 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 township as of December 31, 2015 and 2016, calculated using the discount rate of 7.25%, as well as what the township'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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability – 12/31/15	$ 10,106,900	$ 6,664,819	$ 3,788,575
Net Pension Liability – 12/31/16	$ 10,260,262	$ 6,705,351	$ 3,731,656

In addition, the following presents the net pension liability of the township as of December 31, 2017 and 2018, calculated using the discount rate of 7.00%, as well as what the township'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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability – 12/31/17	$ 9,322,753	$ 5,394,077	$ 2,120,793
Net Pension Liability – 12/31/18	$ 11,856,841	$ 7,780,092	$ 4,380,909

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2009	$ 551,711	$ 493,234	$ 58,477		
2010	562,471	503,994	58,477	$4,201,776	12.0%
2011	591,877	626,800	(34,923)		
2012	601,358	522,235	79,123	4,281,572	12.2%
2013	856,605	856,605	-		
2014	868,304	868,304	-	4,436,005	19.6%
2015	1,063,399	1,063,399	-	4,519,407	23.5%
2016	1,165,107	1,165,107	-	4,685,623	24.9%
2017	1,163,830	1,163,830	-	4,919,546	23.7%
2018	1,181,408	1,181,408	-	5,076,864	23.3%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans,* being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

For 2012, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(3.70%)
2017	14.17%
2016	5.53%
2015	0.82%
2014	6.85%

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

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

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 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	$ 16,689,966	$ 23,796,118	$ 7,106,152	70.1%
01-01-15	19,744,169	26,079,778	6,335,609	75.7%
01-01-17	22,949,702	29,124,775	6,175,073	78.8%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period subject to a corridor between 80 to 120 percent of the market value of assets. 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.

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

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

LOWER PAXTON TOWNSHIP POLICE 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	10 years
Asset valuation method	4-year smoothing, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.50%
Cost-of-living adjustments	Effective on the first anniversary of retirement, an increase in monthly benefit before service increments, equal to the lesser of 2% or the increase in the Consumer Price Index. An increase each year until maximum increase of 2% is reached.

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN
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