

# COMPLIANCE AUDIT

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## Plymouth Township Police Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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September 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
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www.PaAuditor.gov**

**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Township Council  
Plymouth Township  
Montgomery County  
Plymouth Meeting, PA 19462

We have conducted a compliance audit of the Plymouth 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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. To determine if municipal officials took appropriate corrective action to address the finding 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 all 4 of the plan members 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 lone 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 these amounts to supporting documentation evidencing amounts determined.
- 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 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.

Plymouth Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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.


Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Plymouth 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 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 Plymouth 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 Plymouth 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.

September 18, 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 Plymouth 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 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.
- 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 Plymouth Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 667, 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 October 1, 1971. Active members are required to contribute 3 percent of compensation to the plan. As of December 31, 2018, the plan had 41 active members, 2 terminated members eligible for vested benefits in the future, and 38 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	Last day of the month in which the member attains age 52 and completes 25 years of service.
Early Retirement	20 years of service, but before his normal retirement date (other than for death or permanent disability).
Vesting	100% vesting available after 12 years of service

### Retirement Benefit:

Benefit equals 65% (50% for officers hired on or after January 1, 2000) of average monthly earnings (Average of monthly earning during the last 36 months of continuous service) multiplied by the ratio of service at date of determination to the service member would have had a normal retirement date, plus an additional \$100 per month if the member has 26 or more years of continuous service.

### Survivor Benefit:

Pre-retirement: The surviving family of a police officer who is killed in the line of duty shall receive the benefits provided for and subject to the terms of Act 51 of 2009.

Post-retirement: Should a member who was hired prior to January 24, 2001 die while receiving benefits, monthly benefits will continue until the total number of payments paid to the member and the beneficiary total 120, after 120 payments have been made, the beneficiary will receive 50% of the monthly benefits for life. If a member who was hired after January 24, 2001 dies while receiving benefits, the beneficiary will receive a monthly benefit equal to 50% of the benefit the member was receiving at the time of death.

### Service Related Disability Benefit:

Commencing with the first day of employment, if the service of a member employed as a police officer is discontinued prior to normal retirement date due to a job-related disability, the member shall be entitled to receive a disability pension equal to 75% of the member's final pay reduced by any worker's compensation payments that the member receives that are not endorsed to the township in accordance with the collective bargaining agreement. If his disability continues until his date of normal retirement, it will be paid thereafter for his lifetime.

PLYMOUTH TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Plymouth Township has complied with the prior audit recommendation concerning the following:

- Unauthorized Provision For A Killed In Service Benefit.

The township enacted Ordinance No. 1605 which eliminated the killed in service benefit, bringing the plan's benefit structure into compliance with Act 51.



PLYMOUTH TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on pages 4 through 7 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	\$ 1,160,796	\$ 1,218,836
Interest	2,172,780	2,328,216
Difference between expected and actual experience	-	(1,198,877)
Changes of assumptions	-	744,490
Benefit payments, including refunds of member contributions	<u>(1,087,555)</u>	<u>(1,138,580)</u>
Net Change in Total Pension Liability	2,246,021	1,954,085
Total Pension Liability – Beginning	31,583,497	33,829,518
Total Pension Liability – Ending (a)	<u>\$ 33,829,518</u>	<u>\$ 35,783,603</u>
Plan Fiduciary Net Position		
Contributions – Employer (State and Township)	\$ 1,501,525	\$ 1,537,470
Contributions – member	141,773	141,296
Net investment income	1,625,147	268,360
Benefit payments, including refunds of member contributions	<u>(1,087,555)</u>	<u>(1,138,580)</u>
Administrative expense	<u>(106,524)</u>	<u>(120,911)</u>
Net Change in Plan Fiduciary Net Position	2,074,366	687,635
Plan Fiduciary Net Position – Beginning	30,028,946	32,103,312
Plan Fiduciary Net Position – Ending (b)	<u>\$ 32,103,312</u>	<u>\$ 32,790,947</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,726,206</u>	<u>\$ 2,992,656</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.9%	91.6%
Estimated Covered Employee Payroll	\$ 4,539,487	\$ 4,752,704
Net Pension Liability as a Percentage of Covered Employee Payroll	38.0%	63.0%

PLYMOUTH TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017, AND 2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 1,256,076	\$ 1,197,382	\$ 1,257,251
Interest	2,464,586	2,433,759	2,587,746
Change of benefit terms	54,010	-	-
Difference between expected and actual experience	-	(1,913,571)	-
Changes of assumptions	-	(929,245)	-
Benefit payments, including refunds of member contributions	(1,258,480)	(1,377,973)	(1,484,699)
Net Change in Total Pension Liability	<u>2,516,192</u>	<u>(589,648)</u>	<u>2,360,298</u>
Total Pension Liability – Beginning	35,783,603	38,299,795	37,710,147
Total Pension Liability – Ending (a)	<u><u>\$38,299,795</u></u>	<u><u>\$37,710,147</u></u>	<u><u>\$40,070,445</u></u>
 Plan Fiduciary Net Position			
Contributions – Employer (State and Township)	\$ 1,495,738	\$ 1,476,013	\$ 1,577,886
Contributions – member	138,932	154,237	158,633
Net investment income	2,171,116	5,464,058	(2,160,448)
Benefit payments, including refunds of member contributions	(1,258,480)	(1,377,973)	(1,484,699)
Administrative expense	(112,818)	(125,178)	(127,966)
Net Change in Plan Fiduciary Net Position	<u>2,434,488</u>	<u>5,591,157</u>	<u>(2,036,594)</u>
Plan Fiduciary Net Position – Beginning	32,790,947	35,225,435	40,816,592
Plan Fiduciary Net Position – Ending (b)	<u><u>\$35,225,435</u></u>	<u><u>\$40,816,592</u></u>	<u><u>\$38,779,998</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ 3,074,360</u></u>	<u><u>\$ (3,106,445)</u></u>	<u><u>\$ 1,290,447</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.0%	108.2%	96.8%
 Estimated Covered Employee Payroll	\$ 4,588,320	\$ 5,055,532	\$ 5,218,503
 Net Pension Liability as a Percentage of Covered Employee Payroll	67.0%	(61.4%)	24.7%

PLYMOUTH 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, 2016, 2017 and 2018, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/15	\$ 7,862,576	\$ 2,992,656	\$ (1,058,950)
Net Pension Liability – 12/31/16	\$ 8,197,310	\$ 3,074,360	\$ (1,192,738)
Net Pension Liability – 12/31/17	\$ 1,807,554	\$ (3,106,445)	\$ (7,209,020)
Net Pension Liability – 12/31/18	\$ 6,428,372	\$ 1,290,447	\$ (3,002,881)

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	\$ 1,121,523	\$ 1,121,523	\$ -	\$ 4,058,385	27.6%
2010	1,346,058	1,346,058	-	4,164,977	32.3%
2011	1,302,411	1,302,411	-	4,325,365	30.1%
2012	1,437,447	1,437,447	-	4,117,234	34.9%
2013	1,431,875	1,431,875	-	4,508,159	31.8%
2014	1,501,525	1,501,525	-	4,539,487	33.1%
2015	1,537,470	1,537,470	-	4,752,704	32.3%
2016	1,495,738	1,495,738	-	4,588,320	32.6%
2017	1,476,013	1,476,013	-	5,055,532	29.2%
2018	1,577,886	1,577,886	-	5,218,503	30.2%

PLYMOUTH TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.35%)
2017	15.69%
2016	6.67%
2015	0.84%
2014	5.37%
2013	15.01%

PLYMOUTH 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	\$ 26,386,720	\$ 29,499,163	\$ 3,112,443	89.4%
01-01-15	31,079,894	33,319,712	2,239,818	93.3%
01-01-17	36,339,864	37,801,835	1,461,971	96.1%

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 subject to a corridor between 80 to 120 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.

PLYMOUTH 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.

PLYMOUTH 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, closed
Remaining amortization period	5 years
Asset valuation method	Asset smoothing – subject to a corridor between 80-120% of market value.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%
Cost-of-living adjustments	Annually based on the Consumer Price Index.

PLYMOUTH TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
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**Mr. Martin J. Higgins**  
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