

Summer 2005

The Guiding Principles: The D's of Pension Plan Administration

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If your municipality sponsors a pension plan, it is also the plan administrator. Some of you may respond...*"but we use an XYZ Insurance Company or the recently sold (for the third time) ABC Bank to handle our pension plan."* However, no matter what outside entity you use to help you, the governing body is responsible for the plan (*the fiduciary*) and the ongoing management of the plan. The governing body can delegate responsibilities associated with the plan, but it cannot delegate away the fiduciary responsibility associated with it. Another statement that I frequently hear and cringe from is...*"It's the employees' money, they can make the decisions."* The governing body can delegate oversight to the employees (*usually a group with less pension experience than the board*); but, the board maintains the fiduciary responsibility.

Over my many years of work and study in the field of government pension plans (*some say that I began two years after Lincoln was assassinated!*), I believe there is a common thread to good pension plan administration. In order to keep the Department of the Auditor General from presenting you with most of its loving findings and to minimize the potential and expense of litigation, the following "principles" can help. I have found that municipal governments implementing the D's think of them as good management often using them in other areas of local government. I simply believe them to be just good common sense.

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- William C. Asay, President,
Mockenhaupt Benefits Group

1. **Dignity** Treating plan participants with dignity, even when they completely misunderstand plan provisions or make outrageous allegations, will often keep problems from escalating. Retirement is one of the major changes in a person's life. Take the extra time and effort necessary to assist them in their transition.

2. **Discretion** Most pension plan documents and pension ordinances are written in a way that may cause interpretation to vary from one person to the next; therefore, it is important to interpret the provisions of the plan within the legal framework. The employer

should be specifically given the discretion to construe and interpret the language of the plan document and summary plan description booklets within the plan document. The interpretation of the plan provisions must also remain consistent from participant to participant.

3. **Disclosure** Communication is a key element. It doesn't matter if you're dealing with a single participant or an entire group...communicate with them. Disclose important information and do it as soon as possible. Since the pension plan is probably not at the top of your daily list of activities, disclose information before it takes up more time than necessary.

4. **Due Diligence** As a person who wears many hats when managing the day to day activities of a municipality, it is impossible to be an expert on everything. Exercise the prudence required as a fiduciary of the pension plan. And, if

you are not an expert in the field, retain someone who is.

5. **Due Process** No matter how hard you try to avoid problems, they may still arise. Make sure that your pension plan document includes a process to resolve participant claims - one more formal step to resolving pension plan issues before ending up in court.

6. **Documentation** It is important to document **everything** in pension plan administration. Many decisions are made throughout the years and during that time, administrations and plan professionals change. The better the documentation at the time of the action, the more likely you will not end up in litigation. The complete story will already be written. In addition to documenting decisions, you should document "reasons" why you came to your decision. Document the "facts" leading you **to the conclusion** and not just the conclusion. This will save you many hours and dollars in the long run.

Just as there are positive actions that can help your long term pension plan administration, there are also actions that will have a negative impact. These negative elements can derail all of the positive work you do to improve your system:

1. **Delay** Don't delay in communicating with plan participants. If you've promised something by a certain date and you haven't received the information by that date, call and let participants know the status of the issue. Treat them with the dignity that you would want to receive. This goes a long way in avoiding major problems and expensive litigation.

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Lower Paxton Township Manager George Wolfe is no stranger to Mockenhaupt Benefits Group

George Wolfe, manager of Lower Paxton Township, has been working with Mockenhaupt Benefits Group (MBG) for close to 20 years.

He began his relationship with MBG in 1987 while working at Richland Township. "At that time, I primarily utilized them for actuarial services," said Wolfe.

When he moved to his current position as manager of Lower Paxton Township in 1990, he continued with Mockenhaupt Benefits Group and has since grown their relationship to cover such services as actuarial valuations, preparations of MMO's, analysis of pension plan amendments, assistance with pension ordinances, and assistance with collective bargaining in regard to pension issues.

"They're professional in their presentations and respected across the state..."

- said George Wolfe, Manager, Lower Paxton Township when speaking of Mockenhaupt Benefits Group.



"We've always found their work to be very good or we wouldn't have stayed with them for so long," said Wolfe. "They're professional in their presentations and respected across the state...their testimony at arbitration proceedings and support of the Township in regard to Act 111 police negotiations has helped us maintain our pension plan and comply with the state for Act 205 and Act 111."

Wolfe and his staff primarily deal with Mockenhaupt Benefits Group President **Bill Asay**. "Bill is very accessible and is always willing to meet with us," said Wolfe. Asay visits Lower Paxton Township annually...spending more time there if the need arises.

And, taking the advice offered in the winter issue of

MBG's "Public Employee Benefit Review," Lower Paxton Township is currently evaluating the costs and liabilities of its employees' post-retirement medical plan in regard to GAS #45.

"We determined that we'd do this now to assist us in the collective bargaining process," said Wolfe. "We certainly believe that the valuation will provide significant information to the Township in regard to its long-term financial standings, which is necessary to know when negotiating with employee unions."



Donna G. Speakman, Treasurer

PROFILE

Lower Paxton Township

With 44,424 residents within a 28 sq. mile area, Lower Paxton Township is the second largest municipality by population in the Harrisburg region and ranks 19th in Pennsylvania. Located in Dauphin County, the Township has quickly become a desired location for community and economic development.

Run by a board of five Supervisors, Lower Paxton offers residents an abundance of services to enhance their quality of life. The Township Community Center is a 59,000 sq. ft. facility with amenities such as a weight/fitness area, gymnasium, aerobics studio, walking track and senior center providing intergenerational programs and activities for preschool, youth, adults, families and seniors.

Over 250 acres of parkland consisting of five community parks and seven neighborhood parks attract more than 16,000 individuals annually from

various sports organizations. Plans are underway to develop additional acreage in the future.

Lower Paxton boasts first-rate police and fire protection and other community services to protect and care for Township residents. Fifty-four police officers and three volunteer fire departments provide protection and other educational services for the community.

Township officials also pride themselves on the efficiency of Lower Paxton's transportation system enabling residents and guests to reach destination points in an appropriate period of time in spite of a continued residential and business development.

Citizens input is relied upon to help address community needs and to build a sense of community pride.

Lower Paxton's roots date back to the 1700's when it was created within Lancaster County. Early inhabitants were German and Scotch-Irish immigrants. Over the years, the Township played a major role in the French and Indian

War and Revolutionary War periods. Following WWII, the Township had to change from a rural farming district to a much more urban community. Population significantly expanded from 4,157 residents in 1940, to over 6,500 in the 50's, close to 18,000 in the 60's, over 26,000 in the 70's, and close to 35,000 in the 80's.



Lower Paxton Township Board of Supervisors David Blain, Gary Crissman, William L. Hornung, William B. Hawk, William C. Seeds.

LEGISLATIVE UPDATE

To date, there's been no movement this legislative session (PA) on any significant pension legislation. Many bills have been introduced to amend various pension statutes, including Senate Bill No. 606 to create a statewide local government police pension system within the State Employees Retirement System (SERS), and House Bill No. 1300, which would authorize "DROP" benefits statewide, but none have yet been reported out of committee. SB 606 and HB 1300, both introduced on April 6, 2005, are resurrected bills from last session that never came to the floor for a final vote.

ATTENTION

Municipalities Who Filed Revised 2003 Actuarial Reports under Act 81 of 2004

2005 Minimum Municipal Obligation (MMO) calculations were the last ones that could be calculated based on revised 2003 Actuarial Valuation Reports (AVR), which reflected the extended 30-year amortization payments on 2001 and 2002 investment losses. The 2006 MMO calculations may only be based on the original 2003 AVR filed with the Public Employee Retirement Commission, or the 2005 AVR (if it has been completed). The 2006 MMO must be submitted to the governing body of the municipality by September 30, but it may be amended up until the final budget is adopted. Therefore, for municipalities with Act 81 plans to continue to benefit from the extended amortization schedule for prior investment losses, it may be important to have the 2005 AVR completed early, before the final municipal budget is adopted.

Assistant Manager of Mt. Lebanon Named to GASB

Congratulations to Marcia L. Taylor, who was recently named to a five-year term as a member of the Governmental Accounting Standards Board (GASB), effective July 1. Taylor has been the assistant manager of the Municipality of Mt. Lebanon for the past 15 years and prior to that, served as the municipality's finance director for 11 years.

The GASB is an independent, national, not-for-profit organization formed in 1984 that establishes and improves financial accounting and reporting standards for state and local governments. Its seven members are drawn from the Board's diverse constituency, including preparers and auditors of government financial statements, users of those statements and members of the academic community. More information about the GASB can be found at its website - www.gasb.org.

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The D's of Pension Plan Administration

2. **Discrimination** This not only includes the elements of "discrimination" that we often hear of in the media, but others as well. Make sure you're consistent in your interpretation of the plan document from one person to another. Treating participants differently without good reason and without completely documenting the process will lead the municipality to many additional problems and much added expense.
3. **Deceit** Getting caught in a lie about the pension plan not only will cost you many general fund dollars, but will also foster mistrust throughout your organization. The cost in other aspects of your organization may be enormous.

By following the above "Guiding Principles," your pension plan administration will run more smoothly, participants will be more appreciative, and you'll realize a savings in the municipality's general fund. It will also help you avoid the "Pecking Order of Blame."

Pecking Order of Blame

When problems arise and those involved try to determine how and why a decision was made years ago (without adequate documentation), another common thread appears. When specific blame could not be determined, I would sometimes see a "pecking order of blame" used. It generally goes like this:

1. You first blame the dead – they can't defend themselves.
2. Then you blame somebody that has been fired, quit or who has not been re-elected.
3. Then, and only then, do you blame somebody still connected with the municipality.

Reminders/Deadlines for Remainder of 2005

Sept. 1 (approx.).....Act 147 (1989 ad hoc COLA) reimbursement checks mailed

Sept. 302006 MMOs must be submitted to the governing body

Oct. 1 (approx.).....State aid checks for 2005 will be mailed

Oct. 1 (approx.).....Act 64 (2002 ad hoc COLA) reimbursement checks mailed

Oct. 31 (approx.).....State aid must be deposited to pension funds (30 days after receipt)

Dec. 312005 MMO deposit is due

Check on pending pension legislation and other important news, or download prior issues of the PEBR from our web site at www.mockenhauptbenefits.com.

Next issue: *Do We Have a Tax “Qualified” Pension Plan?*