

COMPLIANCE AUDIT

City of Chester Firemen's Pension Plan Delaware County, Pennsylvania For the Period January 1, 2020 to December 31, 2022

February 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
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, 2020 to December 31, 2022. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)). The Act requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior 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 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, local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly calculated 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 documents, applicable laws, and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation¹ (MMO) and comparing these calculated amounts to amounts 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 documents, applicable laws, and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing documents 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 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 documents, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts calculated and actually paid to the recipients.
- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, 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.
- 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.

¹ The minimum municipal obligation (MMO) is an annual calculation of the municipality's annual required contribution to the pension plan, prepared by the municipality pursuant to Act 205 provisions. The annual MMO is due by December 31 and is payable to the pension plan from the revenue of the municipality, which may include general fund contributions or general municipal pension system state aid received by the municipality. 53 P.S. §895.302.

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, local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, 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, local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits Inconsistent With The Third Class City Code
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Pay The Minimum Municipal Obligation Of The Plan

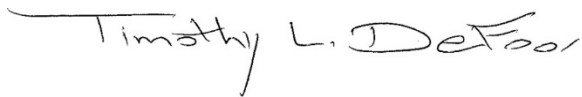
The findings contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by city officials. We are concerned by the city's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations 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 71.3% as of January 1, 2021, 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.²**

² It should be noted that the City of Chester filed for Chapter 9 Bankruptcy relief in November of 2022 during this audit period and proceedings are ongoing. The outcome of this filing on the City's pension plans is unknown at this time.

As noted in the Comments section of this audit report, the City maintains a practice of calculating pension benefits for its firefighters based on their final 12 months accumulated earnings or the highest average annual salary during any 5 years (whichever is higher) which includes overtime. Furthermore, as previously noted, while the current funding ratio of the plan as of January 1, 2021, is 71.3%, this represents a marked decline from the plan's January 1, 2017 funding ratio which was 87.1% (*The plan was 96.3% funded as of the January 1, 2015, valuation as disclosed in the previous report*). Therefore, we again 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 which can be achieved by benefit calculations in accordance with the provisions and the intent of the Third Class City Code.

The contents of this report were discussed with officials of City of Chester and, where appropriate, their responses have been included in the report.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
November 21, 2023

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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.

Annual state aid allocations are provided from a two 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 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 ordinance, 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 five percent of compensation to the plan. As of December 31, 2021, the plan had 52 active members, no terminated members eligible for vested benefits in the future, and 80 retirees receiving pension benefits.

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

Compliance With Prior Recommendation

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

- Deficiencies Relative To The City's Enactment Of The Special Taxing Provisions Of Act 205

During the current audit period, the city developed and implemented adequate procedures to account for the receipt and distribution of tax revenues collected under the special taxing authority afforded by Act 205 and maintained adequate, substantive documentation evidencing that funds collected under the special tax are used solely to defray the additional costs related to its pension plans in accordance with Act 205. City officials also implemented procedures to ensure that the city did not reduce its level of contributions to its pension plans from funding sources prior to the implementation of the special municipal tax in accordance with Act 205 for the years 2021 and 2022.

Partial Compliance With Prior Recommendation

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

- Failure To Pay The Minimum Municipal Obligation (MMO) Of The Plan

During the current audit period, the city fully paid the MMO due the plan for the years 2019 and 2020. However, a similar condition occurred during the current audit period as further discussed in Finding No. 2 of this report.

Noncompliance With Prior Recommendation

City of Chester has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Provision Of Benefits Inconsistent With The Third Class City Code

CITY OF CHESTER FIREMEN’S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits
Inconsistent With The Third Class City Code**

Condition: As previously disclosed in the ten most recent audit reports, the city operates as 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 the city 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. ³
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.

³ 11 Pa.C.S. §14319.

CITY OF CHESTER FIREMEN’S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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 reports for the firemen’s pension plan, with valuation dates of January 1, 2019 and January 1, 2021, submitted to the Municipal Pension Reporting Program, reported the benefit provisions included in the collective bargaining agreement.

CITY OF CHESTER FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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: The city again was unable to implement compliance with the prior audit recommendation through the collective bargaining process.

Effect: Inconsistent benefits may 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 benefits provided; however, the provision of inconsistent 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 decided*) 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 benefits on the city’s future state aid allocations and submit this information to the department. If it is determined these 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
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

The city is working with its legal team and the state appointed receivership team to update the governing document to comply with findings as stated.

Auditor's Conclusion: We are concerned by the city's continued failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report. Compliance with the finding will be evaluated during our next audit of the plan.

Finding No. 2 – Partial Compliance With Prior Audit Recommendation - Failure To Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the Status of Prior Findings section of this report, the city partially complied with the prior audit recommendation by depositing the outstanding MMOs due the firemen's pension plan for years 2019 and 2020. However, a similar condition occurred during the current audit period. The city did not fully pay the MMO due the firemen's pension plan for the years 2021 and 2022, as required by Act 205. The total MMO for 2021 for the firemen's pension plan calculated by the city was \$1,141,994; however, the city made only one deposit towards the 2021 MMO in the amount of \$119,681 on December 16, 2022. Additionally, the total MMO for 2022 for the firemen's pension plan calculated by the city was \$1,168,058; however, the city only made one payment towards the 2022 MMO in the amount of \$439,000 on October 4, 2022.

Although the city has made a formal commitment to pay the full amount of the MMOs due the pension plan by recording these amounts as receivables, thereby including amounts in plan assets, the city has outstanding unpaid MMO balances for the firemen's pension plan of \$1,180,073 (including interest) for 2021 and \$777,884 (including interest) for 2022. The interest calculations were provided by the city as of December 31, 2022.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

CITY OF CHESTER FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Section 302(d) of Act 205 states, in part:

Annually the municipality shall provide for the full amount of the minimum obligation of the municipality in the budget of the municipality. The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: The city could not properly budget for the drastic annual increases in its pension liability and allocate the necessary financial resources to meet its annual municipal pension obligation.

Effect: The continued failure to pay the MMOs in accordance with Act 205 has resulted in the city accruing interest on the outstanding MMO balances, further increasing the city's financial obligation to its pension plan which could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the city's failure to pay the 2021 and 2022 MMOs by the December 31, deadlines, the city must add the 2021 and 2022 MMO balances to the current year's MMO and include interest, as required by Act 205.

Furthermore, the city's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the city pay the outstanding MMOs due to the firemen's pension plan for the years 2021 and 2022 with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the city for examination during our next audit of the plan.

Furthermore, we recommend that in the future, the city pay the full MMO due to the plan in accordance with Act 205 requirements.

CITY OF CHESTER FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

The city is continuing to work to fund the pension plans in a timely manner to bring the MMO payments up to date.

Auditor's Conclusion: Due to the potential withhold of state aid, the city's compliance with the finding recommendation will be evaluated subsequent to the release of the audit report and during our next audit of the plan.

CITY OF CHESTER FIREMEN'S PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action to withhold distributions will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

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, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 32,822,001	\$ 37,679,820	\$ 4,857,819	87.1%
01-01-19	33,275,475	39,891,425	6,615,950	83.4%
01-01-21	34,047,119	47,775,979	13,728,860	71.3%

Note: The market values of the plan's assets at 01-01-17 and 01-01-19 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. This method will lower contributions in years of less than expected returns and increase contribution in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF CHESTER FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(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

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 207,303	\$ 207,303	\$ -	\$4,871,554	4.26%
2015	111,792	111,792	-	3,800,000	2.94%
2016	118,972	118,972	-	3,878,908	3.07%
2017	561,281	561,281	-	4,200,000	13.36%
2018	547,892	547,892	-	4,072,364	13.45%
2019	953,353	953,353	-	4,202,254	22.69%
2020	953,107	953,107	-	4,200,000	22.69%
2021	1,141,994	(38,079)	1,180,073	4,200,000	N/A
2022	1,168,058	390,174	777,884	4,440,000	8.79%

Note: The City's 12/31/2022 outstanding MMO balance including interest for 2021 was \$1,180,073 and \$777,884 for 2022 (*refer to Finding No. 2 contained in this report*).

The 2021 negative contributions made reflect the net imputed interest penalty applied under Act 205, which is the reason the contributions made are negative for 2021.

N/A – Not applicable

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, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.5%
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 individual's final 12 months of salary or the highest average annual salary which the individual received during any five years of service preceding retirement, whichever is higher. This includes regular monthly earnings plus overtime that a firefighter accumulates in his or her final 12 months of employment, or the five-year period, as applicable. As disclosed in prior audit reports, 16 firefighters retired between January 1, 2013 and December 31, 2020 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 or highest five years used in the calculation of their monthly pension benefits.

CITY OF CHESTER FIREMEN'S PENSION PLAN
COMMENTS

During the current audit period, five additional firefighters retired on non-disability normal retirement pensions based on their final 12 months' earnings, or the highest average annual salary during any five years, whichever was higher, which included overtime earnings. The city's practice of including these additional overtime earnings for the 21 firefighters since 2013 had a significant impact on not only the individual pension calculations but ultimately the pension plan as a whole and the resources needed to fund it. The excess payments for these retired firefighters increased the amount needed to fund the plan by approximately \$24,731 per month or \$296,772 annually, at the time of this audit.

Through the inclusion of additional earnings, which primarily consisted of overtime, in the five aforementioned retirees' final 12-month earnings (or in the highest average annual salary during any five years, as applicable), the retirees are receiving pension benefits that approximate on average 59.76% of the amount of the total base pay earned during the final year of employment with the city.

Although the city's firemen's pension plan is 71.3 percent funded 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 resulted in increased pension benefit payments to the retirees, as well as significantly increased municipal contributions to the pension plan, incorrect actuarial projections, and risk to the fiscal soundness of the city's firemen's pension plan. Determining benefits based on this method also creates a situation where it is difficult, if not impossible, to make accurate actuarial calculations for the plan's future liabilities. Although this practice is not, per se, in excess of the provisions stipulated in the city's governing documents, it is important to consider the funding standard for municipal pension plans. The overarching principle of Act 205 is undermined when a plan is funded based on an established plan benefit structure and an important piece of the overall underlying accrued liability (*i.e., the final monthly earnings plus overtime that a firefighter accumulates in his or her final 12 months of employment, or the five-year period, whichever is higher, which cannot be reasonably estimated until separation from employment*) is unknown and, therefore, cannot be funded over time in accordance with Act 205. This methodology has adverse ramifications on the funded status of the plan and also results in increased annual contributions required which, when the city's annual state aid allocation is not sufficient to cover the annual minimum municipal obligation, shall be borne by the taxpayer in the form of increased resources needed from the city's general-purpose funds.

CITY OF CHESTER FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

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Commonwealth of Pennsylvania

The Honorable Stefan Roots
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Mr. Fred Green
Councilman

Mr. Shy'Quan Davis
Councilman

Ms. Joy Taylor
City Controller

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