WEST VIRGINIA LEGISLATURE

2023 REGULAR SESSION

Introduced

Senate Bill 477

By Senators Nelson and Plymale

[Introduced January 26, 2023; referred  
to the Committee on Pensions]

A BILL to amend and reenact §8-22-20 of the Code of West Virginia, 1931, as amended, all relating to prohibiting municipalities from using the conservation method of financing for their municipal policemen’s and firemen’s pension and relief funds; and providing that a municipality may convert to either the optional method or optional II method of financing.

Be it enacted by the Legislature of West Virginia:

ARTICLE 22. RETIREMENT BENEFITS GENERALLY; POLICEMEN'S PENSION AND RELIEF FUND; FIREMEN'S PENSION AND RELIEF FUND; PENSION PLANS FOR EMPLOYEES OF WATERWORKS SYSTEM, SEWERAGE SYSTEM OR COMBINED WATERWORKS AND SEWERAGE SYSTEM.

§8-22-20. Actuary; actuarial valuation report; minimum standards for annual municipality contributions to the fund; definitions; actuarial review and audit.

(a) The West Virginia Municipal Pensions Oversight Board shall contract with or employ a qualified actuary to annually prepare an actuarial valuation report on each pension and relief fund. The selection of contract vendors to provide actuarial services, including the reviewing actuary as provided in subsection (c) of this section, shall be by competitive bid process but is specifically exempt from the purchasing provisions of §5A-3-1 *et seq*. of this code. The expense of the actuarial report shall be paid from moneys in the Municipal Pensions Security Fund. Uses of the actuarial valuations from the qualified actuary shall include, but not be limited to, determining a municipal policemen’s or firemen’s pension and relief fund’s eligibility to receive state money and to provide supplemental benefits.

(b) The actuarial valuation report provided pursuant to subsection (a) of this section shall consist of, but is not limited to, the following disclosures: (1) The financial objective of the fund and how the objective is to be attained; (2) the progress being made toward realization of the financial objective; (3) recent changes in the nature of the fund, benefits provided or actuarial assumptions or methods; (4) the frequency of actuarial valuation reports and the date of the most recent actuarial valuation report; (5) the method used to value fund assets; (6) the extent to which the qualified actuary relies on the data provided and whether the data was certified by the fund’s auditor or examined by the qualified actuary for reasonableness; (7) a description and explanation of the actuarial assumptions and methods; (8) an evaluation of each plan using the alternative funding method, to assess advantages of changing to other funding methods as provided in this article; and (9) any other information required in §8-22-20a of this code or that the qualified actuary feels is necessary or would be useful in fully and fairly disclosing the actuarial condition of the fund.

(c)(1) Except as provided in subsections (e), ~~and~~ (f), and (g) of this section, beginning June 30, 1991, and thereafter, the financial objective of each municipality shall not be less than to contribute to the fund annually an amount which, together with the contributions from the members and, if no pension funding revenue bonds of a building commission of such municipality are outstanding, the allocable portion of the Municipal Pensions and Protection Fund for municipal pension and relief funds established under §33-3-14d of this code or a municipality’s allocation from the Municipal Pensions Security Fund created in §8-22-18b of this code and other income sources as authorized by law will be sufficient to meet the normal cost of the fund and amortize any actuarial deficiency over a period of not more than forty years beginning from July 1, 1991: *Provided*, That in the fiscal year ending June 30, 1991, the municipality may elect to make its annual contribution to the fund using an alternative contribution in an amount not less than: (i) One hundred seven percent of the amount contributed for the fiscal year ending June 30, 1990; or (ii) an amount equal to the average of the contribution payments made in the five highest fiscal years beginning with the fiscal year ending 1984, whichever is greater: *Provided, however*, That contribution payments in subsequent fiscal years under this alternative contribution method may not be less than 107 percent of the amount contributed in the prior fiscal year: *Provided further*, That in order to avoid penalizing municipalities and to provide flexibility when making contributions, municipalities using the alternative contribution method may exclude a one-time additional contribution made in any one year in excess of the minimum required by this section: *And provided further*, That the governing body of any municipality may elect to provide an employer continuing contribution of one percent more than the municipality’s required minimum under the alternative contribution plan authorized in this subsection: *And provided further*, That if any municipality decides to contribute an additional one percent, then that municipality may not reduce the additional contribution until the respective pension and relief fund no longer has any actuarial deficiency: *And provided further*, That any decision and any contribution payment by the municipality is not the liability of the State of West Virginia: *And provided further*, That if any municipality or any pension fund board of trustees makes a voluntary election and thereafter fails to contribute the voluntarily increase as provided in this section and in §8-22-19(c) of this code, then the board of trustees is not eligible to receive funds allocated under §33-3-14d of this code: *And provided further*, That prior to using this alternative contribution method the actuary of the fund shall certify in writing that the fund is projected to be solvent under the alternative contribution method for the next consecutive 15-year period. For purposes of determining this minimum financial objective: (i) The value of the fund’s assets shall be determined on the basis of any reasonable actuarial method of valuation which takes into account fair market value; and (ii) all costs, deficiencies, rate of interest and other factors under the fund shall be determined on the basis of actuarial assumptions and methods which, in aggregate, are reasonable (taking into account the experience of the fund and reasonable expectations) and which, in combination, offer the qualified actuary’s best estimate of anticipated experience under the fund: *And provided further*, That any municipality which elected the alternative funding method under this section and which has an unfunded actuarial liability of not more than 25 percent of fund assets, may, beginning September 1, 2003, elect to revert to the standard funding method, which is to contribute to the fund annually an amount which is not less than an amount which, together with the contributions from the members and, if no pension funding revenue bonds of a building commission of such municipality are outstanding, the allocable portion of the Municipal Pensions and Protection Fund for municipal pension and relief funds established under §33-3-14d of this code and other income sources as authorized by law, will be sufficient to meet the normal cost of the fund and amortize any actuarial deficiency over a period of not more than 40 years, beginning from July 1, 1991.

(2) No municipality may anticipate or use in any manner any state funds accruing to the police or fireman’s pension fund to offset the minimum required funding amount for any fiscal year.

(3) Notwithstanding any other provision of this section or article to the contrary, each municipality shall contribute annually to its policemen’s pension and relief fund and its firemen’s pension and relief fund an amount which may not be less than the normal cost, as determined by the annual actuarial valuation report required by this section: *Provided*, That in any fiscal year in which the actuarial valuation report determines that a municipality’s policemen’s pension and relief fund or firemen’s pension and relief fund is funded at 125 percent or higher and the Municipal Pensions Oversight Board’s actuary provides an actuarial recommendation that the normal cost does not need to be paid by the employer for that fiscal year, that municipality may elect to make no contribution for that fiscal year. A municipality’s election not to contribute the normal cost in any year does not affect the payments required by §8-22-19 of this code by members to a pension and relief fund and these payments are to continue as required by that section.

(4) The actuarial process, which includes the selection of methods and assumptions, shall be reviewed by the qualified actuary no less than once every five years. Furthermore, the qualified actuary shall provide a report to the oversight board with recommendations on any changes to the actuarial process.

(5) The oversight board shall hire an independent reviewing actuary to perform an actuarial audit of the work performed by the qualified actuary no less than once every seven years.

(d) For purposes of this section, the term "qualified actuary" means only an actuary who is a member of the Society of Actuaries or the American Academy of Actuaries. The qualified actuary shall be designated a fiduciary and shall discharge his or her duties with respect to a fund solely in the interest of the members and members’ beneficiaries of that fund. In order for the standards of this section to be met, the qualified actuary shall certify that the actuarial valuation report is complete and accurate and that in his or her opinion the technique and assumptions used are reasonable and meet the requirements of this section.

(e)(1) Beginning January 1, 2010, municipalities may choose the optional method of financing municipal policemen’s or firemen’s pension and relief funds as outlined in this subsection in lieu of the standard or alternative methods as provided in subdivision (1), subsection (c) of this section or the conservation method of financing as outlined in subdivision (1), subsection (f) of this section.

(2) For those municipalities choosing the optional method of finance, the minimum standard for annual municipality contributions to each policemen’s or firemen’s pension and relief fund shall be an amount which, together with the contributions from the members and, if no pension funding revenue bonds of a building commission of such municipality are outstanding, the allocable portion of the Municipal Pensions Security Fund created in §8-22-18b of this code, and other income sources as authorized by law, will be sufficient to meet the normal cost of the fund and amortize any actuarial deficiency over a period of not more than 40 years beginning January 1, 2010: *Provided*, That those municipalities using the standard method of financing in 2009 shall continue to amortize their actuarial deficiencies over a period of not more than 40 years beginning July 1, 1991. The required contribution shall be determined each plan year as described above by the actuary retained by the oversight board, based on an actuarial valuation reflecting actual demographic and investment experience and consistent with the Actuarial Standards of Practice published by the Actuarial Standards Board.

(3) A municipality choosing the optional method of financing a policemen’s or firemen’s pension and relief fund as provided in this subsection shall close the fund to police officers or fire fighters newly hired on or after January 1, 2010, and provide for those employees to be members of the Municipal Police Officers and Firefighters Retirement System as established in §8-22A-1 *et seq*., of this code.

(f)(1) Beginning April 1, 2011, any municipality using the alternative method of financing may choose a conservation method of financing its municipal policemen’s and firemen’s pension and relief funds as outlined in this subsection, in lieu of the alternative method as provided in subdivision (1), subsection (c), or the optional method as provided in subsection (e) of this section. Effective July 1, 2023, the conservation method of financing shall no longer be able to be chosen by a municipality using the alternative method of financing its municipal policemen’s and firemen’s pension and relief funds.

(2) For those municipalities choosing the conservation method of finance, until a plan is funded at 100 percent a part of each plan member’s employee contribution to the fund equal to one and one-half percent of the employee’s compensation, shall be deposited into and remain in the trust and accumulate investment return. In addition, until a plan is funded at 100 percent and all pension funding revenue bonds issued by a municipality’s building commission are paid in full, an actuarially determined portion of the premium tax allocation to each fund provided in accordance with §33-3-14d and §33-12C-7 of this code shall also be deposited into and remain in the trust and accumulate investment return. This variable percentage of premium tax allocation to be retained in each fund shall be determined annually by the qualified actuary provided pursuant to subsection (a) of this section to be an amount required, along with other assets of the fund as necessary to reach a funded level of 100 percent in 35 years from the time of adoption of the conservation financing method. The variable percentage shall be calculated using a prospective four-year rolling average.

(3) Upon adoption of the conservation method of finance, the municipality shall close its pension and relief funds to new members and shall place police officers and firefighters newly hired after adoption of the conservation method into the Municipal Police Officers and Firefighters Retirement System created in §8-22A-1 *et seq*. of this code.

(4) Upon adoption of the conservation method of financing, the minimum standard for annual municipality contributions to each policemen’s or firemen’s pension and relief fund shall be an amount which, together with member contributions and premium tax proceeds not required to be retained in the trust pursuant to this subsection, and if no pension funding revenue bonds of a building commission of such municipality are outstanding, and other income sources as authorized by law, is sufficient to meet the annual benefit and administrative expense payments from the funds on a pay-as-you-go basis: *Provided*, That at the time the actuarial report required by this section indicates no actuarial deficiency in the municipal policemen’s or firemen’s pension and relief fund, the minimum annual required contribution of the municipality may not be less than an amount which together with all member contributions and other income authorized by law, is sufficient to pay normal cost.

(5) If a municipality using the conservation method fully funds its pension and relief fund or funds by a pension funding program authorized by §8-33-4a of this code, then the trustees of the policemen’s or firemen’s pension and relief fund are to pay pension obligations out of the pension and relief fund; and the minimum standard for annual municipality contributions to each policemen’s or firemen’s pension and relief fund shall be an amount which, together with member contributions and other income sources as authorized by law, is sufficient to meet the normal cost of the fund.

(g)(1) Beginning July 1, 2023, any municipality using the conservation method of financing, subdivision (1), subsection (f), may choose to convert to the optional method of financing, subdivision (1), subsection (e), or optional-II method of financing its municipal policemen’s and firemen’s pension and relief funds as outlined in this subsection, in lieu of the conservation method as provided in subdivision (1), subsection (f) of this section.

(2) For those municipalities choosing the optional-II method of finance, the minimum standard for annual municipality contributions to each policemen’s or firemen’s pension and relief fund shall be an amount which, together with the contributions from the members and, if no pension funding revenue bonds of a building commission of such municipality are outstanding, the allocable portion of the Municipal Pensions Security Fund created in §8-22-18b of this code, and other income sources as authorized by law, will be sufficient to meet the normal cost of the fund and amortize any actuarial deficiency over a period of not more than 40 years beginning July 1, 2023. The required contribution shall be determined each plan year as described in subsections (b) and (d) of this section by the actuary retained by the oversight board, based on an actuarial valuation reflecting actual demographic and investment experience and consistent with the Actuarial Standards of Practice published by the Actuarial Standards Board.

(h) Beginning with the July 1, 2020, actuarial valuation, the existing actuarial deficiency, prior to reflecting any new gains or losses as of July 1, 2020, such as those due to investment experience, differences between actual and expected contributions, demographic experience, and changes to actuarial assumptions, shall continue to be amortized as required by subsections (c) and (e) of this section: *Provided*, That on July 1, 2020, and each successive annual valuation date thereafter, the annual impacts on the funding deficiency due to: (i) New gains or losses on assets and liabilities; and (ii) changes in actuarial assumptions, shall each be amortized over a closed period of 15 years, thereby creating layers of amortization bases rather than amortizing the entire actuarial deficiency over the same single and decreasing period: *Provided, however*, That impacts on the funding deficiency due to plan changes shall be amortized over closed five year periods. The management of these amortization bases by the actuary should entail the consideration, at least every five years, of whether to implement strategies, such as the synchronization of certain amortization layers, to help avoid volatility to the sum of the amortization payments generally resulting from the expiration of charge and credit layers at different times. The required contribution shall be determined each plan year as described above by the actuary retained by the oversight board, based on an actuarial valuation reflecting actual demographic and investment experience and consistent with the Actuarial Standards of Practice published by the Actuarial Standards Board.

(i) Notwithstanding the foregoing until any pension funding revenue bonds issued by a municipality’s building commission are paid in full, the allocable portion of money from the Municipal Pension Security Fund from the premium tax allocation for such municipality’s policemen’s and firemen’s pension and relief funds, as applicable, shall be deposited pursuant to §8-22-19(d)(2) with the trustee for the pension funding revenue bonds and shall not be deposited into the applicable policemen’s or firemen’s pension and relief funds of such municipality.

NOTE: The purpose of this bill is to prohibit municipalities from using the conservation method of financing for their municipal policemen’s and firemen’s pension and relief funds; and to provide that a municipality may convert to either the optional method or optional-II method of financing.

Strike-throughs indicate language that would be stricken from a heading or the present law and underscoring indicates new language that would be added.