



Client Profile

Oil City

Manager – Tom Rockovich
Asst. Manager - Janet Gatesman

“The fact that we’ve been with Mockenhaupt Benefits Group for over 25 years speaks very well to the satisfaction and comfort level we have with our relationship,” said Oil City Manager Tom Rockovich. “I expect that this relationship will continue well into the future.”

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(l-r) Asst. Manager Janet Gatesman; Finance Officer Michelle Hoolver; City Manager Thomas Rockovich; Dick Curran, Wastewater Treatment Plant; and Fire Department Chief John Huey.

Social Security Reform Bill Signed Into Law

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President Bush signed Social Security reform bill, HR 743 (*Public Law No. 108-203*) into law on March 2, 2004. The new law includes two key provisions that may affect many Pennsylvania public employers and employees:

- Employers not covered by Social Security will be required to provide written notice about the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) to new employees, effective Jan. 1, 2005.
- It closes the last day of employment loophole, which allowed a non-covered worker to work one day under Social Security and avoid the GPO. Effective July 1, 2004, an individual is required to work five years under Social Security to avoid the GPO.

Many workers who accumulated enough credits with covered employers to qualify for Social Security benefits unknowingly take a job with a non-covered public employer which could eventually result in a reduced Social Security benefit.

Under the Windfall Elimination Provision (WEP), an employee’s Social Security benefit is calculated under a lower formula if he or she is also eligible for a pension benefit from a non-covered public employer. This affects workers who retire on pension from a public employer, such as a local government, where no Social Security taxes were paid, but who also worked enough years under other employment to qualify for Social Security.

Spouse or surviving spouse Social Security benefits are also reduced if that spouse is eligible for a pension from a non-covered public employer under a provision known as the Government Pension Offset (GPO). The spousal social security benefit will be reduced by two-thirds of the public pension. For example, a wife employed as a police officer by a local government her entire career retires under the police pension plan. She is not entitled to Social Security benefits on her record because she had no covered earnings. Her husband however, paid Social Security taxes his entire career and is eligible for a benefit from Social Security on his record. With no covered wages of her own, she would typically become entitled to a spouse benefit from Social Security based on her husband’s record. However, since she is paid a government pension, she will receive no Social Security benefit if two-thirds of her police pension is more than the spousal Social Security entitlement.

Under the new law, non-covered employers will have to provide a notice to new employees explaining both the WEP and the GPO and how they may affect the individual’s entitlement under Social Security. The employee will have to sign the notice indicating they understand that by working under non-covered employment, they could be subject to the Social Security pension offsets. The Social Security Administration is expected to release sample notices before the effective date of Jan. 1, 2005.

Currently, state and local government employees not covered by Social Security during employment opting into Social Security just before retirement, even for only their last day of government employment, can avoid the GPO. The new bill eliminates

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OIL CITY

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Rockovich, who's been with Oil City for over 26 years – 16 as manager, said that his initial contact with Mockenhaupt Benefits Group began in 1988 when he first became manager.

"I remember some of the first meetings with Mockenhaupt and was always impressed with Dick Mockenhaupt who was our representative at the time," said Rockovich. "Dick was always willing to come to our site to meet and assist me with a variety of projects such as reports and various studies."

Since Dick's retirement, Senior Consultant Colleen Deer has been working with Oil City for the past 15 years assisting with such items as pension matters, arbitration hearings, financial reports and other special projects.

"We use them primarily for actuarial reports required by the state and to assist us with the related forms that need to be completed and submitted to the state," said Rockovich. "They also assist us with pension studies for the improvement of benefits, studies required under Act 205, contract negotiations and for arbitration proceedings serving as a witness on behalf of the city."

According to Rockovich, the city is "very happy with Colleen's work."

"We tend to think along the same lines...so, she's an excellent sounding board on various pension issues because she's so knowledgeable about pension laws and the municipal environment," said Rockovich.

Rockovich also said that he utilizes Deer's expertise when he's thinking about making modifications.

"She's a good resource since she can refer to other clients who've been through similar situations and share their experiences with us," added Rockovich. "She's also able to keep us apprised of the potential impact changes may have on the financial health of our plans."

Oil City utilizes three pension boards to oversee plans for police, firefighters and non-uniformed employees. And, Mockenhaupt Benefits Group assists them with each of these boards.

Mockenhaupt Benefits Group is also in the process of assisting Oil City with a due diligence review of its investment managers.

"Currently, each of our three plans have a separate investment contract and there's been thought that since the portfolio designs are very similar, there may be a possibility to bring them together for investment purposes resulting in a possible cost savings," said Rockovich. "Mockenhaupt assisted us in the development of the RFP and is currently assisting us in the proposal review."

Oil City is governed by a five person council that includes the mayor. The community is located in Venango County at the confluence of the Allegheny River and Oil Creek in the foothills of the Allegheny Mountains.

About Oil City

Oil City, PA is in Venango County and is located between Pittsburgh and Erie. The community considers itself to be the "valley that changed the world." It is a quiet, friendly community with a history dating back to the discovery of oil near Titusville, PA.

The community's blend of a rural environment along with a strong business sector is enhanced by the fact that the crime rate is low, real estate costs moderate and recreational/cultural opportunities abundant.

Strong in history, Oil City's roots date back to the early 1600's when a Seneca Indian tribe first settled in the area. In the 1800's, technology allowed for oil or "black gold" to be pumped to the surface in large quantities encouraging the creation of wells springing up in the area and "boom towns" starting throughout the region. Because of its location and convenience to railroad lines, Oil City became a natural terminal.

In the late 1800's, more than 1 million barrels of oil were being transported through Oil City in a year prompting the population to grow to the thriving community it is today.

Those visiting Oil City find the area to abound in scenic beauty with ample parks, bike trails, campgrounds, lakes, rivers, streams and game lands; the area also boasts two beautiful waterways – the Allegheny River and Oil Creek.

Oil City is governed by a five person council which includes a mayor. The city is run by Manager Thomas D. Rockovich, Assistant City Manager/Community Development Director Janet M. Gatesman, as well as a city treasurer, finance officer, fire chief, police chief, director of code administration, engineer, solicitor and their respective staffs.

For more information on Oil City, visit their website - www.oilcity.org.

Social Security Reform Bill

HR 743

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this exemption. Effective July 1, 2004, an employee can only avoid the GPO if he/she is covered by Social Security and the pension system during his/her last 60 months of government employment. Transition rules apply to those within five years of retirement.

For more information about Social Security Benefits, go to the Social Security Administration's website at www.ssa.gov. There are pages dedicated to local government employers (www.ssa.gov/slge) and local government employees (www.ssa.gov/gpo-wep).

Deferred Retirement Option Plan

What's All the Hubbub About DROP's?

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Many municipal officials across the Commonwealth have entered into negotiations, reviewed employees' "list of demands" and read under the Pension section - "Add a DROP." After looking at one another in the meeting room with that puzzled look reserved for those who thought that they were current on all possible pension provisions, you say, "What the heck is a DROP." (You may want to alter the quote to fit your situation!)

DROP is an acronym for Deferred Retirement Option Plan. It is a relatively recent provision that is said to have had its origins in Louisiana in the early 1980's. It has been very popular with public safety employees in the south and has been spreading very rapidly. There are a small number of DROP provisions in Pennsylvania, but there is a great deal of interest in this provision.

What is a DROP?

A DROP is a pension provision just like a normal retirement benefit, vesting or any other provision included in a defined benefit pension plan. However, I believe it to be the most complicated and potentially litigious pension provision available because there can be a wide array of benefit features included.

A simple DROP provision would allow an active employee to become a retired participant in the pension plan (*his monthly benefit is set*), continue to work in his original job for some predetermined amount of time, receive a pay check and have the monthly retirement benefit go into a separate account, with interest. When that predetermined period ends, the employee must terminate. He then receives the monthly retirement benefit for life and a lump sum of cash that he can take or "roll over" into some other plan.

Example: Assume a police officer is eligible to retire Jan. 1 at age 50. His average salary is \$5,000 per month and

his benefit is 50 percent of this amount, or \$2,500 per month. The DROP provision calls for 4.5 percent interest and the pension plan includes a 2.5 percent per year Cost of Living Adjustment for five years. The DROP period is five years. The participant's DROP account would grow in this way:

Months	Monthly Benefit	Interest	Account Balance
1 – 12	\$2,500.00	\$ 613.82	\$30,613.12
13 – 24	2,562.50	2,006.80	63,370.62
25 – 36	2,626.56	3,496.58	98,385.92
37 – 48	2,692.23	5,088.40	135,781.08
49 – 60	2,759.53	6,787.69	175,683.13

Based on this example, the 55-year-old police officer would then terminate employment with a lifetime monthly benefit of \$2,759.53 and the DROP provision would provide him with a lump sum of assets of \$175,683.13.

What are the distinctive features of a DROP provision?

DROP provisions differ dramatically across the Commonwealth and the country. There are no standard DROP structures in place. The Public Employee Retirement Commission completed a Special Report in 2002 entitled Authorization and Guidelines for Implementation of DROP's by Local Governments in Pennsylvania. It recognized that because of the many potential DROP designs and the need to effectively administer the DROP provision, there was a need to "standardize" the DROP design. They also recognized the need for the legislature to grant local government the authority to implement this provision within their pension plans. In order to achieve this goal, and a few other house cleaning jobs, the bill was written by amending Act 205 of 1984, the "Municipal Pension Plan Funding Standard and Recovery Act."

As of this writing, House Bill 1432 (PN 1778) has been introduced, but not enacted. (*This legislation refers to DROP's as an IROP, In-Service Retirement Option Plan.*)

Whom does House Bill 1432 potentially affect?

It will affect any municipality or any county with a defined benefit pension plan.

Why would an employer want to consider a DROP?

The main reason for an employer to consider a DROP would be to create an incentive for qualified employees to remain with the employer.

Why would an employee want to participate in a DROP?

As described above, it allows a participant to create a situation whereby a lump sum of cash can be realized in addition to a monthly benefit. Under HB 1432, the "retired" police officer, while ineligible for increased benefit accruals, continues to be eligible for disability pension benefits and killed-in-service pension benefits like all other active participants. (*HB 1432 may be read to mandate a killed-in-service benefit for all pension plans adopting a DROP and not only Act 600 plans. You should consult with your Solicitor.*) If the pension plan collects employee contributions, the DROP participant's contributions will be discontinued. Also, the participant may opt-out of the DROP at any time before the end of the predetermined period.

Why wouldn't an employer want to add this provision?

The cost of implementing a DROP provision to a pension plan can differ greatly from plan to plan. The actuarial note attached to the bill had a difficult time estimating a cost. It said, "We have roughly estimated that offering an IROP could increase the employer's normal cost for pensions provided to public safety officers by 0 – 50 percent." It is extremely difficult to design a DROP provision based on this

