

**BOROUGH OF ALBURTIS  
LEHIGH COUNTY, PENNSYLVANIA**

Ordinance No. 506

(Duly Adopted July 25, 2012)

AN ORDINANCE AMENDING CHAPTER 17 OF THE ALBURTIS  
CODIFIED ORDINANCES (RELATING TO POLICE PENSION PLAN)  
SO THAT COVERED COMPENSATION INCLUDES THE AMOUNT  
OF EMPLOYEE CONTRIBUTIONS TOWARDS MEDICAL PLAN  
COVERAGE BUT DOES NOT INCLUDE ANY CASH PAYMENTS  
FOR WAIVER OF MEDICAL PLAN COVERAGE.

**WHEREAS**, the Borough of Alburdis has previously established a pension plan for its full-time police officers, which plan has been codified to Chapter 17 of the Alburdis Codified Ordinances (the “**Plan**”); and

**WHEREAS**, on or about December 28, 2011, the Borough and the Alburdis Police Officers’ Association (“**Association**”), the collective bargaining representative of the Borough’s police officers, entered into a collective bargaining agreement for the calendar years 2012 through 2104 (“**CBA**”) under which the parties revised the rules governing medical plan coverage, including corresponding changes to the Borough’s cafeteria plan and police pension plan; and

**WHEREAS**, under the CBA, full-time police officers who receive medical coverage from the Borough must contribute towards the cost of that coverage, while full-time officers who are eligible to waive such coverage and who elect to do so are not required to pay such employee contributions and also receive a monthly cash payment for the waiver (calculated in a manner different than under the preceding collective bargaining agreement); *see* CBA § 18(a); and

**WHEREAS**, pursuant to the CBA (*see* § 18(a)(4)), the Borough’s cafeteria plan was amended by Ordinance 501 (adopted December 28, 2011) to conform to the medical benefit changes made in the CBA, including language such that under current law per-

sons who receive medical coverage from the Borough are not subject to federal income tax on the amount of cash which they otherwise could have received if they had waived medical coverage (*i.e.*, cash payments for the waiver and no deduction for employee contributions to medical coverage); and

**WHEREAS**, under the CBA (*see* § 18(a)(5)), the Plan is to be amended to clarify that the term “compensation” for purposes of calculating pension benefits of any officer/participant shall be the same regardless of whether the officer/participant receives medical coverage or elects to waive such coverage, and regardless of the medical coverage option he/she elects. Thus, the amount of employee contributions to medical premiums shall be included in “compensation” even though they are not included in income subject to federal income tax, and the monthly cash payments for those officers/participants who waive medical coverage shall not be included in “compensation” even though they are subject to federal income tax; and

**WHEREAS**, Council desires to implement the requirements of CBA § 18(a)(5); and

**WHEREAS**, prior to the adoption of this Ordinance the Council reviewed a cost estimate of the effect of the changes made herein prepared by the plan’s actuarial firm in accordance Section 305 of the Municipal Pension Plan Funding Standard and Recovery Act, 53 PA. STAT. ANN. § 895.305 (*see attached*);

**NOW, THEREFORE**, be it **ORDAINED** and **ENACTED** by the Borough Council of the Borough of Albury, Lehigh County, Pennsylvania, that effective January 1, 2012, Codified Ordinances § 17-110(b) (relating to Police Pension Plan—Title and General Definitions—Compensation—Elective Deferrals) is amended as follows (with deletions indicated by ~~strike-outs~~ and insertions indicated by double underlining):

## § 17-110 Compensation

\* \* \*

### (b) ~~Elective Deferrals~~ Certain Non-taxable Compensation.

(1) “Compensation” shall also include amounts not currently includible in the Qualified Employee’s gross income by reason of the application of Code § 457 (relating to compensation deferred under an eligible deferred compensation plan for state and local governments and tax exempt organizations), Code § 414(h)(2) (relating to employee contributions to governmental plans that are picked up by the employing unit and thus are treated as employer contributions), ~~Code § 125 (relating to cafeteria plans)~~, Code § 132(f)(4) (relating to qualified transportation fringes; but only after July 1, 2001), or any elective deferrals (within the meaning of Code § 402(g)(3)), but only with respect to contributions made to plans maintained by the Employer.

(2) For periods before January 1, 2012, the term “Compensation” shall also include amounts not currently includible in the Qualified Employee’s gross income by reason of the application of Code § 125 (relating to cafeteria plans). For periods on and after January 1, 2012:

(A) “Compensation” shall also include employee contributions towards medical coverage under § 12-403(b.1) (relating to Personnel Policies – Benefits – Health & Hospitalization – Employee Contributions to Premiums) or corresponding provisions of the collective bargaining agreement for police officers as in effect from time to time (e.g., § 18(a)(2) of the 2012-14 collective bargaining agreement), even though not includible in the Qualified Employee’s gross income by reason of the application of Code § 125 (relating to cafeteria plans) or other provisions of the Code.

(B) “Compensation” shall not include cash payments made under § 12-403(c)(1) (relating to Personnel Policies – Benefits – Health & Hospitalization – Waiver of Coverage – In General), or corresponding provisions of the collective bargaining agreement for police officers as in effect from time to time (e.g., § 18(a)(3)(B) of the 2012-14 collective bargaining agreement), due to the waiver of medical coverage, even though includible in the Qualified Employee’s gross income.

(C) The purpose of subparagraphs (A) and (B) is to insure that a Participant shall receive the same pension benefits under this Plan regardless of whether the Participant elects to receive medical coverage or waives the receipt of medical coverage, and regardless of the medical coverage option he/she elects. "Compensation" is the same as it would be if the Employer had maintained a medical coverage plan which covered all Qualified Employees, required no employee contributions, and provided no incentives to Qualified Employees to select any particular coverage option.

\* \* \*

DULY ORDAINED and ENACTED by the Borough Council of the Borough of Al-  
burtis, this 25<sup>th</sup> day of July, 2012, in lawful session duly assembled.

BOROUGH COUNCIL  
BOROUGH OF ALBURTIS

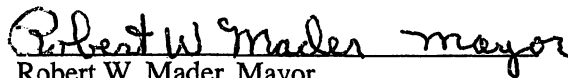


Steven R. Hill, President

Attest:

  
Sharon Trexler, Executive Secretary

AND NOW, this 25<sup>th</sup> day of July, 2012, the above Ordinance is hereby APPROVED.

  
Robert W. Mader, Mayor



April 13, 2011

**PERSONAL AND CONFIDENTIAL**

Mr. David Knerr  
Attorney at Law  
P.O. Box 3556  
Allentown, PA 18106-0556

**RE: Borough of Alburdis Police Pension Plan**

Dear Mr. Knerr:

We have evaluated the financial impact on the pension plan of eliminating the extra \$3,000 annual cash payment for waiving medical coverage provided by the Borough and the \$3,000 cafeteria plan contribution for those that elect medical coverage from compensation for pension purposes.

This study was prepared as of January 1, 2011 using the same participant data, asset information, plan provisions and actuarial assumptions and methods that were used and disclosed in the January 1, 2011 actuarial valuation report, except as noted in this letter. The cost of this change was estimated by subtracting \$3,000 from the 2009 and 2010 compensation of each officer reported by the Borough.

Based on the January 1, 2011 actuarial valuation, eliminating the extra \$3,000 would reduce the Unfunded Actuarial Accrued Liability of the plan by approximately \$17,600 and would reduce the annual Minimum Municipal Obligation (MMO) by about \$3,100.

If the change is made in 2012, it will be reflected in the January 1, 2013 actuarial valuation report. The first MMO that could be based on that report would be for 2014.

Should you have any questions regarding the reports, feel free to contact me toll free at (800) 405-3620.

Sincerely,

A handwritten signature in black ink, appearing to read "G. Slaughaupt".

Gabrielle Slaughaupt  
Actuarial Analyst

Certified by:

A handwritten signature in black ink, appearing to read "D. Stimpson".

David H. Stimpson, E.A., M.A.A.A.

GS:ES:Q:\Clients\A\Alburdis Police\Studies\pay2011.docx  
c: Sharon Trexler

**Borough of Alburtis Police Pension Plan**  
**Actuarial Study as of January 1, 2011**

	<u>Current Plan</u>	<u>Current Plan Reclassification of pay</u>
Actuarial Accrued Liability	\$ 831,600	\$ 814,000
Actuarial Value of Assets	(662,400)	(662,400)
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 169,200</u>	<u>\$ 151,600</u>
 Change in UAAL	 N/A	 \$ (17,600)
Normal Cost	\$ 33,600	\$ 31,600
Administrative Expenses	7,800	7,800
Amortization Payments	16,000	14,400
Employee Contributions	(8,200)	(7,700)
Funding Adjustment	-	-
Estimated Minimum Municipal Obligation (MMO)	<u>\$ 49,200</u>	<u>\$ 46,100</u>
 Change In Estimated MMO	 N/A	 \$ (3,100)

Estimated MMO is based on 2010 annualized pay of \$204,995 for current plan and \$192,995 with \$3,000 per officer not classified as pensionable earnings.

Accompanying letter of explanation contains important information relevant to interpreting study results.

