

COMPLIANCE AUDIT

Lower Makefield Township Police Pension Plan Bucks County, Pennsylvania

November 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Lower Makefield Township
Bucks County
Yardley, PA 19067

We have conducted a compliance audit of the Lower Makefield Township Police Pension Plan 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)), which 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was to determine whether 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 area related to the objective identified above. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- For the period January 1, 2024 to December 31, 2024, we determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the deposit date of state aid and determining whether deposits were made within 30 days of receipt.

- For the period January 1, 2024 to December 31, 2024, we determined whether employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- For the period January 1, 2024 to December 31, 2024, we determined whether employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions using the rates obtained from the plan's governing document in effect for the period noted and examining documents evidencing the deposit of these employee contributions into the pension plan.
- For the period January 1, 2024 to December 31, 2024, and through the completion of our fieldwork procedures, we determined whether retirement benefits calculated for plan members who retired during the period noted represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, 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 determined and actually paid to the recipients.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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.
- For the period January 1, 2024 to December 31, 2024, 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.

Lower Makefield Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lower Makefield Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide

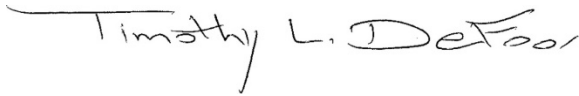
reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the Lower Makefield Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following finding further discussed later in this report:

Finding – Improper Pension Benefit Calculation

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. **The plan's funded ratio went from 75.5% as of January 1, 2021, to a ratio of 69.7% as of January 1, 2023**, which is the most recent data available. We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Lower Makefield Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General
September 22, 2025

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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 Lower Makefield Township Police 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Lower Makefield Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 384, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established June 6, 1960. Active police command officers are required to contribute 2 percent of compensation to the plan and active police non-command officers are required to contribute 4 percent of compensation to the plan. As of December 31, 2024, the plan had 35 active members, 1 terminated member eligible for vested benefits in the future, and 30 retirees receiving pension benefits from the plan.

LOWER MAKEFIELD TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Improper Pension Benefit Calculation

Condition: Pursuant to Ordinance No. 457, the township included a retirement incentive bonus in the pension calculation of a plan member who retired December 31, 2024, resulting in monthly benefit amounts in excess of the amounts authorized by Act 600.

Criteria: Section 5(c) of Act 600 states, in part:

Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.

Although Act 600 does not define “salary,” the department has concluded, based on a line of court opinions, that the term does not encompass retirement incentive bonuses.

Cause: The municipality entered into a Separation Agreement and General Release with a retiree who held the rank of Chief of Police on December 23, 2024, which in part provided separation pay in the amount of \$97,783 and provided for the separation pay to be included as compensation for pension calculation purposes.

Effect: The plan is paying pension benefits to a retiree in excess of those authorized by Act 600. The retiree is receiving excess benefits of \$1,222 per month, which totaled approximately \$11,000 from the date of the member’s retirement through the date of the completion of our audit.

Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the township received state aid based on unit value for its pension plans during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: To the extent that the township has already obligated itself to pay benefits to the retiree in excess of those authorized by Act 600, 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 excess benefits on the township’s future state aid allocations and submit this information to the department. If it is determined the excess benefits had an impact on the township’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.

LOWER MAKEFIELD TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management’s Response: Municipal officials provided the following response:

Prior to entering into the referenced Separation Agreement and General Release, the Township had its plan actuary conduct a cost study consistent with the statutory requirements of Act 205 and properly amended the Police Pension Plan document to amend the definition of Compensation to read as follows:

Compensation shall be generally defined as reportable as wages, tips, and other compensation on Federal Form W-2, as required by Sections 6041, 6051 and 6052 of the Internal Revenue Code, including all gross reportable base wages, overtime pay, holiday pay, shift differential, standby pay, education pay, longevity pay and accrued vacation. Excluded from compensation at this time shall be: severance pay, accrued sick day pay, or other similar, nonrecurring compensation. ***Irrespective of the foregoing sentence, for a Police Command Officer who was promoted to the rank of Lieutenant, Captain, Deputy Chief, or Chief Police prior to September 1, 2024, who is not currently retired or participating in the Deferred Retirement Option Plan on the effective date of this definition, and who retires on or prior to January 1, 2025, severance pay shall be included as compensation for pension calculation purposes.*** For officers hired after January 1, 2010, accrued vacation time shall not be included as compensation for pension calculation purposes. Compensation shall include only that compensation which is actually paid to the participant during the applicable period (last 36 months). “Compensation” shall also mean employee contributions made to deferred compensation plans (i.e., Section 457 plans) as applicable by code sections of the Internal Revenue Service and regulations related to same. In addition, “compensation” shall also mean employee contributions made pursuant to a salary reduction agreement which are not currently includible in the participant’s gross income by reason of the application of code Sections 125, 402(a), 402(h)(1)(B) or 457(a). The annual compensation of each participant taken into account for determining all benefits provided under the plan for any plan year shall not exceed \$200,000, as adjusted for increases in the cost-of-living in accordance with Section 401(a)(17)(B) of the Internal Revenue Code. The cost-of-living adjustment in effect for a calendar year applies to any determination period beginning in such calendar year. If a determination period consists of fewer than 12 months, the annual compensation limit is an amount equal to the otherwise applicable annual compensation limit multiplied by a fraction, the numerator of which is the number of months in the short determination period, and the denominator of which is 12.

The retiree was a Police Command Officer as defined by the Police Pension Plan; was promoted to the rank of Chief of Police prior to September 1, 2024; was not retired or participating in the Deferred Retirement Option Plan on the effective date of this revised definition; and retired on or prior to January 1, 2025.

LOWER MAKEFIELD TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Auditor's Conclusion: The municipality's response gives no clear insight into the impetus or agreement/disagreement with the finding. Based on the Criteria cited above, the finding remains as stated. Compliance with the finding recommendation will be reviewed during future audits of the plan.

LOWER MAKEFIELD TOWNSHIP POLICE 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, 2019, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-19	\$ 11,569,366	\$15,752,889	\$ 4,183,523	73.4%
01-01-21	14,318,072	18,961,031	4,642,959	75.5%
01-01-23	16,396,464	23,509,642	7,113,178	69.7%

Note: The market values of the plan's assets at 01-01-19 and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions 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.

LOWER MAKEFIELD TOWNSHIP POLICE 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.

LOWER MAKEFIELD TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 669,343	\$ 669,343	\$ -	\$3,083,327	21.7%
2016	616,577	616,577	-	3,164,517	19.5%
2017	626,506	626,506	-	3,276,201	19.1%
2018	682,133	682,133	-	3,363,814	20.3%
2019	729,757	729,757	-	3,594,354	20.3%
2020	874,896	874,896	-	3,777,569	23.2%
2021	878,238	878,238	-	4,044,206	21.7%
2022	1,053,793	1,053,793	-	4,285,475	24.6%
2023	1,070,523	1,070,523	-	4,793,196	22.3%
2024	1,034,695	1,034,695	-	*	

* Due to the timing of this audit, covered-employee payroll for 2024 was not provided in this schedule.

LOWER MAKEFIELD TOWNSHIP POLICE 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, 2023
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	9 years
Asset valuation method	5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

LOWER MAKEFIELD TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
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Commonwealth of Pennsylvania

Mr. Daniel R. Grenier
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Ms. Mega Bhandary
Chief Financial Officer

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