

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 1962 Session of 2019

INTRODUCED BY KEEFER, TOBASH, EVERETT, B. MILLER, SCHMITT, RYAN, OWLETT, GREINER, MILLARD, ZIMMERMAN, MOUL, BERNSTINE, GLEIM, BROOKS, SCHEMEL, RADER, THOMAS, JONES, TOOHL, FRITZ, GILLEN AND DUSH, OCTOBER 18, 2019

SENATOR HUTCHINSON, FINANCE, IN SENATE, AS AMENDED, OCTOBER 6, 2020

AN ACT

1 Amending Titles 24 (Education) and 71 (State Government) of the
2 Pennsylvania Consolidated Statutes, in administration and
3 miscellaneous provisions relating to retirement for school
4 employees, FURTHER providing for PUBLIC SCHOOL EMPLOYEES' <--
5 RETIREMENT BOARD AND FOR ADMINISTRATIVE DUTIES OF BOARD AND
6 PROVIDING FOR stress test of system; and, in administration,
7 funds, accounts and general provisions relating to retirement
8 for State employees and officers, FURTHER providing for THE <--
9 STATE EMPLOYEES' RETIREMENT BOARD AND FOR ADMINISTRATIVE
10 DUTIES OF THE BOARD AND PROVIDING FOR stress test of system.

11 The General Assembly of the Commonwealth of Pennsylvania
12 hereby enacts as follows:

13 ~~Section 1. Title 24 of the Pennsylvania Consolidated~~ <--
14 ~~Statutes is amended by adding a section to read:~~

15 SECTION 1. SECTION 8501(F) OF TITLE 24 OF THE PENNSYLVANIA <--
16 CONSOLIDATED STATUTES, IS AMENDED AND THE SECTION IS AMENDED BY
17 ADDING A SUBSECTION TO READ:

18 § 8501. PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD.

19 * * *

20 (F) BOARD TRAINING.--EACH MEMBER OF THE BOARD WILL BE

1 REQUIRED TO OBTAIN [EIGHT] 10 HOURS OF MANDATORY TRAINING IN
2 INVESTMENT STRATEGIES, ACTUARIAL COST ANALYSIS, ASSET
3 ALLOCATION, RISK ASSESSMENT AND RETIREMENT PORTFOLIO MANAGEMENT
4 ON AN ANNUAL BASIS.

5 (G) COMMITTEES.--

6 (1) IN ORDER TO BE APPOINTED TO THE AUDIT/COMPLIANCE
7 COMMITTEE AS A VOTING MEMBER, A BOARD MEMBER MUST FIRST
8 COMPLETE AT LEAST 16 HOURS OF TRAINING IN RISK ASSESSMENTS,
9 INTERNAL CONTROLS AND AUDITING STANDARDS. IN ORDER TO
10 CONTINUE SERVING AS A VOTING MEMBER OF THE AUDIT/COMPLIANCE
11 COMMITTEE FOLLOWING INITIAL APPOINTMENT, A BOARD MEMBER MUST
12 COMPLETE AT LEAST EIGHT HOURS OF CONTINUING EDUCATION IN RISK
13 ASSESSMENTS, INTERNAL CONTROLS AND AUDITING STANDARDS EACH
14 CALENDAR YEAR THEREAFTER.

15 (2) THE BOARD SHALL ESTABLISH AN EXECUTIVE COMMITTEE,
16 WHICH SHALL CONSIST OF THE BOARD CHAIR, THE BOARD VICE CHAIR,
17 IF ONE HAS BEEN APPOINTED, THE CHAIR OF THE AUDIT/COMPLIANCE
18 COMMITTEE, THE CHAIR OF THE BYLAWS/POLICY COMMITTEE AND THE
19 CHAIR OF THE BUDGET/FINANCE COMMITTEE.

20 (3) THE BOARD SHALL ESTABLISH AN ASSET LIABILITY
21 CONTINGENCY OPERATING COMMITTEE, WHICH SHALL BE CHARGED WITH
22 EVALUATING THE RISK ASSOCIATED WITH THE SYSTEM'S ASSETS AND
23 LIABILITIES.

24 SECTION 2. SECTION 8502(O) OF TITLE 24 IS AMENDED TO READ:

25 § 8502. ADMINISTRATIVE DUTIES OF BOARD.

26 * * *

27 (O) INDEPENDENT AUDITS.--

28 (1) THE BOARD SHALL PROVIDE FOR ANNUAL AUDITS OF THE
29 SYSTEM AND THE PLAN BY AN INDEPENDENT CERTIFIED PUBLIC
30 ACCOUNTING FIRM. THE AUDITS SHALL INCLUDE THE BOARD'S ACCRUAL

1 AND EXPENDITURE OF DIRECTED COMMISSIONS. THE BOARD MAY USE
2 THE SAME INDEPENDENT CERTIFIED PUBLIC ACCOUNTING FIRM FOR THE
3 AUDITS OF BOTH THE SYSTEM AND THE PLAN.

4 (2) THE FOLLOWING SHALL APPLY:

5 (I) EXCEPT AS PROVIDED UNDER SUBPARAGRAPH (II), THE
6 BOARD SHALL PROVIDE FOR AN INTERNAL CONTROL AUDIT OF THE
7 SYSTEM AND THE PLAN AT LEAST EVERY FIVE YEARS.

8 (II) IF AN ANNUAL FINANCIAL REPORT PREPARED UNDER
9 SUBSECTION (N) IDENTIFIES A MATERIAL WEAKNESS OR
10 SIGNIFICANT DEFICIENCY OR AN INTERNAL CONTROL AUDIT
11 IDENTIFIES A MATERIAL WEAKNESS OR SIGNIFICANT DEFICIENCY,
12 THE BOARD SHALL PROVIDE FOR AN ADDITIONAL INTERNAL
13 CONTROL AUDIT OF THE SYSTEM AND THE PLAN FOR THE YEAR
14 SUBSEQUENT TO THE REPORT OR AUDIT IN WHICH THE WEAKNESS
15 OR DEFICIENCY WAS IDENTIFIED.

16 * * *

17 SECTION 3. TITLE 24 IS AMENDED BY ADDING A SECTION TO READ:
18 § 8510. Stress test of system.

19 (a) General rule.--The ~~actuary~~ BOARD shall conduct an annual <--
20 stress test of the system and ~~the board shall~~ submit the results <--
21 of the stress test to the Governor, the General Assembly and the
22 Independent Fiscal Office no later than January 1 of each year.
23 The stress test shall include a scenario analysis, simulation
24 analysis and sensitivity analysis. THE BOARD SHALL DISCLOSE IN <--
25 THE REPORT OF THE STRESS TEST RESULTS WHICH INDUSTRY STANDARDS
26 WERE USED AND WHETHER ANY CHANGES TO INDUSTRY STANDARDS HAVE
27 BEEN MADE.

28 (b) Report by Independent Fiscal Office.--No later than
29 March 1 of each year, the Independent Fiscal Office shall
30 produce a report summarizing the results of the stress test,

1 including a calculation of the ratio of projected employer
2 pension contributions to projected State revenues under a
3 scenario analysis.

4 (c) Definitions.--As used in this section, the following
5 words and phrases shall have the meanings given to them in this
6 subsection unless the context clearly indicates otherwise:

7 "Scenario analysis." Projections of assets, liabilities,
8 unfunded actuarial accrued liabilities, the change in unfunded
9 actuarial accrued liabilities, employer contributions, benefit
10 payments, service costs, payroll and calculations of the ratios
11 of assets to liabilities, employer contributions to payroll and
12 operating cash flow to assets for each of the next: <--

13 (1) Twenty years, based upon then current plan
14 assumptions and statutory funding methodology established
15 under sections 8326 (relating to contributions by the
16 Commonwealth), 8327 (relating to payments by employers) and
17 8328 (relating to actuarial cost method).

18 (2) Twenty years, assuming that investment returns are
19 two percentage points lower than the assumed rate of return
20 and that employer contributions:

21 (i) are based upon the then current statutory
22 funding methodology established under sections 8326, 8327
23 and 8328; or

24 (ii) change each year at the projected rate of
25 annual State revenue growth as determined and provided by
26 the Independent Fiscal Office.

27 (3) Ten years, assuming that there is a one time loss on
28 plan investments of 20% followed by a subsequent nine year
29 period of investment returns at the assumed rate of return
30 and that employer contributions:

1 ~~(i) are based upon the then current statutory~~
2 ~~funding methodology established under sections 8326, 8327~~
3 ~~and 8328; or~~

4 ~~(ii) change each year at the projected rate of~~
5 ~~annual State revenue growth as determined and provided by~~
6 ~~the Independent Fiscal Office. IN SUFFICIENT NUMBER AS <--~~
7 ~~DETERMINED PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED~~
8 ~~INDUSTRY STANDARDS.~~

9 "Sensitivity analysis." The following:

10 (1) Estimates of the total normal cost and employer
11 normal cost for new employees, calculated using an VARIOUS <--
12 investment return assumption that is: <--

13 ~~(i) equal to the annual assumed rate of return;~~

14 ~~(ii) one percentage point above the annual assumed~~
15 ~~rate of return;~~

16 ~~(iii) one percentage point below the annual assumed~~
17 ~~rate of return; and~~

18 ~~(iv) two percentage points below the annual assumed~~
19 ~~rate of return. ASSUMPTIONS IN SUFFICIENT NUMBER AS <--~~
20 ~~DETERMINED PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED~~
21 ~~INDUSTRY STANDARDS.~~

22 (2) Estimates of the unfunded actuarial accrued
23 liability and unfunded liability, calculated using an annual <--
24 assumed rate of return that is:

25 ~~(i) equal to the annual assumed rate of return;~~

26 ~~(ii) one percentage point above the annual assumed~~
27 ~~rate of return;~~

28 ~~(iii) one percentage point below the annual assumed~~
29 ~~rate of return; and VARIOUS ANNUAL ASSUMED RATES OF <--~~
30 ~~RETURN IN SUFFICIENT NUMBER AS DETERMINED PRUDENT BY THE~~

1 BOARD AS INFORMED BY RECOGNIZED INDUSTRY STANDARDS.
2 "Simulation analysis." Projections of the range of required
3 employer contributions for each of the next 20 years, based on
4 analysis that simulates the volatility of annual investment
5 returns above and below the assumed rate of return, applying
6 methodology determined by the actuary PRUDENT BY THE BOARD AS <--
7 INFORMED BY RECOGNIZED INDUSTRY STANDARDS.

8 SECTION 4. SECTION 5901(F) OF TITLE 71 IS AMENDED AND THE <--
9 SECTION IS AMENDED BY ADDING A SUBSECTION TO READ:
10 § 5901. THE STATE EMPLOYEES' RETIREMENT BOARD.

11 * * *

12 (F) BOARD TRAINING.--EACH MEMBER OF THE BOARD WILL BE
13 REQUIRED TO OBTAIN [**EIGHT**] 10 HOURS OF MANDATORY TRAINING IN
14 INVESTMENT STRATEGIES, ACTUARIAL COST ANALYSIS, ASSET
15 ALLOCATION, RISK ASSESSMENT AND RETIREMENT PORTFOLIO MANAGEMENT
16 ON AN ANNUAL BASIS.

17 (G) COMMITTEES.--

18 (1) IN ORDER TO BE APPOINTED TO THE AUDIT RISK AND
19 COMPLIANCE COMMITTEE AS A VOTING MEMBER, A BOARD MEMBER MUST
20 FIRST COMPLETE AT LEAST 16 HOURS OF TRAINING IN RISK
21 ASSESSMENTS, INTERNAL CONTROLS AND AUDITING STANDARDS. IN
22 ORDER TO CONTINUE SERVING AS A VOTING MEMBER OF THE AUDIT
23 RISK AND COMPLIANCE COMMITTEE FOLLOWING INITIAL APPOINTMENT,
24 A BOARD MEMBER MUST COMPLETE AT LEAST EIGHT HOURS OF
25 CONTINUING EDUCATION IN RISK ASSESSMENTS, INTERNAL CONTROLS
26 AND AUDITING STANDARDS EACH CALENDAR YEAR THEREAFTER.

27 (2) THE BOARD SHALL ESTABLISH AN EXECUTIVE COMMITTEE,
28 WHICH SHALL CONSIST OF THE BOARD CHAIR, THE BOARD VICE CHAIR,
29 IF ONE HAS BEEN APPOINTED, THE CHAIR OF THE AUDIT RISK AND
30 COMPLIANCE COMMITTEE AND THE CHAIR OF THE FINANCE AND MEMBER

1 SERVICES COMMITTEE.

2 (3) THE BOARD SHALL ESTABLISH AN ASSET LIABILITY
3 CONTINGENCY OPERATING COMMITTEE, WHICH SHALL BE CHARGED WITH
4 EVALUATING THE RISK ASSOCIATED WITH THE SYSTEM'S ASSETS AND
5 LIABILITIES.

6 SECTION 5. SECTION 5902(N) OF TITLE 71 IS AMENDED TO READ:

7 § 5902. ADMINISTRATIVE DUTIES OF THE BOARD.

8 * * *

9 (N) INDEPENDENT AUDITS.--

10 (1) THE BOARD SHALL PROVIDE FOR ANNUAL AUDITS OF THE
11 SYSTEM AND THE PLAN BY INDEPENDENT CERTIFIED PUBLIC
12 ACCOUNTANTS. THE AUDITS SHALL INCLUDE THE BOARD'S ACCRUAL AND
13 EXPENDITURE OF DIRECTED COMMISSIONS. THE BOARD MAY USE THE
14 SAME INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT FOR THE AUDITS
15 OF BOTH THE SYSTEM AND THE PLAN.

16 (2) THE FOLLOWING SHALL APPLY:

17 (I) EXCEPT AS PROVIDED UNDER SUBPARAGRAPH (II), THE
18 BOARD SHALL PROVIDE FOR AN INTERNAL CONTROL AUDIT OF THE
19 SYSTEM AND THE PLAN AT LEAST EVERY FIVE YEARS.

20 (II) IF AN ANNUAL FINANCIAL REPORT PREPARED UNDER
21 THIS SECTION IDENTIFIES A MATERIAL WEAKNESS OR
22 SIGNIFICANT DEFICIENCY OR AN INTERNAL CONTROL AUDIT
23 IDENTIFIES A MATERIAL WEAKNESS OR SIGNIFICANT DEFICIENCY,
24 THE BOARD SHALL PROVIDE FOR AN ADDITIONAL INTERNAL
25 CONTROL AUDIT OF THE SYSTEM AND THE PLAN FOR THE YEAR
26 SUBSEQUENT TO THE REPORT OR AUDIT IN WHICH THE WEAKNESS
27 OR DEFICIENCY WAS IDENTIFIED.

28 * * *

29 Section ~~2~~ 6. Title 71 is amended by adding a section to
30 read:

<--

1 § 5909. Stress test of system.

2 (a) General rule.--The ~~actuary~~ BOARD shall conduct an annual <--
3 stress test of the system and ~~the board shall~~ submit the results <--
4 of the stress test to the Governor, the General Assembly and the
5 Independent Fiscal Office no later than July 1 of each year. The
6 stress test shall include a scenario analysis, simulation
7 analysis and sensitivity analysis. THE BOARD SHALL DISCLOSE IN <--
8 THE REPORT OF THE STRESS TEST RESULTS WHICH INDUSTRY STANDARDS
9 WERE USED AND WHETHER ANY CHANGES TO INDUSTRY STANDARDS HAVE
10 BEEN MADE.

11 (b) Report by Independent Fiscal Office.--No later than
12 September 1 of each year, the Independent Fiscal Office shall
13 produce a report summarizing the results of the stress test,
14 including a calculation of the ratio of projected employer
15 pension contributions to projected State revenues under a
16 scenario analysis.

17 (c) Definitions.--As used in this section, the following
18 words and phrases shall have the meanings given to them in this
19 subsection unless the context clearly indicates otherwise:

20 "Scenario analysis." Projections of assets, liabilities,
21 unfunded actuarial accrued liabilities, the change in unfunded
22 actuarial accrued liabilities, employer contributions, benefit
23 payments, service costs, payroll and calculations of the ratios
24 of assets to liabilities, employer contributions to payroll and
25 operating cash flow to assets for each of the next: <--

26 ~~(1) Twenty years, based upon then current plan~~
27 ~~assumptions and statutory funding methodology established~~
28 ~~under sections 5507 (relating to contributions to the system~~
29 ~~by the Commonwealth and other employers) and 5508 (relating~~
30 ~~to actuarial cost method).~~

1 ~~(2) Twenty years, assuming that investment returns are~~
2 ~~two percentage points lower than the annual assumed rate of~~
3 ~~return and that employer contributions:~~

4 ~~(i) are based upon the then current statutory~~
5 ~~funding methodology established under sections 5507 and~~
6 ~~5508; or~~

7 ~~(ii) change each year at the projected rate of~~
8 ~~annual State revenue growth as determined and provided by~~
9 ~~the Independent Fiscal Office.~~

10 ~~(3) Ten years, assuming that there is a one time loss on~~
11 ~~plan investments of 20% followed by a subsequent nine year~~
12 ~~period of investment returns at the assumed rate of return~~
13 ~~and that employer contributions:~~

14 ~~(i) are based upon the then current statutory~~
15 ~~funding methodology established under sections 5507 and~~
16 ~~5508; or~~

17 ~~(ii) change each year at the projected rate of~~
18 ~~annual State revenue growth as determined and provided by~~
19 ~~the Independent Fiscal Office.~~ IN SUFFICIENT NUMBER AS <--

20 ~~DETERMINED PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED~~
21 ~~INDUSTRY STANDARDS.~~

22 "Sensitivity analysis." The following:

23 (1) Estimates of the total normal cost and employer
24 normal cost for new employees, calculated using an VARIOUS <--
25 investment return assumption that is: <--

26 ~~(i) equal to the annual assumed rate of return;~~

27 ~~(ii) one percentage point above the annual assumed~~
28 ~~rate of return;~~

29 ~~(iii) one percentage point below the annual assumed~~
30 ~~rate of return; and~~

1 ~~(iv) two percentage points below the annual assumed~~
2 ~~rate of return.~~ ASSUMPTIONS IN SUFFICIENT NUMBER AS <--
3 DETERMINED PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED
4 INDUSTRY STANDARDS.

5 (2) Estimates of the unfunded actuarial accrued
6 liability and unfunded liability, calculated using an VARIOUS <--
7 annual assumed rate RATES of return that is: <--

8 ~~(i) equal to the annual assumed rate of return;~~

9 ~~(ii) one percentage point above the annual assumed~~
10 ~~rate of return;~~

11 ~~(iii) one percentage point below the annual assumed~~
12 ~~rate of return; and~~ IN SUFFICIENT NUMBER AS DETERMINED <--
13 PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED INDUSTRY
14 STANDARDS.

15 "Simulation analysis." Projections of the range of required
16 employer contributions for each of the next 20 years, based on
17 analysis that simulates the volatility of annual investment
18 returns above and below the assumed rate of return, applying
19 methodology determined by the actuary PRUDENT BY THE BOARD AS <--
20 INFORMED BY RECOGNIZED INDUSTRY STANDARDS.

21 Section 3 7. This act shall apply as follows: <--

22 (1) The addition of 24 Pa.C.S. § 8510 shall apply to
23 fiscal years beginning after June 30, 2020.

24 (2) The addition of 71 Pa.C.S. § 5909 shall apply to
25 calendar years beginning after December 31, 2019.

26 ~~Section 4. This act shall take effect in 60 days.~~ <--

27 (3) THE AMENDMENT OF 24 PA.C.S. § 8501(F) AND 71 PA.C.S. <--
28 § 5901(F) SHALL APPLY AFTER DECEMBER 31, 2020.

29 SECTION 8. THIS ACT SHALL TAKE EFFECT AS FOLLOWS:

30 (1) THE FOLLOWING SHALL TAKE EFFECT IN 60 DAYS:

- 1 (I) THE ADDITION OF 24 PA.C.S. § 8510.
2 (II) THE ADDITION OF 71 PA.C.S. § 5909.
3 (2) THIS SECTION SHALL TAKE EFFECT IMMEDIATELY.
4 (3) THE REMAINDER OF THIS ACT SHALL TAKE EFFECT IN 90
5 DAYS.