

SENATE APPROPRIATIONS COMMITTEE

FISCAL NOTE

BILL NO. House Bill 1962

PRINTER NO. 4575

AMOUNT

See Fiscal Impact

FUND

Public School Employees' Retirement Fund
State Employees' Retirement Fund

DATE INTRODUCED

October 18, 2019

PRIME SPONSOR

Representative Keefer

DESCRIPTION

House Bill 1962 amends Title 24 (Education) and Title 71 (State Government) to provide for the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) to each provide for an annual stress test and to establish additional committees related to audit functions.

The legislation increases the required hours of annual mandatory training for members of the PSERS board and SERS board from eight (8) to 10 hours and expands the training courses to include asset allocation and risk assessment.

The legislation provides that in order to be appointed to the audit/compliance committee as a voting member, a member of the PSERS board or SERS board must complete at least 16 hours of training in risk assessments, internal controls and auditing standards inclusive of the hours indicated for board training within 90 days of appointment. The Committee on Sponsoring Organizations Enterprise risk management guidelines may be considered as a guide to the training, and a current member of the audit/compliance committee shall be exempt from the new 16-hour training requirement.

The legislation provides that the PSERS board and SERS board may establish an executive committee consisting of the board chair, vice chair, the chair of the audit/compliance committee, the chair of the bylaws/policy committee, the chair of the investment committee and the chair of the budget/finance committee or other members of the board as determined by the board.

The legislation provides for the PSERS board and SERS board to establish an asset liability contingency operating committee as a function within the investment committee, which shall be charged with evaluating the risk associated with the systems' assets and liabilities.

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The legislation directs the PSERS board and SERS board to provide for an internal control audit of their respective systems and plans at least every five years. If an annual financial report or an internal control audit identifies a material weakness or significant deficiency, the board shall provide for an additional internal control audit of the system and the plan for the year subsequent to the report or audit in which the weakness or deficiency was identified.

The legislation requires the PSERS board and SERS board to conduct an annual stress test of their respective systems and submit the results to the Governor, the General Assembly and the Independent Fiscal Office no later than January 1 of each year. The stress test shall include a scenario analysis, simulation analysis and sensitivity analysis in accordance with industry standards.

The legislation provides that no later than March 1 of each year, the Independent Fiscal Office (IFO) shall produce a report summarizing the results of the stress tests, including a calculation of the ratio of projected employer pension contributions to projected State revenues under a scenario analysis.

FISCAL IMPACT:

PSERS estimates the following costs that would be borne by and accommodated within existing funding levels provided to the Public School Employees' Retirement Fund:

- \$85,200 in first-year costs, which includes \$35,200 for training associated with audit/compliance committee members and \$50,000 for the initial internal control audit;
- \$20,800 annually in subsequent years for continuing education and training for members and staff; and
- \$50,000 for each subsequent internal control audit. The legislation requires an internal control audit to be performed every five (5) years and in years following the identification of a material weakness or significant deficiency in an annual financial report or an internal control audit.

SERS estimates the following costs that would be borne by and accommodated within existing funding levels provided to the State Employees' Retirement Fund:

- \$141,000 in first-year costs, which includes \$16,000 for training associated with audit/compliance committee members and \$125,000 for the initial internal control audit;
- \$6,400 annually in subsequent years for continuing education and training for members and staff; and
- \$125,000 for each subsequent internal control audit. The legislation requires an internal control audit to be performed every five (5) years and in years following the identification of a material weakness or significant deficiency in an annual financial report or an internal control audit.

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

Both PSERS and SERS have indicated that the provisions requiring them to conduct an annual stress test of their respective systems will have no fiscal impact as they currently perform stress tests as part of their normal course of operations.

The IFO has indicated that producing an annual report summarizing the results of the stress tests required by the legislation will not have a material impact on its operating budget as it can be accomplished with existing staff.