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

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

Section 1. Title 24 of the Pennsylvania Consolidated Statutes is amended by adding a section to read:

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

§ 8501. PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD.

* * *

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

(G) COMMITTEES.--

(1) IN ORDER TO BE APPOINTED TO THE AUDIT/COMPLIANCE COMMITTEE AS A VOTING MEMBER, A BOARD MEMBER MUST FIRST COMPLETE AT LEAST 16 HOURS OF TRAINING IN RISK ASSESSMENTS, INTERNAL CONTROLS AND AUDITING STANDARDS WITHIN 90 DAYS OF APPOINTMENT TO THE COMMITTEE. THE 16 HOURS OF TRAINING ARE INCLUSIVE OF THE HOURS INDICATED FOR BOARD TRAINING. THE COMMITTEE ON SPONSORING ORGANIZATIONS ENTERPRISE RISK MANAGEMENT GUIDELINES MAY BE CONSIDERED AS A GUIDE TO THE TRAINING. INDIVIDUALS WHO ARE MEMBERS OF THE AUDIT/COMPLIANCE COMMITTEE ON THE EFFECTIVE DATE OF THIS PARAGRAPH SHALL BE EXEMPT FROM THE INITIAL 16-HOUR REQUIREMENT. IN ORDER TO CONTINUE SERVING AS A VOTING MEMBER OF THE AUDIT/COMPLIANCE COMMITTEE FOLLOWING INITIAL APPOINTMENT, A BOARD MEMBER MUST COMPLETE AT LEAST EIGHT HOURS OF CONTINUING EDUCATION IN RISK ASSESSMENTS, INTERNAL CONTROLS AND AUDITING STANDARDS EACH CALENDAR YEAR THEREAFTER.


(3) THE BOARD SHALL ESTABLISH A FUNCTION WITHIN THE INVESTMENT COMMITTEE OF AN ASSET LIABILITY CONTINGENCY
OPERATING COMMITTEE CAPABILITY, WHICH SHALL BE CHARGED WITH EVALUATING THE RISK ASSOCIATED WITH THE SYSTEM'S ASSETS AND LIABILITIES.

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

$ 8502. ADMINISTRATIVE DUTIES OF BOARD.

* * *

(O) INDEPENDENT AUDITS.--


(2) THE FOLLOWING SHALL APPLY:

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

(II) IF AN ANNUAL FINANCIAL REPORT PREPARED UNDER SUBSECTION (N) IDENTIFIES A MATERIAL WEAKNESS OR SIGNIFICANT DEFICIENCY 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.

* * *

SECTION 3. TITLE 24 IS AMENDED BY ADDING A SECTION TO READ:

$ 8510. Stress test of system.

(a) General rule.--The actuary BOARD shall conduct an annual stress test of the system and the board shall submit the results
of the stress test 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. THE BOARD SHALL DISCLOSE IN THE REPORT OF THE STRESS TEST RESULTS WHICH INDUSTRY STANDARDS WERE USED AND WHETHER ANY CHANGES TO INDUSTRY STANDARDS HAVE BEEN MADE.

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

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

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

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

(2) Twenty years, assuming that investment returns are two percentage points lower than the assumed rate of return and that employer contributions:
(i) are based upon the then-current statutory funding methodology established under sections 8326, 8327 and 8328; or

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

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

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

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

"Sensitivity analysis." The following:

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

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

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

(iii) one percentage point below the annual assumed rate of return and

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

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

(i) equal to the annual assumed rate of return;
(ii) one percentage point above the annual assumed rate of return;
(iii) one percentage point below the annual assumed rate of return; and VARIOUS ANNUAL ASSUMED RATES OF RETURN IN SUFFICIENT NUMBER AS DETERMINED PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED INDUSTRY STANDARDS.

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

SECTION 4. SECTION 5901(F) OF TITLE 71 IS AMENDED AND THE SECTION IS AMENDED BY ADDING A SUBSECTION TO READ:

§ 5901. THE STATE EMPLOYEES' RETIREMENT BOARD.

* * *

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

(G) COMMITTEES.--

(1) IN ORDER TO BE APPOINTED TO THE AUDIT RISK AND COMPLIANCE COMMITTEE AS A VOTING MEMBER, A BOARD MEMBER MUST FIRST COMPLETE AT LEAST 16 HOURS OF TRAINING IN RISK
ASSESSMENTS, INTERNAL CONTROLS AND AUDITING STANDARDS—WITHIN 90 DAYS OF APPOINTMENT TO THE COMMITTEE. THE 16 HOURS OF TRAINING ARE INCLUSIVE OF THE HOURS INDICATED FOR BOARD TRAINING. THE COMMITTEE ON SPONSORING ORGANIZATIONS ENTERPRISE RISK MANAGEMENT GUIDELINES MAY BE CONSIDERED AS A GUIDE TO THE TRAINING. INDIVIDUALS WHO ARE MEMBERS OF THE AUDIT RISK AND COMPLIANCE COMMITTEE ON THE EFFECTIVE DATE OF THIS PARAGRAPH SHALL BE EXEMPT FROM THE INITIAL 16-HOUR REQUIREMENT. IN ORDER TO CONTINUE SERVING AS A VOTING MEMBER OF THE AUDIT RISK AND COMPLIANCE COMMITTEE FOLLOWING INITIAL APPOINTMENT, A BOARD MEMBER MUST COMPLETE AT LEAST EIGHT HOURS OF CONTINUING EDUCATION IN RISK ASSESSMENTS, INTERNAL CONTROLS AND AUDITING STANDARDS EACH CALENDAR YEAR THEREAFTER.


(3) THE BOARD SHALL ESTABLISH A FUNCTION WITHIN THE INVESTMENT COMMITTEE OF AN ASSET LIABILITY CONTINGENCY OPERATING COMMITTEE CAPABILITY, WHICH SHALL BE CHARGED WITH EVALUATING THE RISK ASSOCIATED WITH THE SYSTEM'S ASSETS AND LIABILITIES.

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

§ 5902. ADMINISTRATIVE DUTIES OF THE BOARD.

* * *

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

(2) THE FOLLOWING SHALL APPLY:

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

(II) IF AN ANNUAL FINANCIAL REPORT PREPARED UNDER
THIS SECTION IDENTIFIES A MATERIAL WEAKNESS OR
SIGNIFICANT DEFICIENCY 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.

* * *

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

§ 5909. Stress test of system.

(a) General rule.--The actuary BOARD shall conduct an annual stress test of the system and the board shall submit the results of the stress test to the Governor, the General Assembly and the Independent Fiscal Office no later than July 1 of each year. The stress test shall include a scenario analysis, simulation analysis and sensitivity analysis. THE BOARD SHALL DISCLOSE IN THE REPORT OF THE STRESS TEST RESULTS WHICH INDUSTRY STANDARDS WERE USED AND WHETHER ANY CHANGES TO INDUSTRY STANDARDS HAVE
(b) Report by Independent Fiscal Office.--No later than September 1 of each year, the Independent Fiscal Office shall produce a report summarizing the results of the stress test, including a calculation of the ratio of projected employer pension contributions to projected State revenues under a scenario analysis.

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

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

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

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

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

(ii) change each year at the projected rate of annual State revenue growth as determined and provided by the Independent Fiscal Office.
Ten years, assuming that there is a one-time loss on plan investments of 20% followed by a subsequent nine-year period of investment returns at the assumed rate of return and that employer contributions:

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

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

"Sensitivity analysis." The following:

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

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

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

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

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

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

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

(ii) one percentage point above the annual assumed...
rate of return;

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

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

Section 37. This act shall apply as follows:


(2) The addition of 71 Pa.C.S. § 5909 shall apply to calendar years beginning after December 31, 2019 2021.

Section 4. This act shall take effect in 60 days.

(3) THE AMENDMENT OF 24 PA.C.S. § 8501(F) AND 71 PA.C.S. § 5901(F) SHALL APPLY AFTER DECEMBER 31, 2020 2021.

SECTION 8. THIS ACT SHALL TAKE EFFECT AS FOLLOWS:

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

(I) THE ADDITION OF 24 PA.C.S. § 8510.

(II) THE ADDITION OF 71 PA.C.S. § 5909.

(2) THIS SECTION SHALL TAKE EFFECT IMMEDIATELY.

(3) THE REMAINDER OF THIS ACT SHALL TAKE EFFECT IN 90 DAYS.