PRINTER'S NO. 2704

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 AND BERNSTINE, OCTOBER 18, 2019

REFERRED TO COMMITTEE ON STATE GOVERNMENT, OCTOBER 18, 2019

AN ACT

Amending Titles 24 (Education) and 71 (State Government) of the Pennsylvania Consolidated Statutes, in administration and miscellaneous provisions relating to retirement for school employees, providing for stress test of system; and, in administration, funds, accounts and general provisions relating to retirement for State employees and officers, 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:

§ 8510. Stress test of system.

(a) General rule.--The actuary 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.

(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 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.

(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

(iv) equal to the 10-year average of the yield of 30-year treasury notes.

"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.

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

§ 5909. Stress test of system.

(a) General rule.--The actuary 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.

(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 5707 (relating to death benefits) and 5708 (relating to supplemental annuities).

(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 5707 and 5708; 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 5707 and 5708; 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 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.

(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

(iv) equal to the 10-year average of the yield of 30-year treasury notes.

"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.

Section 3. This act shall apply as follows:

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

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

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