HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

SENATE BILL NO. 724 **PRINTERS NO.** 1046 **PRIME SPONSOR**: Corman

COST / (SAVINGS)

FUND	FY 2018/19	FY 2019/20
Public School Employees' Retirement System Fund	**$0**	**$0**
State Employees' Retirement System Fund	**$0**	**$0**
General Fund	**$0**	**$380,000**

SUMMARY: Senate Bill 724, printer's number 1046, amends Titles 24 (Education) and 71 (State Government) of the Pennsylvania Consolidated Statutes, to make technical changes to clarify provisions added to the retirement codes by Act 5 of 2017; add provisions to provide for nonparticipatory employer withdraw liabilities of the Public School Employees' Retirement System (PSERS); for the statutory establishment of the PSERS Public Markets Emerging Investment Manager Program; and to amend a definition in the State Employees' Retirement System (SERS) Code.

The act is effective 60 days after enactment.

ANALYSIS: The bill makes the following technical changes to the Public School Employees' Retirement Code:

- Clarifies that Class DC participants are eligible for the PSERS Health Options Program and premium assistance so long as the Class DC participants qualify for Medicare;
- Clarifies how Class DC participants earn eligibility points;
- Clarifies that only Class DC participants receiving distributions are eligible to vote for the annuitant member of the board;
- Clarifies that there will be one overall employer contribution rate charged against payroll; and
- Clarifies that non-vested contributions that are forfeited may be retained by the board for the payment of plan expenses.

The legislation also makes the following technical changes to the State Employees' Retirement Code:

- Clarifies that the board may adjust member contributions for members who elect to become members of Class A-6;
- Removes unnecessary language regarding the eligibility of death benefits; and
- Replaces an incorrect cross-reference regarding the early retirement factor applicable for Class A-5 and Class A-6 service.

The legislation adds Section 8327.1 to Title 24 to provide for nonparticipating employer withdrawal liability. The new section allows the PSERS board to determine whether an employer is not participating in the retirement system and to determine the employer's liability owed to the system. An employer can be found to be nonparticipating by having ceased covered operations or having ceased to have an obligation to contribute for all or any of the employer's school employees but continues covered operations. The new section provides that a nonparticipating employer is liable for its liabilities and provides a method for the board to calculate the liabilities. It provides that the liability for an employer that has not ceased operations to be paid on a schedule determined by the board and for the liability for an employer that has ceased operations to be paid as a lump sum. Finally, it authorizes the board to pursue causes of action and collection remedies to collect a nonparticipating employer's liabilities.

A new subchapter is added to Chapter 85 of Title 24 to establish the Public Markets Emerging Investment Manager Program under the direction of the PSERS board. The board shall allocate an amount of at least $250,000,000 but not more than $1,000,000,000 to the program from the PSERS main fund. The PSERS board is directed to locate fund managers with a history of generating positive risk adjusted returns. The subchapter outlines criteria that investment managers must meet in order to be considered for participation in the program. Preference shall be given to investment management firms headquartered in the Commonwealth, are veteran-owned or service-disabled veteran-owned firms or are minority-owned or women-owned firms. The PSERS Investment Office is directed to appoint an Emerging Manager Portfolio Manager to administer the program. There may be no more than 10 investment managers in the Public Markets Emerging Investment Manager Program at any one time. Firms may continue in the program for a period of at least three years, but not more than five years. If an investment manager participating in the program generates strong risk adjusted returns, the PSERS Investment Office shall use best efforts to make a place in the main fund for the investment manager. In order to grow public market emerging investment manager firms, the PSERS board is directed to assist in using the PSERS name in the manager's marketing efforts.

The bill also amends Title 71 SERS Code to expand the definition of enforcement officer to include investigators, agents, and their immediate supervisors, of the Office of State Inspector General who are charged with the enforcement of laws and have, within the scope of their employment, police powers to enforce laws as "enforcement officers." The inclusion of Office of State Inspector General investigators, agents and their immediate supervisors as enforcement officers provides these employees with superannuation ten years sooner than other non-enforcement officer classified employees, meaning that these employees would be eligible to retire at age 50 or 55, depending on date of hire, with full retirement benefits. Normal retirement age (superannuation age) for most SERS active members is age 60 or 65.

FISCAL IMPACT: The Independent Fiscal Office issued a letter on June 24, 2019, indicating the enactment of this legislation as it pertains to the technical changes to the PSERS and SERS Codes and the PSERS Public Markets Emerging Investment Manager Program will have no material actuarial cost impact on PSERS or SERS.

The provisions of the bill that address nonparticipating employer withdrawal liabilities will have no adverse impact on PSERS or Commonwealth funds and will prevent stranded liabilities of employers exiting the PSERS system from being passed on and paid by remaining employers.

As stated in the June 24, 2019 Independent Fiscal Office letter, the enactment of this bill is projected to increase employer annual costs for the Office of State Inspector General by $249,000 to cover the normal cost of funding the earlier superannuation age benefits for Office of State Inspector General enforcement officers. Additionally, the Office of State Inspector General will incur costs of $131,000 annually for a ten-year period to fund the amortization of the unfunded actuarial liability in equal dollar installments as a percentage of compensation of all affected active Office of State Inspector General employees. The increase in employer annual costs will continue until all Office of State Inspector General agents and investigators hired before January 1, 2011 retire, at which time costs will decrease because of the lower Act 120 of 2010 benefit accrual levels.

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House Appropriations Committee (R)

DATE: June 25, 2019

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.