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THE GENERAL ASSEMBLY OF PENNSYLVANIA

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HOUSE BILL

No. 1962 Session of  
2019

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INTRODUCED BY KEEFER, TOBASH, EVERETT, B. MILLER, SCHMITT, RYAN,  
OWLETT, GREINER, MILLARD, ZIMMERMAN, MOUL AND BERNSTINE,  
OCTOBER 18, 2019

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REFERRED TO COMMITTEE ON STATE GOVERNMENT, OCTOBER 18, 2019

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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, providing for stress test of system; and, in  
5 administration, funds, accounts and general provisions  
6 relating to retirement for State employees and officers,  
7 providing for stress test of system.

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

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

12 § 8510. Stress test of system.

13 (a) General rule.--The actuary shall conduct an annual  
14 stress test of the system and the board shall submit the results  
15 of the stress test to the Governor, the General Assembly and the  
16 Independent Fiscal Office no later than January 1 of each year.  
17 The stress test shall include a scenario analysis, simulation  
18 analysis and sensitivity analysis.

19 (b) Report by Independent Fiscal Office.--No later than  
20 March 1 of each year, the Independent Fiscal Office shall

1 produce a report summarizing the results of the stress test,  
2 including a calculation of the ratio of projected employer  
3 pension contributions to projected State revenues under a  
4 scenario analysis.

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

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

14 (1) Twenty years, based upon then-current plan  
15 assumptions and statutory funding methodology established  
16 under sections 8326 (relating to contributions by the  
17 Commonwealth), 8327 (relating to payments by employers) and  
18 8328 (relating to actuarial cost method).

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

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

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

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

1 and that employer contributions:

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

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

8 "Sensitivity analysis." The following:

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

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

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

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

17 (iv) two percentage points below the annual assumed  
18 rate of return.

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

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

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

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

27 (iv) equal to the 10-year average of the yield of  
28 30-year treasury notes.

29 "Simulation analysis." Projections of the range of required  
30 employer contributions for each of the next 20 years, based on

1 analysis that simulates the volatility of annual investment  
2 returns above and below the assumed rate of return, applying  
3 methodology determined by the actuary.

4 Section 2. Title 71 is amended by adding a section to read:  
5 § 5909. Stress test of system.

6 (a) General rule.--The actuary shall conduct an annual  
7 stress test of the system and the board shall submit the results  
8 of the stress test to the Governor, the General Assembly and the  
9 Independent Fiscal Office no later than July 1 of each year. The  
10 stress test shall include a scenario analysis, simulation  
11 analysis and sensitivity analysis.

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

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

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

27 (1) Twenty years, based upon then-current plan  
28 assumptions and statutory funding methodology established  
29 under sections 5707 (relating to death benefits) and 5708  
30 (relating to supplemental annuities).

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 5707 and  
6 5708; 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 5707 and  
16 5708; 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.

20 "Sensitivity analysis." The following:

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

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

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

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

29           (iv) two percentage points below the annual assumed  
30 rate of return.

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

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

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

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

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

11 "Simulation analysis." Projections of the range of required  
12 employer contributions for each of the next 20 years, based on  
13 analysis that simulates the volatility of annual investment  
14 returns above and below the assumed rate of return, applying  
15 methodology determined by the actuary.

16       Section 3. This act shall apply as follows:

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

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

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