

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, BERNSTINE, GLEIM, BROOKS, SCHEMEL, RADER, THOMAS, JONES, TOOIL, FRITZ AND GILLEN, OCTOBER 18, 2019

AS AMENDED ON SECOND CONSIDERATION, HOUSE OF REPRESENTATIVES, NOVEMBER 18, 2019

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

1 March 1 of each year, the Independent Fiscal Office shall
2 produce a report summarizing the results of the stress test,
3 including a calculation of the ratio of projected employer
4 pension contributions to projected State revenues under a
5 scenario analysis.

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

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

15 (1) Twenty years, based upon then-current plan
16 assumptions and statutory funding methodology established
17 under sections 8326 (relating to contributions by the
18 Commonwealth), 8327 (relating to payments by employers) and
19 8328 (relating to actuarial cost method).

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

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

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

29 (3) Ten years, assuming that there is a one-time loss on
30 plan investments of 20% followed by a subsequent nine-year

1 period of investment returns at the assumed rate of return
2 and that employer contributions:

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

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

9 "Sensitivity analysis." The following:

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

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

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

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

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

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

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

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

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

28 ~~(iv) equal to the 10 year average of the yield of~~ <--
29 ~~30 year treasury notes.~~

30 "Simulation analysis." Projections of the range of required

1 employer contributions for each of the next 20 years, based on
2 analysis that simulates the volatility of annual investment
3 returns above and below the assumed rate of return, applying
4 methodology determined by the actuary.

5 Section 2. Title 71 is amended by adding a section to read:
6 § 5909. Stress test of system.

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

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

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

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

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

1 ~~(relating to supplemental annuities).~~ 5507 (RELATING TO <--
2 CONTRIBUTIONS TO THE SYSTEM BY THE COMMONWEALTH AND OTHER
3 EMPLOYERS) AND 5508 (RELATING TO ACTUARIAL COST METHOD).

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

7 (i) are based upon the then-current statutory
8 funding methodology established under sections 5707 and <--
9 5708 5507 AND 5508; or <--

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

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

17 (i) are based upon the then-current statutory
18 funding methodology established under sections 5707 and <--
19 5708 5507 AND 5508; or <--

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

23 "Sensitivity analysis." The following:

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

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

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

30 (iii) one percentage point below the annual assumed

1 rate of return; and
2 (iv) two percentage points below the annual assumed
3 rate of return.

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

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

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

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

12 ~~(iv) equal to the 10 year average of the yield of~~ <--
13 ~~30 year treasury notes.~~

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

19 Section 3. This act shall apply as follows:

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

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

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