

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE BILL

No. 724 Session of 2019

INTRODUCED BY CORMAN AND BROWNE, JUNE 6, 2019

AS AMENDED ON THIRD CONSIDERATION, JUNE 17, 2019

AN ACT

1 Amending Titles 24 (Education) and 71 (State Government) of the
2 Pennsylvania Consolidated Statutes as follows:

3 In Title 24:

4 for retirement for school employees, in preliminary
5 provisions, further providing for definitions; in
6 membership, contributions and benefits, further providing
7 for payments by employers and providing for
8 nonparticipating employer withdrawal liability and
9 further providing for actuarial cost method; in School
10 Employees' Defined Contribution Plan, further providing
11 for vesting; in administration and miscellaneous
12 provisions, further providing for Public School Employees
13 Retirement Board; IN ADMINISTRATION AND MISCELLANEOUS <--
14 PROVISIONS, PROVIDING FOR THE ESTABLISHMENT OF THE PUBLIC
15 MARKETS EMERGING INVESTMENT MANAGER PROGRAM; and, in
16 preliminary provisions, further providing for
17 definitions.

18 In Title 71:

19 for retirement for State employees and officers, in
20 membership, credited service, classes of service and
21 eligibility for benefits regarding administration of the
22 State Employees' Retirement Fund, further providing for
23 election to become a Class A-6 member or solely a
24 participant in the plan and for eligibility for death
25 benefits; and, in benefits, further providing for maximum
26 single life annuity.

27 The General Assembly of the Commonwealth of Pennsylvania

28 hereby enacts as follows:

1 Section 1. The definitions of "eligible annuitants" and
2 "eligibility points" in section 8102 of Title 24 of the
3 Pennsylvania Consolidated Statutes are amended to read:
4 § 8102. Definitions.

5 The following words and phrases when used in this part shall
6 have, unless the context clearly indicates otherwise, the
7 meanings given to them in this section:

8 * * *

9 "Eligible annuitants." All current and prospective
10 annuitants of the system with 24 1/2 or more eligibility points
11 and all current and prospective disability annuitants. Beginning
12 January 1, 1995, "eligible annuitants" shall include members
13 with 15 or more eligibility points who terminated or who
14 terminate school service on or after attaining superannuation
15 retirement age and who are annuitants with an effective date of
16 retirement after superannuation age. Beginning July 1, 2019,
17 "eligible annuitants" shall include:

18 (1) Class DC participants with 24 1/2 or more
19 eligibility points who have terminated school service, who
20 are Medicare eligible and who received all or a part of their
21 distributions; and

22 (2) Class DC participants with 15 or more eligibility
23 points who terminate school service on or after attaining age
24 67 and receive all or a part of their distributions.

25 "Eligibility points." Points which are accrued by an active
26 member, a participant, a multiple service member who is an
27 active member of the State Employees' Retirement System for
28 credited service or by a member or participant who has been
29 reemployed from USERRA leave or dies while performing USERRA
30 leave and are used in the determination of eligibility for

1 benefits as provided in section 8306 (relating to eligibility
2 points). A participant shall earn one eligibility point for each
3 fiscal year in which the participant contributes to the trust.
4 Eligibility points earned as Class T-G or Class T-H participants
5 shall apply only for purposes of determining vesting of employer
6 defined contributions under section 8409(b) (relating to
7 vesting).

8 * * *

9 Section 2. Section 8327(b) and (d) of Title 24 are amended
10 to read:

11 § 8327. Payments by employers.

12 * * *

13 (b) Deduction from appropriations.--

14 (1) To facilitate the payment of amounts due from any
15 employer to the fund and the trust through the State
16 Treasurer and to permit the exchange of credits between the
17 State Treasurer and any employer, the Secretary of Education
18 and the State Treasurer shall cause to be deducted and paid
19 into the fund and the trust from the amount of any moneys due
20 to any employer on account of any appropriation for schools
21 or other purposes amounts equal to the employer
22 contributions, employer defined contributions [and pickup
23 contributions which], pickup contributions, mandatory
24 participant contributions, voluntary contributions, amounts
25 owed pursuant to section 8327.1 (relating to nonparticipating
26 employer withdrawal liability) and other amounts related to
27 plan administration that an employer is required to pay to
28 the fund and the trust, as certified by the board, and as
29 remains unpaid on the date such appropriations would
30 otherwise be paid to the employer. Such amount shall be

1 credited to the appropriate accounts in the fund and the
2 trust.

3 (2) To facilitate the payments of amounts due from any
4 charter school, as defined in Article XVII-A of the act of
5 March 10, 1949 (P.L.30, No.14), known as the Public School
6 Code of 1949, to the fund and the trust through the State
7 Treasurer and to permit the exchange of credits between the
8 State Treasurer and any employer, the Secretary of Education
9 and the State Treasurer shall cause to be deducted and paid
10 into the fund and the trust from any funds appropriated to
11 the Department of Education for public school employees'
12 retirement contributions and basic education of the
13 chartering school district of a charter school [and public
14 school employees' retirement contributions amounts] equal to
15 the employer contributions, employer defined contributions
16 [and pickup contributions which], pickup contributions,
17 mandatory participant contributions, voluntary contributions,
18 amounts pursuant to section 8327.1 and other amounts related
19 to plan administration that a charter school is required to
20 pay to the fund and the trust, as certified by the board, and
21 as remains unpaid on the date such appropriations would
22 otherwise be paid to the chartering school district or
23 charter school. Such amounts shall be credited to the
24 appropriate accounts in the fund and the trust. Any reduction
25 in payments to a chartering school district made pursuant to
26 this section shall be deducted from the amount due to the
27 charter school district pursuant to the Public School Code of
28 1949.

29 * * *

30 (d) Payments by employers after June 30, 2019.--After June

1 30, 2019, each employer, including the Commonwealth as employer
2 of employees of the Department of Education, State-owned
3 colleges and universities, Thaddeus Stevens College of
4 Technology, Western Pennsylvania School for the Deaf, Scotland
5 School for Veterans' Children and The Pennsylvania State
6 University, shall make payments to the fund and the trust within
7 30 days after the end of each quarter, or as determined by the
8 board, in an amount computed in the following manner:

9 (1) For an employer that is a school entity, the amount
10 shall be the sum of the percentages as determined under
11 section 8328 applied to the total compensation during the pay
12 periods in the preceding quarter of all employees who were
13 active members of the system during such period, including
14 members on activated military service leave and USERRA leave.
15 In the event a member on activated military service leave or
16 USERRA leave does not return to service for the necessary
17 time or receives an undesirable, bad conduct or dishonorable
18 discharge or does not elect to receive credit for activated
19 military service under section 8302(b.1)(3), the contribution
20 made by the employer on behalf of such member shall be
21 returned with valuation interest upon application by the
22 employer.

23 (2) For an employer that is not a school entity, the
24 amount computed under subsection (a).

25 (3) For any employer, whether or not a school entity, in
26 computing the amount of payment due each quarter, there shall
27 be excluded from the total compensation referred to in this
28 subsection and subsection (a) any amount of compensation of a
29 noneligible member or participant on the basis of which
30 member or participant contributions have not been made by

1 reason of the limitation under IRC § 401(a)(17). Any amount
2 of contribution to the fund paid by the employer on behalf of
3 a noneligible member or participant on the basis of
4 compensation that was subject to exclusion from total
5 compensation in accordance with the provisions of this
6 paragraph shall, upon the board's determination or upon
7 application by the employer, be returned to the employer with
8 valuation interest.

9 * * *

10 Section 3. Title 24 is amended by adding a section to read:

11 § 8327.1. Nonparticipating employer withdrawal liability.

12 (a) General rule.--A nonparticipating employer is liable to
13 the system for withdrawal liability in the amount determined
14 under subsection (c). A nonparticipating employer is an employer
15 that is determined by the board to have ceased:

16 (1) covered operations under the system; or

17 (2) to have an obligation to contribute under the system
18 for all or any of the employer's school employees but
19 continues covered operations.

20 (b) Determination.--An employer shall, within the time
21 prescribed by the board in a written request, furnish such
22 information as the board deems necessary to administer this
23 section and to determine whether an employer is a
24 nonparticipating employer. If the board determines that an
25 employer is a nonparticipating employer, the board shall:

26 (1) determine the nonparticipation date;

27 (2) determine the amount of the employer's withdrawal
28 liability;

29 (3) notify the employer of the amount of the withdrawal
30 liability; and

1 (4) collect the amount of the withdrawal liability.

2 (c) Calculation of withdrawal liability.--A nonparticipating
3 employer's withdrawal liability shall be determined as of the
4 employer's nonparticipation date and shall be calculated as
5 follows:

6 (1) For a nonparticipating employer under subsection (a)
7 (1), the excess of the actuarial present value of the vested
8 accrued benefits of the system's members over the market
9 value of assets, both as of the date of the last actuarial
10 valuation adopted by the board prior to the employer's
11 nonparticipation date, shall be multiplied by withdrawal
12 fraction, calculated as follows:

13 (i) The numerator of the withdrawal fraction shall
14 be the total present value of accrued benefits of all
15 active members of the employer.

16 (ii) The denominator of the withdrawal fraction
17 shall be the total present value of accrued benefits of
18 all active members of the system.

19 (2) For a nonparticipating employer under subsection (a)
20 (2), the excess of the actuarial accrued liability of the
21 system's members over the market value of assets, both as of
22 the date of the last actuarial valuation adopted by the board
23 prior to the employer's nonparticipation date, shall be
24 multiplied by a withdrawal fraction, calculated as follows:

25 (i) The numerator of the withdrawal fraction shall
26 be the total present value of accrued benefits of all
27 active members of the employer.

28 (ii) The denominator of the withdrawal fraction
29 shall be the total present value of accrued benefits of
30 all active members of the system.

1 (d) Value of benefits.--The actuarial present value of the
2 vested accrued benefits and total present value of accrued
3 benefits shall be determined based on the unit credit actuarial
4 cost method, applying the system's provisions and actuarial
5 assumptions used in the last actuarial valuation adopted by the
6 board prior to the nonparticipation date. The actuarial accrued
7 liability shall be determined based on the same actuarial cost
8 method used to determine the actuarially required contribution
9 rate in section 8328(i) (relating to actuarial cost method),
10 applying the system's provisions and actuarial assumptions used
11 in the last actuarial valuation adopted by the board prior to
12 the nonparticipating date.

13 (e) Interest rate assumption.--For purposes of calculating
14 the withdrawal liability in subsection (c)(1):

15 (1) For a nonparticipating employer under subsection (a)
16 (1), the interest rate assumption shall be reduced by an
17 amount determined by the actuary to reflect the increased
18 investment, mortality and other actuarial risk associated
19 with the accrued benefit of the members of the
20 nonparticipating employer on a basis approved by the board.

21 (2) For a nonparticipating employer under subsection (a)
22 (2), the interest rate assumption shall be the same annual
23 interest rate used to determine the annual normal
24 contribution rate under section 8328(b) as of the date of the
25 last actuarial valuation adopted by the board prior to the
26 employer's nonparticipation date.

27 (f) Payment.--A nonparticipating employer shall pay the
28 withdrawal liability as follows:

29 (1) The withdrawal liability for a nonparticipating
30 employer under subsection (a)(1) shall be paid in a lump sum

1 no later than the time prescribed by the board in the notice
2 of the amount of the withdrawal liability.

3 (2) The withdrawal liability for a nonparticipating
4 employer under subsection (a)(2) shall be paid based on the
5 schedule and method of payment determined by the board. In
6 addition, the obligations of such nonparticipating employer
7 under this section shall not impair the obligation of the
8 nonparticipating employer to continue to pay the employer
9 contribution rate under section 8328 as adjusted for the
10 withdrawal liability. For purposes of this section, the board
11 may determine whether a member should be treated as being
12 employed by a single employer, regardless of whether the
13 employer is a nonparticipating employer. In making such
14 determination, the board may rely on the provisions of the
15 IRC § 414(b), (c) and (m) and corresponding regulations or
16 may establish other relevant factors the board deems
17 necessary.

18 (3) The board is authorized to pursue all causes of
19 action and collection remedies as permitted under applicable
20 law to collect the withdrawal liability and to seek relief
21 under section 8327(b) (relating to payments by employers),
22 each without regard to whether the nonparticipating employer
23 has ceased all operations.

24 Section 4. Sections 8328(a), 8409(b)(3) and 8501(a) of Title
25 24 are amended to read:

26 § 8328. Actuarial cost method.

27 (a) Employer contribution rate.--The amount of the total
28 employer contributions shall be computed by the actuary as a
29 percentage of the total compensation of all active members and
30 active participants, as applicable, during the period for which

1 the amount is determined and shall be so certified by the board.
2 The total employer contribution rate shall be the sum of
3 paragraphs (1), (2) and (3) divided by the total compensation of
4 all active members and active participants:

5 (1) the final contribution [rate as] amount computed by
6 multiplying the final contribution rate calculated in
7 subsection (h) [plus] by the total compensation of all active
8 members;

9 (2) the premium assistance contribution [rate as
10 computed in subsection (f). The actuarially required
11 contribution rate shall consist of the normal contribution
12 rate as defined in subsection (b), the accrued liability
13 contribution rate as defined in subsection (c) and the
14 supplemental annuity contribution rate as defined in
15 subsection (d). Beginning July 1, 2004, the actuarially
16 required contribution rate shall be modified by the
17 experience adjustment factors as calculated in subsection
18 (e).] amount computed by multiplying the premium assistance
19 contribution rate calculated in subsection (f) by the total
20 compensation of all active members and active participants;
21 and

22 (3) the employer defined contributions as defined under
23 section 8102 (relating to definitions).

24 The actuarially required contribution shall be no less than the
25 normal cost plus the cost to fully amortize the unfunded
26 actuarial accrued liability calculated using actuarial methods
27 and assumptions that are consistent with generally accepted
28 actuarial standards and generally accepted accounting
29 principles, including professional actuarial standards of
30 practice.

1 * * *

2 § 8409. Vesting.

3 * * *

4 (b) Employer defined contributions.--

5 * * *

6 (3) Nonvested employer defined contributions, including

7 interest and investment gains and losses that are forfeited

8 by a participant, shall be [applied to the participant's most

9 recent employer's obligations assessed in future years]

10 retained by the board and used for the payment of expenses of

11 the plan.

12 * * *

13 § 8501. Public School Employees' Retirement Board.

14 (a) Status and membership.--The board shall be an

15 independent administrative board and shall consist of 15

16 members: the Secretary of Education, ex officio; the State

17 Treasurer, ex officio; the Secretary of Banking and Securities,

18 ex officio; two Senators; two members of the House of

19 Representatives; the executive secretary of the Pennsylvania

20 School Boards Association, ex officio; one to be appointed by

21 the Governor; three to be elected by the active professional

22 members of the system and active professional participants in

23 the plan from among their number; one to be elected by

24 annuitants [or participants in the plan who have terminated

25 school service and are receiving or are eligible to receive

26 distributions] and Class DC participants receiving

27 distributions, from among their number; one to be elected by the

28 active nonprofessional members of the system [or] and active

29 nonprofessional participants in the plan from among their

30 number; and one to be elected by members of Pennsylvania public

1 school boards from among their number. The appointments made by
2 the Governor shall be confirmed by the Senate and each election
3 shall be conducted in a manner approved by the board. The terms
4 of the appointed and nonlegislative elected members shall be
5 three years. The members from the Senate shall be appointed by
6 the President pro tempore of the Senate and shall consist of one
7 member from the majority and one member from the minority. The
8 members from the House of Representatives shall be appointed by
9 the Speaker of the House of Representatives and shall consist of
10 one member from the majority and one member from the minority.
11 The legislative members shall serve on the board for the
12 duration of their legislative terms and shall continue to serve
13 until 30 days after the convening of the next regular session of
14 the General Assembly after the expiration of their respective
15 legislative terms or until a successor is appointed for the new
16 term, whichever occurs first. The chairman of the board shall be
17 elected by the board members. Each ex officio member of the
18 board and each legislative member of the board may appoint a
19 duly authorized designee to act in his stead. In the event that
20 a board member, who is designated as an active participant or as
21 the participant in the plan who is receiving or is eligible to
22 receive distributions, receives a total distribution of the
23 board member's interest in the plan, that board member may
24 continue to serve on the board for the remainder of his term.

25 * * *

26 SECTION 4.1. CHAPTER 85 OF TITLE 24 IS AMENDED BY ADDING A <--
27 SUBCHAPTER TO READ:

28 SUBCHAPTER D

29 PUBLIC MARKETS EMERGING INVESTMENT MANAGER PROGRAM

30 SEC.

1 8541. DEFINITIONS.

2 8542. ESTABLISHMENT.

3 8543. FUNDING.

4 8544. PARTICIPATION CRITERIA.

5 8545. PREFERENCE.

6 8546. REQUIREMENTS AND LIMITATIONS OF FIRMS.

7 8547. ADMINISTRATION.

8 § 8541. DEFINITIONS.

9 THE FOLLOWING WORDS AND PHRASES WHEN USED IN THIS SUBCHAPTER
10 SHALL HAVE THE MEANINGS GIVEN TO THEM IN THIS SECTION UNLESS THE
11 CONTEXT CLEARLY INDICATES OTHERWISE:

12 "PROGRAM." THE PUBLIC MARKETS EMERGING INVESTMENT MANAGER
13 PROGRAM ESTABLISHED UNDER SECTION 8542 (RELATING TO
14 ESTABLISHMENT).

15 § 8542. ESTABLISHMENT.

16 (A) FIDUCIARY DUTY OF BOARD.--CONSISTENT WITH THE BOARD'S
17 FIDUCIARY RESPONSIBILITIES, THE BOARD SHALL ESTABLISH A PUBLIC
18 MARKETS EMERGING INVESTMENT MANAGER PROGRAM.

19 (B) LOCATION OF MANAGERS.--THE BOARD SHALL LOCATE FUND
20 MANAGERS WITH A HISTORY OF GENERATING POSITIVE RISK ADJUSTED
21 RETURNS.

22 (C) SOURCE LIST.--AFTER LOCATION OF FUND MANAGERS, THE BOARD
23 SHALL PROVIDE A SOURCE OF POTENTIAL MANAGERS FOR THE MAIN FUND.

24 (D) ASSISTANCE WITH MARKETING.--IN ORDER TO GROW PUBLIC
25 MARKET EMERGING INVESTMENTS FIRMS, THE BOARD SHALL ASSIST IN
26 USING THE SYSTEM'S NAME IN THE MANAGER'S MARKETING EFFORTS.

27 § 8543. FUNDING.

28 THE BOARD SHALL ALLOCATE AN AMOUNT OF AT LEAST \$250,000,000
29 AND NOT MORE THAN \$1,000,000,000 TO THE PROGRAM. FUNDING FOR
30 EACH INVESTMENT MANAGER SHALL COME FROM ASSETS ALLOCATED WITHIN

1 THE MAIN FUND, SIMILAR TO OR MOST CLOSELY RELATED TO THE
2 INVESTMENT MANAGER'S MANDATE. THE MAXIMUM NUMBER OF INVESTMENT
3 MANAGERS IN THE PROGRAM AT ANY ONE TIME MAY NOT EXCEED 10,
4 EXCEPT THAT THE PROGRAM MAY BE IMPLEMENTED AND RUN WITH LESS
5 THAN 10 INVESTMENT MANAGERS.

6 § 8544. PARTICIPATION CRITERIA.

7 IN ORDER TO BE CONSIDERED TO PARTICIPATE IN THE PROGRAM, AN
8 INVESTMENT MANAGER MUST MEET THE FOLLOWING CRITERIA:

9 (1) BE REGISTERED UNDER THE INVESTMENT ADVISORS ACT OF
10 1940 (54 STAT. 847, 15 U.S.C. § 80B-1 ET SEQ.) OR BE EXEMPT
11 FROM THE INVESTMENT ADVISORS ACT OF 1940.

12 (2) HAVE THE ABILITY TO DEMONSTRATE REAL AND CONTENTED
13 TRANSPARENCY OF POSITIONS AND TRANSACTIONS.

14 (3) HAVE THE ABILITY TO PROVIDE AND SHOW QUARTERLY
15 LIQUIDITY.

16 (4) A FIRM, PORTFOLIO MANAGER OR ANY COMBINATION OF FIRM
17 AND PORTFOLIO MANAGER MUST HAVE A FIVE YEAR HISTORICAL
18 PERFORMANCE RECORD VERIFIED BY AT LEAST ONE CONSULTANT OR
19 ACCOUNTING FIRM IN ACCORDANCE WITH THE GLOBAL INVESTMENT
20 PERFORMANCE STANDARD IN EFFECT ON THE EFFECTIVE DATE OF THIS
21 SECTION.

22 § 8545. PREFERENCE.

23 PREFERENCE SHALL BE GIVEN TO INVESTMENT MANAGERS DEEMED TO
24 MEET THE OBJECTIVES, GOALS AND REQUIRED CRITERIA CONTAINED UNDER
25 THIS SUBSECTION, PLUS DEMONSTRATION OF AT LEAST ONE OF THE
26 FOLLOWING CHARACTERISTICS:

27 (1) BE AN INVESTMENT MANAGEMENT FIRM HEADQUARTERED OR
28 INCORPORATED WITHIN THIS COMMONWEALTH.

29 (2) BE A:

30 (I) VETERAN-OWNED INVESTMENT MANAGEMENT FIRM, WITH

1 PROPER DD 214 VERIFICATION AND HONORABLE DISCHARGE; OR

2 (II) SERVICE-DISABLED VETERAN-OWNED INVESTMENT
3 MANAGEMENT FIRM WITH A LETTER FROM THE UNITED STATES
4 DEPARTMENT OF VETERAN AFFAIRS.

5 (3) BE A MINORITY-OWNED OR WOMEN-OWNED INVESTMENT
6 MANAGEMENT FIRM APPROVED BY THE OFFICE OF MINORITY AND WOMEN
7 BUSINESS ENTERPRISE IN ACCORDANCE WITH THE CRITERIA
8 ESTABLISHED BY EXECUTIVE ORDER NO. 1987-18 AND 4 PA. CODE §
9 68.204 (RELATING TO ELIGIBILITY STANDARDS).
10 § 8546. REQUIREMENTS AND LIMITATIONS OF FIRMS.

11 (A) EQUITY, COMMODITY OR ABSOLUTE RETURN EXPOSURE FIRMS.--
12 FIRMS CONSIDERED TO PROVIDE EQUITY, COMMODITY OR ABSOLUTE RETURN
13 EXPOSURE MAY NOT HAVE MORE THAN \$1,500,000,000 OF TOTAL ASSETS
14 UNDER MANAGEMENT WHEN HIRED. IF THE TOTAL ASSETS UNDER
15 MANAGEMENT EXCEED \$3,000,000,000, THE INVESTMENT MANAGERS SHALL
16 BE TERMINATED IN A REASONABLE PERIOD OF TIME.

17 (B) FIXED-INCOME EXPOSURE FIRMS.--FIRMS CONSIDERED TO
18 PROVIDE FIXED-INCOME EXPOSURE SHALL HAVE NO MORE THAN
19 \$3,000,000,000 OF TOTAL ASSETS UNDER MANAGEMENT WHEN HIRED. IF
20 THE TOTAL ASSETS UNDER MANAGEMENT EXCEEDS \$6,000,000,000,
21 EXISTING INVESTMENT MANAGERS SHALL BE TERMINATED WITHIN A
22 REASONABLE PERIOD OF TIME.

23 (C) PERFORMANCE-BASED FEE ACCOUNTS.--FOR PERFORMANCE-BASED
24 FEE ACCOUNTS, A MANAGER MUST EXCEED BOTH A HURDLE RATE AND A
25 HIGH WATER MARK BEFORE THE MANAGER CAN EARN THE PERFORMANCE-
26 BASED FEE.

27 (D) TRANSITION TO MAIN FUND.--INVESTMENT MANAGERS HIRED INTO
28 THE PROGRAM MAY CONTINUE IN THE PROGRAM FOR A PERIOD OF AT LEAST
29 THREE YEARS, BUT NOT MORE THAN FIVE YEARS. IF THE INVESTMENT
30 MANAGER GENERATES STRONG RISK ADJUSTED RETURNS, THE INVESTMENT

1 OFFICE SHALL USE BEST EFFORTS TO MAKE A PLACE IN THE MAIN FUND
2 FOR THE INVESTMENT MANAGER. THE INVESTMENT OFFICE SHALL CONSIDER
3 THINGS SUCH AS THE INVESTMENT MANAGER'S ASSETS UNDER MANAGEMENT
4 AND PROJECTED ABILITY TO CONTINUE GENERATING STRONG RISK
5 ADJUSTED RETURNS IN THE FUTURE.

6 § 8547. ADMINISTRATION.

7 (A) AUTHORITY TO HIRE.--THE BOARD AND THE INVESTMENT OFFICE
8 MAY HIRE AND FUND ANY INVESTMENT MANAGER MEETING THE OBJECTIVES,
9 GOALS AND CRITERIA UNDER THIS SECTION.

10 (B) PROHIBITION OF INVESTMENT.--AN INVESTMENT MAY NOT BE
11 MADE INTO AN INVESTMENT VEHICLE THAT PRIMARILY INCLUDES PRIVATE
12 EQUITY, PRIVATE DEBT, VENTURE CAPITAL OR PRIVATE REAL ESTATE
13 INSTRUMENTS. AN INVESTMENT IN AN ABSOLUTE RETURN STRATEGY SHALL
14 BE SUBJECT TO MANAGER SELECTION REQUIREMENTS WITHIN THE ABSOLUTE
15 RETURN POLICY.

16 (C) EMERGING MANAGER PORTFOLIO MANAGER.--THE INVESTMENT
17 OFFICE SHALL APPOINT AN EMERGING MANAGER PORTFOLIO MANAGER WHO
18 SHALL BE RESPONSIBLE FOR ADMINISTERING THE PROGRAM. THE EMERGING
19 MANAGER PORTFOLIO MANAGER SHALL MEET WITH MANAGERS THAT APPEAR
20 TO MEET THE OBJECTIVES, GOALS AND CRITERIA OF THIS SECTION. THE
21 EMERGING MANAGER PORTFOLIO MANAGER SHALL RECOMMEND QUALIFIED
22 INVESTMENT MANAGERS FOR INCLUSION INTO THE MAIN FUND AND SHALL
23 FURTHER ADVISE THE INVESTMENT OFFICE IF TERMINATION OF AN
24 INVESTMENT MANAGER IS RECOMMENDED. AN INVESTMENT MANAGER MAY BE
25 TERMINATED BY THE EMERGING MANAGER PORTFOLIO MANAGER, WITH
26 APPROVAL FROM THE INVESTMENT OFFICE, IF THE INVESTMENT MANAGER
27 IS UNDERPERFORMING, NOT GENERATING STRONG RISK ADJUSTED RETURNS,
28 NOT MEETING THE CRITERIA TO MOVE INTO THE MAIN FUND, CHANGES
29 INVESTMENT PROCESSES, HAS PERSONNEL TURNOVER OR ANY OTHER REASON
30 WHICH IS DEEMED BY THE INVESTMENT OFFICE TO BE IN THE BEST

1 INTERESTS OF THE SYSTEM.

2 (D) INTERNAL REVIEW COMMITTEE.--AN INVESTMENT MANAGER
3 CONSIDERED FOR HIRING INTO THE PROGRAM SHALL MEET WITH THE
4 INTERNAL REVIEW COMMITTEE. THE INTERNAL REVIEW COMMITTEE SHALL
5 REVIEW EACH MANAGER CONSIDERED FOR INCLUSION IN THE PROGRAM AND
6 PROVIDE FEEDBACK TO THE EMERGING MANAGER PORTFOLIO MANAGER.
7 INVESTMENT OFFICE APPROVAL SHALL BE REQUIRED TO HIRE A MANAGER
8 INTO THE PROGRAM, INCLUDING THE EMERGING MANAGER PORTFOLIO
9 MANAGER, THE EMERGING MANAGER PORTFOLIO MANAGER'S SUPERVISOR AND
10 THE CHIEF INVESTMENT OFFICER.

11 (E) APPROVAL FOR EXCEPTIONAL INVESTMENT MANAGER.--IF THE
12 EMERGING MANAGER PORTFOLIO MANAGER, THE CHIEF INVESTMENT OFFICER
13 OR OTHER QUALIFIED STAFF HAVE LOCATED AN EXCEPTIONAL INVESTMENT
14 MANAGER THAT DOES NOT MEET THE REQUIRED CRITERIA ESTABLISHED
15 UNDER THIS SECTION, THE INVESTMENT OFFICE SHALL OBTAIN BOARD
16 APPROVAL FOR HIRING. THE INVESTMENT OFFICE SHALL PRESENT TO THE
17 BOARD THE SPECIFIC REASONS FOR HIRING THE INVESTMENT MANAGER.

18 (F) CONTRACT REQUIREMENTS.--EACH INVESTMENT MANAGER SHALL
19 MANAGE ITS PORTFOLIO WITHIN THE CONSTRAINTS OF THE CONTRACT
20 ENTERED INTO BETWEEN THE INVESTMENT MANAGER AND THE BOARD, THE
21 INVESTMENT POLICY STATEMENT, OBJECTIVES AND GUIDELINES, ANY
22 APPLICABLE ADDENDUM AND ANY APPLICABLE AMENDMENTS TO THE
23 CONTRACT AND INVESTMENT POLICY STATEMENT, OBJECTIVES AND
24 GUIDELINES. THE INVESTMENT OFFICE AND BOARD SHALL HAVE AUTHORITY
25 TO NEGOTIATE THE INVESTMENT CONTRACT WITH THE INVESTMENT
26 MANAGER, INCLUDING THE INVESTMENT GUIDELINES.

27 (G) INSURANCE.--EACH OF THE STANDARD INSURANCE PROVISIONS IN
28 THE INVESTMENT POLICY STATEMENT, OBJECTIVES AND GUIDELINES,
29 EXCEPT FOR THE MAXIMUM DEDUCTIBLES, SHALL APPLY TO THE
30 INVESTMENT MANAGER UNTIL THE INVESTMENT MANAGER IS EITHER

1 MANAGING OVER \$100,000,000 FOR THE PROGRAM OR IS MOVED OUT OF
2 THE PROGRAM INTO THE MAIN FUND. THE MAXIMUM DEDUCTIBLE FOR BOTH
3 THE ERROR AND OMISSIONS INSURANCE AND THE FIDELITY BOND SHALL BE
4 THE GREATER OF 10% OF AUDITED RETAINED EARNINGS OR THE
5 FOLLOWING:

6	<u>ASSET SIZE</u>	<u>MAXIMUM DEDUCTIBLE</u>
7	<u>\$0 - \$50,000,000</u>	<u>\$50,000</u>
8	<u>\$50,000,000 - \$75,000,000</u>	<u>\$100,000</u>
9	<u>\$75,000,000 - \$100,000,000</u>	<u>\$200,000</u>

10 (H) FUNDING.--BOARD APPROVAL SHALL BE REQUIRED FOR TOTAL
11 CAPITAL ALLOCATIONS EXCEEDING \$100,000,000. INVESTMENT STRATEGY
12 LIMITATIONS SHALL BE CONSISTENT WITH INVESTMENT POLICY STATEMENT
13 CONSTRAINTS. THE EMERGING MANAGER PORTFOLIO MANAGER, THE
14 EMERGING MANAGER PORTFOLIO MANAGER'S SUPERVISOR AND THE CHIEF
15 INVESTMENT OFFICER SHALL DETERMINE THE AMOUNT OF THE INITIAL
16 ALLOCATION AND EACH SUBSEQUENT ALLOCATION TO EACH INVESTMENT
17 MANAGER.

18 Section 5. The definition of "eligible person" in section
19 8702(a) of Title 24 is amended to read:

20 § 8702. Definitions.

21 (a) General rule.--Subject to additional definitions
22 contained in subsequent provisions of this part which are
23 applicable to specific provisions of this part, the following
24 words and phrases when used in this part shall have the meanings
25 given to them in this section unless the context clearly
26 indicates otherwise:

27 "Eligible person." An individual who is:

28 (1) an annuitant or survivor annuitant or the spouse or
29 dependent of an annuitant or survivor annuitant; or

30 (2) a Class DC participant [receiving distributions] who

1 has terminated school service, has at least 10 eligibility
2 points, who is Medicare eligible and who has received all or
3 part of their distributions, or a successor payee[,] or the
4 spouse or dependent of [a participant receiving distributions
5 or a] a Class DC participant described under this paragraph
6 or successor payee.

7 * * *

8 Section 6. Sections 5306.4(c) and (d), 5310 and 5702(a) (1)
9 of Title 71 are amended to read:

10 § 5306.4. Election to become a Class A-6 member or solely a
11 participant in the plan.

12 * * *

13 (c) Effect of election to be a Class A-6 member.--An
14 election to become a Class A-6 member shall be irrevocable and
15 shall become effective on the effective date of membership in
16 the system and shall remain in effect for all future creditable
17 State service, other than service performed as a Class A-5
18 exempt employee. Payment and adjustment of regular member
19 contributions and mandatory pickup participant contributions for
20 Class A-5 State service and for Class A-6 State service
21 performed prior to the election of Class A-6 membership shall be
22 made in a form, manner and time determined by the board. Upon
23 termination and subsequent reemployment, a member who elected
24 Class A-6 membership shall be credited as a Class A-6 member for
25 creditable State service performed after reemployment, except as
26 a Class A-5 exempt employee, regardless of termination of
27 employment, termination of membership by withdrawal of
28 accumulated deductions or status as an annuitant, vestee or
29 inactive member after the termination of service.

30 (d) Effect of election to be solely a participant in the

1 plan.--An election to become solely a participant in the plan
2 shall be irrevocable and shall become effective on the date that
3 membership in the system would have been effective had the
4 election not been made and shall remain in effect for all future
5 State service, other than service performed as a Class A-5
6 exempt employee. [Payment] Adjustment of regular member
7 contributions for Class A-5 State service and payment of
8 mandatory participant pickup contributions for service solely as
9 a participant in the plan performed prior to the election shall
10 be made in a form, manner and time determined by the board. Upon
11 termination and subsequent reemployment, a State employee who
12 elected to be solely a participant in the plan shall resume
13 active participation for State service performed after
14 reemployment, except as a Class A-5 exempt employee, regardless
15 of termination of employment, termination of participation by a
16 partial or total distribution of vested total defined
17 contributions or status as an annuitant, vestee or inactive
18 member of the system as a Class A-5 exempt employee after the
19 termination of service.

20 * * *

21 § 5310. Eligibility for death benefits.

22 In the event of the death of a member who is eligible for an
23 annuity in accordance with section 5308(a) or (b) (relating to
24 eligibility for annuities), his beneficiary shall be entitled to
25 a death benefit. [For purposes of this section, a member with
26 ten or more eligibility points shall be considered eligible for
27 an annuity based on Class A-5 service or Class A-6 service even
28 if under superannuation age.]

29 § 5702. Maximum single life annuity.

30 (a) General rule.--Any full coverage member who is eligible

1 to receive an annuity pursuant to the provisions of section
2 5308(a) or (b) (relating to eligibility for annuities) who
3 terminates State service, or if a multiple service member who is
4 a school employee who is an active member of the Public School
5 Employees' Retirement System who terminates school service,
6 before attaining age 70 shall be entitled to receive a maximum
7 single life annuity attributable to his credited service and
8 equal to the sum of the following single life annuities
9 beginning at the effective date of retirement:

10 (1) A single life annuity that is the sum of the
11 standard single life annuities determined separately for each
12 class of service multiplied by the appropriate class of
13 service multiplier applicable to each standard single life
14 annuity. In case the member on the effective date of
15 retirement is under superannuation age for any service, a
16 reduction factor calculated to provide benefits actuarially
17 equivalent to an annuity starting at superannuation age and
18 subject to the provisions of subsection [(e)] (f) shall be
19 applied to the product determined for that service: Provided,
20 however, That any standard single life annuity resulting from
21 Class A-5 service shall be reduced by a percentage determined
22 by multiplying the number of months, including a fraction of
23 a month as a full month, by which the effective date of
24 retirement precedes superannuation age by 0.25% if the
25 effective date of retirement is on or after the date the
26 member has attained age 57 and the member has 25 or more
27 eligibility points, and that any standard single life annuity
28 resulting from Class A-6 service shall be reduced by a
29 percentage determined by multiplying the number of months,
30 including a fraction of a month as a full month, by which the

1 effective date of retirement precedes superannuation age by
2 0.25% if the effective date of retirement is on or after the
3 date the member has attained age 62 and the member has 25 or
4 more eligibility points. The class of service multiplier for
5 any period of concurrent service shall be multiplied by the
6 proportion of total State and school compensation during such
7 period attributable to State service as a member of the
8 system. In the event a member has two multipliers for one
9 class of service, separate standard single life annuities
10 shall be calculated for the portion of service in the class
11 applicable to each class of service multiplier.

12 * * *

13 Section 7. This act shall take effect in 60 days.