

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, TOOHL, FRITZ, GILLEN AND DUSH, OCTOBER 18, 2019

AS AMENDED ON SECOND CONSIDERATION, IN SENATE, OCTOBER 20, 2020

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, FURTHER providing for PUBLIC SCHOOL EMPLOYEES' <--
5 RETIREMENT BOARD AND FOR ADMINISTRATIVE DUTIES OF BOARD AND
6 PROVIDING FOR stress test of system; and, in administration,
7 funds, accounts and general provisions relating to retirement
8 for State employees and officers, FURTHER providing for THE <--
9 STATE EMPLOYEES' RETIREMENT BOARD AND FOR ADMINISTRATIVE
10 DUTIES OF THE BOARD AND PROVIDING FOR stress test of system.

11 The General Assembly of the Commonwealth of Pennsylvania
12 hereby enacts as follows:

13 ~~Section 1. Title 24 of the Pennsylvania Consolidated~~ <--
14 ~~Statutes is amended by adding a section to read:~~

15 SECTION 1. SECTION 8501(F) OF TITLE 24 OF THE PENNSYLVANIA <--
16 CONSOLIDATED STATUTES, IS AMENDED AND THE SECTION IS AMENDED BY
17 ADDING A SUBSECTION TO READ:

18 § 8501. PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD.

19 * * *

20 (F) BOARD TRAINING.--EACH MEMBER OF THE BOARD WILL BE

1 REQUIRED TO OBTAIN [~~EIGHT~~] 10 HOURS OF MANDATORY TRAINING IN
2 INVESTMENT STRATEGIES, ACTUARIAL COST ANALYSIS, ASSET
3 ALLOCATION, RISK ASSESSMENT AND RETIREMENT PORTFOLIO MANAGEMENT
4 ON AN ANNUAL BASIS.

5 (G) COMMITTEES.--

6 (1) IN ORDER TO BE APPOINTED TO THE AUDIT/COMPLIANCE
7 COMMITTEE AS A VOTING MEMBER, A BOARD MEMBER MUST FIRST <--
8 COMPLETE AT LEAST 16 HOURS OF TRAINING IN RISK ASSESSMENTS,
9 INTERNAL CONTROLS AND AUDITING STANDARDS. <--
10 WITHIN 90 DAYS OF APPOINTMENT TO THE COMMITTEE. THE 16 HOURS OF TRAINING ARE
11 INCLUSIVE OF THE HOURS INDICATED FOR BOARD TRAINING. THE
12 COMMITTEE ON SPONSORING ORGANIZATIONS ENTERPRISE RISK
13 MANAGEMENT GUIDELINES MAY BE CONSIDERED AS A GUIDE TO THE
14 TRAINING. INDIVIDUALS WHO ARE MEMBERS OF THE AUDIT/COMPLIANCE
15 COMMITTEE ON THE EFFECTIVE DATE OF THIS PARAGRAPH SHALL BE
16 EXEMPT FROM THE INITIAL 16-HOUR REQUIREMENT. IN ORDER TO
17 CONTINUE SERVING AS A VOTING MEMBER OF THE AUDIT/COMPLIANCE
18 COMMITTEE FOLLOWING INITIAL APPOINTMENT, A BOARD MEMBER MUST
19 COMPLETE AT LEAST EIGHT HOURS OF CONTINUING EDUCATION IN RISK
20 ASSESSMENTS, INTERNAL CONTROLS AND AUDITING STANDARDS EACH
21 CALENDAR YEAR THEREAFTER.

22 (2) THE BOARD SHALL ESTABLISH MAY ESTABLISH AN EXECUTIVE <--
23 COMMITTEE, WHICH SHALL CONSIST OF THE BOARD CHAIR, THE BOARD
24 VICE CHAIR, IF ONE HAS BEEN APPOINTED, THE CHAIR OF THE
25 AUDIT/COMPLIANCE COMMITTEE, THE CHAIR OF THE BYLAWS/POLICY
26 COMMITTEE, THE CHAIR OF THE INVESTMENT COMMITTEE AND THE <--
27 CHAIR OF THE BUDGET/FINANCE COMMITTEE OR OTHER MEMBERS OF THE <--
28 BOARD AS DETERMINED BY THE BOARD.

29 (3) THE BOARD SHALL ESTABLISH A FUNCTION WITHIN THE <--
30 INVESTMENT COMMITTEE OF AN ASSET LIABILITY CONTINGENCY

1 OPERATING ~~COMMITTEE~~ CAPABILITY, WHICH SHALL BE CHARGED WITH <--
2 EVALUATING THE RISK ASSOCIATED WITH THE SYSTEM'S ASSETS AND
3 LIABILITIES.

4 SECTION 2. SECTION 8502(O) OF TITLE 24 IS AMENDED TO READ:

5 § 8502. ADMINISTRATIVE DUTIES OF BOARD.

6 * * *

7 (O) INDEPENDENT AUDITS.--

8 (1) THE BOARD SHALL PROVIDE FOR ANNUAL AUDITS OF THE
9 SYSTEM AND THE PLAN BY AN INDEPENDENT CERTIFIED PUBLIC
10 ACCOUNTING FIRM. THE AUDITS SHALL INCLUDE THE BOARD'S ACCRUAL
11 AND EXPENDITURE OF DIRECTED COMMISSIONS. THE BOARD MAY USE
12 THE SAME INDEPENDENT CERTIFIED PUBLIC ACCOUNTING FIRM FOR THE
13 AUDITS OF BOTH THE SYSTEM AND THE PLAN.

14 (2) THE FOLLOWING SHALL APPLY:

15 (I) EXCEPT AS PROVIDED UNDER SUBPARAGRAPH (II), THE
16 BOARD SHALL PROVIDE FOR AN INTERNAL CONTROL AUDIT OF THE
17 SYSTEM AND THE PLAN AT LEAST EVERY FIVE YEARS.

18 (II) IF AN ANNUAL FINANCIAL REPORT PREPARED UNDER
19 SUBSECTION (N) IDENTIFIES A MATERIAL WEAKNESS OR
20 SIGNIFICANT DEFICIENCY OR AN INTERNAL CONTROL AUDIT
21 IDENTIFIES A MATERIAL WEAKNESS OR SIGNIFICANT DEFICIENCY,
22 THE BOARD SHALL PROVIDE FOR AN ADDITIONAL INTERNAL
23 CONTROL AUDIT OF THE SYSTEM AND THE PLAN FOR THE YEAR
24 SUBSEQUENT TO THE REPORT OR AUDIT IN WHICH THE WEAKNESS
25 OR DEFICIENCY WAS IDENTIFIED.

26 * * *

27 SECTION 3. TITLE 24 IS AMENDED BY ADDING A SECTION TO READ:

28 § 8510. Stress test of system.

29 (a) General rule.--The ~~actuary~~ BOARD shall conduct an annual <--
30 stress test of the system and ~~the board shall~~ submit the results <--

1 of the stress test to the Governor, the General Assembly and the
2 Independent Fiscal Office no later than January 1 of each year.
3 The stress test shall include a scenario analysis, simulation
4 analysis and sensitivity analysis. THE BOARD SHALL DISCLOSE IN <--
5 THE REPORT OF THE STRESS TEST RESULTS WHICH INDUSTRY STANDARDS
6 WERE USED AND WHETHER ANY CHANGES TO INDUSTRY STANDARDS HAVE
7 BEEN MADE.

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

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

17 "Scenario analysis." Projections of assets, liabilities,
18 unfunded actuarial accrued liabilities, the change in unfunded
19 actuarial accrued liabilities, employer contributions, benefit
20 payments, service costs, payroll and calculations of the ratios
21 of assets to liabilities, employer contributions to payroll and
22 operating cash flow to assets for each of the next: <--

23 ~~(1) Twenty years, based upon then current plan~~
24 ~~assumptions and statutory funding methodology established~~
25 ~~under sections 8326 (relating to contributions by the~~
26 ~~Commonwealth), 8327 (relating to payments by employers) and~~
27 ~~8328 (relating to actuarial cost method).~~

28 ~~(2) Twenty years, assuming that investment returns are~~
29 ~~two percentage points lower than the assumed rate of return~~
30 ~~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. IN SUFFICIENT NUMBER AS <--
DETERMINED PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED
INDUSTRY STANDARDS.~~

"Sensitivity analysis." The following:

(1) Estimates of the total normal cost and employer
normal cost for new employees, calculated using an VARIOUS <--
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. ASSUMPTIONS IN SUFFICIENT NUMBER AS <--
DETERMINED PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED~~

1 INDUSTRY STANDARDS.
2 (2) Estimates of the unfunded actuarial accrued
3 liability and unfunded liability, calculated using an annual <--
4 assumed rate of return that is:
5 (i) equal to the annual assumed rate of return;
6 (ii) one percentage point above the annual assumed
7 rate of return;
8 (iii) one percentage point below the annual assumed
9 rate of return; and VARIOUS ANNUAL ASSUMED RATES OF <--
10 RETURN IN SUFFICIENT NUMBER AS DETERMINED PRUDENT BY THE
11 BOARD AS INFORMED BY RECOGNIZED INDUSTRY STANDARDS.

12 "Simulation analysis." Projections of the range of required
13 employer contributions for each of the next 20 years, based on
14 analysis that simulates the volatility of annual investment
15 returns above and below the assumed rate of return, applying
16 methodology determined by the actuary PRUDENT BY THE BOARD AS <--
17 INFORMED BY RECOGNIZED INDUSTRY STANDARDS.

18 SECTION 4. SECTION 5901(F) OF TITLE 71 IS AMENDED AND THE <--
19 SECTION IS AMENDED BY ADDING A SUBSECTION TO READ:
20 § 5901. THE STATE EMPLOYEES' RETIREMENT BOARD.

21 * * *

22 (F) BOARD TRAINING.--EACH MEMBER OF THE BOARD WILL BE
23 REQUIRED TO OBTAIN [EIGHT] 10 HOURS OF MANDATORY TRAINING IN
24 INVESTMENT STRATEGIES, ACTUARIAL COST ANALYSIS, ASSET
25 ALLOCATION, RISK ASSESSMENT AND RETIREMENT PORTFOLIO MANAGEMENT
26 ON AN ANNUAL BASIS.

27 (G) COMMITTEES.--

28 (1) IN ORDER TO BE APPOINTED TO THE AUDIT RISK AND
29 COMPLIANCE COMMITTEE AS A VOTING MEMBER, A BOARD MEMBER MUST
30 FIRST COMPLETE AT LEAST 16 HOURS OF TRAINING IN RISK <--

1 ASSESSMENTS, INTERNAL CONTROLS AND AUDITING STANDARDS- WITHIN <--
2 90 DAYS OF APPOINTMENT TO THE COMMITTEE. THE 16 HOURS OF
3 TRAINING ARE INCLUSIVE OF THE HOURS INDICATED FOR BOARD
4 TRAINING. THE COMMITTEE ON SPONSORING ORGANIZATIONS
5 ENTERPRISE RISK MANAGEMENT GUIDELINES MAY BE CONSIDERED AS A
6 GUIDE TO THE TRAINING. INDIVIDUALS WHO ARE MEMBERS OF THE
7 AUDIT RISK AND COMPLIANCE COMMITTEE ON THE EFFECTIVE DATE OF
8 THIS PARAGRAPH SHALL BE EXEMPT FROM THE INITIAL 16-HOUR
9 REQUIREMENT. IN ORDER TO CONTINUE SERVING AS A VOTING MEMBER
10 OF THE AUDIT RISK AND COMPLIANCE COMMITTEE FOLLOWING INITIAL
11 APPOINTMENT, A BOARD MEMBER MUST COMPLETE AT LEAST EIGHT
12 HOURS OF CONTINUING EDUCATION IN RISK ASSESSMENTS, INTERNAL
13 CONTROLS AND AUDITING STANDARDS EACH CALENDAR YEAR
14 THEREAFTER.

15 (2) THE BOARD ~~SHALL~~ MAY ESTABLISH AN EXECUTIVE <--
16 COMMITTEE, WHICH SHALL CONSIST OF THE BOARD CHAIR, THE BOARD
17 VICE CHAIR, IF ONE HAS BEEN APPOINTED, THE CHAIR OF THE AUDIT
18 RISK AND COMPLIANCE COMMITTEE, THE CHAIR OF THE INVESTMENT <--
19 COMMITTEE AND THE CHAIR OF THE FINANCE AND MEMBER SERVICES
20 COMMITTEE OR OTHER MEMBERS OF THE BOARD AS DETERMINED BY THE <--
21 BOARD.

22 (3) THE BOARD SHALL ESTABLISH A FUNCTION WITHIN THE <--
23 INVESTMENT COMMITTEE OF AN ASSET LIABILITY CONTINGENCY
24 OPERATING ~~COMMITTEE~~ CAPABILITY, WHICH SHALL BE CHARGED WITH <--
25 EVALUATING THE RISK ASSOCIATED WITH THE SYSTEM'S ASSETS AND
26 LIABILITIES.

27 SECTION 5. SECTION 5902(N) OF TITLE 71 IS AMENDED TO READ:
28 § 5902. ADMINISTRATIVE DUTIES OF THE BOARD.

29 * * *

30 (N) INDEPENDENT AUDITS.--

1 (1) THE BOARD SHALL PROVIDE FOR ANNUAL AUDITS OF THE
2 SYSTEM AND THE PLAN BY INDEPENDENT CERTIFIED PUBLIC
3 ACCOUNTANTS. THE AUDITS SHALL INCLUDE THE BOARD'S ACCRUAL AND
4 EXPENDITURE OF DIRECTED COMMISSIONS. THE BOARD MAY USE THE
5 SAME INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT FOR THE AUDITS
6 OF BOTH THE SYSTEM AND THE PLAN.

7 (2) THE FOLLOWING SHALL APPLY:

8 (I) EXCEPT AS PROVIDED UNDER SUBPARAGRAPH (II), THE
9 BOARD SHALL PROVIDE FOR AN INTERNAL CONTROL AUDIT OF THE
10 SYSTEM AND THE PLAN AT LEAST EVERY FIVE YEARS.

11 (II) IF AN ANNUAL FINANCIAL REPORT PREPARED UNDER
12 THIS SECTION IDENTIFIES A MATERIAL WEAKNESS OR
13 SIGNIFICANT DEFICIENCY OR AN INTERNAL CONTROL AUDIT
14 IDENTIFIES A MATERIAL WEAKNESS OR SIGNIFICANT DEFICIENCY,
15 THE BOARD SHALL PROVIDE FOR AN ADDITIONAL INTERNAL
16 CONTROL AUDIT OF THE SYSTEM AND THE PLAN FOR THE YEAR
17 SUBSEQUENT TO THE REPORT OR AUDIT IN WHICH THE WEAKNESS
18 OR DEFICIENCY WAS IDENTIFIED.

19 * * *

20 Section 2 6. Title 71 is amended by adding a section to <--
21 read:
22 § 5909. Stress test of system.

23 (a) General rule.--The ~~actuary~~ BOARD shall conduct an annual <--
24 stress test of the system and ~~the board shall~~ submit the results <--
25 of the stress test to the Governor, the General Assembly and the
26 Independent Fiscal Office no later than July 1 of each year. The
27 stress test shall include a scenario analysis, simulation
28 analysis and sensitivity analysis. THE BOARD SHALL DISCLOSE IN <--
29 THE REPORT OF THE STRESS TEST RESULTS WHICH INDUSTRY STANDARDS
30 WERE USED AND WHETHER ANY CHANGES TO INDUSTRY STANDARDS HAVE

1 BEEN MADE.

2 (b) Report by Independent Fiscal Office.--No later than
3 September 1 of each year, the Independent Fiscal Office shall
4 produce a report summarizing the results of the stress test,
5 including a calculation of the ratio of projected employer
6 pension contributions to projected State revenues under a
7 scenario analysis.

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

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

17 ~~(1) Twenty years, based upon then current plan~~
18 ~~assumptions and statutory funding methodology established~~
19 ~~under sections 5507 (relating to contributions to the system~~
20 ~~by the Commonwealth and other employers) and 5508 (relating~~
21 ~~to actuarial cost method).~~

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

25 ~~(i) are based upon the then current statutory~~
26 ~~funding methodology established under sections 5507 and~~
27 ~~5508; or~~

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

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

5 ~~(i) are based upon the then current statutory~~
6 ~~funding methodology established under sections 5507 and~~
7 ~~5508; or~~

8 ~~(ii) change each year at the projected rate of~~
9 ~~annual State revenue growth as determined and provided by~~
10 ~~the Independent Fiscal Office. IN SUFFICIENT NUMBER AS <--~~
11 ~~DETERMINED PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED~~
12 ~~INDUSTRY STANDARDS.~~

13 "Sensitivity analysis." The following:

14 (1) Estimates of the total normal cost and employer
15 normal cost for new employees, calculated using an VARIOUS <--
16 investment return assumption that is: <--

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

18 ~~(ii) one percentage point above the annual assumed~~
19 ~~rate of return;~~

20 ~~(iii) one percentage point below the annual assumed~~
21 ~~rate of return; and~~

22 ~~(iv) two percentage points below the annual assumed~~
23 ~~rate of return. ASSUMPTIONS IN SUFFICIENT NUMBER AS <--~~

24 ~~DETERMINED PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED~~
25 ~~INDUSTRY STANDARDS.~~

26 (2) Estimates of the unfunded actuarial accrued
27 liability and unfunded liability, calculated using an VARIOUS <--
28 annual assumed rate RATES of return that is: <--

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

30 ~~(ii) one percentage point above the annual assumed~~

1 rate of return;
2 (iii) one percentage point below the annual assumed
3 rate of return; and IN SUFFICIENT NUMBER AS DETERMINED <--
4 PRUDENT BY THE BOARD AS INFORMED BY RECOGNIZED INDUSTRY
5 STANDARDS.

6 "Simulation analysis." Projections of the range of required
7 employer contributions for each of the next 20 years, based on
8 analysis that simulates the volatility of annual investment
9 returns above and below the assumed rate of return, applying
10 methodology determined by the actuary PRUDENT BY THE BOARD AS <--
11 INFORMED BY RECOGNIZED INDUSTRY STANDARDS.

12 Section 3 7. This act shall apply as follows: <--

13 (1) The addition of 24 Pa.C.S. § 8510 shall apply to
14 fiscal years beginning after June 30, ~~2020~~ 2022. <--

15 (2) The addition of 71 Pa.C.S. § 5909 shall apply to
16 calendar years beginning after December 31, ~~2019~~ 2021. <--

17 ~~Section 4. This act shall take effect in 60 days.~~ <--

18 (3) THE AMENDMENT OF 24 PA.C.S. § 8501(F) AND 71 PA.C.S. <--
19 § 5901(F) SHALL APPLY AFTER DECEMBER 31, ~~2020~~ 2021. <--

20 SECTION 8. THIS ACT SHALL TAKE EFFECT AS FOLLOWS:

21 (1) THE FOLLOWING SHALL TAKE EFFECT IN 60 DAYS:

22 (I) THE ADDITION OF 24 PA.C.S. § 8510.

23 (II) THE ADDITION OF 71 PA.C.S. § 5909.

24 (2) THIS SECTION SHALL TAKE EFFECT IMMEDIATELY.

25 (3) THE REMAINDER OF THIS ACT SHALL TAKE EFFECT IN 90
26 DAYS.