SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. House Bill 1460

PRINTER NO. 3626

AMOUNT

$333,000
$300,000

FUND

Public School Employees' Retirement Fund
State Employees' Retirement Fund

DATE INTRODUCED

May 31, 2017

PRIME SPONSOR

Representative B. Miller

DESCRIPTION

House Bill 1460 amends the Public School Employees' Retirement Code in Title 24 (Education) and the State Employees' Retirement Code in Title 71 (State Government) by making technical changes clarifying provisions contained in Act 5 of 2017, adding provisions to ensure that nonparticipating employer withdrawal liabilities are captured and requiring the Public School Employees' Retirement System (PSERS) and the State Employees' Retirement System (SERS) to publish specific financial information on their publicly accessible internet websites.

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

- Clarifies that Class DC participants are eligible for premium assistance;
- 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 the interest rate applicable to delinquent employer contributions applies to the current fiscal year;
- 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 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 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. It provides that 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. It 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.

The legislation requires PSERS and SERS to publish the following information on their publicly accessible internet websites to the extent the information is reasonably available:

- Performance on investments over the most recent 1, 3, 5, 10 and 20-year periods;
- Performance of all investments by asset class over each time horizon both gross and net of fees commencing prospectively, with gross fees reported retroactively for the 5-year period; and
- An itemized listing of the fees paid to investment managers for the applicable reporting years based on best practices.

The legislation is scheduled to take effect in 60 days.

FISCAL IMPACT:

The Independent Fiscal Office in its actuarial note on Senate Bill 1460 indicated that the provisions contained in the legislation will have no actuarial cost impact on either PSERS or SERS.

Both PSERS and SERS have indicated that the new fee reporting requirements contained in the legislation will require them to each hire two additional staff. PSERS estimates the salary and benefit costs for the two additional staff to be $333,000 annually, and SERS estimates the salary and benefit costs for the two additional staff to be $300,000 annually.

Additionally, when an employer with liabilities currently exits PSERS and ceases making contributions, the remaining employers pay the exiting employer's stranded liabilities through increased contribution rates. The provisions contained in the legislation that ensure that nonparticipating employer withdrawal liabilities will be captured, will likely result in in additional revenue accruing to PSERS and help to control future employer contribution rate increases.