

Joint Committee on Pension Systems Review
January 10, 2017
Committee Recommendations (Phase I)

A. Governance - Funston and LAC Recommendations: The committee members recommend incorporating the following general governance items in legislation. These items are drawn in large part from the governance recommendations made by Funston Advisory Services that require legislative action, and/or which were incorporated in bills passed by the Senate and the House during the last two-year session out of their respective bodies (S. 675 and H. 5006).

1. Establishing the Assumed Rate of Return

- After the assumed rate of return is set by the General Assembly at 7.00%, as will be further addressed below in Section II on funding, PEBA shall be responsible for future changes to the assumed rate of return.
- In the year 2021 and every four years thereafter, PEBA shall recommend a new rate, which goes into effect unless there is action taken by the General Assembly to not accept PEBA's recommendation.
- By January of each year in which the rate is set to expire, PEBA must submit a proposed assumed rate of return which is developed through the recommendations of the actuary and in consultation with the RSIC. That proposal must be submitted to Chairmen of the Senate Finance Committee and the House Ways and Means Committee.
- The General Assembly would have an opportunity to enact a Joint Resolution to change the assumed rate of return but if it fails to do so, the proposed rate would then go into effect on July 1.

2. PEBA Executive Director

- Define the roles and establish the authority of the Executive Director, designated by and who shall serve at the pleasure of the Board of Directors.
- Clarify the organizational structure of PEBA, such that all employees are hired by and report to the Executive Director. Include language promoting diversity in hiring.

3. PEBA Board of Directors

- Extend terms for board members from two to five years (to match the RSIC), and impose term limits of two consecutive terms.
- Stagger term expirations such that the entire membership's terms do not expire at the same time.
- Include diversity language for the new appointees.
- Allow for members to be removed only for cause by the Governor.
- Require that the board meet quarterly instead of monthly.
- Board members and the Executive Director shall be named fiduciaries of PEBA.

4. RSIC Executive Director

- Define the roles and establish the authority of the Executive Director, designated by and who shall serve at the pleasure of the Commission.
- Clarify the organizational structure of the RSIC, such that all employees, including the Chief Investment Officer (CIO), report to the Executive Director. Include language promoting diversity in hiring.

5. RSIC Commission

- Revise Commissioner's qualification requirements to allow for more diverse composition of members, including allowing for a mix of Commissioners with a significant amount of broad business experience and Commissioners with investment experience reliant on professional certifications. Include diversity language for the new appointees.
- Except for the Executive Director of PEBA, named officials associated with the membership of the commission shall have appointments to the commission, but may not serve in lieu of making an appointment.
- Impose term limits for commissioners of two consecutive five-year terms.
- Allow the Commission to engage attorneys (without prior approval by the Attorney General)
- Add prohibitions regarding lobbyists, placement agents, and investments in which a commissioner has an interest.
- Add 1 or 3 voting members per Funston recommendations to avoid a tie vote, increase beneficiary representation, and increase diversity.
 - There are currently 7 members: 6 voting members plus the Executive Director of PEBA, with no voting privileges.
- Include minimum fee reporting requirements.
- Include permissive language allowing the commission to delegate final investment authority to the CIO with oversight by the executive director.

6. PEBA and RSIC Fiduciary Audits

- Set a rotation schedule for fiduciary audits of PEBA and RSIC.
- The State Auditor will be the employing agency (instead of the State Inspector General).

7. Alignment of Governance Authority and Fiduciary Responsibilities

- Simplify and clarify fiduciary governance by reducing conflicts and overlapping authority of the Treasurer, SFAA and PEBA.
- PEBA and the RSIC shall be co-trustees of the assets of the retirement system (SFAA is removed as a co-trustee).
- The PEBA Board (not the Treasurer) shall be the custodian of the assets of the Retirement System.
- The RSIC shall have the exclusive authority to select the custodial bank. Include criteria the custodial bank must meet before they are selected.

B. Funding of the Retirement Systems (SCRS and PORS): The committee made the following general recommendations on several key items relating to funding.

1. Decouple employer/employee contributions to eliminate the required 2.9% differential between the two rates.
2. Reduce the Assumed Rate of Return to 7% within the next two to three years.
3. Increase contribution rates for employers a minimum of 1% each year for an extended but defined number of years.
4. Increase employee contribution rates at 9% for SCRS and 9.75% for PORS and cap these rates at these levels for the next several years (to be defined in legislation). Thereafter, if employer/employee rates need to be increased further to meet statutory funding goals, employee rates could be subject to increases, subject to a new cap, to be defined.
5. Modifying the amortization period such that a 20 year funding period is reached in an orderly and affordable manner within the next 10 years.
6. The intent of this committee is not to eliminate or reduce the COLA.
7. Include provision to appropriate funds to be applied towards the annual negative amortization payment.

C. Order of Funding Priorities: In establishing the following as the order of the committee's top 3 pension funding priorities, the committee has tasked PEBA and the State's actuary (GRS) with formulating models to show how various funding levels will reduce liabilities and stabilize the system based on the stated goals. This will be used to finalize proposed legislation.

1. Recognize and pay down investment losses.
2. Lower the assumed rate of return.
3. Reduce the amortization period.