H. 3726
Retirement System Funding and Administration Act
Bill Summary

A. Funding of the Retirement Systems (SCRS and PORS):

1. Decouples employer/employee contributions to eliminate the required 2.9% differential for SCRS and 5% differential for PORS between the two rates.
2. Increases the employer contribution rate 2% effective July 1 2017. (SCRS employer rate increases from 11.56% currently to 13.56%. PORS employer rate increases from 14.24% currently to 16.24%.) For each of the next five years thereafter, the rate increases 1%, through FY 23.
3. Increases and places a cap on employee contribution rates for SCRS and PORS. (SCRS employee rate increases from 8.66% currently to 9%. PORS employee rate increases from 9.24% currently to 9.75%.)
4. Reduces the assumed annual rate of return from 7.5% to 7.25%. This is the rate recommended by GRS in its last experience study.
5. Future changes to the assumed rate of return, beginning no later than FY 22, shall be recommended by PEBA. The General Assembly has the opportunity to disagree with PEBA's recommendation prior to a change in the rate taking place; however, if the General Assembly fails to enact a joint resolution that sets a different rate than recommended by PEBA, the submitted rate stands.
6. The total cost contemplated for general funded agencies and the EIA for both SCRS and PORS is $73.6 M for FY 18, and an additional $36.8 M for each of the next 5 years.
7. Reduces the amortization period of unfunded liabilities from 30 years to 20 years over the next 10 years (by FY 28).
8. By applying a 2% employer increase in year 1, the funding period will be reduced an additional 3 years in the first year, and an additional $100 Million payment would be applied to the negative interest payment, which is currently approximately $220 M annually.
9. There is no reduction in the current COLA allowances.

B. Governance - Funston and LAC Recommendations:

1. PEBA Executive Director
   - Defines the roles and establishes the authority of the Executive Director, designated by and whom shall serve at the pleasure of the Board of Directors.
   - Clarifies the organizational structure of PEBA, such that all employees are hired by and report to the Executive Director.

2. PEBA Board of Directors
   - Extends terms for board members from two to four years (to match the RSIC), and impose term limits of two consecutive terms. (Members who will have served five years plus at the expiration of their current term may serve one additional term.)
   - Staggers term expirations such that the entire membership's terms do not expire at the same time.
   - Includes diversity language for the new appointees.

- Allows for members to be removed only for cause by the Governor.
- Requires that the board meet quarterly instead of monthly.
- Board members and the Executive Director are named fiduciaries of PEBA, and penalties are imposed for not fulfilling fiduciary responsibilities, identical to the provisions in statute for the RSIC.

3. RSIC Chief Executive Officer (CEO)
    - Defines the roles and establishes the authority of the CEO, designated by and who shall serve at the pleasure of the Commission.
    - Clarifies the organizational structure of the RSIC, such that all employees, including the Chief Investment Officer (CIO), report to the CEO.

4. RSIC Commission
    - Revises Commissioners' 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. Includes diversity language for the new appointees.
    - Imposes term limits for commissioners of two consecutive four-year terms. Members who are currently serving a second or greater term may not serve an additional term. Also, those members who have served for ten or more years as of July 1, 2017 may complete their current term but not be reappointed.
    - Allows the Commission to engage attorneys in consultation with the Attorney General on a fee basis for investment and management of assets.
    - Adds prohibitions regarding lobbyists, placement agents, and investments in which a commissioner or his immediate family has an interest.
    - Adds 1 voting member (an active stakeholder to be appointed by the Governor) per Funston recommendations to avoid a tie vote, increase beneficiary representation, and increase diversity. Previously there were 7 members: 6 voting members plus the Executive Director of PEBA, with no voting privileges. There are now 8 members, 7 of which have voting privileges.
    - Requires the Treasurer to appoint a member rather than serve himself (identical to the other appointing officials).
    - All members, except for the Executive Director of PEBA, must certify that they meet or exceed the qualifications set forth for commissioners by statute, and the appointing official must certify such qualifications to the Secretary of State. This certification process is the same as that for PEBA board members in statute.
    - Includes fee reporting requirements.
    - Includes permissive language allowing the commission to delegate to the CIO, under the direct oversight of the CEO, the authority to invest up to 2% of assets of each investment if they are publicly tradeable and 1% of assets of each investment if they are not publicly tradeable. The RSIC must include in its annual report details of all investment decisions delegated to the CIO. The Commission must be notified of an investment made within three days and it must be reviewed by the Commission at its next meeting. Such a delegation may be revoked by the Commission at any time.

5. PEBA and RSIC Fiduciary Audits
    - Sets a 4-year rotation schedule for fiduciary audits of PEBA and RSIC.
    - The State Auditor will be the employing agency with a private audit firm (currently the State Inspector General).

6. Alignment of Governance Authority and Fiduciary Responsibilities
    - Simplifies and clarifies fiduciary governance by reducing conflicts and overlapping authority of the Treasurer, SFAA and PEBA.
        - SFAA approval is no longer required for the implementation of PEBA policy decisions, except that PEBA's selection of an actuary is subject to the approval of the SFAA and PEBA must provide to the SFAA all actuarial valuations and reports requested.
        - Removes the Treasurer as the custodian of the 5 retirement systems (SCRS, PORS, JSRS, GARS and NGRS).
    - PEBA and the RSIC are named co-trustees of the assets of the retirement system (SFAA is removed as a co-trustee).
    - The RSIC is added as a third-party beneficiary of the contract with the actuary, and shall be entitled to all actuarial valuations prepared by the actuary.
    - The PEBA Board (not the Treasurer) is the named custodian of the assets of the Retirement System.
    - The RSIC has the exclusive authority to select the custodial bank.
    - Includes minimum qualifications the custodial bank must meet before they are selected.