

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

SENATE, No. 3504

STATE OF NEW JERSEY

DATED: DECEMBER 4, 2017

The Senate Budget and Appropriations Committee reports favorably Senate Bill No. 3504.

This bill requires the boards of trustees of the Teachers' Pension and Annuity Fund, the Judicial Retirement System, the Public Employees' Retirement System, the Police and Firemen's Retirement System, and the State Police Retirement System to conduct and report regular stress test analyses of these State-administered retirement systems. The bill also requires the State Investment Council to report the fees charged by external managers for the investment of pension funds under the supervision of the State Investment Council.

Stress Testing of Retirement Systems – The bill requires the boards of trustees of the Teachers' Pension and Annuity Fund, the Judicial Retirement System, the Public Employees' Retirement System, the Police and Firemen's Retirement System, and the State Police Retirement System to adopt a uniform method to conduct and report regular stress test analyses of these State-administered retirement systems. The bill requires the uniform method adopted by the boards of trustees to be a method recommended by an organization of actuaries in accordance with generally accepted and nationally recognized actuarial standards, and approved by a majority of the actuaries of the retirement systems.

Under the bill, the stress test analyses must provide a forward-looking projection, which considers the effects of long-term conditions and patterns of behavior of the investment market, to assess how well the investments of each of the State-administered retirement systems are likely to perform in periods where market returns are significantly above or below baseline assumed returns. The stress test analyses must also include past performance data for each of the State-administered retirement systems for a minimum period of 25 years, including investment returns, both gross and net of fees, and returns by asset class.

The bill directs the Division of Pensions and Benefits in the Department of the Treasury to post the stress test analyses conducted in accordance with the bill on its Internet website and in the same location as other reports and analyses produced by the division.

Disclosure of External Management Fees – The bill requires the State Investment Council to issue a report listing, in the aggregate and segregated by asset class, the investment returns achieved for the

State-administered retirement funds under the council's supervision by external managers. The bill requires the council, as part of any contract between the council and an external manager for the investment of State-administered retirement system funds executed after the effective date of the bill, to compel the external manager to disclose the rate and amount of fees charged by the external manager for the investment of State-administered retirement system funds, including performance-based earnings and carried interest.

The bill requires the council to include these fee disclosures by the external managers in the council's report, and to submit the report to the boards of trustees of each State-administered retirement system mentioned in the report and to the Division of Pensions and Benefits. The bill directs the division to post the report on its Internet website in the same location as other reports and analyses produced by the division.

Effective Date – The bill is scheduled to take effect immediately upon enactment.

As reported, this bill is identical to Assembly Bill No. 4704, as also reported by the committee.

FISCAL IMPACT:

The Office of Legislative Services (OLS) estimates the bill will result in an indeterminate recurring increase in expenditures the Department of the Treasury incurs in operating the State-administered retirement systems. Consistent with current practice, the additional administrative expenses will be charged back to the retirement systems.

The additional expenditures will accrue from the annual production of stress test analyses for the retirement systems and a report on the investment returns achieved by and management fees paid to external managers to the extent that the required reports add to current Department of the Treasury data collection, analysis, and reporting activities. The OLS notes in that regard that the department already compiles and publishes some data on the performance and compensation of external managers.