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LEGISLATIVE FISCAL ESTIMATE: Yes

VETO MESSAGE: No

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RH/CL

P.L. 2017, CHAPTER 277, *approved January 8, 2018*
Assembly, No. 4704

1 AN ACT concerning transparency in the investment of State-
2 administered pension funds, supplementing P.L.1968, c.23
3 (C.43:3C-1 et seq.), and amending P.L.1950, c.270.
4

5 **BE IT ENACTED** by the Senate and General Assembly of the State
6 of New Jersey:
7

8 1. (New section) a. The boards of trustees of the Teachers'
9 Pension and Annuity Fund, established pursuant to N.J.S.18A:66-1
10 et seq., the Judicial Retirement System, established pursuant to
11 P.L.1973, c.140 (C.43:6A-1 et seq.), the Public Employees'
12 Retirement System, established pursuant to P.L.1954, c.84
13 (C.43:15A-1 et seq.), the Police and Firemen's Retirement System,
14 established pursuant to P.L.1944, c.255 (C.43:16A-1 et seq.), and
15 the State Police Retirement System, established pursuant to
16 P.L.1965, c.89 (C.53:5A-1 et seq.), shall adopt a uniform method to
17 conduct and report regular stress test analyses of these State-
18 administered retirement systems. The uniform method adopted by
19 the boards of trustees shall be a method recommended by an
20 organization of actuaries in accordance with generally accepted and
21 nationally recognized actuarial standards, and approved by a
22 majority of the actuaries of the foregoing State-administered
23 retirement systems. The stress test analyses shall provide a
24 forward-looking projection, which considers the effects of long-
25 term conditions and patterns of behavior of the investment market,
26 to assess how well the investments of each State-administered
27 retirement system are likely to perform in periods when market
28 returns are significantly above or below baseline assumed returns.
29 The stress test analyses shall include past investment performance
30 data for each of the foregoing State-administered retirement
31 systems for a minimum period of 25 years, including investment
32 returns, both gross and net of fees, and returns by asset class.

33 b. The Division of Pensions and Benefits shall post, on its
34 Internet website and in the same location as other reports and
35 analyses produced by the division, the stress test analyses required
36 pursuant to this section.
37

38 2. Section 13 of P.L.1950, c.270 (C.52:18A-91) is amended to
39 read as follows:

40 13. a. The State Investment Council shall consult with the
41 Director of the Division of Investment from time to time with

EXPLANATION – Matter enclosed in bold-faced brackets **[thus]** in the above bill is
not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

1 respect to the work of the division. It shall have access to all files
2 and records of the division and may require any officer or employee
3 therein to provide such information as it may deem necessary in the
4 performance of its functions. The council shall have authority to
5 inspect and audit the respective accounts and funds administered
6 through the Division of Investment. It shall formulate and
7 establish, and may from time to time amend, modify or repeal, such
8 policies as it may deem necessary or proper, which shall govern the
9 methods, practices or procedures for investment, reinvestment,
10 purchase, sale or exchange transactions to be followed by the
11 Director of the Division of Investment established hereunder.

12 b. On or before January first of each year, and at such other
13 times as it may deem in the public interest, the council shall report
14 to the Governor, the Legislature, and the State Treasurer with
15 respect to its work and the work of the Division of Investment. In
16 addition to the reports specified above and in section 14 of
17 P.L.1950, c.270 (C.52:18A-92), the council shall issue a report by
18 March 1 of each year on the investment activities for the prior
19 calendar year, which shall include a summary of the current
20 investment policies and strategies of the council and those in effect
21 during the prior calendar year, a detailed summary for each
22 financial product of the amount invested, whether the investments
23 were made by employees of the Division of Investment or by
24 external managers, performance benchmarks, and actual
25 performance during the calendar year. The report shall be
26 submitted to the Governor, the Legislature, and the State Treasurer,
27 and shall be made available to the public through the official
28 Internet site of the State. In addition, the council shall issue a
29 report listing, in the aggregate and segregated by asset class, the
30 investment returns achieved by the State-administered retirement
31 system funds under the council's supervision by external managers.
32 As part of any contract between the council and an external
33 manager for the investment of State-administered retirement system
34 funds executed after the effective date of P.L. , c. (pending
35 before the Legislature as this bill), the council shall require the
36 external manager to disclose the rate and amount of fees charged by
37 the external manager, including performance-based earnings and
38 carried interest. The council shall include such rate and fees in the
39 council's report and shall submit the report to the boards of trustees
40 of each State-administered retirement system mentioned in the
41 report and to the Division of Pensions and Benefits, which shall
42 post the report on its Internet website in the same location as other
43 reports and analyses produced by the division.

44 c. The council shall hold a meeting each year that shall be open
45 to the public, and shall accept comments from the public at such
46 meeting. The matters that shall be open to discussion and public
47 comment during this annual meeting shall include the investment
48 policies and strategies of the council, the investment activities of

1 the council, the financial disclosure statements filed by council
2 members, and the certification of contributions filed by external
3 managers, as well as other appropriate matters concerning the
4 operations, activities and reports of the council.

5 d. An external manager shall be required to file a certification
6 before being retained, and annually thereafter, that discloses the
7 political contributions made, during the 12 months preceding the
8 certification, by the manager or the manager's firm, or a political
9 committee in which the manager or firm was active. The
10 certification shall specify the political contributions made to
11 candidates for elective public office in this State and any political
12 committee established for the support of such candidates, and
13 contributions made for the transition and inaugural expenses of any
14 candidate who is elected to public office. As used in this
15 subsection, "contribution" and "political committee" shall have the
16 meaning set forth in "The New Jersey Campaign Contributions and
17 Expenditures Reporting Act," P.L.1973, c.83 (C.19:44A-1 et al.).
18 This certification shall be in addition to any other such disclosure
19 required by law or executive order of the Governor.
20 (cf: P.L.2007, c.103, s.51)

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22 3. This act shall take effect immediately.

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STATEMENT

26

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

36 Under the bill, the Division of Pensions and Benefits must post,
37 on its Internet website and in the same location as other reports and
38 analyses produced by the division, the stress test analyses required
39 by this bill. The bill requires the boards of trustees of the
40 aforementioned retirement systems to adopt a stress testing method
41 recommended by an organization of actuaries in accordance with
42 generally accepted and nationally recognized actuarial standards,
43 and approved by a majority of the actuaries of the retirement
44 systems. The stress test analyses must provide a forward-looking
45 projection, which considers the effects of long-term conditions and
46 patterns of behavior of the investment market, to assess how well
47 each of the State-administered retirement systems is likely to
48 perform in periods where market returns are significantly above or

1 below baseline assumed returns. Additionally, the stress test
2 analyses must include past investment performance data for each
3 State-administered retirement system for a period of 25 years,
4 including investment returns, both gross and net of fees, and returns
5 by asset class.

6 Moreover, the bill requires that the State Investment Council
7 issue a report listing, in the aggregate and segregated by asset class,
8 the investment returns achieved for the State-administered
9 retirement funds under the council's supervision by external
10 managers. The bill requires the council, in all future contracts
11 entered into after this bill takes effect, to compel each external
12 manager to disclose the rate and amount of fees charged by the
13 external manager for the investment of State-administered
14 retirement system funds, including performance-based earnings and
15 carried interest. The council will include these fee disclosures by
16 the external managers in its report. The council must submit the
17 report to the boards of trustees of each State-administered
18 retirement system mentioned in the report and to the Division of
19 Pensions and Benefits, which must post the report on its Internet
20 website in the same location as other reports and analyses produced
21 by the division.

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26 _____
27 Requires analyses and reporting of investment performance of
28 pension funds; requires disclosure of fees paid to managers of
certain funds in which State invests pension funds.

ASSEMBLY, No. 4704

STATE OF NEW JERSEY 217th LEGISLATURE

INTRODUCED MARCH 20, 2017

Sponsored by:

Assemblyman TROY SINGLETON

District 7 (Burlington)

Assemblyman GARY S. SCHAER

District 36 (Bergen and Passaic)

Senator STEPHEN M. SWEENEY

District 3 (Cumberland, Gloucester and Salem)

Senator PAUL A. SARLO

District 36 (Bergen and Passaic)

Co-Sponsored by:

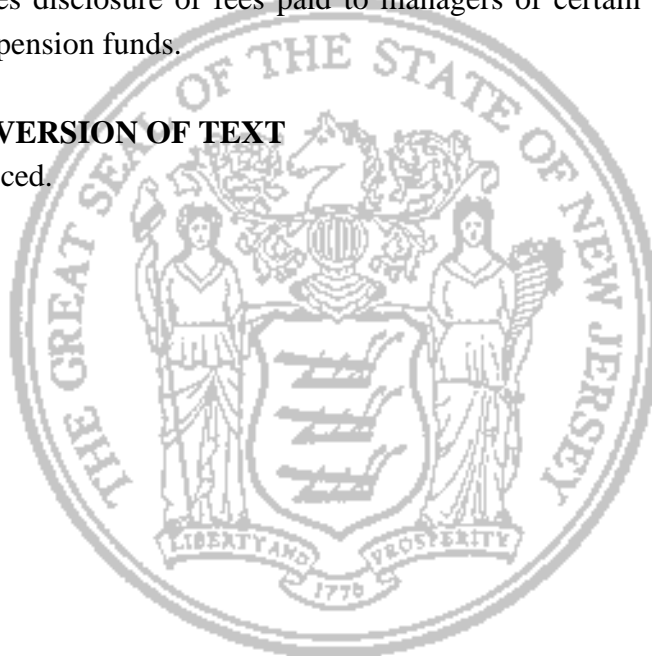
**Assemblywoman Pinkin, Assemblymen Coughlin, Eustace, Senators
Gordon and Madden**

SYNOPSIS

Requires analyses and reporting of investment performance of pension funds; requires disclosure of fees paid to managers of certain funds in which State invests pension funds.

CURRENT VERSION OF TEXT

As introduced.



(Sponsorship Updated As Of: 12/19/2017)

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46 analyses must include past investment performance data for each
47 State-administered retirement system for a period of 25 years,

1 including investment returns, both gross and net of fees, and returns
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3 Moreover, the bill requires that the State Investment Council
4 issue a report listing, in the aggregate and segregated by asset class,
5 the investment returns achieved for the State-administered
6 retirement funds under the council's supervision by external
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11 retirement system funds, including performance-based earnings and
12 carried interest. The council will include these fee disclosures by
13 the external managers in its report. The council must submit the
14 report to the boards of trustees of each State-administered
15 retirement system mentioned in the report and to the Division of
16 Pensions and Benefits, which must post the report on its Internet
17 website in the same location as other reports and analyses produced
18 by the division.

ASSEMBLY STATE AND LOCAL GOVERNMENT
COMMITTEE

STATEMENT TO

ASSEMBLY, No. 4704

STATE OF NEW JERSEY

DATED: JUNE 5, 2017

The Assembly State and Local Government Committee reports favorably Assembly Bill No. 4704.

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.

Under the bill, the Division of Pensions and Benefits must post, on its Internet website and in the same location as other reports and analyses produced by the division, the stress test analyses required by this bill. The bill requires the boards of trustees of the aforementioned retirement systems to adopt a stress testing 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. 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 each of the State-administered retirement systems is likely to perform in periods where market returns are significantly above or below baseline assumed returns. Additionally, the stress test analyses must include past investment performance data for each State-administered retirement system for a period of 25 years, including investment returns, both gross and net of fees, and returns by asset class.

Moreover, the bill requires that the State Investment Council 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, in all future contracts entered into after this bill takes effect, to compel each 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 council will include these fee

disclosures by the external managers in its report. The council must 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, which must post the report on its Internet website in the same location as other reports and analyses produced by the division.

ASSEMBLY APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 4704

STATE OF NEW JERSEY

DATED: JUNE 19, 2017

The Assembly Appropriations Committee reports favorably Assembly Bill No. 4704.

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.

The bill requires the boards of trustees of the aforementioned retirement systems to adopt a stress testing 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. 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 each of the State-administered retirement systems is likely to perform in periods where market returns are significantly above or below baseline assumed returns. The bill requires the Division of Pensions and Benefits in the Department of the Treasury to post the analyses and past investment performance data for each State-administered retirement system for a period of 25 years on its Internet website.

The bill requires that the State Investment Council 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, in all future contracts entered into after this bill takes effect, to compel each 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 council will include these fee disclosures by the external managers in its report. The council must 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, which must post the report on its Internet

website in the same location as other reports and analyses produced by the division.

FISCAL IMPACT:

The Office of Legislative Services estimates that the bill will result in an indeterminate expenditure increase to the administrative costs of operating the Teachers' Pension and Annuity Fund, Judicial Retirement System, Public Employees' Retirement System, Police and Firemen's Retirement System, and State Police Retirement System. The boards of trustees of these State-administered retirement systems will incur costs in adopting a stress testing method and having the stress test analyses performed.

Additionally, the bill may result in an indeterminate expenditure increase to the State General Fund because the Department of the Treasury may incur costs in preparing reports on the past investment performance of each State-administered retirement system for a period of 25 years and the investment returns and management fees earned by external managers. To the extent that the State Investment Council currently compiles data on the management fees earned by external managers, the Department of the Treasury will incur no additional costs in implementing this provision of the bill.

SENATE BUDGET AND APPROPRIATIONS COMMITTEE

STATEMENT TO

ASSEMBLY, No. 4704

STATE OF NEW JERSEY

DATED: DECEMBER 4, 2017

The Senate Budget and Appropriations Committee reports favorably Assembly Bill No. 4707.

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 Senate Bill No. 3504, 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.

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY, No. 4704
STATE OF NEW JERSEY
217th LEGISLATURE

DATED: JUNE 21, 2017

SUMMARY

Synopsis: Requires analyses and reporting of investment performance of pension funds; requires disclosure of fees paid to managers of certain funds in which State invests pension funds.

Type of Impact: Expenditure increase – State-Administered Retirement Systems.

Agencies Affected: State Investment Council and State-Administered Retirement Systems.

Office of Legislative Services Estimate

Fiscal Impact	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Administrative Cost Increase – State Pension Funds	Indeterminate – See comments below		

- The Office of Legislative Services (OLS) estimates that the bill would require an indeterminate increase of the administrative costs of operating the State-administered retirement systems. The boards of trustees of the State-administered retirement systems will incur costs to have the stress test analyses performed. In addition, the State Investment Council complete the reports required by the bill may incur costs in preparing a report on the past investment performance of each State-administered retirement system for a period of 25 years and the investment returns and management fees earned by external managers.
- This bill requires the boards of trustees of the State-administered retirement systems to conduct and report regular stress test analyses of the State-administered retirement systems. The bill requires the Division of Pensions and Benefits in the Department of the Treasury to prepare a report on the past investment performance of each State-administered retirement system for a period of 25 years and the management costs of the various asset classes in which the State invests pension funds.

BILL DESCRIPTION

Assembly Bill No. 4704 of 2017 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 requires the boards of trustees of the aforementioned retirement systems to adopt a stress testing 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. The stress test analyses must provide a forward-looking projection to assess how well each of the State-administered retirement systems is likely to perform in periods where market returns are significantly above or below baseline assumed returns. The bill requires the Division of Pensions and Benefits in the Department of the Treasury to post the analyses and past investment performance data for each State-administered retirement system for a period of 25 years on its Internet website.

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FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the bill would result in an indeterminate expenditure increase in the administrative costs of operating the Teachers' Pension and Annuity Fund, Judicial Retirement System, Public Employees' Retirement System, Police and Firemen's Retirement System, and State Police Retirement System. The OLS notes that the boards of trustees of the State-administered retirement systems will incur costs in adopting a stress testing method and having the stress test analyses performed. The OLS has no information upon which to base an estimate of the costs associated with performing stress test analyses. The boards of trustees of the State-administered retirement systems currently contract with actuarial service providers that may be capable of performing stress test analyses for a cost increase above the current contract price.

In addition, the State Investment Council may incur costs in preparing a report on the past investment performance of each State-administered retirement system for a period of 25 years and the investment returns and management fees earned by external managers. The OLS notes that the Annual Report of the State Investment Council currently details the management costs of the various asset classes in which the State invests pension funds. To the extent that the Council currently compiles the fees charged by each external manager for the investment of State-administered retirement system funds, it will incur no additional costs in implementing this provision of the bill.

Section: State Government

*Analyst: Edward W. Doherty
Associate Counsel*

*Approved: Frank W. Haines III
Legislative Budget and Finance Officer*

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).

SENATE, No. 3504

STATE OF NEW JERSEY 217th LEGISLATURE

INTRODUCED NOVEMBER 9, 2017

Sponsored by:

Senator STEPHEN M. SWEENEY

District 3 (Cumberland, Gloucester and Salem)

Senator PAUL A. SARLO

District 36 (Bergen and Passaic)

Co-Sponsored by:

Senators Gordon and Madden

SYNOPSIS

Requires analyses and reporting of investment performance of pension funds; requires disclosure of fees paid to managers of certain funds in which State invests pension funds.

CURRENT VERSION OF TEXT

As introduced.



(Sponsorship Updated As Of: 12/19/2017)

S3504 SWEENEY, SARLO

2

1 AN ACT concerning transparency in the investment of State-
2 administered pension funds, supplementing P.L.1968, c.23
3 (C.43:3C-1 et seq.), and amending P.L.1950, c.270.

4
5 **BE IT ENACTED** by the Senate and General Assembly of the State
6 of New Jersey:

7
8 1. (New section) a. The boards of trustees of the Teachers'
9 Pension and Annuity Fund, established pursuant to N.J.S.18A:66-1
10 et seq., the Judicial Retirement System, established pursuant to
11 P.L.1973, c.140 (C.43:6A-1 et seq.), the Public Employees'
12 Retirement System, established pursuant to P.L.1954, c.84
13 (C.43:15A-1 et seq.), the Police and Firemen's Retirement System,
14 established pursuant to P.L.1944, c.255 (C.43:16A-1 et seq.), and
15 the State Police Retirement System, established pursuant to
16 P.L.1965, c.89 (C.53:5A-1 et seq.), shall adopt a uniform method to
17 conduct and report regular stress test analyses of these State-
18 administered retirement systems. The uniform method adopted by
19 the boards of trustees shall be a method recommended by an
20 organization of actuaries in accordance with generally accepted and
21 nationally recognized actuarial standards, and approved by a
22 majority of the actuaries of the foregoing State-administered
23 retirement systems. The stress test analyses shall provide a
24 forward-looking projection, which considers the effects of long-
25 term conditions and patterns of behavior of the investment market,
26 to assess how well the investments of each State-administered
27 retirement system are likely to perform in periods when market
28 returns are significantly above or below baseline assumed returns.
29 The stress test analyses shall include past investment performance
30 data for each of the foregoing State-administered retirement
31 systems for a minimum period of 25 years, including investment
32 returns, both gross and net of fees, and returns by asset class.

33 b. The Division of Pensions and Benefits shall post, on its
34 Internet website and in the same location as other reports and
35 analyses produced by the division, the stress test analyses required
36 pursuant to this section.

37
38 2. Section 13 of P.L.1950, c.270 (C.52:18A-91) is amended to
39 read as follows:

40 13. a. The State Investment Council shall consult with the
41 Director of the Division of Investment from time to time with
42 respect to the work of the division. It shall have access to all files
43 and records of the division and may require any officer or employee
44 therein to provide such information as it may deem necessary in the
45 performance of its functions. The council shall have authority to

EXPLANATION – Matter enclosed in bold-faced brackets **[thus]** in the above bill is not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

1 inspect and audit the respective accounts and funds administered
2 through the Division of Investment. It shall formulate and establish,
3 and may from time to time amend, modify or repeal, such policies
4 as it may deem necessary or proper, which shall govern the
5 methods, practices or procedures for investment, reinvestment,
6 purchase, sale or exchange transactions to be followed by the
7 Director of the Division of Investment established hereunder,
8 except that the provisions of this subsection shall not apply to the
9 operations account of Common Pension Fund L established
10 pursuant to section 6 of P.L.2017, c.98 (C.5:9-22.10).
11 Notwithstanding any provision of the "Administrative Procedure
12 Act," P.L.1968, c.410 (C.52:14B-1 et seq.) to the contrary, the
13 council may adopt, immediately upon filing with the Office of
14 Administrative Law such policies and regulations relating to the
15 investment account, established pursuant to section 6 of P.L.2017,
16 c.98 (C.5:9-22.10), as are necessary to implement that section,
17 which regulations shall be effective for a period not to exceed 12
18 months following adoption, and may thereafter be amended,
19 adopted, or readopted by the council in accordance with the
20 requirements of the "Administrative Procedure Act," P.L.1968,
21 c.410 (C.52:14B-1 et seq.).

22 b. On or before January first of each year, and at such other
23 times as it may deem in the public interest, the council shall report
24 to the Governor, the Legislature, and the State Treasurer with
25 respect to its work and the work of the Division of Investment. In
26 addition to the reports specified above and in section 14 of
27 P.L.1950, c.270 (C.52:18A-92), the council shall issue a report by
28 March 1 of each year on the investment activities for the prior State
29 fiscal year, which shall include a summary of the current investment
30 policies and strategies of the council and those in effect during the
31 prior State fiscal year, a detailed summary for each financial
32 product of the amount invested, performance benchmarks, and
33 actual performance during the State fiscal year. The report shall be
34 submitted to the Governor, the Legislature, and the State Treasurer,
35 and shall be made available to the public through the official
36 Internet site of the State. In addition, the council shall issue a report
37 listing, in the aggregate and segregated by asset class, the
38 investment returns achieved by the State-administered retirement
39 system funds under the council's supervision by external managers.
40 As part of any contract between the council and an external
41 manager for the investment of State-administered retirement system
42 funds executed after the effective date of P.L. , c. (pending
43 before the Legislature as this bill), the council shall require the
44 external manager to disclose the rate and amount of fees charged by
45 the external manager, including performance-based earnings and
46 carried interest. The council shall include such rate and fees in the
47 council's report and shall submit the report to the boards of trustees
48 of each State-administered retirement system mentioned in the

1 report and to the Division of Pensions and Benefits, which shall
2 post the report on its Internet website in the same location as other
3 reports and analyses produced by the division.

4 c. The council shall hold a meeting each year that shall be open
5 to the public, and shall accept comments from the public at such
6 meeting. The matters that shall be open to discussion and public
7 comment during this annual meeting shall include the investment
8 policies and strategies of the council, the investment activities of
9 the council, the financial disclosure statements filed by council
10 members, and the certification of contributions filed by external
11 managers, as well as other appropriate matters concerning the
12 operations, activities and reports of the council.

13 d. An external manager shall be required to file a certification
14 before being retained, and annually thereafter, that discloses the
15 political contributions made, during the 12 months preceding the
16 certification, by the manager or the manager's firm, or a political
17 committee in which the manager or firm was active. The
18 certification shall specify the political contributions made to
19 candidates for elective public office in this State and any political
20 committee established for the support of such candidates, and
21 contributions made for the transition and inaugural expenses of any
22 candidate who is elected to public office. As used in this subsection,
23 "contribution" and "political committee" shall have the meaning set
24 forth in "The New Jersey Campaign Contributions and Expenditures
25 Reporting Act," P.L.1973, c.83 (C.19:44A-1 et al.). This
26 certification shall be in addition to any other such disclosure
27 required by law or executive order of the Governor.

28 (cf: P.L.2017, c.98, s.28.)

29

30 3. This act shall take effect immediately.

31

32

33

STATEMENT

34

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

44

45 Under the bill, the Division of Pensions and Benefits must post,
46 on its Internet website and in the same location as other reports and
47 analyses produced by the division, the stress test analyses required
48 by this bill. The bill requires the boards of trustees of the
49 aforementioned retirement systems to adopt a stress testing method

1 recommended by an organization of actuaries in accordance with
2 generally accepted and nationally recognized actuarial standards,
3 and approved by a majority of the actuaries of the retirement
4 systems. The stress test analyses must provide a forward-looking
5 projection, which considers the effects of long-term conditions and
6 patterns of behavior of the investment market, to assess how well
7 each of the State-administered retirement systems is likely to
8 perform in periods where market returns are significantly above or
9 below baseline assumed returns. Additionally, the stress test
10 analyses must include past investment performance data for each
11 State-administered retirement system for a period of 25 years,
12 including investment returns, both gross and net of fees, and returns
13 by asset class.

14 Moreover, the bill requires that the State Investment Council
15 issue a report listing, in the aggregate and segregated by asset class,
16 the investment returns achieved for the State-administered
17 retirement funds under the council's supervision by external
18 managers. The bill requires the council, in all future contracts
19 entered into after this bill takes effect, to compel each external
20 manager to disclose the rate and amount of fees charged by the
21 external manager for the investment of State-administered
22 retirement system funds, including performance-based earnings and
23 carried interest. The council will include these fee disclosures by
24 the external managers in its report. The council must submit the
25 report to the boards of trustees of each State-administered
26 retirement system mentioned in the report and to the Division of
27 Pensions and Benefits, which must post the report on its Internet
28 website in the same location as other reports and analyses produced
29 by the division.

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.

LEGISLATIVE FISCAL ESTIMATE
SENATE, No. 3504
STATE OF NEW JERSEY
218th LEGISLATURE

DATED: DECEMBER 6, 2017

SUMMARY

- Synopsis:** Requires analyses and reporting of investment performance of pension funds; requires disclosure of fees paid to managers of certain funds in which State invests pension funds.
- Type of Impact:** Recurring expenditure increase – State-Administered Retirement Systems.
- Agencies Affected:** Department of the Treasury.

Office of Legislative Services Estimate

Fiscal Impact	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Administrative Cost Increase – State Pension Fund	Indeterminate – See comments below		

- The Office of Legislative Services (OLS) estimates that the bill would 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 would be charged back to the retirement systems.
- The additional expenditures would accrue from the regular production of stress test analyses for the State-administered retirement systems and a report on the investment returns achieved and fees charged by external managers to the extent that the required reports would add to current Department of the Treasury data collection, analysis, and reporting activities.

BILL DESCRIPTION

Senate Bill No. 3504 of 2017 requires the Department of the Treasury to prepare and publish two reports related to the investment of assets in the State-administered retirement systems.

Specifically, 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 conduct and report the findings of regular stress test analyses of these systems. The analyses must assess how each system is likely to perform in periods where market returns are significantly above or below

baseline assumed rates of return. The analyses are also to include past investment performance data for each retirement system for a period of at least 25 years. The Division of Pensions and Benefits is to post the analyses on its Internet website.

The bill also requires that the State Investment Council issue a report listing, in the aggregate and segregated by asset class, the investment returns achieved for the State-administered retirement systems and fees charged thereto by external managers. To that end, the bill requires the council in all future contracts to compel external managers to disclose the rates and amounts of fees they charge for their investment services. The council must submit the report to the boards of trustees of each State-administered retirement system and to the Division of Pensions and Benefits, which must post the report on its Internet website.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS estimates that the bill would 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 would be charged back to the retirement systems.

The OLS notes that the boards of trustees of the State-administered retirement systems would incur costs in adopting a stress testing method and having the stress test analyses performed. The analyses are to include past investment performance data for each retirement system for a period of at least 25 years. The OLS has no information upon which to base an estimate of the costs associated with performing stress test analyses. The boards of trustees of the State-administered retirement systems currently contract with actuarial service providers that may be capable of performing stress test analyses, potentially in collaboration with the Division of Investment, for a cost above the current contract price.

In addition, the State Investment Council may incur additional costs in preparing a report on the investment returns achieved and fees charged by external managers but only to the extent that the council does not currently compile and publish the required data. The OLS notes that the Annual Report of the State Investment Council currently details some of the required data.

Section: State Government

Analyst: Edward W. Doherty
Associate Counsel

Approved: Frank W. Haines III
Legislative Budget and Finance Officer

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).