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

BE IT ENACTED by the Senate and General Assembly of the State of New Jersey:

1. (New section) a. The boards of trustees of the Teachers’ Pension and Annuity Fund, established pursuant to N.J.S.18A:66-1 et seq., the Judicial Retirement System, established pursuant to P.L.1973, c.140 (C.43:6A-1 et seq.), the Public Employees’ Retirement System, established pursuant to P.L.1954, c.84 (C.43:15A-1 et seq.), the Police and Firemen’s Retirement System, established pursuant to P.L.1944, c.255 (C.43:16A-1 et seq.), and the State Police Retirement System, established pursuant to P.L.1965, c.89 (C.53:5A-1 et seq.), shall adopt a uniform method to conduct and report regular stress test analyses of these State-administered retirement systems. The uniform method adopted by the boards of trustees shall 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 foregoing State-administered retirement systems. The stress test analyses shall 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 State-administered retirement system are likely to perform in periods when market returns are significantly above or below baseline assumed returns. The stress test analyses shall include past investment performance data for each of the foregoing 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.

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

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

13. a. The State Investment Council shall consult with the Director of the Division of Investment from time to time with respect to the work of the division. It shall have access to all files and records of the division and may require any officer or employee therein to provide such information as it may deem necessary in the 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.
inspect and audit the respective accounts and funds administered
through the Division of Investment. It shall formulate and establish,
and may from time to time amend, modify or repeal, such policies
as it may deem necessary or proper, which shall govern the
methods, practices or procedures for investment, reinvestment,
purchase, sale or exchange transactions to be followed by the
Director of the Division of Investment established hereunder,
extcept that the provisions of this subsection shall not apply to the
operations account of Common Pension Fund L established
pursuant to section 6 of P.L.2017, c.98 (C.5:9-22.10).

Notwithstanding any provision of the "Administrative Procedure
Act,” P.L.1968, c.410 (C.52:14B-1 et seq.) to the contrary, the
council may adopt, immediately upon filing with the Office of
Administrative Law such policies and regulations relating to the
investment account, established pursuant to section 6 of P.L.2017,
c.98 (C.5:9-22.10), as are necessary to implement that section,
which regulations shall be effective for a period not to exceed 12
months following adoption, and may thereafter be amended,
adopted, or readopted by the council in accordance with the
requirements of the "Administrative Procedure Act,” P.L.1968,
c.410 (C.52:14B-1 et seq.).

b. On or before January first of each year, and at such other
times as it may deem in the public interest, the council shall report
to the Governor, the Legislature, and the State Treasurer with
respect to its work and the work of the Division of Investment. In
addition to the reports specified above and in section 14 of
P.L.1950, c.270 (C.52:18A-92), the council shall issue a report by
March 1 of each year on the investment activities for the prior State
fiscal year, which shall include a summary of the current investment
policies and strategies of the council and those in effect during the
prior State fiscal year, a detailed summary for each financial
product of the amount invested, performance benchmarks, and
actual performance during the State fiscal year. The report shall be
submitted to the Governor, the Legislature, and the State Treasurer,
and shall be made available to the public through the official
Internet site of the State. In addition, the council shall issue a report
listing, in the aggregate and segregated by asset class, the
investment returns achieved by the State-administered retirement
system funds under the council’s supervision by external managers.
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 P.L. ___, c. (pending
before the Legislature as this bill), the council shall require the
external manager to disclose the rate and amount of fees charged by
the external manager, including performance-based earnings and
carried interest. The council shall include such rate and fees in the
council’s report and shall 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 shall
post the report on its Internet website in the same location as other
reports and analyses produced by the division.

c. The council shall hold a meeting each year that shall be open
to the public, and shall accept comments from the public at such
meeting. The matters that shall be open to discussion and public
comment during this annual meeting shall include the investment
policies and strategies of the council, the investment activities of
the council, the financial disclosure statements filed by council
members, and the certification of contributions filed by external
managers, as well as other appropriate matters concerning the
operations, activities and reports of the council.
d. An external manager shall be required to file a certification
before being retained, and annually thereafter, that discloses the
political contributions made, during the 12 months preceding the
certification, by the manager or the manager's firm, or a political
committee in which the manager or firm was active. The
certification shall specify the political contributions made to
candidates for elective public office in this State and any political
committee established for the support of such candidates, and
contributions made for the transition and inaugural expenses of any
candidate who is elected to public office. As used in this subsection,
"contribution" and "political committee" shall have the meaning set
forth in "The New Jersey Campaign Contributions and Expenditures
certification shall be in addition to any other such disclosure
required by law or executive order of the Governor.
(cf: P.L.2017, c.98, s.28.)

3. This act shall take effect immediately.

STATEMENT

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.