

## Legislation Text

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Amending Title 22 of The Philadelphia Code, entitled “Public Employees Retirement Code,” by codifying the Pension Board’s preexisting policy and practice to perform an annual stress test of the Retirement System in accordance with industry standards, all under certain terms and conditions.

WHEREAS, In March 2019, the Board of Pensions and Retirement formally adopted its existing practices of conducting, analyzing, and reporting on annual stress testing as a requirement in its Investment Policy Statement; and

WHEREAS, According to The Pew Charitable Trusts, “As of December 2020, 13 states have adopted a formal requirement for regular pension stress testing, including nine states where the requirements adopted are based in whole or in part on Pew’s Foundation for Pension Risk Reporting”; and

WHEREAS, According to The Pew Charitable Trusts, the Pension Board’s existing pension reporting and risk assessment practices and analyses are robust and in alignment with the methodology of Pew’s Foundation for Pension Risk and Reporting; and

WHEREAS, While City Council recognizes the Pension Board has regularly conducted and formally adopted annual stress testing in 2019, it is advantageous for the City of Philadelphia to emulate the best practices for integrating the results of the stress test analysis into the City’s budget planning and forecasting process, similar to what other jurisdictions have done, and thus to codify the existing policy and practice of annual stress testing and reporting by the Pension Board; and

WHEREAS, With this legislation, it is the intent of City Council to codify the best practices of this current Pension Board so as to ensure that these practices survive any change in leadership or membership; now, therefore:

*THE COUNCIL OF THE CITY OF PHILADELPHIA HEREBY ORDAINS:*

SECTION 1. Title 22 of The Philadelphia Code, entitled “Public Employees Retirement Code” is amended as follows:

### TITLE 22. PUBLIC EMPLOYEES RETIREMENT CODE

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### CHAPTER 22-1200. ADMINISTRATION AND MANAGEMENT

#### § 22-1201. General Powers and Duties of the Board.

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(4) *To codify the Board's preexisting policy and practice, at least once each year, the Board shall have a stress test of the Retirement System conducted in accordance with industry standards, shall document the results of such test in a report, and shall submit such report to the clerk of City Council by May 31st each calendar year. The stress test shall comply with the following minimum guidelines:*

*(a) The annual stress test shall be based on a projection of the Retirement System's actual and projected assets and liabilities, including unfunded actuarial liabilities, benefit payments, service costs, and payroll, and shall take into account the potential variation in projected employer contributions, the rate of investment return, and such other variables as determined prudent by the Board after consultation with a qualified actuary.*

*(b) The annual stress test shall examine the potential changes projected with respect to unfunded actuarial accrued liabilities, potential operating cash flow to assets; potential normal cost; potential employer contributions; the impact on projected City Budgets on a dollar and percentage basis as reported to the Pension Board by the Director of Finance; and such other variables as determined prudent by the Board after consultation with a qualified actuary, for each of the next five (5) years from the date of the stress test. Additionally, the stress test shall include an analysis that simulates the volatility of annual investment returns above and below the assumed rate of return adopted by the Board, all in accordance with recognized industry standards.*

*(c) The report of the stress test results shall document the assumptions and methodologies used to perform the test and shall indicate any ways in which the assumptions used or tests performed differed from industry standards.*