DEPARTMENT OF AUDITS AND ACCOUNTS

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March 23, 2009

The Honorable Bill Heath
State Senator
State Capitol, Room 109
Atlanta, Georgia 30334

SUBJECT: State Auditor's Certification
Substitute to House Bill 371
(LC 21 0437S)

Dear Senator Heath:

This substitute bill would amend provisions relating to the Public Retirement Systems Investment Authority Law. Specifically, this bill would revise the definition of 'large retirement system.' If this legislation is enacted, the definition would be expanded to include any public retirement system that has assets in excess of $200 million. Currently, certain public retirement systems that have assets in excess of $50 million and have an accumulated unfunded actuarial liability not greater than 25 percent of total assets may be classified as 'large retirement systems.' If this legislation is enacted, this provision would change. The retirement systems currently affected by this provision would be required to meet one of the following criteria before they are defined as 'large retirement systems.'

- The system must have an accumulated unfunded actuarial liability not greater than 25 percent of the total of its assets; or
- The assets of the system must exceed $50 million and the system must have an accumulated unfunded actuarial liability not greater than 30 percent of the total of its assets.

This legislation would also revise provisions relating to investments in foreign corporations or obligations for 'large retirement systems.' Currently, 'large retirement systems' may not invest more than 15 percent of the retirement system assets in such investments. If this legislation is enacted, the limitation would be removed for 'large retirement systems.'

Furthermore, this substitute bill would revise the investing guidelines for retirement systems. Currently, a fund may not invest more than 55 percent of retirement system assets in equities, provided, however, a 'large retirement system' may invest no more than 60 percent in equities. Under the proposed legislation, 'large retirement systems' would be subject to the following investing limitations:

- Prior to July 1, 2010, a fund may invest no more than 65 percent of retirement system assets in equities;
- On and after July 1, 2010, a fund may invest no more than 70 percent of retirement system assets in equities; and
- On and after July 1, 2011, a fund may invest no more than 75 percent of retirement system assets in equities.

Under the provisions of this substitute bill, no fund would be authorized to increase its assets in equities through purchase by more than 20 percent in any fiscal year. Any fund which is not in compliance with these limitations shall be granted a two-year period to come into compliance, but no such fund shall increase the percentage of investments in equities during such period.

This is to certify that this substitute bill is a nonfiscal retirement bill as defined in the Public Retirement Systems Standards Law.

Respectfully,

/s/ Russell W. Hinton
State Auditor

RWH/cs