

## 2022 SERS Budget Highlights

The Pennsylvania State Employees' Retirement System currently serves approximately 238,000 current and former state employees, their survivors, and beneficiaries. Last year, the system paid approximately \$3.7 billion in pension benefits, of which nearly \$3.4 billion was paid to retirees who live in Pennsylvania. For 2021, the average pension paid to retirees who work to full retirement age was \$30,712. For FY 2022-23, SERS proposes a \$34.0 million spending authority, which is drawn from SERS funds, not general government operating accounts, for administration of the Defined Benefit Plan and \$4.4 million for the Defined Contribution Plan.

### **New SERS Leadership**

SERS enters 2022 under the guidance of two leaders who are new in their roles but have many years of experience at the agency. In December, Joseph A. Torta was named Executive Director. Joe has more than 32 years with SERS, having started out working in a regional field office, meeting one-on-one with our members and participants to assist them with their retirement issues and concerns. Most recently, Joe was Deputy Executive Director for Member and Participant Services. Earlier, in July, James G. Nolan was named Chief Investment Officer. Jim had served as Deputy CIO since coming to SERS in 2015, and as Acting CIO on several occasions.

### **PASSHE's \$825 Million Payment Toward Its Unfunded Liabilities**

In April 2021, the Pennsylvania State System of Higher Education submitted a payment of \$825 million toward its total unfunded liability for the pension benefits of its employees. In return, the education system will receive an annual credit against its contributions for 30 years, beginning with FY 2021-22. The credit totals nearly \$80 million for 10 years, more than \$69 million for six years, more than \$52 million for four years and then decreases over the remaining 10 years beginning at more than \$22 million in 2041 and ending at approximately \$3 million in FY 2050-51. The payment was made under the auspices of Act 2019-105, which allows eligible employers to enter into an agreement with the SERS Board to make a one-time, lump-sum payment of between 75% to 100% of their unfunded liability.

### **Adjusting the Normal Cost Calculation**

The "normal cost" of the pension benefit will be calculated slightly differently beginning with the 2021 actuarial valuation to be published in June 2022. Rather than basing it on the cost of the pension benefit earned by just the new members who entered the system that year, the normal cost will be based on the cost of the benefit earned by a blend of all active members in the system that year. As a result, a greater portion of the cost of benefits will be recognized in the "normal cost" rather than adding to the unfunded liability.

### **Amended the Investment Policy Statement**

Focusing on asset allocation policy, the board amended the *Defined Benefit Investment Policy Statement* three times during 2021.

- In April, the board reduced the private equity target allocation, identified a total equity exposure target that considers both public and private equity allocations together, and added a micro-cap equity allocation to the statement.
- In July, the board updated the policy target asset allocation.
- In December, the board added criteria related to veteran-owned investment management firms within the Emerging Investment Manager Program.

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### **Became a Hybrid On-site/Telework Employer**

In September 2021, the agency became a hybrid on-site/telework employer. The move was planned to build on the productivity experienced during the temporary emergency telework days of the COVID-19 pandemic, increase employee morale, and expand the agency's pool of potential hires for most positions to beyond the Harrisburg area. The hybrid on-site/telework structure was built on the Office of Administration's Telework guidelines, detailed in Management Directive 505.36, and SERS policies.

### **Converting Paper Benefit Payments to Electronic Payments**

In 2021, the agency adjusted internal processes to make it easier for retirees and other benefit recipients to designate an account to electronically receive their monthly benefit payments. The process changes were followed with an education campaign that included a letter sent to each member, survivor, and beneficiary who receives monthly benefit payments by paper check, newsletter article and website advertising promoting the change. As a result, 20% of all paper check recipients converted to electronic payments.

### **Expanded Board Education Policy**

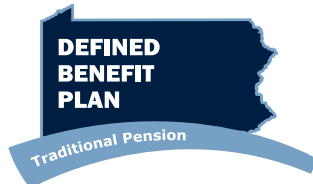
In February 2021, the board amended the *Board Education Policy* to reflect additional training requirements enacted by state Act 2020-128. Beginning in 2022, all board members are required to complete an additional two hours of training for a total of 10 hours of mandatory training in investment strategies, actuarial cost analysis, asset allocation, risk assessment and retirement portfolio management, in addition to the one hour of required ethics training. In addition, board members appointed to serve on the Audit, Risk and Compliance Committee on or after February 24, 2021, must complete 16 hours of training in risk assessments, internal controls and auditing standards.

### **Conducted Board Fiduciary and Self-Assessment Review**

In December 2020, the board engaged Funston Advisory Services LLC to review the board's performance in four task areas (non-economic investment requirements, the asset liability matching process, legislative positioning: reactive and proactive, and investment manager selection/due diligence/monitoring/termination) and to assist the board in its review and assessment of its performance and identify subject areas that may be appropriate for educational/training sessions. Funston issued a final report in April 2021, detailing the results of the reviews. This work continues the board's focus on governance and followed an initial review of the board's policies and governance structure conducted in late 2015. A full report on that initial governance review was issued in March 2016.

### **Expanded Diversity, Equity and Inclusion Efforts**

In 2021, SERS leadership expanded diversity, equity, and inclusion (DEI) efforts at the agency – both in terms of working with nontraditional investment managers, and in recruiting professional staff, with the goal of attracting more candidates representing diverse communities.



# Defined Benefit Plan Snapshot

## Members

as of Dec 31, 2021

237,788 total  
 97,857 active members paying into the system  
 Hybrid Plan members 12,988  
 Defined Benefit Plan 84,869  
 134,360 retirees and beneficiaries receiving benefits  
 5,571 vested members not receiving benefits

## Average 2021 Annuity

\$24,512 per year  
 \$30,712 per year for those who work to full retirement age

## Total Pension Benefits Paid

in 2021, unaudited

\$3.7 billion

## Member Contribution Rate

PA FY 2021/22

6.25% of salary, by payroll deduction (for most members)  
 Varies between 5% and 9.3%

## Number of Employers

as of Dec 31, 2021

101

## Employer Contribution Rate

PA FY 2021/22

33.81% of payroll, composite rate  
 1.50% of payroll for benefits earned this year  
 32.31% of payroll primarily for the unfunded liability

## Projected Employer Contribution Rate

PA FY 2022/23

33.68% of payroll  
 8.29% of payroll for benefits earned this year  
 25.39% of payroll primarily for the unfunded liability

## Employer Contribution Sources

% provided by the Governor's Budget Office (FY 2018/19)

approx. 40% general funds  
 approx. 52% special and federal funds  
 approx. 8% independent employer funds

## Funding Sources

as of year-end Dec 31, 2021, unaudited

\$408 million member contributions  
 \$2.9 billion employer contributions  
 \$5.4 billion investment earnings

## Investment Returns

as of Dec 31, 2021  
 unaudited, annualized, net-of-fees

17.2% 1-year  
 9.4% 10-year  
 8.0% 20-year  
 9.8% inception to date return

## Total Fund Assets

as of Dec 31, 2021, unaudited

\$39.9 billion

## Cash Flow

2022 projected

\$2.5 billion annual contributions (member/employer)  
 \$3.9 billion annual payments (benefits/administrative expenses)  
 difference in sum necessary to cover payments must come from investment income

## Funded Status

2020 actuarial report adjusted with preliminary 2021 year-end performance data

68.6% with an unfunded liability of \$16.5 billion

## Key Assumptions

2020 Actuarial Report

7.0% long-term investment return  
 4.6% average total salary/career growth  
 2.5% inflation rate



# Hybrid Plan Snapshot

as of Dec 31, 2021

## Participants

12,988 total  
12,490 A-5 Class of Service  
498 A-6 Class of Service

## Assets

See the [Defined Contribution Plan](#) and [Defined Benefit Plan](#) snapshots for the assets in each plan.

## Eligible Employers

101



# Defined Contribution Plan Snapshot

as of and for the year-ended Dec 31, 2021, unaudited

**Participants** 18,707 total accounts  
 13,441 participants contributing to the plan  
 Hybrid Plan participants 12,988  
 Defined Contribution Plan participants 453  
 5,266 inactive accounts

**Assets** \$75.1 million

**Eligible Employers** 101

**Total Participant Mandatory Contributions** \$17.4 million

**Total Employer Contributions** \$11.6 million

**Total Rollovers into the Plan** 98 totaling \$4.0 million

**Total Rollovers Out of the Plan** 114 totaling \$856,000

**Total Distributions/Withdrawals** 620 totaling \$1.7 million

**Total Voluntary After-Tax Contributions** \$828,000



# Deferred Compensation Plan Snapshot

as of and for the year-ended Dec 31, 2021, unaudited

## Participants

57,554 total accounts  
33,538 actively contributing participants

## Assets

\$4.8 billion

## Eligible Employers

76

## Total Participant Contributions

\$174 million

## Total Rollovers Into the Plan

707 totaling \$66 million

## Total Rollovers Out of the Plan

1,539 totaling \$176 million

## Total Distributions/Withdrawals

27,584 totaling \$294 million

