

**MINUTES of SERS Board Meeting – Wednesday, July 29, 2020**

**CALLED TO ORDER: 2:05 p.m. by Chair David R. Fillman**

**TELE-VIDEO CONFERENCE MEETING**

**ATTENDEES:**

**Members and Designees**

David R. Fillman – Chairperson  
Glenn E. Becker – Assistant Chairperson  
John M. DiSanto  
Dan B. Frankel  
Gregory K. Jordan  
Mary A. Soderberg  
Gregory C. Thall  
Michael G. Tobash  
Joseph M. Torsella  
Richard Vague  
James Bloom – Designee for Acting Secretary Richard Vague  
Susan Boyle – Designee for Representative Michael G. Tobash  
Lloyd Ebricht – Designee for Treasurer Joseph M. Torsella  
Alan Flannigan – Designee for Acting Secretary Richard Vague  
Toni Marchowsky – Designee for Senator Vincent J. Hughes  
Dan Ocko – Designee for Representative Dan B. Frankel  
Patrick Shaughnessy – Designee for Representative Dan B. Frankel

**Executive Staff**

Christopher Houston  
N. Joseph Marcucci  
Sara McSurdy  
James Nolan  
Terrill Sanchez

**Consultants**

Michael Elio, StepStone Group, LP  
Britt Murdoch, Callan Associates  
Bud Pellecchia, Callan Associates  
Matt Ritter, NEPC  
Tom Shingler, Callan Associates  
Mark Wood, Callan Associates

## **MINUTES of the SERS Board Meeting**

### **Wednesday, July 29, 2020**

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#### 1. CALL TO ORDER

Chair Fillman called the meeting to order at 2:05 p.m.

#### 2. WELCOME AND ROLL CALL

Executive Director Terri Sanchez conducted a roll call of board members who were on the tele-video conference call.

#### 3. ADOPTION OF THE AGENDA

##### **MOTION: 2020-44**

By motion that was moved, seconded, and approved by board members, it was

**RESOLVED:** That the board adopts the agenda for the July 29, 2020, board meeting.

#### 4. APPROVAL OF CONSENT CALENDAR

A. Approving Board Meeting Minutes – June 10, 2020

B. Approving Board Special Meeting Minutes – June 26, 2020

C. Approving Statement of Changes in Fiduciary Net Position for the Periods Ending – December 31, 2019, January 31, February 29, March 31 and April 30, 2020

D. Approving Deferred Compensation Plan (DCP) Statement of Changes Report Ending – December 31, 2019, January 31, February 29, March 31 and April 30, 2020

E. Approving Defined Contribution Plan Statement of Changes in Report Ending – December 31, 2019, January 31, February 29, March 31 and April 30, 2020

##### **MOTION: 2020-45**

By motion that was moved, seconded, and approved by board members, it was

**RESOLVED:** That the board approves the Consent Calendar items, as listed, for the July 29, 2020, board meeting.

#### 5. COMMITTEE REPORTS/ACTION ITEMS

A. Board Governance and Personnel Committee

Committee Chair Fillman provided a report of the Board Governance and Personnel Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motions:

##### **MOTION: 2020-46**

By motion that was moved, seconded, and approved by board members, it was

**RESOLVED:** That the board accepts the recommendation of the Board Governance and Personnel Committee to have staff implement livestreaming of each public portion of each board and committee meeting, with a goal of commencing with the December 1 and 2, 2020, board and committee meetings, with recordings of the livestream to be: (i) published on the SERS website, and (ii) archived in accordance with applicable Commonwealth records retention policies and management directives.

##### **MOTION: 2020-47**

By motion that was moved, seconded, and approved by board members, it was

**RESOLVED:** That the board accepts the recommendation of the Board Governance and Personnel Committee to amend sections 3.4 and 3.5 of the Commonwealth of Pennsylvania State Employees' Retirement System Bylaws, as set forth in the attachment (Attachment A).

**B. Finance and Member Services Committee**

Assistant Committee Chair Thall provided a report of the Finance and Member Services Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motions:

**MOTION: 2020-48**

By motion that was moved, seconded, and approved by board members, it was

**RESOLVED:** That the board accepts the recommendation of the Finance and Member Services Committee to:

- (i) lower the current annual assumed rate of investment return; and
- (ii) lower the current assumed rate of inflation; and, thus
- (iii) adopt an annual assumed rate of investment return of 7.00%, compounded annually, and an annual assumed rate of inflation of 2.50%, compounded annually, with both assumptions to be effective with the December 31, 2020 Actuarial Valuation and remain in effect until further action by the board.

**MOTION: 2020-49**

By motion that was moved, seconded, and approved by board members, it was

**RESOLVED:** That the board accepts the recommendation of the Finance and Member Services Committee, effective with the December 31, 2020 Actuarial Valuation, to adopt the actuarial assumptions and the recommended changes to the current actuarial assumptions set forth in the attached report by Korn Ferry titled, "Summary of Recommended Changes to Actuarial Valuation Assumptions Based Upon the 19th Investigation of Actuarial Experience Covering the Period January 1, 2015 to December 31, 2019 To Be Effective With the December 31, 2020 Actuarial Valuation" and labeled "Attachment B."

**MOTION: 2020-50**

By motion that was moved, seconded, and approved by board members, it was

**RESOLVED:** That the board accepts the recommendation of the Finance and Member Services Committee to:

- (1) Assess each employer that has one or more employees who were active participants in the State Employees' Defined Contribution Plan as identified in the census certified to the board's actuary as of December 31, 2019, a per-participant charge of \$668.77 for each such employee to cover the administrative fees, costs and expenses associated with the State Employees' Defined Contribution Plan for fiscal year 2020-2021, as authorized in the Act of May 29, 2020, P.L. 158, No. 23, Section 8, (Fiscal Code Section 1748-E (a)).
- (2) For each fiscal year starting on or after July 1, 2021, delegate to the Secretary of the Board and administrative staff of the State Employees' Defined Contribution Plan the authority to:
  - (a) determine the employer per-participant charge by dividing the budgeted needs of the State Employees' Defined Contribution Plan for administrative fees, costs and expenses for the fiscal year not covered by other sources of funds by the total number of active participants in the State Employees' Defined Contribution Plan contained in the census certified to the board's actuary as of the prior December 31; and
  - (b) assess each employer that employed active participants as of the applicable December 31, as certified by the board to the actuary, the resulting employer per-participant charge for each such active participant.
- (3) For fiscal year 2020-2021 and each fiscal year thereafter, delegate to the Secretary of the Board and administrative staff of the State Employees' Defined Contribution Plan the authority to:

- (a) invoice each employer assessed employer per-participant charges; and
- (b) require payment, in the form, manner, time and amount as the Secretary and administrative staff determine, provided that no date by which payments must be received by an employer can be greater than 90 days from the date of the invoice to that employer. The Secretary and administrative staff are further authorized to develop, assess and collect a schedule of interest, fees and penalties for the late payment of employer per-participant charges.

### C. Investment Committee

Committee Chair Becker provided a report of the Investment Committee to the board (SERS Board Handout). The report was accepted by the board along with the following motions:

#### PRIVATE EQUITY – LLR Equity Partners VI, L.P.

##### **MOTION: 2020-51**

By motion that was moved, seconded, and approved by board members, except Treasurer Torsella, who recused himself because of a long-standing relationship with one of the principals of this fund, and Secretary Vague, who recused himself because of a long-standing professional relationship with LLR, it was

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to commit up to \$50 million to LLR Equity Partners VI, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, as a follow-on investment within the Private Equity asset class, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

#### PRIVATE CREDIT – HPS Mezzanine Partners 2019, L.P.

##### **MOTION: 2020-52**

By motion that was moved, seconded, and approved by board members, except Toni Marchowsky, designee for Senator Hughes, Mr. Thall and Treasurer Torsella, who voted No, it was

**RESOLVED:** That the board accepts the recommendation of the Investment Committee to commit up to \$75 million to HPS Mezzanine Partners 2019, L.P., plus investment expenses and pro rata share of partnership operating expenses, consistent with executed partnership documents, as an investment within the Private Credit asset class, subject to successful completion of contract negotiations and execution and delivery of closing documents by all parties, including required Commonwealth legal approvals, within 12 months.

#### 6. OLD BUSINESS - NONE

#### 7. NEW BUSINESS - NONE

#### 8. SPECIAL PRESENTATION – BOARD EDUCATION

##### A. A Primer on Sustainable Investing

Messrs. Britt Murdoch, Bud Pellecchia, Tom Shingler and Mark Wood of Callan presented A Primer on Sustainable Investing. Attendees will earn educational credit for this session.

#### 9. REPORT OF EXECUTIVE DIRECTOR

A. Executive Director Sanchez noted the following: (i) Board Dismissal report regarding uncontested matters in which an Order was issued dismissing the following administrative appeals, as provided to the board.

**Account of Michael C. Santilli**  
**Docket No. 2018-10**  
**Claim of Kerry T. Taylor**

The State Employees' Retirement Board has **DENIED** Claimant's appeal, requesting to receive a death benefit from the account of Michael C. Santilli. The board **AFFIRMED** the payment of the death benefit to Mr. Santilli's last named beneficiaries – Kathleen Santilli, Kristin Wickstrom and Brian Stolarczyk.

B. Executive Director Sanchez noted that the Administrative Update memo provided updates on the SERS Strategic Planning progress. The target date for finalization of the Strategic Plan is November 1, 2020. She noted that the reorganization plans are moving forward, and SERS continues to meet the challenge of teleworking during the COVID-19 epidemic. Also, SERIS 2.0 is in the final stages of development.

C. Executive Director Sanchez noted the SERS 2020 Appropriation Bill was signed by Governor Wolf on May 29, 2020.

D. Executive Director Sanchez added that board member participation is requested for evaluation committees for the FY 2020-21 procurements on several Requests for Proposals (RFPs) and Requests for Quotations (RFQs). These specific procurements are listed in a memo from Christopher Houston. Members should contact Chris or her ASAP, if they can assist with serving on the evaluation committees for the RFPs and RFQs.”

10. EXECUTIVE SESSION - NONE

A. Notational Ballot

B. Pending Benefits Administration Appellate Litigation Update

C. Report on Referrals of Prospective or Existing Investment Transaction or Contract

Chief Counsel Joe Marcucci reminded board members that completed ballots should be mailed or emailed to Executive Director Sanchez or him. If there were any questions on Items B or C, he requested a telephone call to him.

11. BOARD COMMENTS/ANNOUNCEMENTS/DATES TO REMEMBER

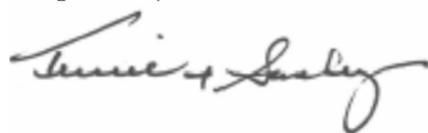
The next regular meeting of the SERS board is scheduled for September 29-30, 2020.

12. MOTION TO ADJOURN

**MOTION: 2020-53**

By motion of Chair Fillman, the board unanimously agreed to adjourn the meeting at 3:45 p.m.

Respectfully submitted,



Terrill (Terri) J. Sanchez  
Executive Director

# ATTACHMENT A

## COMMONWEALTH OF PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM BYLAWS

# BYLAWS

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COMMONWEALTH OF PENNSYLVANIA  
STATE EMPLOYEES' RETIREMENT SYSTEM  
BYLAWS

ARTICLE I  
BOARD COMPOSITION AND POWERS

Section 1.1. Composition. As provided in the State Employees' Retirement Code (71 Pa. C.S. §5101 *et seq.*) (the "Retirement Code"), the State Employees' Retirement Board (the "Board") shall consist of the following persons: two Senators, two members of the House of Representatives, five members appointed by the Governor, one of whom shall be an annuitant of the State Employees' Retirement System (the "System") or a participant in the State Employees' Defined Contribution Plan (the "Plan") who has terminated state service and is receiving or is eligible to receive distributions, subject to confirmation by the Senate, the Treasurer of the Commonwealth of Pennsylvania (the "Treasurer"), ex officio, and the Secretary of Banking and Securities, ex officio (hereafter, the Treasurer and the Secretary of Banking and Securities shall be collectively referred to as the "Ex officio Members"). At least five members of the Board (each a "Member") shall be active members of the System and at least two Members shall have ten or more years of credited State service or shall have been active participants in the Plan for ten calendar years or have a combination of years of credited state service in the System and calendar years as active participants in the Plan equal to ten or more years. By written notice to the Board, the Ex officio Members and each Member who is a member of the General Assembly (each a "Legislative Member") may appoint one or more duly authorized designees who shall have authority to act in such Member's stead. In the event that a Member, who is designated as an active participant or as a participant in the Plan who is receiving or is eligible to receive distributions, receives a total distribution of his interest in the plan, that Member may continue to serve on the Board for the remainder of his term.

The two Members who are Senators shall be appointed by the President pro tempore of the Senate and shall consist of a majority and a minority member. The two Members who are members of the House of Representatives shall be appointed by the Speaker of the House of Representatives and shall consist of a majority and a minority member. The Legislative Members shall serve on the Board for the duration of their legislative terms and shall continue to serve until 30 days after the convening of the next regular session of the General Assembly after the expiration of their respective legislative terms or until a successor is appointed for the new term, whichever occurs first. Each Member appointed by the Governor shall serve for a term of four years or until such Member's successor is duly appointed and qualified, with the terms of those Members appointed by the Governor and serving on the date of adoption of these Bylaws to have the expiration dates in effect on such date.

Section 1.2. Powers. Except as otherwise provided by law and these Bylaws, all powers of the System shall be exercised by or under the authority of, and the business and affairs of the System shall be managed under the direction of, the Board.

Section 1.3. Vacancies. Each Member shall hold office until such Member's resignation, removal, death or, in the case of Members serving ex officio or as legislative appointees, ceasing to hold office. Any vacancy occurring during the term of an appointed Member shall be filled for the unexpired term by the appointment and confirmation of a successor in the same manner as the predecessor.

Section 1.4. Ex officio Members' and Legislative Members' Designees. The Ex officio Members and each Legislative Member may at any time and from time to time appoint one or more duly authorized designees (and if more than one, either in priority preference or as alternates) to act in his or her stead at any meeting of the Board or of any committee thereof or with respect to official business and activities of the Board conducted outside of meetings. Each appointment shall be made in writing signed by the appointing Member and filed with the Secretary. Designees of an Ex officio Member shall be an officer or employee of the Ex officio Member's agency. The appointment of a designee in the foregoing manner shall remain in full force and effect unless and until revoked in a writing signed by the Member by whom such designee was appointed and filed with the Secretary, or until the earlier removal or resignation of such designee from the office or employment that qualified that person for appointment, or until the Member who appointed such designee ceases to be a Member. Each designee shall have the same rights, duties and obligations as a Member, and shall be subject to the same standard of care as a Member, when acting in the stead of a Member. In these Bylaws, any committee charter, policy or procedure adopted by the Board, any reference to Board "members," "committee members," or "trustees," including the defined terms "Members" or "Committee Members" in these Bylaws, shall be deemed to refer to the authorized designees described in this section where the context permits such interpretation.

Section 1.5. Oath of Office. Each Member shall, before exercising any power or privilege of office as a Member, take and subscribe to the oath of office in the form prescribed by law. Such oath shall be certified to by the officer before whom it is taken and immediately filed in the office of the Secretary of the Commonwealth. Designees of the Ex officio Members or the Legislative Members shall take and subscribe to the same oath of office as Members do. No person shall be allowed to take the oath of office or enter or continue upon his or her duties as a Member or as a designee of the Ex officio Members or Legislative Members unless that person has filed a statement of financial interests for the preceding calendar year pursuant to the Public Official and Employee Ethics Act, 65 Pa. C.S. §§ 1101-1113 and, if applicable, pursuant to the Governor's Code of Conduct, promulgated by Executive Order 1980-18, as amended, in accordance with State Employees' Retirement System policies or other applicable law and has filed copies thereof (through the Chief Compliance Officer) with the Board.

Section 1.6. Removal and Resignation from Office. A Member shall be subject to removal from office only in accordance with the provisions of Article VI of the Constitution of

Pennsylvania or other applicable law. Any Member may resign at any time. Such resignation shall be in writing filed with the Secretary, but acceptance thereof by the Secretary or by any other party shall not be necessary to make it effective.

Section 1.7. Compensation. Members who are members of the System or participants in the Plan shall serve without compensation. Members who are not members of the System or participants in the Plan shall receive \$100 per day when attending meetings of the Board or committees established by the Board. All Members shall be reimbursed for any necessary expenses while attending to official business.

Section 1.8. Attendance. Each Member, or the Member's duly appointed designee, is expected to attend substantially all Board meetings and committee meetings for the committees to which such Member has been appointed. The Board may establish a process to grant excused absences for good cause. Non-committee Members are invited to participate in committee meetings as non-voting observers. Absences shall be noted in the minutes of the Board or committee meeting.

## ARTICLE II MEETINGS OF THE BOARD AND COMMITTEES

Section 2.1. Place of Meetings. Meetings of the Board and any committee of the Board shall be held at the main office of the System, 30 North Third Street, Harrisburg, PA, unless another place within the Commonwealth of Pennsylvania is designated in the notice of the meeting. When determined necessary by the Chairperson in his/her sole discretion either to achieve a quorum or due to special circumstances, Members may participate in regular or special meetings of the Board by means of conference telephone or similar communications equipment, provided that during the conduct of such meeting all persons participating therein can hear each other and the meeting is conducted in accordance with the Pennsylvania Sunshine Act (65 Pa. C.S. §701 *et seq.*) (the "Sunshine Act"). Any Member may participate in a committee meeting by means of conference telephone or similar communications equipment, provided that during the conduct of such meeting all persons participating therein can hear each other and the meeting is conducted in accordance with the Sunshine Act. A roll call shall be taken for all votes during the attendance of any Members by telephone or teleconferencing. In the event there is a technical problem with the connection at any time during the meeting, or during a vote, the meeting will be temporarily held in abeyance until the connection has been restored or three unsuccessful attempts have been made to restore the connection. Participation in a meeting pursuant to this section shall constitute a presence in person at such meeting.

Section 2.2. Regular Meetings. The Board shall hold at least six regular meetings annually. The committees shall hold as many meetings as may be required in their respective committee charters. The Chairperson, after consulting with Members, shall establish the agenda for each regular meeting of the Board and shall give notice of the agenda to the Members prior to the meeting. The committee chair, after consulting with the Members of the committee, shall establish the agenda for each regular meeting of the committee. The Board and each committee

required to have regular meetings shall give public notice of its first regular meeting in each year as required by the Sunshine Act and other applicable law and, prior thereto or immediately thereafter, shall give public notice of other scheduled regular meetings for the year in compliance with the Sunshine Act and other applicable law.

Section 2.3. Special Meetings. Special meetings of the Board shall be held whenever called by the Chairperson or two-thirds of Members. Special meetings of committees shall be held whenever called by the committee chair or two-thirds of the committee members. Notice of a special meeting shall be given to the public as required by the Sunshine Act and other applicable law.

Section 2.4. Emergency Meetings. The Chairperson may call an emergency meeting of the Board for the purpose of dealing with a real or potential emergency involving a clear and present danger to life or property.

Section 2.5. Notice of Meetings.

(a) Regular Meetings. No notice shall be required to be given of any regular meeting held on the date specified in the public notice referred to in Section 2.2 and at the location established for holding the meeting. In the event any regular meeting is to be held on a date which has not been so advertised or at a different location, notice shall be given as required by the Sunshine Act or other applicable law.

(b) Special Meetings. Notice of special meetings shall be given as required by the Sunshine Act or other applicable law.

(c) Emergency Meetings. Advance public notice of an emergency meeting of the Board is not required; but, to the extent practicable, the Chairperson shall attempt to give actual advance notice of such meeting, especially to individuals or organizations with a direct and substantial interest in the official action scheduled for consideration.

Section 2.6. Quorum and Voting. A majority of the Members or Committee Members in office shall be necessary to constitute a quorum for the transaction of business at a Board or committee meeting, and the acts of a majority of the Members or Committee Members present and voting at a meeting at which a quorum is present (so long as such majority constitutes a majority of a quorum) shall be the acts of the Board or committee. If there is no quorum present at a duly convened meeting of the Board or committee, a majority of those present may adjourn the meeting from time to time.

Section 2.7. Open Meetings. Official actions and deliberations by a quorum of the Board or any committee shall take place at a meeting open to the public unless permitted otherwise by the Sunshine Act or other applicable law.

Section 2.8. Executive Sessions. The Board or any committee may hold an executive session for any one or more of the reasons enumerated in the Sunshine Act or as permitted by other applicable law, including, without limitation, the discussion of personnel matters, the purchase or lease of real property, pending or expected litigation, agency business which, if conducted in public, would violate a privilege or lead to the disclosure of information or confidentiality protected by law, or quasi-judicial deliberations. “Information or confidentiality protected by law” shall include, without limitation, any information submitted to the Board under the terms of an express confidentiality agreement with a business entity offering any security for sale to and purchase by the Board in a non-public offering; deliberations with respect to the purchase, holding or sale of, or the exercise of voting rights with respect to, the publicly traded securities of any business entity, which deliberations, if conducted in public, may or might have a material bearing on the market for such securities; and any other deliberations with respect to any proposed or actual investment of the Board which, if conducted in public, may or might so substantially affect the price or terms of any transaction concerning such investment, or the value thereof, as to adversely affect the System and its participants.

Section 2.9. Voting Conflicts. Any Member who by voting would be voting on a matter that would result in a conflict of interest shall abstain from voting on such matter, refrain from participating in any discussions concerning such matter, and, prior to the vote being taken on such matter, publicly announce and disclose the nature of his or her interest as a matter of public record. A conflict of interest does not arise in connection with an action which would have an insignificant economic effect on any interest of the Member or which affects the Member only as a member of the general public or of a not de minimus subclass of the general public, or as a member of the System, Plan, or Commonwealth Deferred Compensation Plan as a whole; provided, however, that no Member shall vote on any quasi-judicial matter to which such Member or a member of his or her immediate family is a party; and provided, further, that this Section 2.9 applies only to the possible use by a Member of his or her vote for private pecuniary benefit and does not in any way affect the Member’s other fiduciary responsibilities to the members of the System in connection with official actions in which the Member has no private interest.

Section 2.10. Notational Voting. Members may cast votes by notational voting by ballot whereby a vote is taken of members individually upon a recommended written motion, resolution, rule, proposal, regulation, report or order prepared by the staff of the System or an individual Member and circulated for approval to all Members. Absent unusual circumstances to be determined by the Chairperson, the Board will resort to notational voting only in quasi-judicial matters to promote timely decision-making after full deliberations have been completed in executive session, or in certain financial or investment transactions in which a resolution or other similar formal action of the Board is required to expedite or complete the appropriate documentation. In quasi-judicial matters, the Chairperson or the Secretary shall, at the first open meeting after the adoption of written opinions or orders by notational voting, announce the substance of matters so decided and cause the record of the votes cast by individual members on each such matter to be entered in the minutes of the meeting.

Section 2.11. Rules of Order; Construction. Except to the extent otherwise provided by law or by these Bylaws, the rules of order for meetings of the Board and committees thereof shall follow as closely as practicable those prescribed for small assemblies or similar small bodies in the most recently published revision of Robert's Rules of Order. Such rules of order shall be construed to promote the orderly and efficient conduct of business and to avoid procedural complexity which may delay or hinder the taking of action required by law or advisable in the prudent exercise of the Board's fiduciary responsibility to members of the System.

Section 2.12. Minutes of Meetings. Written minutes shall be kept of each open meeting; and after approval by the Board or committee, such minutes shall be made available for public inspection and copying. The minutes shall be prepared as required by Section 6 of the Sunshine Act or other applicable law. Audio tape recordings of open Board meetings may be made solely for the purpose of facilitating the preparation of written minutes. Such tape recordings shall be retained until Board approval of the minutes to which they relate.

### ARTICLE III COMMITTEES

Section 3.1. Board Committees. The Board may establish by resolution one or more standing or special committees, each to consist of two or more Members. In addition, the Chairperson may establish special advisory or review committees. Any committee, to the extent, but only to the extent, provided in an applicable resolution of the Board, committee charter or in these Bylaws, shall have and may exercise any of the powers and authority of the Board. The Board has established the following standing committees, which may be changed from time to time by Board resolution: Audit, Risk and Compliance Committee; Investment Committee; Board Governance and Personnel Committee; Finance and Member Services Committee; Defined Contribution Committee; and Securities Litigation Committee (collectively, the "Standing Committees"). The Board shall delegate to the Standing Committees the authority to take such actions and perform such duties as expressly stated in the Standing Committees' committee charters; provided that no committee shall have the power to amend, modify or repeal a resolution of the Board or to amend these Bylaws or to take any action on matters committed by Board resolution or applicable law to the full Board under terms or provisions that make such action non-delegable.

Section 3.2. Committee Membership. Unless designated by resolution, the Members of any committee ("Committee Members") shall be appointed by the Chairperson, with the Board's advice. The Chairperson may appoint a Member to multiple committees. The Chairperson shall appoint each Member to a committee as the Chairperson may reasonably determine.

Section 3.3. Committee Member Terms. Except for the Treasurer of the Commonwealth of Pennsylvania and the Secretary of Banking and Securities, who are permanent Committee Members on the Investment Committee, in January of each year, the Chairperson shall appoint the Committee Members, who shall have terms through December 31<sup>st</sup> of that year, with service at the pleasure of the Chairperson. In the event of a vacancy on a

committee, the Chairperson shall appoint a replacement Committee Member for the balance of the term of the vacating Committee Member. Except as to membership on the Audit, Risk and Compliance Committee, there shall be no limitation on the number of full terms for which a Committee Member may be reappointed. No Member shall serve on the Audit, Risk and Compliance Committee for more than four consecutive full terms, except that a Committee Member may be reappointed to the Audit, Risk and Compliance Committee by the Chairperson following a one-year absence from the committee. Notwithstanding the foregoing, each Committee Member shall serve until his or her successor is duly appointed or until his or her earlier death, resignation or removal, it being understood that termination of membership on the Board shall constitute a resignation from the committee.

Section 3.4. Committee Chairs. Annually, Committee Members shall elect a chair of the committee ("Committee Chair") at such time as the first committee meeting of the year or at such time as the Committee Chair position becomes vacant. The Chairperson may not serve as a Committee Chair, except that the Chairperson may serve as the Committee Chair for the Board Governance and Personnel Committee. The Committee Chair shall take office effective as of the day of his or her election and shall serve as Committee Chair through December 31<sup>st</sup> or until the Committee Chair's successor is duly elected or such officer's earlier death, resignation or removal. If the Committee Chair does not complete his or her term, then the Committee Members shall elect an interim Committee Chair at the Committee meeting following the Committee Chair's departure from the Committee. The interim Committee Chair shall serve until the new Committee Chair takes office according to the procedures outlined above. The Committee Chair shall preside at all meetings of the committee. The Committee Chair shall have such other powers and perform such other duties as may be delegated by the Board and as described in the Committee Chair Position Description.

Section 3.5. Committee Assistant Chairs. Annually, the Committee Chair shall appoint a committee assistant chair with the advice and consent of the Committee ("Committee Assistant Chair"). The Committee Assistant Chair shall preside at all meetings of the committee in the absence of the Committee Chair. The Committee Assistant Chair shall have such other powers and perform such other duties as may be delegated by the Committee Chair and as described in the Committee Assistant Chair Position Description. The Committee Assistant Chair shall serve through December 31<sup>st</sup> or until the Assistant Chair's successor is duly appointed or such officer's earlier death, resignation or removal, with service at the pleasure of the Committee Chair.

Section 3.6. Committee Officers. Except as otherwise provided in these Bylaws or by Board resolution, Committee Members may, in their discretion, elect such other officer(s) for the committee as they shall determine from time to time.

Section 3.7. Bylaws Apply to Committee Governance. The term "Board," when used in any provision of these Bylaws relating to the organization or procedures of, or the manner of taking action by, the Board, shall be construed to include and refer to any committee of the Board. Any provision of these Bylaws relating or referring to action to be taken by the Board or the procedure required therefor shall be satisfied by the taking of corresponding action by a

committee of the Board to the extent authority to take the action has been delegated to such committee pursuant a resolution of the Board, committee charter or these Bylaws.

#### ARTICLE IV OFFICERS

Section 4.1. Officers and Terms. The System shall have a Chairperson, Assistant Chair, and a Secretary. The Secretary also shall serve as Executive Director. The Chairperson shall be designated by the Governor from among the Members. The Assistant Chair shall be appointed by the Chairperson after consulting with the Board. The Secretary shall be appointed by the Board. The Board may appoint one or more other officers or assistant officers having such powers and duties as may be assigned to such officers by the Board. Each officer other than the Chairperson and the Assistant Chair shall serve at the pleasure of the Board, until such officer's earlier death, resignation or removal.

Section 4.2. Powers and Duties of the Chairperson. The Chairperson shall preside at all meetings of Board. In the absence of the Chairperson at a duly convened meeting of the Board, or the inability of the Chairperson to participate in a meeting telephonically, the Assistant Chair shall preside at such meeting of the Board. The Chairperson shall have such other powers and perform such other duties as may be assigned to such officer by the Board or as described in the Chairperson Position Description.

Section 4.3. Powers and Duties of the Assistant Chair. The Assistant Chair shall preside at all meetings of the Board in the absence of the Chairperson, as described in Section 4.2. The Assistant Chair shall have such other powers and perform such other duties as may be delegated by the Chairperson or as described in the Assistant Chair Position Description. The Assistant Chair shall serve a nominal two-year term, with service at the pleasure of the Chairperson, or until such officer's earlier death, resignation or removal.

Section 4.4. Powers and Duties of the Secretary/Executive Director. The Executive Director in his or her capacity as Secretary, shall have the powers and duties set out in Section 5902(a.1) of the Retirement Code and such other powers and duties as have been or are assigned to the Secretary and the Executive Director by the Board and generally shall have the usual duties of an executive officer with general supervision over and direction of the affairs of the System. The Executive Director/Secretary shall serve as the primary point of contact between the Board and the System. Except as otherwise established by Board approved policy, the Executive Director/Secretary shall be responsible for providing and/or delivering all information, reports, documents and communications from the System, other than from the Chief Counsel or the Chief Compliance Officer, but including from the Investment Office, to the Board. Notwithstanding the foregoing, the Executive Director/Secretary may delegate such responsibilities to System staff, agents and independent contractors as the Executive Director/Secretary may reasonably determine, provided that the Executive Director/Secretary shall remain responsible for overseeing such reporting to the Board.

ARTICLE V  
AMENDMENTS

The Board (but not a committee thereof) shall have the power to modify, amend and repeal these Bylaws or any committee charter by a two thirds (2/3) vote of the Members present and voting at any open meeting at which a quorum is present after 15 days advance written notice to all Members. Such notice shall set forth the proposed modifications or amendments or specify the provisions proposed to be repealed. The text of each modification, amendment or repeal of the Bylaws or committee charter shall be attached to the Bylaws or committee charter (as appropriate) with a notation of the date of such modification, amendment or repeal. At any time and from time to time, the Chairperson may direct the Executive Director/Secretary to certify and publish a restatement of these Bylaws or any committee charter, as amended as of the date of such certification.

ARTICLE VI  
INDEMNIFICATION

The System shall, to the extent required by applicable law or policy adopted by the Board, indemnify each Member against any and all liabilities and advance any and all reasonable expenses (including attorneys' fees) as incurred by such person, arising out of or in connection with any proceeding to which such person is a party because such person is or was a Member.



**Summary of Recommended Changes to Actuarial Valuation Assumptions  
Based Upon 19<sup>th</sup> Investigation of Actuarial Experience,  
Covering the Period January 1, 2015 to December 31, 2019,  
To Be Effective with the December 31, 2020 Actuarial Valuation**

**I. Economic Assumptions**

- a. Annual Inflation Assumption & General Salary Increase Assumption: Based upon the gradual downward trend in U.S. inflation and the recent action by the Social Security Administration to lower their projection of future annual inflation, Korn Ferry recommends a decrease in the annual inflation assumption from 2.60% to 2.50%. Because this annual inflation assumption is also a component of the general salary increase assumption (which estimates annual across-the-board pay increases to active SERS members), Korn Ferry therefore also recommends a decrease in the general salary increase assumption from 2.90% to 2.80% per year
- b. Career Salary Increase Assumptions (which estimate average annual salary increases due to merit and promotions): Since actual career salary increases observed over the study period were lower than expected, with significantly lower rates of salary growth in the first few years of employees' careers, Korn Ferry recommends reductions at every service level, ranging from 0.30 percent to 1.85 percent decreases, and averaging about 0.7 percent lower. The table below shows the specific assumptions being recommended:

<b>Years of Credited Service</b>	<b>Current Assumed Annual Increase in Career Salary</b>	<b>Recommended Assumption - Annual Increase in Career Salary</b>	<b>Years of Credited Service</b>	<b>Current Assumed Annual Increase in Career Salary</b>	<b>Recommended Assumption - Annual Increase in Career Salary</b>
<b>1</b>	6.00%	4.15%	<b>16</b>	2.10%	1.25%
<b>2</b>	4.50%	3.25%	<b>17</b>	2.05%	1.20%
<b>3</b>	4.00%	2.90%	<b>18</b>	2.00%	1.15%
<b>4</b>	3.75%	2.70%	<b>19</b>	1.95%	1.15%
<b>5</b>	3.50%	2.50%	<b>20</b>	1.90%	1.10%
<b>6</b>	3.25%	2.35%	<b>21</b>	1.85%	1.00%
<b>7</b>	3.00%	2.15%	<b>22</b>	1.75%	0.95%
<b>8</b>	2.90%	2.10%	<b>23</b>	1.65%	0.90%
<b>9</b>	2.80%	2.00%	<b>24</b>	1.55%	0.85%
<b>10</b>	2.70%	1.60%	<b>25</b>	1.45%	0.80%
<b>11</b>	2.60%	1.55%	<b>26</b>	1.25%	0.70%
<b>12</b>	2.50%	1.45%	<b>27</b>	1.05%	0.60%
<b>13</b>	2.40%	1.40%	<b>28</b>	0.90%	0.50%
<b>14</b>	2.30%	1.35%	<b>29</b>	0.85%	0.50%
<b>15</b>	2.20%	1.30%	<b>30+</b>	0.80%	0.50%



## II. Demographic Assumptions

- a. Annuitant Mortality Assumptions: Although the actual 2015-2019 mortality experience of SERS annuitants did not deviate significantly from our current assumed death rates, in order to better reflect the mortality experience of SERS annuitants, we recommend a revised set of mortality assumptions based upon the Society of Actuaries' Pub-2010 study of public sector retirement systems and their most recent forecast of future mortality improvements (future increases in life expectancy). Therefore, we recommend the following updated mortality assumptions:

Male Non-Disabled: PubG-2010 Male Mortality Table, with post-2010 mortality improvement based on Scale MP-2019 for Males

Female Non-Disabled: PubG-2010 Female Mortality Table (set forward 1 year), with post-2010 mortality improvement based on Scale MP-2019 for Females

Male Disabled: PubNS-2010 Male Mortality Table (set forward 2 years), with post-2010 mortality improvement based on Scale MP-2019 for Males

Female Disabled: PubNS-2010 Female Mortality Table (set forward 2 years), with post-2010 mortality improvement based on Scale MP-2019 for Females

- b. Superannuation Retirement Assumptions Applicable to General Employees (i.e., Classes AA and A): In general, for both males and females, (i) relatively fewer employees are retiring at, or prior to, the earliest superannuation ages and (ii) relatively more are deferring retirement until Social Security Retirement Ages (65-66) or beyond. Therefore, we recommend:

For Males: Lower retirement rates prior to age 64,

For Females: Lower retirement rates from ages 60 through 64 and

For Both Males and Females: Higher retirement rates after age 64

- c. Other Demographic Assumptions:

i. **Applicable to all active employees, we recommend –**

1. Decreases to mortality rates; for both males and females
2. Decreases to disability retirement rates for both males and females
3. Increases to employee withdrawal rates for both males and females

ii. **Applicable to general (Classes AA & A) employees, we recommend –**

1. Decreases to early retirement rates for those with 15+ years of service for both males and females
2. Slight decreases to early retirement rates for those with < 15 years of service for both males and females

iii. **Applicable to employees in various special benefit classes, we recommend –**

1. Changes to superannuation rates as follows: Increases for state police (> 19 years service), other hazardous duty employees and legislators; decreases for judges/justices



2. Changes to early retirement rates as follows: Increases for state police, other hazardous duty employees and legislators; decreases for judges/justices
3. Changes to withdrawal rates as follows: Increases for state police, other hazardous duty employees and judges/justices; decreases for legislators

### III. Special Assumptions

- a. Form of Payment: This experience study included a review of the forms of payment elected by retiring SERS participants over the 2015-2019 period. Based upon this experience, we recommend minor adjustment to the current Form of Payment assumptions, as follows:

<b>Form of Payment</b>	<b><u>Current Assumptions</u></b>	<b><u>2015-2019 Experience</u></b>	<b><u>Recommended Assumptions</u></b>
I. Single Life Annuity	32%	33.3%	33%
II. Option 1 (Guaranteed PV) OR Option 1 combined with joint and survivor Option	43%	41.0%	41%
III. Option 2 (100%) or 3 (50%) or other % to survivor	25%	25.7%	26%
IV. Total	100%	100.0	100%

- b. Probability of Electing Full Option 4 Withdrawal: This experience study included a review of the contributions and interest actually withdrawn by retirees out of the total contributions and interest available for withdrawal over the 2015-2019 period. Based upon our findings, we recommend that the percentage of retirees assumed to elect a full Option 4 withdrawal of contributions and interest be revised as follows:

<b>From Current Assumption of:</b>	<b>To Recommended Assumption of:</b>
80%	70%

- c. Years of Purchased Service by Eligible Members:

<b>Service</b>	<b>Number of Years Purchased</b>
0	0.08
1	0.06
2	0.04
3	0.02
4+	0.00

This experience study included a review of purchases of service by eligible SERS members over the 2015-2019 period. Our study revealed a significant overall decline in purchases of



service since this was last studied. We also determined that this lower level of activity of purchasing service is expected to continue. Therefore, Korn Ferry recommends the adoption of the purchased service assumptions included in the table above, which represent significantly lower levels of service expected to be purchased by eligible members of SERS in the future. Note that the assumed years purchased as shown above are reduced by 9% for Class A-3 and A-4 members.

#### **IV. Actuarial Certification**

This summary presents actuarial valuation assumption change recommendations being made by Korn Ferry based upon our investigation of the actuarial experience of the State Employees' Retirement System (SERS) of the Commonwealth of Pennsylvania, covering the period from January 1, 2015 to December 31, 2019. Excluded from the assumptions addressed in this summary is the annual investment return assumption, the selection of which will be made by the SERS Board at their meeting of July 29, 2020.

Otherwise, to the best of our knowledge, this summary is complete and accurate, and all recommended assumptions included herein are reasonable actuarial assumptions which represent our best estimate of anticipated experience under the plan, determined in accordance with the applicable actuarial standards of practice.

The actuaries certifying to these results and recommendations are members of the Society of Actuaries or other professional actuarial organizations and meet the Qualification Standards of the American Academy of Actuaries for purposes of issuing Statements of Actuarial Opinion.

Respectfully submitted,  
Korn Ferry  
July 17, 2020

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