

DRAFT MINUTES of SERS Finance & Member Services Committee Meeting – Friday, June 14, 2019

Attendees:

Committee Members and Designees

Stephen S. Aichele

David R. Fillman

John DiSanto

Mary A. Soderberg

Michael G. Tobash

Other Board Members and Designees

Glenn Becker

Robin L. Wiessmann – via phone

Charles Erdman – Designee for Senator John DiSanto

Susan Boyle – Designee for Representative Michael G. Tobash

Dan Ocko – Designee for Representative Dan B. Frankel

Bernie Gallagher – Designee for Representative Dan B. Frankel – via phone

Toni Marchowsky – Designee for Senator Vincent J. Hughes – via phone

Thomas Clancy – Designee for Treasurer Joseph M. Torsella

Brian LaForme – Designee for Secretary Robin Wiessmann

Leo Pandeladis – Designee for Secretary Robin Wiessmann

Alan Flannigan – Designee for Secretary Robin Wiessmann -via phone

Lloyd Ebright – Designee for Treasurer Joseph M. Torsella

State Officials and Visitors

Craig Graby, Korn Ferry Hay Group

Brent Mowery, Korn Ferry Hay Group

Kris Seets, Korn Ferry Hay Group

Jim Rohlinger, Empower Retirement

James Bloom, PPM AIRC

Matt Roche, Stepstone Group, LP- via phone

Jay Kloepper, Callan Associates Inc.

Bud Pellecchia, Callan Associates Inc.

Tom Shingler, Callan Associates Inc.

Staff

Rose Agnew

Bryan Lewis

Randy Albright

N. Joseph Marcucci

Terrill Sanchez

Joseph Torta

Don Bell

Jason Burger

Thomas Derr

Karen Lynn

Randy Gilson

Pam Hile

Kevin Kiehl
Christopher Houston
Barbara Kiral
Jeffrey McCormick
Ryan McCoy
Sara McSurdy
Sarah Souder
Jason Giurintano
M. Catherine Nolan
Anbria Bates
Sharon Smith
Dhanashree Chitnis
Dana Shettel
David Felix
Kara O'Donnell
Phillip Greenberg
Stephen Balucha
Suzanne Hansel
Jeffrey Meyer
Dan Krautheim
Katie Mathews
Matthew Meads
Jacob Fahnestock
Joel Rimby
William Troung
David Kuntch
Brian Gilroy

1. Call to Order

8:38 a.m. by Chairperson of the Committee, Mary A. Soderberg

2. Welcome and Introductions

3. Approval of Minutes

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

RESOLVED: That the Committee approves the minutes of the April 24, 2019, Finance and Member Services Committee meeting.

4. Old Business

a. SERS 19/20 Spending Authority Request

Sara McSurdy, Assistant CFO and current Acting CFO, gave an update on this matter. By notational voting by ballot, the Committee recommended that the State Employees' Retirement Board approve the re-budget of SERS' Administrative Budget for Fiscal Year 2019-20, substantially in the form proposed with such amendments as are permitted by the Office of the Budget, with the details of the proposed re-budget being included in a memo "Re: 19/20 Re-budget – Request to Spend" from the Acting Chief Financial Officer to the SERS Finance and Member Services Committee dated May 7, 2019.

All ballots were received by May 10th with the following results: -

4 votes approving the re-budget – Mary Soderberg, Stephen Aichele, David Fillman, Mike Tobash.

1 vote disapproving the re-budget – John DiSanto

Per Executive Director Terri Sanchez's report at SERS May 29, 2019, special board meeting, the full board accepted the recommendation of the Committee.

5. New Business

Discussion Items

a. Office of Member Services Update

Joe Torta, Director of the Office and Member Services, provided an Office of Member Services update. He stated that a majority of pre-Act 5 members are in classes AA and A3. He also reported that most employees first joining SERS after December 31, 2018, are staying in the default hybrid class A-5 and that only 1.76% have chosen the straight defined contribution plan option. He also stated that, year to date, SERS has had approximately 1,700 retirements with an average lump sum withdrawal of approximately \$100,000.

b. 2018 Actuarial Report Distribution

Joe Torta distributed the 2018 Actuarial Report for the Defined Benefit Plan as well as Benefits Completion Plan.

c. Office of Finance and Administration Update

Sara McSurdy provided the Office of Finance and Administration (OFA) update. She stated that year-end 2018 audits have been completed with no issues, that the financial statements are currently getting approved by the audit committee per their charter, and that an overview of financial highlights is planned for the July meeting. She also gave an update for each of SERS plans.

As of March 31, 2019, the SERS defined benefit plan net position increased approximately \$2 billion from year end 2018. This was mainly attributable to investment performance exceeding targets.

As of March 31, 2019, the Deferred Compensation Plan's net position was approximately \$3.6 billion. This increased approximately \$300 million from year end 2018. The increase was mainly attributable to investment performance.

The new Defined Contribution Plan established by Act 5 has been up and running for just over six months. SERS OFA, Office of Member Services, and Office of Information Technology have worked together as a team to accomplish many firsts for this plan. SERS has already seen a number of lifecycle events in the few short months that the plan has been up and running. Approximately three thousand accounts were opened at Empower for new hires, payroll transactions and contributions have been accepted from over 100 system employers, investments were facilitated through PA Treasury and investments managers, rollovers from other plans have been accepted, eligibility points for vesting purposes have been calculated, terminations

communicated to the Third-Party Administrator, and funds have been disbursed. The cumulative value of the participant accounts was approximately \$1.3 million as of June 14, 2019.

She added that SERS is currently projected to come in under budget for the fiscal year 2018-19.

d. Finance and Member Services Committee Work Plan

Sara McSurdy presented the Finance and Member Services Committee Work Plan, which outlined the meeting dates and business that needs to be conducted at those meetings. Per the charter, the Committee is required to meet two times per year, but various business needs will have the Committee meeting five times per year.

e. Stress Testing Implementation Plan (McSurdy)

Sara McSurdy provided an update on the Stress Testing Implementation Plan. She outlined historical and future stress testing, along with a plan to enhance reporting by adopting several of the PPMAIRC recommendations. She informed the Committee that this update was coming at an appropriate time because Korn Ferry and Callan will be presenting a form of stress testing in their assumed rate of return presentation.

Other highlights of the plan included: (i) SERS staff working with consultants over the summer to populate a draft report for the Committee to review and provide feedback on; and (ii) SERS Investment Office and Callan presenting the Asset/Liability study, which will utilize stochastic modeling, to SERS Investment Committee in September 2019. The ultimate goal is to have a finalized stress testing report by the end of calendar year 2019.

Informational Items Only

The Committee was also provided with following informational items:

- f. Directed Commissions (March)**
- g. Total Commissions (March)**
- h. Membership and Benefits lists (March)**

6. Special Presentations

a. Korn Ferry/Callan Presentation of Assumed Long Term Rate of Return Analysis and Committee Discussion

The assumed rate of return discussion was co-led by SERS actuary, Korn Ferry, and SERS general investment consultant, Callan. The purpose of this discussion was for the Committee to determine whether to keep the actuarial assumption at 7.25% or lower it for the 2019 actuarial valuation. Callan's presentation showed projected returns and risks, as well as asset class correlations. They provided the probability of achieving 7.25%, 7.0%, and 6.75% assumed rates of return over 1, 5, and 10-year periods, respectively. Korn Ferry then presented the impacts of what changing the assumed rate to each of those options would have on contribution rates, contribution dollars, liabilities, and funded status.

The Committee discussed the timing of setting the assumed rate of return in relation to the Investment Committee setting the Asset Allocation, which will take place this fall. The focus of

the discussion was understanding how these decisions relate to each other and which one drives the other.

Sara McSurdy gave some background on the rate setting timing. Historically, the assumed rate of return was approved by the Board in the April meeting following the valuation year. When the Board lowered the discount rate in April 2017, SERS staff communicated the resulting higher employer contribution rates to the Office of the Budget, which the budget office had not anticipated. Since then, the Board has adopted the assumed rate of return during the Summer preceding the valuation year. This allows SERS to make decisions in a less time-constrained environment and also allows for timely communication of contribution rates to the budget office for their upcoming fiscal year budget preparation.

After discussion, Committee Chairperson Soderberg polled the Committee to get their views. Committee members were in agreement that the rate should be lowered, but an agreement on one of the proposed rates could not be made. Representative Mike Tobash stated that the Committee could take the opportunity to lower SERS' risk and get into a position that is reasonable which would allow us to drive an asset allocation process in the Fall, and that he would recommend splitting the difference between 7.25% and 7%. The Committee agreed to move forward with lowering the assumed rate to 7.125% and the Chairperson stated that she would like to revisit after the asset allocation is finalized.

By motion that was moved, seconded, and approved by Committee members, it was **RESOLVED**: that the State Employees' Retirement Board: (i) lower the current annual assumed rate of investment return and leaves unchanged the current assumed rate of inflation; and (ii) adopt an annual assumed rate of investment return of 7.125% compounded annually and an annual assumed rate of inflation of 2.6% compounded annually, with both assumptions to be effective with the December 31, 2019, Actuarial Valuation and remain in effect until further changed by the Board.

7. Board Comments/Concerns/Questions

Continue to work on risk and stress testing deliverables and circle back to other PPMAIRC recommendations when staff believes the time is appropriate. Have an additional discussion on assumed rate or return after asset allocation is set.

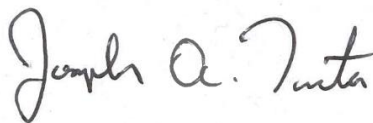
8. Motion to Adjourn

By motion that was moved by Mary Soderberg and approved unanimously by Committee members, it was **RESOLVED**: That this meeting is adjourned at 10:48 a.m.

Respectfully submitted,



Sara McSurdy
Acting Chief Financial Officer



Joseph Torta
Director of Member Services