

**MINUTES of SERS Board Regular Meeting - Wednesday, April 27, 2016**

**CALLED TO ORDER: 10:30 a.m. by Representative Robert W. Godshall on behalf of Chairman David R. Fillman**

**ATTENDEES:**

**Members and Designees**

M. Joseph Rocks – Chairman (In the absence of David R. Fillman)  
Stephen S. Aichele  
Glenn E. Becker  
Dan B. Frankel  
Robert W. Godshall  
Charles T. McIlhinney, Jr.  
Michael V. Puppio, Jr.  
T. Terrance Reese  
Timothy A. Reese  
Charles Duncan – Designee for Senator Vincent J. Hughes  
Bernie Gallagher – Designee for Representative Dan B. Frankel  
Dan Ocko - Designee for Representative Dan B. Frankel  
Ned Smith - Designee for Representative Robert W. Godshall

**Consultants**

Michael Elio, StepStone Group LLC  
Craig Graby, Hay Group, Inc.  
Anthony Johnson, RVK, Inc.  
Brent Mowery, Hay Group, Inc.  
Matt Roche, StepStone Group LLC  
Jim Voytko, RVK, Inc.

**Executive Staff**

Thomas F. Brier  
Karen Damiano-Stahler  
David E. Durbin  
Anthony Faiola

**Staff**

Rose Agnew  
Eric Baker  
Dino Degennaro  
Patricia Dence  
Linda Engle  
David Felix  
Michele Garsey  
Pamela Hile  
William Hutcheson

Meredith Jones  
Barbara Kiral  
Cheryl Krchnar  
Karen Lynn  
Katie Mathews  
Jeffrey Meyer  
James Nolan  
Jay Pagni  
Steven Rosenberry  
David Sedlak  
Joseph Torta  
William Truong

**Visitors**

Chris Ade, Lord, Abbett & Co., LLC  
Philip Falivene, BNY Mellon  
Michael Harris, PFM Asset Management LLC  
Todd Kowalski, PFM Asset Management LLC  
Sandy Leopold, PA Department of Treasury

**Presenters**

Alan Torrance, CEM Benchmarking

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### A. Investment Presentations and Reviews: SERS INVESTMENT OFFICE AND RVK, INC.

#### Presentation: 1. Capital Market Report

Messrs. Johnson and Voytko presented the report provided to the board (4/27/2016 board handouts).

#### Presentation: 2. Asset Allocation – Rebalancing Discussion

Messrs. Johnson and Voytko presented the report provided to the board (4/27/2016 Board Package, Investment Report, Tab 3).

### B. CEM BENCHMARKING, INC.

#### Presentation: 1. Operational Analysis Presentation

Mr. Torrance presented the report provided to the board (4/27/2016 Board Package, Administrative Report, Tab 14 and board handouts).

### C. REPORT FROM THE HAY GROUP

#### Action: 1. 2015 Final Actuarial Valuation Results

Messrs. Mowery and Graby presented the report provided to the board (4/27/2016 Board Package, Administrative Report, Tab 16 and board handouts). Mr. Mowery also noted that a copy of the SERS 18<sup>th</sup> Investigation of Actuarial Experience report was at each board member's place.

### **MOTION: 2016-19**

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

**RESOLVED:** That the board adopts the annual assumed rate of investment return of 7.5% compounded annually together with certain other contribution rates as calculated for the year and specified purpose by the Hay Group, Inc. (“SERS’ consulting actuary”), and as further described in ATTACHMENT A hereto, including, in particular, the establishment of a composite employer contribution rate of 32.14% necessary for the funding of the system and a composite collared contribution rate of 29.50% and an employer contribution rate of .01% to fund the Benefits Completion Plan.

### D. AUDIT COMMITTEE DISCUSSION

#### Action: 1. SERS Board and Organizational Structure Review

Senator Rocks presented the report provided to the board (4/27/2016 Board Package, Administrative Report, Tab 13).

### **MOTION: 2016-20**

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

**RESOLVED:** That the board, after consideration of the Audit Committee's recommendation, accepts Funston Advisory Services LLC's *SERS Board and Organizational Structure Review: Final Report* dated March 4, 2016 and all of the report's recommendations.

E. STANDARD MOTIONS

Action: 1. Minutes of Board Special Meeting – March 3, 2016

Senator Rocks presented the report provided to the board (4/27/2016 Board Package, Administrative Report, Tab 2).

**MOTION: 2016-21**

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

**RESOLVED:** That the board approves the minutes of the March 3, 2016 board special meeting.

Action: 2. Minutes of Board Meeting – March 9, 2016

Senator Rocks presented the report provided to the board (4/27/2016 Board Package, Administrative Report, Tab 3).

**MOTION: 2016-22**

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

**RESOLVED:** That the board approves the minutes of the March 9, 2016 board meeting.

Action: 3. Statement of Changes in Fiduciary Net Position for Periods Ending – January 31 and February 29, 2016

Senator Rocks presented the report provided to the board (4/27/2016 Board Package, Administrative Report, Tab 4).

**MOTION: 2016-23**

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

**RESOLVED:** That the board accepts the State Employees' Retirement System's Statement of Changes in Fiduciary Net Position for periods ending January 31 and February 29, 2016.

F. EXECUTIVE SESSION

Presentation: 1. Agenda

At 12:15 p.m., the board recessed and entered executive session to receive legal advice and confidential performance information on executive session agenda items, as attached (ATTACHMENT B).

G. LUNCH BREAKH. PUBLIC MEETING RESUMES

The public meeting resumed at 12:55 p.m.

I. REPORT FROM EXECUTIVE DIRECTOR

Action: 1. Actuarial Contract

Mr. Torta noted that the report was provided to the board (4/27/2016 Board Package, Administrative Report, Tab 9).

**MOTION: 2016-24**

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

**RESOLVED:** That the board approves a contract with Hay Group, Inc., as such entity is presently named, to provide actuarial services for a period of five years beginning on the later of

July 1, 2016, or expiration of any extensions of the current contract, subject to successful completion of contract negotiations. Any change of the name of Hay Group, Inc. as a result of a merger with Korn Ferry will not invalidate this motion and such newly named entity will replace Hay Group, Inc. in the actuarial service contract.

Action: 2. Independent Auditor Contract

Mr. Durbin noted that the report was provided to the board (4/27/2016 Board Package, Administrative Report, Tab 15).

**MOTION: 2016-25**

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

**RESOLVED:** That the board accepts the recommendation of the independent auditor evaluation team to hire KPMG, LLP as the external auditor, subject to successful completion of contract negotiations for years 2016 through and including 2020.

Presentation: 1. Board Adjudication

Mr. Durbin provided the board with the following information on the results of the notational ballot regarding Board Adjudication.

**Account of Lynn D. Wilson**

**Docket No. 2014-04**

**Claim of Donna Killinger**

The State Employees' Retirement Board **DENIED** Claimant's appeal of application for option change after Member's death. Board members M. Joseph Rocks and Representative Godshall dissented. They did not agree with the results of the Board Opinion and would grant Claimant's option change request thereby granting an Option 1 death benefit payable from the account of Lynn D. Wilson.

Presentation: 2. Board Dismissal

Mr. Durbin presented the report regarding uncontested matters that an Order was issued dismissing the following administrative appeal, as provided to the board (4/27/2016 Board Package, Administrative Report, Tab 8).

**Account of George F. Harpster**

**Docket No. 2014-13**

**Claim of George F. Harpster**

Presentation: 3. Minutes of Audit Committee Special Meeting and Regular Meeting – March 3, 2016 and March 9, 2016

Mr. Durbin noted that the report was provided to the board (4/27/2016 Board Package, Administrative Report, Tab 12).

Presentation: 4. Administrative Update

Mr. Durbin noted that the report was provided to the board (4/27/2016 Board Package, Administrative Report, Tab 10).

Presentation: 5. Legislative Update

Mr. Durbin noted that the report was provided to the board (4/27/2016 Board Package, Administrative Report, Tab 11).

J. NEXT BOARD MEETING – JUNE 8, 2016

Senator Rocks noted that the next regular meeting of the SERS board is scheduled for June 8, 2016.

K. MOTION TO ADJOURN

Action: 1. Adjournment

**MOTION: 2016-26**

By motion of Senator Rocks, the board unanimously agreed to adjourn the meeting at 1:05 p.m.

Respectfully submitted,



David E. Durbin  
Executive Director

## ATTACHMENT "A"

RESOLVED: That the board hereby adopts and establishes an annual assumed rate of investment return of 7.5% compounded annually, beginning on January 1, 2016, to be used for the December 31, 2015 actuarial valuation; approves the results of the 2015 actuarial valuation; and for the 2016/2017 fiscal year certifies the following:

1. Shared risk contribution rate of 0%;
2. Employer normal contribution rate of 4.52%;
3. Composite employer contribution rate necessary for the funding of the system of 32.14%;
4. Composite collared contribution rate of 29.50%;
5. Composite final contribution rate of 29.51%; and
6. Employer contribution rates by group and class of service of employees as set forth in the actuarial valuation

as calculated by the Hay Group, Inc. ("SERS' consulting actuary") pursuant to Section 5508 of the State Employees' Retirement Code; and authorizes SERS' staff and SERS' consulting actuary to use these rates to develop all the employer rates for the period July 1, 2016 to June 30, 2017, and authorizes the Executive Director to certify such rates to all employers with employees who are active members of SERS and to the Secretary of the Budget.

FURTHER RESOLVED: That, if legislation is enacted that, notwithstanding the actuarial calculation resulting in a composite final contribution rate as adopted by the board above, establishes a maximum percentage that the contribution rate can increase or decrease over the contribution rate for the immediate prior fiscal year, then the board hereby adopts a revised composite collared and composite final contribution rate for the 2016/2017 fiscal year equal to such contribution rate, authorizes SERS' staff and SERS' consulting actuary to use the revised composite final contribution rate to develop and revise all the employer rates for the period July 1, 2016 to June 30, 2017, or such shorter period as may be established in said legislation, and authorizes the Executive Director to certify such revised rates to all employers with employees who are active members of SERS and to the Secretary of the Budget.

AND FURTHER RESOLVED: That in addition to the foregoing employer contribution rates, the board hereby adopts and establishes an employer contribution rate of .01% for the fiscal year 2016/2017 to fund the Benefits Completion Plan established pursuant to Section 5941 of the State Employees' Retirement Code and authorizes the Executive Director to certify such rate to all employers with employees who are active members of SERS and to the Secretary of the Budget.

# ATTACHMENT B

## EXECUTIVE SESSION AGENDA

Meeting: April 27, 2016

### Executive Session

1. Pending Litigation Update
2. Fund Update
3. Preliminary Fund Performance and Risk Statistics
4. Personnel Update