

**MINUTES of SERS Finance & Member Services Committee Meeting – Friday March 15, 2019**

**This meeting was held in conjunction with the Board Retreat at the AFSCME Conference Center**

**Attendees:**

**Committee Members and Designees**

Stephen S. Aichele  
David R. Fillman  
Mary A. Soderberg, Committee Chairperson

**Other Board Members and Designees**

Glenn E. Becker  
John M. DiSanto  
Michael G. Tobash  
Joseph M. Torsella  
Robin L. Wiessmann  
Susan Boyle - Designee for Representative Michael G. Tobash  
Thomas Clancy – Designee for Treasurer Joseph M. Torsella  
Charles Erdman - Designee for Senator John M. DiSanto  
Bernie Gallagher – Designee for Representative Dan B. Frankel  
Brian LaForme – Designee for Secretary Robin L. Wiessmann  
Toni Marchowsky – Designee for Senator Vincent J. Hughes  
Dan Ocko – Designee for Representative Dan B. Frankel

**Consultants**

Charlie Duane, McKinsey & Company  
Bryce Klempner, McKinsey & Company  
Emily Osborne, McKinsey & Company  
Elizabeth Skovira, McKinsey & Company

**Staff**

Rose Agnew  
Randy Albright  
Stephen Balucha  
Don Bell  
Jason Burger  
Thomas Derr  
Anthony Faiola  
David Felix  
Jonathan Ferrar  
Brian Gilroy  
Randy Gilson  
Phillip Greenberg  
Suzanne Hansel  
Pamela Hile

Christopher Houston  
Carolyn Johnstone  
Kevin Kiehl  
Khalfani King  
Barbara Kiral  
Dan Krautheim  
Bryan Lewis  
Alan Lin  
Karen Lynn  
N. Joseph Marcucci  
Katie Mathews  
Jeffrey McCormick  
Sara McSurdy  
Matthew Meads  
Jeffrey Meyer  
James Nolan  
M. Catherine Nolan  
Terrill Sanchez  
David Sedlak  
Bruce Thomas  
Joseph Torta  
William Truong

**Visitors**

James Bloom, Public Pension Management and Asset Investment Review Commission  
Lloyd Ebright, PA Treasury  
Alan Flannigan, PA Dept. of Banking & Securities  
Ben Sherry, Financial Times

**1. Call to Order**

1:10 p.m. by Chairperson of the Committee, Mary A. Soderberg

**2. Welcome and Introductions****3. Approval of Minutes (none)****4. New Business (none)****5. Old Business**

- a. The committee noted that a great deal of review and discussion of PPM AIRC Recommendations 1 to 4 regarding the topic of full funding took place at the previous committee meeting in February and that they were ready to move forward on this topic.

By motion that was moved, seconded, and approved by committee members, it was **RESOLVED**: That the State Employees' Retirement Board direct SERS Executive Director and staff to work with the General Assembly to pursue legislative strategies to ensure full funding in a manner that meets the objectives of the Public Pension Management and Asset Investment Review Commission (PPMAIRC) recommendations (Attachment, PPM AIRC Recommendations Chart # 1-4), including exploring the use of a dedicated funding source to fund future obligations.

- b. The committee built upon previous discussions over PPM AIRC Recommendations 7 to 13 regarding stress testing. The discussions continued and incorporated educational information

regarding stress testing that was presented at the board retreat the day before (3/14/19) by SERS' actuary, Korn Ferry. The committee decided they were ready to move forward on this topic.

By motion that was moved, seconded, and approved by committee members, it was RESOLVED: that the State Employees' Retirement Board direct SERS Executive Director and staff to work with the actuary, Korn Ferry, on implementing annual stress testing for SERS that is in line with the broad overall objectives of the Public Pension Management and Asset Investment Review Commission (PPMAIRC) recommendations (Attachment, PPMAIRC Recommendations Chart # 7-13) and to discuss the stress testing approach with the General Assembly.

- c. The committee reviewed PPMAIRC Recommendations as part of the Board Governance and Personnel Committee meeting, which was jointly held.
- d. The committee reviewed PPMAIRC Recommendations as part of the Investment Committee meeting, which was jointly held.

**6. Special Presentations (none)**

**7. Formal Motions to the Board**

The Finance and Member Services Committee Chair makes the following motions:

**Full Funding**

That the State Employees' Retirement Board accept the recommendation of the Finance & Member Services Committee to direct SERS Executive Director and staff to work with the General Assembly to pursue legislative strategies to ensure full funding in a manner that meets the objectives of the Public Pension Management and Asset Investment Review Commission (PPMAIRC) recommendations (Attachment, PPMAIRC Recommendations Chart # 1-4), including exploring the use of a dedicated funding source to fund future obligations.

**Stress Testing**

That the State Employees' Retirement Board accept the recommendation of the Finance & Member Services Committee to direct SERS Executive Director and staff to work with the actuary, Korn Ferry, on implementing annual stress testing for SERS that is in line with the broad overall objectives of the Public Pension Management and Asset Investment Review Commission (PPMAIRC) recommendations (Attachment, PPMAIRC Recommendations Chart # 7-13) and to discuss the stress testing approach with the General Assembly.

**8. Confirmation of Next Steps**

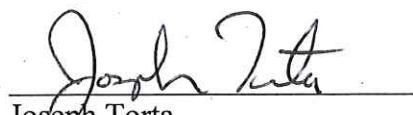
The committee and staff will continue to review remaining PPMAIRC recommendations.

**9. Motion to Adjourn**

**Motion:**

By motion that was moved by Mary Soderberg and approved unanimously by committee members, it was RESOLVED: That this meeting is adjourned at 3:15 p.m.

Respectfully submitted,

  
Anthony Faiola  
Chief Financial Officer  
Joseph Torta  
Director of Member Services

#	Recommendation
<b>FULL FUNDING</b>	
1	The Commonwealth should annually maintain full payment of the actuarially determined contribution amount necessary to fund each public pension plan.
2	The General Assembly should consider additional legislation mandating full funding of each retirement fund, pursuant to Act 120 of 2010 as an annual budgetary priority.
3	The General Assembly should consider legislation requiring the pre-funding of any future benefit structure enhancement or COLA.
4	The General Assembly should consider the creation of a rate stabilization fund as a precaution against annual underfunding of the two retirement systems during periods of state budgetary stress.

#	Recommendation
<b>STRESS TESTING</b>	
7	The General Assembly enact legislation requiring an annual stress test of each system, broadly aligning with the Blue-Ribbon Panel recommendations, including at least a 2-percentage point variation in a baseline benchmark return, and a quantifiable contribution risk (e.g., the 80% measure recommended by the panel).
8	The Systems' stress tests report the impact of the stress on other financial measures (e.g., contributions in dollars, contributions as % of payroll, funded ratios, etc.) and cover a period of at least 30 years.
9	Stochastic models be used in addition to deterministic modelling.
10	The Systems make their stress test reports publicly available.
11	The Systems' stress test charts be simple to understand, with the policy question or decision the chart address featured prominently and clearly at the top of each chart.
12	The Systems' stress tests be conducted by an experienced actuary, not an investment consultant.
13	The Systems conduct and publish "reverse" stress tests showing market events and funding scenarios likely to cause certain undesirable outcomes (including but not limited to the funds' investment portfolios becoming more illiquid than a Board-determined threshold limit, expressed as a multiple of annual distributions.)