

**Minutes of the Finance & Member Services Committee Meeting
June 9, 2020**

Attendees:

Committee Members and Designees

Ms. Mary Soderberg (Chair)
Mr. Charles Erdman (Designee for Senator John DiSanto)
Mr. David Fillman
Mr. Gregory Thall
Ms. Susan Boyle (Designee for Representative Michael Tobash)

Other Board Members and Designees

Mr. Gregory Jordan
Mr. Lloyd Ebright (Designee for Treasurer Joseph Torsella)
Mr. James Bloom (Designee for Acting Secretary Vague)
Mr. Alan Flannigan (Designee for Acting Secretary Vague)
Mr. Glenn Becker

Executive Staff

Terrill Sanchez
Alicia James
N. Joseph Marcucci
Christopher Houston
James Nolan
Joe Torta

1. Call to Order

Committee Chair Soderberg called the meeting to order at 10:06 A.M.

2. Welcome and Introductions

None

3. Approval of Minutes

Minutes of the April 21, 2020 Finance and Member Services Committee meeting.

Motion:

By motion that was moved by Mr. Fillman, seconded by Mr. Thall, and approved unanimously by Committee members, it was:

RESOLVED: That this Committee approves the minutes of the April 21, 2020 Finance and Member Services Committee meeting.

4. Old Business

None

5. Special Presentations

None

6. New Business/Discussion Items

Committee Chair Soderberg began the meeting by making a reference to a letter from The PEW Charitable Trusts to the PA State Government Committee Chairman that recognized the Korn Ferry 2019 stress testing of SERS as a leading example of pension stress test analysis. Committee Chair Soderberg commended SERS staff and Korn Ferry for their excellent work.

a. Financial Highlights for 2019

Ms. James presented a high-level overview of financial highlights for 2019 as follows:

* The net position for the defined benefit plan for year ending December 31, 2019, was \$31.096 billion. This is an increase of approximately \$4.2 billion from 2018.

* The changes in the net position were driven mainly by investment income.

* The investments are the most significant component of SERS assets. The total defined benefit portfolio fair value was \$31.2 billion for 2019, as compared to \$27.2 billion for 2018.

* SERS received approximately \$2.1 billion from employer contributions for 2019, which is an increase of approximately 3% compared to 2018.

- * There were approximately 6,100 new retirees added to the payroll in 2019, and those new retirees had an average annual benefit of \$28,800. There were more than 4,400 retirees removed from the payroll and their average annual benefit was \$16,300.
- * SERS paid approximately \$3.5 billion in benefit payments during 2019 and nearly \$3.2 billion were sent to PA addresses.
- * A summary of the 10-year funding and payment activity, which showed that over the past 10 years the investment earnings contributed to the largest portion of the funding received, and SERS' benefit payments and expenses continue to increase at a faster pace than its net assets. Ms. James then added that it is crucial for the employers to continue to fund the system at the required contribution rates because this allows the system to invest those contributions and realize the positive effects of earnings on those contributions compound over time.
- * According to a schedule of Projected Funding Levels & Contribution Rates produced by SERS actuary, Korn Ferry, if we continue to meet our assumed rate of return of 7.125% and there are no changes in the SERS statutory funding methodologies, no changes in the demographic or economic assumptions, and no changes in benefit provisions, the employer contribution rate is expected to decline going forward and our funded ratio will continue to improve.
- * An explanation reflecting the difference between GASB 67 (which is used for accounting valuation purposes) vs. the actuarial funding valuation that was presented by Korn Ferry in April.
- * Key elements of GASB 68, which requires SERS employers to report their proportionate share of net pension liability, pension expense, and deferred outflows/inflows related to pensions in their financial statements.
- * The Statements of Fiduciary Net Position as of December 31, 2019 and 2018 were also presented for the Defined Contribution Plan and the Deferred Compensation Plan.
- * The Statements of Changes in Fiduciary Net Position for years ended December 31, 2019 and 2018 were also presented for the Defined Contribution Plan and the Deferred Compensation Plan.
- * Highlights of the Defined Contribution Plan, which opened for enrollment on January 1, 2019, were presented.
- * Fund Balances & Breakouts to reflect where participants are investing their money were also presented for the Defined Contribution Plan and the Deferred Compensation Plan.
- * A detailed breakdown of the amount of contributions by fund were presented for the Defined Contribution Plan and the Deferred Compensation Plan.

Please note: Pound signs were listed in lieu of actual figures in some cases. Ms. James indicated she would adjust formatting and provide a revised copy of the presentation.

b. OFA Update

Ms. James also provided highlights within OFA, which included the following:

- * Staffing updates within OFA.
- * The implementation of the software package, Workiva, to generate the Defined Benefit/Defined Contribution Financial Statements.
- * A wire transfer of \$1.061 billion in connection with the PSU pre-funding agreement was received on April 30th, with PSU beginning to utilize the setoff credits provided for thereunder in July.
- * The creation of a new Asset Allocation Report to support the new asset allocation types and targets approved by the Board in December 2019.
- * The receipt of the 2018 Certificate of Achievement for Excellence in Financial Reporting by GFOA.

c. F&MS Committee Work Plan Update

Ms. James briefly discussed updates made to the F&MS Committee work plan, to include annual stress testing to be presented at the September meeting. Ms. James recognized OFA staff for compiling financial statements and meeting key deadlines; and Committee Chair Soderberg commended OFA staff for a job well done during the past six months in view of staffing and the on-line work atmosphere.

d. Member and Participant Services Update

Mr. Torta provided an update on the Office of Member and Participant Services as follows:

- * Pre and Post Act 5 Membership Data.
- * The Office of Member and Participant Services staff has provided high level customer service to members/participants while teleworking.

e. 2019 Actuarial Report Distribution

- * Mr. Torta also discussed the 2019 Actuarial Report for the Defined Benefit Plan and the Benefit Completion Plan (BCP) distributed by Korn Ferry.

Informational Items Only**f. Membership Class Breakdown**

- * Committee members were provided with a list of Pre and Post-Act 5 Membership Classes.

g. COVID-19 Distribution Statistics

- * Mr. Torta provided a breakdown of COVID-19 Distributions that participants in the Deferred Compensation Plan elected to take advantage of, as approved by the Board, until the end of the current calendar year.

h. Membership and Benefits lists (January and February)

7. Executive Session

None

8. Board Comments/Concerns/Questions

None

9. Motion to Adjourn

Motion:

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

RESOLVED: That this meeting be adjourned at 10:56A.M.

Respectfully submitted,



Sara McSurdy
Chief Financial Officer



Joseph A. Torta
Director of Member Services