

Penn SERS Stress Testing Praised as “Leading Example”
SERS Board Receives Year-End Financial Reports, First Quarter Investment Performance Reports, Continues Working Through Pension Review Commission Recommendations

HARRISBURG – The board of the Pennsylvania State Employees’ Retirement System, meeting here today, learned that its recently expanded stress testing was praised as a “leading example,” received year-end financial reports, a report on first quarter investment performance, and directed staff to act on several pension review commission recommendations.

In an April 22, 2020, letter, shared with the board during its meeting, the Pew Charitable Trusts praised SERS and its actuary, Korn Ferry, on the system’s stress testing report published in Dec. 2019 stating that, “Overall, we view the SERS report as a leading example of pension stress test analysis that provides policymakers and budget officials with accessible information about the impact of investment risk on government budgets and contribution risk on pension balance sheets.”

SERS worked with Korn Ferry to strengthen its stress testing last year, incorporating recommendations of the Society of Actuaries Blue Ribbon Panel and the Public Pension Management and Asset Investment Review Commission (review commission).

First Quarter Investment Performance

The board received a report on the returns generated by the State Employees’ Retirement Fund for the Defined Benefit Plan. Returns by asset class for the first quarter 2020 were:

Asset Class	1st Quarter 2020
Private Credit	2.47%
Private Equity	2.40
Inflation Protection (TIPS)	1.43
Cash	0.38
Fixed Income	(1.49)
Real Estate	(2.26)
U.S. Equity	(22.27)
Emerging Markets Equity	(23.00)
International Developed Markets Equity	(23.66)
Total Fund	(11.69)%

All returns are reported net of fees. Both private equity and real estate returns are reported on a quarter lag and are adjusted for cash flows.

In Dec. 2019, with input from investment office staff and SERS’ General Investment Consultant, Callan, the SERS Board adopted a new asset allocation specifically designed to reduce costs and increase the allocation to liquid assets with a lower correlation to public equity markets. During the first months of 2020, SERS completed its rebalancing to the new asset allocation, which provides increased security and diversification that helps the portfolio to withstand market turbulence and pay retirement benefits.

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The uncertainty around COVID-19 rocked investment markets late in the quarter. According to SERS' General Investment Consultant, Callan, equity markets around the globe collapsed very rapidly, over a short three-week period starting in late February, with the S&P 500 down 19.6% for the quarter.

"As pension professionals, we have a fiduciary responsibility to act in the best interests of our members and participants. We believe it's important to continue to monitor our portfolio with an eye toward gauging liquidity, as we are doing, ensuring we have assets on hand to meet benefit payment obligations and to also stick to a long-term perspective," explained SERS Executive Director Terrill (Terri) J. Sanchez. "In times like these it can be easy for some to deviate from their investment policy statement and long-term plans, but they are designed to keep us focused on the right things through thick and thin."

Actuarial Report & Audited Financial Statements

In other business, the board received the [2019 Actuarial Report](#) from SERS' actuary, Korn Ferry. The results of the actuarial report are used to determine Defined Benefit Plan employer contribution rates and provide valuable information on the assets, liabilities, and funded status of the pension system.

The board also accepted the audited financial statements for the retirement system for the years ended Dec. 31, 2019 and 2018. Both statements contained an unmodified independent auditors' opinion. One set of [statements reports on the Defined Benefit Plan and the Defined Contribution Plan](#), which both include funding from employee and employer contributions; and one set of [statements reports on the Deferred Compensation Plan](#), which is funded by participant contributions only.

Pension Review Commission Recommendations

The board directed staff to:

- Continue to actively participate in professional organizations including the Institutional Limited Partners Association, Pension Real Estate Association, Council of Institutional Investors, and National Association of State Retirement Administrators, in their efforts to reset the balance of power between asset owners and investment managers
- Include in investment committee memos, any prospective general partner's or manager's response regarding SERS' request for consent to publish performance metrics and other information, and manager responses to SERS' due diligence questionnaire pertaining to diversity and inclusion
- Support efforts to create an online database of minority- and woman-owned asset managers to be maintained by the PA Department of General Services
- Continue to seek investment opportunities with minority- and woman-owned asset management firms through SERS' Emerging Investment Manager Program, consistent with the board's fiduciary duties and responsibilities
- Announce public market manager searches on SERS' website, its general investment consultant's website, and through Twitter, LinkedIn, and industry publications

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- Amend the investment policy statement to provide that general and specialty investment consultants will be hired through a request for information (RFI) process, and to post such RFIs and the selected consultant's proposal on the SERS website
- Add questions to the SERS Investment Office due diligence questionnaire regarding whether a firm is compliant with the CFA Institute Asset Manager Code
- Defer the decision on the establishment of a review commission to the legislature

Other Action

In compliance with the board's *Fiduciary Review Policy* and *Board Self-Assessment Policy*, the board authorized procurement of a consultant to assist with conducting a fiduciary review and board self-assessment.

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Pennsylvania State Employees' Retirement System

Established in 1923, SERS is one of the nation's oldest and largest retirement plans for public employees, with more than 240,000 members. As of Dec. 31, 2019, SERS' Defined Benefit Plan had assets of \$31.1 billion and the Defined Contribution Plan, which launched on Jan. 1, 2020, had \$9.2 million. SERS also administers a voluntary supplemental Deferred Compensation Plan with more than 57,000 participants and assets of more than \$3.9 billion. A wealth of information is available at www.SERS.pa.gov.

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