



SERS Board Meeting MINUTES - Friday, March 15, 2019

LOCATION:

AFSCME Conference Center
150 South 43rd Street
Harrisburg, PA 17111

ATTENDEES:

Members and Designees

David R. Fillman – Chairperson
Glenn E. Becker
John M. DiSanto
Mary A. Soderberg
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

Executive Staff

Anthony Faiola
Bryan Lewis
N. Joseph Marcucci
Terrill Sanchez

Staff

Rose Agnew

Randy Albright
Stephen Balucha
Don Bell
Jason Burger
Thomas Derr
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
Alan Lin
Karen Lynn
Katie Mathews
Jeffrey McCormick
Sara McSurdy
Matthew Meads
Jeffrey Meyer
James Nolan
M. Catherine Nolan
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

Chairperson Fillman called the special meeting to order at 3:40 p.m.

2. WELCOME AND INTRODUCTIONS

a. Resolution for Retirement of Anthony Faiola, Chief Financial Officer

MOTION: 2019-13

By motion of Chairperson Fillman, the board unanimously agreed to recognize Anthony Faiola, Chief Financial Officer, with a board resolution, read by Executive Director Terrill Sanchez, a copy of which shall be filed with the minutes of this meeting (ATTACHMENT A).

3. APPROVAL OF CONSENT CALENDAR (None)

4. SPECIAL PRESENTATION (None)

5. COMMITTEE REPORTS AND ACTION ITEMS (MOTIONS POSSIBLE)

a. Board Governance and Personnel

Board Chairperson Fillman, on behalf of Committee Assistant Chair, Stephen Aichele, provided a report of the Board Governance and Personnel Committee meeting to the board (SERS 3/15/2019 Board Handout). The following actions were recommended:

MOTION: 2019-14

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

RESOLVED: That the board accepts the recommendation of the SERS Board Governance and Personnel Committee to approve an 8% pay increase to \$170.87 an hour for W. Bryan Lewis, Chief Investment Officer SERS, effective the first full pay period of March 2019.

MOTION: 2019-15

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

RESOLVED: That the board accepts the recommendation of the SERS Board Governance and Personnel Committee to direct staff to engage with McKinsey & Company, Inc. and other stakeholders to explore best practices and approaches for creating an operating structure pursuant to the recommendations of the Public Pension Management and Asset Investment Review Commission (PPMAIRC) to consolidate investment office operations with the Public School Employees' Retirement System that will serve the best interests of SERS members and to further engage with the Board Governance and Personnel Committee in reviewing the PPMAIRC recommendations.

b. Finance & Member Services

Chairperson Mary Soderberg provided a report of the Finance and Member Services Committee meeting to the board (SERS 3/15/2019 Board Handout). She commended retiring Chief Financial Officer Tony Faiola for his service to the system and introduced Sara McSurdy who will be acting as the Chief Financial Officer. The following actions were recommended:

MOTION: 2019-16

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

RESOLVED: That the board accepts 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 B, PPMAIRC Recommendations Chart #1-4), including exploring the use of a dedicated funding source to fund future obligations.

MOTION: 2019-17

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

RESOLVED: That the board accepts 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 C, PPMAIRC Recommendations Chart #7-13) and to discuss the stress testing approach with the General Assembly.

c. Investment

Chairperson Glenn Becker provided a report of the Investment Committee meeting to the board (SERS 3/15/2019 Board Handout).

6. NEW BUSINESS

Several board members mentioned that communication from SERS is needed in the way of a letter to the Governor and the legislators informing them of the steps SERS has taken on the PPMAIRC recommendations. Additional time with McKinsey and Company will be scheduled.

7. OLD BUSINESS (None)

8. BOARD COMMENTS/ANNOUNCEMENTS/DATES TO REMEMBER

a. Next Regular Committee and Board Meeting Dates - April 23-24, 2019

9. MOTION TO ADJOURN

MOTION: 2019-18

By motion of Chairperson Fillman, the board unanimously agreed to adjourn the meeting at 4:03 p.m.

Respectfully submitted,



Terrill J. Sanchez
Executive Director

**Commonwealth of Pennsylvania
State Employees' Retirement System**



RESOLUTION

WHEREAS, Anthony J. "Tony" Faiola is concluding his more than 31-year public service career with the Commonwealth of Pennsylvania, including, since 1995, service with the State Employees' Retirement System, and since 2010, as SERS Chief Financial Officer; and

WHEREAS, in his capacity as Director of the Office of Finance and Administration, Tony has, with a tremendous sense of duty and dedication, ably led a staff of 28 whose diverse responsibilities range from budgeting and finance to operational support, and for several months served as the agency's Acting Executive Director; and

WHEREAS, Tony implemented SERS' first Comprehensive Annual Financial Report (CAFR) in 1998, which then qualified for the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting, as has each subsequent edition for the past 20 years; and


WHEREAS, Tony's dogged determination and work in close collaboration with the technology office resulted in the successful reconciliation of the \$2.9 billion in individual member savings accounts that had been converted from the commonwealth's system to SERS' proprietary member record system; and

WHEREAS, under Tony's supervision, the agency installed a new general ledger system that pulls data from a number of different systems here at SERS and throughout the commonwealth into our financial statements, added the Roth option to the Deferred Compensation Plan, and enhanced communication of the agency's year-end audited financial statement data through development of the Financial Highlights report;

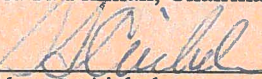
NOW THEREFORE, the Pennsylvania State Employees' Retirement Board expresses its sincere appreciation to Tony Faiola for his professional excellence and dedication to the System and its members, and wishes him the best of health, happiness and success as he follows into retirement the thousands of SERS members who have benefited from his service to them throughout his SERS career; and be it further

RESOLVED, that the original resolution be transmitted to Tony Faiola, and a copy included in the minutes.

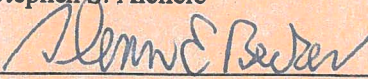
March 15, 2019
Harrisburg, Pennsylvania



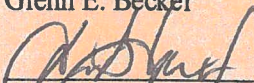
David R. Fillman, Chairman



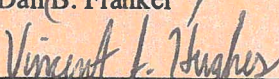
Stephen S. Aichele



Glenn E. Becker

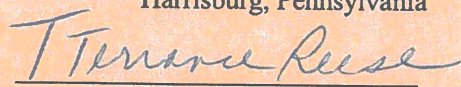


Dan B. Frankel

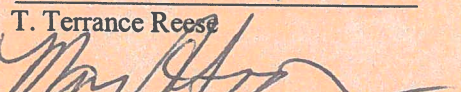


Vincent J. Hughes

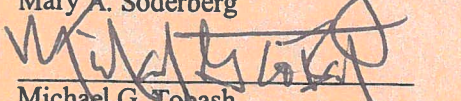




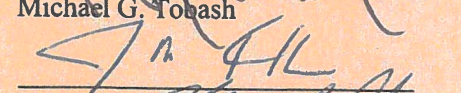
T. Terrance Reese



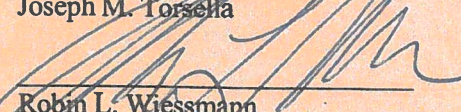
Mary A. Soderberg



Michael G. Tobash



Joseph M. Torsella



Robin L. Weissmann

ATTACHMENT B

Full Funding Attachment

#	Recommendation
FULL FUNDING	
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.

ATTACHMENT C

Stress Testing Attachment

#	Recommendation
STRESS TESTING	
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.)