

**Minutes of the Finance and Member Services Committee Meeting
February 23, 2021**

Via Microsoft Teams and SERS LIVESTREAM ACCESS: <https://www.pacast.com/live/sers>

Attendees:

Committee Members and Designees:

Ms. Mary Soderberg (Chair)
Senator John DiSanto
Mr. Charles Erdman (Designee for Senator John DiSanto)
Mr. David Fillman
Mr. Dan Ocko (Designee for Representative Dan Frankel)
Mr. Patrick Shaughnessy (Designee for Representative Dan Frankel)
Mr. James Bloom (Designee for Secretary Richard Vague – Assistant Chair)
Mr. Alan Flannigan (Designee for Secretary Richard Vague – Assistant Chair)

Others Board Members and Designees:

Mr. Gregory Jordan
Mr. Christopher Craig (Designee for Treasurer Stacy Garrity)
Mr. Glenn Becker
Representative Paul Schemel
Ms. Susan Boyle (Designee for Representative Paul Schemel)

Executive Staff:

Terri Sanchez, Board Secretary
Sara McSurdy, Chief Financial Officer
Joseph Torta, Deputy Executive Director for Member and Participant Services
Christopher Houston, Deputy Executive Director for Administration/Acting Chief Compliance Officer
Seth Kelly, Chief Investment Officer
N. Joseph Marcucci, Chief Counsel
Cathy Nolan, Committee Counsel
Jeff McCormick, Committee Counsel

1. Call to Order

Chair Soderberg called the meeting to order at 8:36 A.M.

2. Welcome and Roll Call

Executive Director Terri Sanchez conducted a roll call of Committee members and designees who were on the video conference call.

3. Approval of Minutes

By motion of Mr. Fillman, seconded by Senator John DiSanto, and approved unanimously by Committee members, it was RESOLVED that this Committee approves the minutes of the December 1, 2020 Finance and Member Services Committee meeting.

4. Election of Committee Chair

Mr. Fillman nominated Ms. Soderberg to serve as Chair of the Finance and Member Services Committee for 2021. By unanimous consent, Ms. Soderberg was elected to the position of Committee Chair for the Finance and Member Services Committee.

5. Old Business

None

6. Special Presentations

None

7. New Business/Discussion Items Only**a. Appointment of Assistant Chair**

Mr. Flannigan, designee for Secretary Vague, offered to serve as Assistant Chair. By unanimous consent, Secretary Vague was appointed to the position of Assistant Chair of the Finance and Member Services Committee for 2021.

b. Review of Finance and Member Services Committee Work Plan

- Sara McSurdy, Chief Financial Officer, took this opportunity to welcome new and returning Committee members, which included noting that Secretary Richard Vague and Representative Dan Frankel are new to the Committee.
- SERS staff assigned to the Committee introduced themselves, which included Sara McSurdy, Joseph Torta, Jeff McCormick, and Cathy Nolan.
- Ms. McSurdy then reviewed the Committee's Work Plan for the upcoming year.

c. Review of Committee Charter

Christopher Houston, Deputy Executive Director for Administration, provided details regarding this agenda topic.

- Mr. Houston noted recommended changes due to SERS' reorganization, stress testing, and language regarding responsibilities.
- Mr. Houston informed the Committee that the charter, which was instituted two years ago, provides that the Committee should bi-annually review the charter and propose to the Board any recommended changes. He also noted that any changes would be reviewed first by the Board Governance and Personnel Committee before being presented to the Board.
- Mr. Houston commented that a redline version of the charter is posted in BoardDocs.

After some deliberation, the Committee unanimously approved changes to its charter as follows:

- By motion of Mr. Fillman, seconded by Mr. Flanigan, and approved unanimously by Committee Members, it was RESOLVED that this Committee recommend: (i) to the State Employees' Retirement Board that it approve the amendments to the Finance and Member Services Committee charter, as set forth in the attached, after receiving input from the Board Governance and Personnel Committee, and (ii) to the Board Governance and Personnel Committee that it concurs with this Committee's recommendation and so inform the State Employees' Retirement Board.

d. **Mid-Year Budget Update**

Sara McSurdy, Chief Financial Officer, provided details regarding this agenda topic.

- Ms. McSurdy provided a high-level Mid-Year Budget Update for FY 2020-21 that included a review of the SERS Administrative, Investment, and Defined Contribution Plan budgets, all of which are expected to finish the year within budget.
- Mr. Jordan asked why personnel is lower than budget; Ms. McSurdy noted that this is mainly due to timing and vacant positions.

e. **Potential Funding Agreement with SERS Employer (PASSHE)**

Sara McSurdy, Chief Financial Officer, provided details regarding this agenda topic.

- Ms. McSurdy provided background information on Act 2019-105, which allows eligible employers to enter into an agreement with the Board to make one lump sum payment between 75% and 100% of their unfunded actuarial liability to SERS.
- Ms. McSurdy provided a recap of the Penn State University payment of \$1.06 billion under Act 2019-105 in April 2020.
- Ms. McSurdy provided an overview of the PASSHE Funding Agreement, which includes a lump sum payment of \$825 million, or 75% of their unfunded actuarial liability, in exchange for setoff credits over a 30-year period.
- Ms. McSurdy then reemphasized that these funding arrangements are mutually beneficial for SERS and the eligible employers.

Chair Soderberg thanked staff for the amount of work that went into this agreement.

Senator John DiSanto expressed concern over the agreement, noting that it will only work if SERS achieves the assumed rate of return. He noted that SERS has not done that over the last 20-year period.

Ms. McSurdy then recognized SERS Counsel Kara O'Donnell, and Assistant CFO Michael McGeoy, for their hard work facilitating the Funding Agreement.

After some deliberation, the Committee unanimously approved the Funding Agreement with SERS Employer (PASSHE) as follows:

- By motion of Mr. Fillman, seconded by Mr. Ocko (Designee for Representative Dan Frankel), and approved unanimously by Committee Members, it was RESOLVED that this Committee recommend that the State Employees' Retirement Board:

(i) enter into the attached Funding Agreement between the State Employees' Retirement Board and the Pennsylvania State System of Higher Education, pursuant to Section 5508.1(a) of the State Employees' Retirement Code, including the Annual Setoff schedule contained in Exhibit A to the Funding Agreement, subject to required Commonwealth legal approvals;

(ii) accept the Pennsylvania State System of Higher Education's lump sum payment in the amount of \$825,000,000 to be applied towards its unfunded actuarial accrued liability pursuant to the Funding Agreement, provided that the payment is received by April 30, 2021, and that the opinion of counsel required in paragraph 6.b. of the Funding Agreement has been provided to the Board in a form acceptable to the Board and to Board counsel;

(iii) certify that the Annual Setoff amount for the Pennsylvania State System of Higher Education under the Funding Agreement for fiscal year July 1, 2021 – June 30, 2022 is \$79,939,555, effective upon the receipt of a lump sum payment of \$825,000,000 pursuant to the Funding Agreement;

(iv) certify that for fiscal year beginning July 1, 2021, for the first twenty-four Pay Periods of the bi-weekly Payroll Cycle, the Annual Setoff credit to the Pennsylvania State System of Higher Education shall be \$3,330,815, subject to any modification as provided for in the Funding Agreement; and

(v) delegate to the Secretary of the Board and administrative staff of the State Employees' Retirement System to: (1) determine annually the amount of the Annual Setoff credit allocated to each Pay Period under each Payroll Cycle to the Pennsylvania State System of Higher Education for fiscal years beginning on or after July 1, 2022; and (2) annually certify those credits to the Pennsylvania State System of Higher Education.

f. Office of Financial Management Staffing Update

Sara McSurdy, Chief Financial Officer, provided details regarding this agenda topic.

- Ms. McSurdy discussed changes in leadership within the Office of Financial Management (OFM) over the past two years.
- Ms. McSurdy provided an overview of the reorganization that resulted in administrative duties being realigned to SERS' newly created Office of Administration, which allows OFM to focus solely on finance and accounting.
- Ms. McSurdy described some of the accomplishments of OFM staff since 2019, as well as plans going forward.
- Michael McGeoy, Assistant Chief Financial Officer, was introduced to the Committee by Ms. McSurdy.

Senator John DiSanto asked if the OFM positions from the reorganization were relocated to a different division or if they were eliminated. Ms. McSurdy responded that the positions were now under the newly created Office of Administration, which is headed by Christopher Houston.

Senator John DiSanto commented that it would be good to consider adding operation metrics to this update in the future. Chair Soderberg responded that the Board retreat may be a good place to discuss this further. Ms. McSurdy agreed that this should be considered in the future, but it will take time to fully train new staff and reallocate the workload appropriately.

g. **Board Education Primer: Defined Contribution Plan and Deferred Compensation Plan Fees and Expenses**

Sara McSurdy, Chief Financial Officer, provided details regarding this agenda topic.

- Ms. McSurdy stated that important topics will be brought to a combined Finance and Member Services Committee and Defined Contribution Committee meeting in March. Topics will include the potential for assessing TPA fees for participants of the Defined Contribution Plan, as well as assessing additional administrative fees for participants of the Deferred Compensation Plan.
- Ms. McSurdy also informed the Committee that Callan, the Board's general investment consultant, will be providing an education session to the Board on February 24th in order to prepare it to be able to address certain topics during the Board Retreat in March.

8. New Business/Informational Items Only

The Committee also was provided with the following informational items to review at its convenience:

- a. Directed Commissions (September, October, and November 2020)
- b. Total Commissions (September, October, and November 2020)
- c. Membership and Benefits lists (September, October, and November 2020)

9. Executive Session

None

10. Board Comments/Concerns/Questions

None

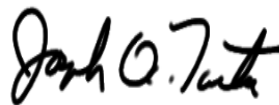
11. Motion to Adjourn

By motion that was moved, seconded, and approved unanimously by Committee members, it was RESOLVED that this meeting be adjourned at 9:49 A.M.

Respectfully submitted,



Sara McSurdy
Chief Financial Officer



Joseph A. Torta, Deputy Executive Director
Member and Participant Services