

**Minutes of the Finance and Member Services Committee Meeting**  
**March 25, 2021**  
**Via Microsoft Teams and SERS LIVESTREAM ACCESS**

**Attendees:**

**Committee Members and Designees**

Ms. Mary A. Soderberg (Chair) (In person)  
Mr. Charles Erdman (Designee for Senator John M. DiSanto)  
Mr. David R. Fillman  
Representative Dan Frankel  
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)

**Other Board Members and Designees**

Treasurer Stacy Garrity  
Mr. Lloyd Ebright (Designee for Treasurer Stacy Garrity)  
Mr. Charles Duncan (Designee for Senator Vincent J. Hughes)  
Mr. Matt Lindsay (Designee for Senator Vincent J. Hughes)  
Ms. Toni Marchowsky (Designee for Senator Vincent J. Hughes)  
Mr. Gregory K. Jordan  
Representative Paul Schemel  
Ms. Susan Boyle (Designee for Representative Paul Schemel)  
Ms. Jill Vecchio (Designee for Representative Paul Schemel)  
Mr. Gregory Thall

**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

**Consultants**

Britt Murdoch, Callan Associates, Inc.  
Tom Shingler, Callan Associates, Inc.  
Ben Taylor, Callan Associates, Inc.  
John Fellin, Empower Retirement

**1. Call to Order**

Chair Soderberg called the meeting to order at 1:08 P.M. The meeting was held jointly with the Defined Contribution Committee so that business involving both committees could be discussed.

**2. Welcome and Roll Call**

Chief Financial Officer, Sara McSurdy, conducted a roll call of Committee members and designees who were in attendance.

**3. Approval of Minutes**

None

**4. Old Business**

None

**5. Special Presentations****a. Defined Contribution Plan and Deferred Compensation Plan Investment Option Fee Analysis**

Representatives from Callan Associates presented an overview of the investment-related fees for SERS' Defined Contribution and Deferred Compensation Plans. They confirmed that all the plans' investment options have a fee below the median fee of their respective peer groups. They concluded their presentation by stating they will continue to monitor the fees going forward.

**6. New Business****a. Defined Contribution Plan Fees and Expenses**

Before the agenda topic started, Chris Houston, in his capacity as Acting Chief Compliance Officer, provided an overview of the manner in which conflicts of interest were addressed for SERS attorneys and other staff who were engaged in the analysis, research, and development of recommendations pertaining to the Defined Contribution Plan and Deferred Compensation Plan, noting that the proper protocol was followed and conflict of interest notices under the Code of Conduct were promptly acted upon with the granting of waivers, along with the direction to continue to work on the project. Mr. Houston also noted that the conflicts raised under the Board's Code of Conduct do not fall within the definition of conflict of interest under the Pennsylvania Public Official and Employees Ethics Act or the standards of prohibited conduct under the Governor's Code of Conduct.

Chief Financial Officer McSurdy began this portion of the meeting by presenting an overview of SERS' Defined Contribution and Deferred Compensation Plans. Some key highlights included:

- A comprehensive and historical background of both plans
- A summary of cost and efficiency examinations, in which staff examined internal and external processes to find efficiencies and see where costs could be reduced and/or services could be improved. This resulted in a reduced TPA fee from \$59.50 to \$55.80, effective July 1, 2021.

Ms. McSurdy continued with her presentation and discussed the fees, costs, expenses, and funding sources (both required and optional) associated with the Defined Contribution Plan – noting that the funding sources have changed since the plan's inception.

**Executive Session #1**

To provide for a discussion on statutory authority and fiduciary obligations, the Committee entered an Executive Session at 1:40 P.M.

**Public Session Resumes – 2:05 P.M.**

Ms. McSurdy indicated that Callan, Empower, and SERS have worked together on analyzing the TPA fees. Callan then provided its analysis and presented options for the Committee's consideration for charging Defined Contribution Plan participants all, or a portion of, the TPA fees. Ms. McSurdy presented several scenarios and asked the Committee to consider whether there was any desire to charge participants of the Defined Contribution Plan all, or a portion of, the administrative fees, as permitted by the State Employees' Retirement Code.

Chair Soderberg then opened the meeting to discussion on the topic.

Mr. Fillman started the conversation by stating that he was against charging participants of the Defined Contribution Plan any portion of the TPA fee. He reminded the Committee that these participants are new to the Commonwealth, and most are just starting their careers and have very small account balances.

Mr. Frankel then stated that he concurred with Mr. Fillman's comments and that he also disagreed with charging participants any portion of the fee.

Mr. Schemel spoke next, stating that the General Assembly moved to the Defined Contribution Plan so that the Commonwealth could become more industry standard in the way it handles retirement amongst its employees. He stated that charging these TPA fees to the participant is not only appropriate, it is the industry standard. He noted that the General Assembly's goal was to eliminate costs of operating these retirement accounts. Because of that, he stated that he was in favor of charging either a portion or all of the TPA fees to the participants.

Charles Erdman then commented that new employees with lower balances would continue to be disproportionately impacted by the TPA fees. Even if the plan waited to implement the fee, this would still be the case in the future. Chair Soderberg then asked the SERS staff whether a phased in approach could be taken where fees would only be applied after a participant's balance hit a certain threshold. Executive Director, Terri Sanchez, stated that this is an option and that the Board will be hearing a similar proposal for the Deferred Compensation Plan in the next topic.

Greg Jordan stated that he agreed with Mr. Fillman and Mr. Frankel in not charging the participants the TPA fee. From a budgeting perspective, he noted that employers are paying in excess of 30% of payroll for the Defined Benefit Plan participants. He then stated that charging the TPA fee to the participants would have a major impact on them but would have a minimal impact on the Commonwealth.

Chair Soderberg thanked the Committee for their comments. She stated that she agreed with Mr. Schemel that the General Assembly's goal was to reduce the cost of providing retirement benefits. However, because the participants in the plan are generally new employees with low balances, and there is already a funding mechanism in place, she disagreed with charging participants any portion of the TPA fee right now. She thanked the staff for bringing this topic to the Committee and requested that they continue to analyze these fees in the future.

After further discussion and deliberation about the options presented to them, the Committee chose not to take any action regarding charging TPA fees to participants of the Defined Contribution Plan.

**b. Deferred Compensation Plan Fees and Expenses**

Ms. McSurdy continued her presentation by discussing the agency's Deferred Compensation Plan. Highlights of this portion of her presentation included:

- Discussion of fees, costs, expenses, and cash flows, reiterating that TPA fees will be reduced from \$59.50/year to \$55.80/year effective July 1, 2021. Unlike the Defined Contribution Plan, these fees are paid by participants on a monthly basis.
- The recent evolution of the plan, which included duties being spread out to experts in multiple SERS areas, rather than responsibilities being performed solely within the Office of Financial Management. This provided for internal efficiency and better service to the participants.

**Executive Session #2**

To provide for a discussion on statutory authority and fiduciary obligations, the Committee entered a second Executive Session at 2:55 P.M.

**Public Session Resumes – 3:10 P.M.**

Ms. McSurdy indicated that Callan, Empower, and SERS have worked together on analyzing administrative fees. Callan presented the outcome of the analysis by providing several options for charging an administrative fee to participants, which will be assessed in addition to the TPA fee they are already paying. Such options included flat fees, asset-based fees with caps, a bounded asset based fee with a cap, and a hybrid bounded asset based fee with a cap. Ms. McSurdy noted that staff will also be working on documenting a Fee Policy, which promotes oversight, increased transparency, and review of fees on a regular basis to ensure they remain reasonable.

The Committee discussed the various options presented to them; and, after some deliberation, the Committee unanimously approved the following:

- By motion of Mr. Fillman, seconded by Mr. Frankel, and approved unanimously by Committee Members, it was RESOLVED that this Committee recommend that the State Employees' Retirement Board, as authorized by Section 4521.2 of the Fiscal Code: (1) reduce the current monthly third-party administrator fee for the participants of the Deferred Compensation Plan from \$4.95 to \$4.65, effective July 1, 2021; and (2) assess all participants of the Deferred Compensation Plan whose account balance exceeds \$5,000, a separate fee for Board expenses to administer the Deferred Compensation Plan, consisting of: (a) a monthly flat fee of \$1; plus (b) an annual asset-based fee calculated as 2 basis points of the account value and not to exceed \$50 annually, with both the flat fee and the appropriate portion of the asset-based fee to be withheld on a monthly basis from individual investment accounts, effective July 1, 2021.
- By motion of Mr. Fillman, seconded by Mr. Frankel, and approved unanimously by Committee Members, it was RESOLVED that this Committee recommend that the State Employees' Retirement Board direct the staff of the Deferred Compensation Plan to draft proposed conforming amendments to the Fifth Amended and Restated Deferred Compensation Plan for Officers and Employees of the Commonwealth of Pennsylvania document and the Third Amended and Restated Trust Declaration for the Deferred Compensation Plan for Officers and Employees of the Commonwealth of Pennsylvania document to reflect the Board's decision to charge participants the approved fees for Board expenses and to present the proposed amendments to the Board at its June, 2021 meeting.

- By motion of Mr. Fillman, seconded by Mr. Frankel, and approved unanimously by Committee Members, it was RESOLVED that this Committee recommend that the State Employees' Retirement Board direct the staff of the Deferred Compensation Plan to work with its investment consultant to develop a proposed fee policy for establishing and periodically reviewing fees and adjusting such fees as needed and to present the proposed fee policy to the Board in conjunction with the 2023-2024 budget cycle.

7. **Board Comments/Concerns/Questions**

None

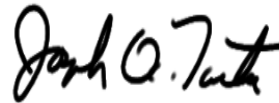
8. **Motion to Adjourn**

By motion that was moved, seconded, and approved unanimously by Committee members, it was RESOLVED that this meeting be adjourned at 3:48 P.M.

Respectfully submitted,



Sara McSurdy  
Chief Financial Officer



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