

**Minutes of the Finance and Member Services Committee Meeting  
April 28, 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  
Representative Dan Frankel  
Mr. Dan Ocko (Designee for Representative Dan Frankel)  
Secretary Richard Vague (Assistant Chair)  
Mr. James Bloom (Designee for Secretary Richard Vague)  
Mr. Alan Flannigan (Designee for Secretary Richard Vague)

**Others Board Members and Designees:**

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

**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  
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 9:05 A.M.

**2. Welcome and Roll Call**

Chief Financial Officer Sara McSurdy conducted a roll call of the Committee members and designees who were present via Microsoft Teams.

**3. Approval of Minutes**

By motion that was moved, seconded and approved unanimously by Committee members, it was RESOLVED that this Committee approves the minutes of the February 23, 2021 and March 25, 2021 Finance and Member Services Committee meetings.

**4. Old Business**

None

**5. Special Presentations****a. Korn Ferry presentation of key 2020 actuarial valuation results and the fiscal year 2021/2022 certification of defined benefit plan employer contribution rates**

SERS' actuaries, Korn Ferry, provided actuarial valuation results and key highlights for calendar year 2020.

- They began by explaining the purpose of producing these annual valuations for SERS. Specifically, the actuaries addressed the December 31, 2020 actuarial valuation, which:
  - Reviews the experience of SERS membership and investments during CY 2020;
  - Provides information on SERS' funded status by comparing SERS' assets to its liabilities (expected value of benefits);
  - Determines the employer contribution rates for FY 2021/2022; and
  - Documents the calculation of any applicable Shared-Risk or Shared-Gain adjustments to the Member Contributions.
- They discussed the Employer Contribution Rate Determination, stating that the Actuarial Assumptions on the future experience of SERS members and investments included the revisions the Board adopted in July 2020 as a result of the Experience Study, covering the period 2015-2020, and the advanced payment received from The Pennsylvania State University (PSU) to be applied toward PSU's allocated share of the unfunded accrued liability, pursuant to Act 2019-105. They expounded on the impact of the PSU funding agreement on SERS' funding, which included:
  - Immediately reducing the total SERS unfunded liability by \$1.061 billion and increasing the December 31, 2020 funded ratio by 1.9%;
  - Reducing the contributions due from PSU for FY 2020/2021 by the corresponding setoff amount of \$93.3 million;
  - The contributions due from other employers for FY 2020/2021 being unaffected; and
  - The actuaries reported that, since the money received from PSU was an advanced payment of future contributions, the total contributions due from PSU will continue to be reduced by corresponding annual setoff amounts through FY 2049/2050. Further, the advanced payment is not expected to increase the long-term funded status of SERS since future contributions from PSU will be reduced by the value of the advanced payment.
- They briefly discussed the Amortization Liability, which is the amount used to determine the amortization payments due from all employers, prior to recognizing any setoff amounts.

- They reported on SERS' investment performance, which was strong during 2020, and they noted that the returns have been very stable. Three of the last five years have been significantly above the expected return rate. Because of market volatility, SERS utilizes an asset smoothing method intended to lessen sharp peaks and valleys in its investment returns. To demonstrate, they included a graph showing the effect of asset smoothing working as intended, while further noting that the market value of SERS' investment portfolio is well in excess of its actuarial value.
- The actuaries provided a comprehensive overview of the results of the annual valuation for 2020, which included a summary of changes from the previous year's valuation.
- They provided the "Employer Contribution Rates" by group for FY 2021/2022 for certification by the Board.
- They concluded by identifying the next steps to be taken, including implementing the employer contribution rates, if approved by the Board, effective July 1, 2021.
- At the June 2021 meeting, the actuaries, in conjunction with Callan, will present an overview of the investment experience and allow the Board to look at future performance expectations so as to determine whether to maintain the current 7% expected investment return rate.
- Chair Soderberg then opened the meeting for comments from the Committee members. Mr. Flannigan commented that the employer contribution rates that are being voted on for the fiscal year July 2021 through June 2022 are based on the current assumed investment rate of return ("ARR"), and that the ARR is going to be evaluated and potentially updated during the June Committee meeting. As such, he recommended evaluating this timing in the future to consider making any changes to the ARR closer to when the valuation is being finalized.
- Representative Shemel questioned if an analysis was done to show the impact on employer contribution rates if the ARR is reduced below 7%.
- Mr. Ocko mentioned that it would be beneficial for staff or SERS investment consultants to compare the historical investment returns with the ARR.
- Ms. McSurdy then provided background on the timeline for performing the actuarial valuation and setting the ARR. Historically, the ARR was reviewed at the April Board meeting at the same time as the actuarial valuation. There were instances where a decision to update the ARR was not made at that meeting, which led to delays in completing the actuarial valuation. She stated that it is important to certify the employer contribution rates in April to allow adequate time for SERS staff to communicate the updated rates to employers and to allow the employers to implement and test the changes prior to July 1.
- Mr. Flannigan then noted that the Defined Benefit Plan currently has negative annual cashflows of 3% and that the Board should ensure it is considering that when updating the contribution rates.
- Mr. Frankel agreed with Mr. Flannigan and stated that the changes from Act 5 might exacerbate this problem as a portion of contributions for new hires will be going towards the Defined Contribution Plan instead of the Defined Benefit Plan.
- The Committee then unanimously voted to recommend that the Board approve the results of the December 31, 2020 actuarial valuation and certify FY 2021/2022 employer contribution rates. More particularly, by motion that was moved, seconded, and approved unanimously, it was RESOLVED that this Committee recommend that the State Employees' Retirement Board:
  - (A) approve the results of the December 31, 2020 actuarial valuation and, for the Commonwealth FY 2021-2022, certify the following contribution rates:
    1. Shared risk contribution rate of 0.0%;
    2. Employer normal cost contribution rate of 1.50%;

3. Composite employer contribution rate necessary for the funding of the system of 33.76%; and
4. Employer contribution rates by group and class of service of employees as set forth in the actuarial valuation as calculated by SERS' consulting actuary, Korn Ferry, pursuant to Section 5508 of the State Employees' Retirement Code;

(B) authorize SERS staff and Korn Ferry to use such rates to develop all the employer rates for the period of July 1, 2021 to June 30, 2022, pursuant to Section 5902(k) of the State Employees' Retirement Code;

(C) establish an employer contribution rate of 0.05% for FY 2021/2022 to fund the Benefits Completion Plan established pursuant to Section 5941 of the State Employees' Retirement Code; and

(D) authorize SERS' Executive Director to certify such rates to all employers with employees who are active members of SERS, and to the Secretary of the Budget.

**6. New Business/Discussion Items Only**

- a. Membership and Benefits lists (December, January, and February)

**7. Executive Session**

None

**8. Board Comments/Concerns/Questions**

None

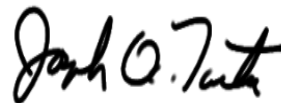
**8. Motion to Adjourn**

By motion that was moved, seconded, and approved unanimously by Committee members, it was RESOLVED that this meeting be adjourned at 9:54 A.M.

Respectfully submitted,



Sara McSurdy  
Chief Financial Officer



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