

**Penn SERS Board Approves Employer Contribution Rate,  
Hires Private Equity Investment Consultant, Updates Policies**

HARRISBURG – The Pennsylvania State Employees’ Retirement System Board, meeting here today, certified the employer contribution rate for the upcoming fiscal year, selected a private equity investment consultant and approved several investment-related policies.

The board certified a composite employer contribution rate of 34.16% of payroll for commonwealth fiscal year 2022-23, which is a slight increase from the 33.81% employers are currently paying.

The action today followed a [presentation by SERS’ actuary Korn Ferry](#) on the key results from its 2021 actuarial valuation of the Defined Benefit Plan during the board’s Finance and Member and Participant Services Committee meeting last week.

While the full actuarial report will be published next month, key results showed that the plan was 69.6% funded as of Dec. 31, 2021, (on an actuarial basis, which is used for funding purposes) with an unfunded liability of approximately \$16.1 billion. On a market value basis, (used to compare plans nationally) the plan was 76% funded, as of Dec. 31, 2021. By comparison, on Dec. 31, 2020, the plan was 59.4% funded on an actuarial basis, with an unfunded liability of \$22.4 billion.

One notable change in this year’s valuation is the change in the actuarial cost method or how the “normal cost” of the benefit is calculated. This change, required by Act 2017-5, is the method most commonly used by peer pension plans. In the past, the normal cost was based on the cost of the pension benefit earned by just the new members who entered the system during the year. Now, the normal cost is based on the cost of the benefit earned by a blend of all active members in the system during the year. As a result, the normal cost of the benefit is 8.32%.

“The change more accurately reflects the actual cost of the benefit earned by state employees, which in turn reduces the long-term financial burden on the commonwealth and enhances the security of the pension benefits of our members,” said SERS Executive Director Joe Torta.

**Consultant Hire**

The board selected **StepStone Group LP** through a competitive bid process to provide both non-discretionary private equity consultant services and administrative and back-office support services for the Defined Benefit Plan investment portfolio for a five-year period beginning Oct. 6, 2022. The current contract will expire on Oct. 5, 2022. StepStone is the current contracted vendor.

**Policy Updates**

The board adopted the *Enhanced Asset Allocation Policy* and approved corresponding updates to the *SERS’ Defined Benefit Plan Investment Policy Statement*, as follows:

- In the U.S. Equity asset class, reallocate the U.S. Microcap Public Equity allocation and overexposure in the U.S. Small Cap Public Equity portfolio to the U.S. Large Cap Public Equity Index portfolio.
- In the Fixed Income asset class, realign the sub asset classes and exposure to mirror the U.S. Core Fixed Income portfolio.

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- In the Private Equity asset class, combine the existing 4% Private Credit allocation and 12% Private Equity allocation for a total 16% Private Equity allocation, and reduce the annual pacing target for the combined allocation from \$1.29 billion to \$1.1 billion.
- In the Real Estate asset class, decrease exposure to Core Real Estate strategies and increase exposure to Value-Add/Opportunistic Real Estate while maintaining the existing 7% target allocation to the asset class.

The board also delegated authority to the Chief Investment Officer to align the fixed income portfolios with the enhanced policy.

The Board also updated the *SERS' Defined Benefit Plan Investment Manager Monitoring Policy* to reflect the creation of a separate list of managers on the evaluation list to be released publicly, achieve consistent formatting across all plans and the board-approved asset allocation, and to clarify the quantitative factors for evaluation and the process for either removing a manager from the watch list or proceeding to terminate.

The board updated the *401(a) Defined Contribution Plan Investment Policy Statement* and *457(b) Deferred Compensation Plan Investment Policy Statement*, to reflect the reassignment of responsibilities from the former Defined Contribution Committee to the Investment Committee and enhancements to the *Investment Manger Monitoring Policy* for consistency across all plans.

### **Other Business**

In addition, the Board Governance and Personnel Committee approved pay adjustments for two investment accountants during its meeting last week.

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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 approximately 238,000 members. As of Dec. 31, 2021, SERS' Defined Benefit Plan had assets of nearly \$39.9 billion and the Defined Contribution Plan, which launched on Jan. 1, 2019, had approximately \$75.1 million. SERS also administers a voluntary supplemental Deferred Compensation Plan with nearly 57,600 participants and assets of approximately \$4.8 billion as of Dec. 31, 2021. A wealth of information is available at [www.SERS.pa.gov](http://www.SERS.pa.gov).

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