

# PSERS Budget Report

Fiscal Year 2019-2020



Pennsylvania Public School Employees' Retirement System

## SECTION 2 - PSERS FY2019-20 BUDGET

<b>PSERS Consultants' Fees and Legislation.....</b>	<b>Tab 6</b>
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## Section 2 - FY2019-20 Budget

### Consultants' Fees (\$100,000 and Over)

Tables 6.1 and 6.2 list professional service firms under contract to provide services to PSERS during the fiscal year ended June 30, 2018.

<b>Table 6.1 Investment and Pension Fund Administration Consultants</b>		
<b><u>Firm</u></b>	<b><u>Services Provided</u></b>	<b><u>Consultant Fee</u></b>
ViTech Systems Group, Inc.	Pension administration system services	\$ 5,168,750 *
Portfolio Advisors, LLC	Private market consulting	\$ 1,530,978
Unisys Corporation	Server maintenance	\$ 1,436,523 *
Hamilton Lane Advisors LLC	Private market consulting	\$ 770,000
AonHewitt	General investment consulting	\$ 741,525
Aksia LLC	Hedge fund investment consulting	\$ 700,000
OST, Inc	Information technology training, testing, and consulting services	\$ 502,341 *
Courtland Partners, Ltd.	Real estate investment consulting	\$ 294,302
Conduent HR Services	Pension benefit actuarial services	\$ 284,320 *
Glass, Lewis & Co., LLC	Proxy voting	\$ 178,681

<b>Table 6.2 Health Options and Premium Assistance Program Consultants</b>		
<b><u>Firm</u></b>	<b><u>Services Provided</u></b>	<b><u>Consultant Fee</u></b>
CoreSource, Inc.	Postemployment healthcare benefits administration and claims adjudication	\$ 28,933,725 *
Optum Rx, Inc.	Administration of postemployment healthcare benefits and prescription drug plan	\$ 8,142,534 *
The Segal Company, Inc.	Consulting services for the Health Options Program and prescription drug plan	\$ 3,095,874 *
Healthways, Inc.	Administration of Silver Sneakers Fitness Program	\$ 807,462 *
Blue Peak Advisors LLC	Pharmacy benefit consulting services	\$ 451,850 *
Independent Pharmaceutical Consultants, Inc.	Pharmacy benefit consulting services	\$ 243,028 *

\* Amounts as reported in PSERS' Comprehensive Annual Financial Report.

**Legislation**

**PSERS Related Legislation Activities since January 1, 2018**

**Act 6A of 2018**

On June 22, 2018, Governor Wolf signed into law House Bill Number 2082, Printer's Number 3325. This legislation makes an appropriation in the amount of \$51,637,000 from the Public School Employees' Retirement Fund to provide for the administrative expenses of PSERS for the fiscal year July 1, 2018 to June 30, 2019.

**Act 42 of 2018 (Fiscal Code)**

On June 22, 2018, Governor Wolf signed into law House Bill Number 1929, Printer's Number 3810. Act 42 amended the act of April 9, 1929, (P.L. 343, No. 176), known as the Fiscal Code, implementing the 2018-2019 Commonwealth budget. Section 1726-I (Fund Transfers) of Act 42 transferred the sum of \$5,200,000 from funds received under the Tax Reform Code of 1971 to the account established under Section 1799-E of the Fiscal Code (known as the Public School Employees' Retirement System Restricted Account), for use by the PSERS Board for costs associated with implementation of the Public School Employees Defined Contribution Plan pursuant to Act 5 of 2017.

**Senate Bill 113, Printer's Number 58**

This bill would amend the act of July 8, 2018, (P.L. 752, No. 140), known as the Public Employee Pension Forfeiture Act to expand the list of applicable offenses by requiring the forfeiture of pension benefits by public employees that are convicted or plead guilty or no contest to any employment-related felony offense.

**Section 2 - FY2019-20 Budget**

**Public School Employees' Retirement System  
Fiscal Year 2019-2020 Administrative Budget**

<b>Table 7.1</b>	<b>Budget FY2017-2018</b>	<b>Budget FY2018-2019</b>	<b>PSERS' Budget Request FY2019-2020</b>
<b>Total Personnel Services</b>	\$ 27,068,000	\$ 28,014,000	\$ 28,735,000
<b>Operating Expenses and Fixed Assets</b>			
Travel	\$ 153,450	\$ 167,130	\$ 167,900
Training & Conference Registration	154,930	199,400	181,400
Telecomm	406,900	440,900	460,900
Electricity	30,000	22,300	22,300
Consultant Services - Non EDP	3,231,900	2,657,500	2,190,100
Outsourced IT Consulting for appl & development	76,900	-	40,000
Consulting - Maint & Support - (post implementation)	51,000	109,000	53,000
Consulting - Security (Outsourced Inf Sec Services)	-	125,000	75,000
Consulting - General IT Support	1,127,600	810,600	985,000
Consulting - Outsourced Infrastructure Svcs (PACS)	1,200,000	921,000	1,075,000
Legal Services/Fees	664,000	289,000	227,000
Specialized Services	448,750	484,750	521,500
Other Specialized Services	159,720	174,000	221,200
Advertising	10,000	10,000	10,000
Medical, Mental, & Dental Services	4,000	3,500	4,700
Software Licensing - Maintenance	1,703,800	1,753,100	1,594,200
Hardware - Maintenance	72,800	91,000	96,000
Contracted Maintenance Non EDP	166,100	168,000	167,800
Telecomm Data Services	87,700	88,900	92,500
Contracted Repairs - Non EDP	15,200	15,500	15,500
Real Estate Rental	2,036,500	2,059,500	2,080,100
Vehicle Rental	2,600	2,600	2,600
Office Equipment Rental	201,000	236,300	290,700
Other Rentals	8,300	8,400	8,400
Office Supplies	211,500	228,100	253,000
Educational & Medical Supplies	11,600	9,100	8,600
Software License non-recurring less than \$5,000	23,500	31,300	27,800
Hardware - Network	-	140,000	-
Hardware Desktop less than \$5,000	23,050	407,200	286,500
Furniture and Fixtures	58,100	68,100	69,500
Other Equipment	7,000	13,000	13,000
Motorized Equipment Supplies	21,000	21,000	21,000

## Section 2 - FY2019-20 Budget

### Public School Employees' Retirement System Fiscal Year 2019-20 Administrative Budget (continued)

Table 7.1	Budget <u>FY2017-2018</u>	Budget <u>FY2018-2019</u>	PSERS Budget Request <u>FY2019-2020</u>
Postage and Freight	1,196,790	1,151,500	1,086,500
Printing	212,500	221,000	210,200
Subscriptions	384,300	431,340	467,400
Membership Dues	35,510	38,280	41,500
Conference Expense	49,000	64,000	61,000
Insurance, Surety, & Fidelity Bonds	23,000	10,000	10,000
Other Operational Expenses	2,282,000	2,135,700	2,215,200
HW Network and Server	85,000	89,000	-
Automobiles	40,000	20,000	19,800
Software License	8,680,000	7,678,000	7,507,000
Office Equipment	<u>28,000</u>	<u>29,000</u>	<u>28,200</u>
<b>Total Operating Expenses and Fixed Assets</b>	<b>\$ 25,385,000</b>	<b>\$ 23,623,000</b>	<b>\$ 22,909,000</b>
<b>Total Administrative Budget</b>	<b><u>\$ 52,453,000</u></b>	<b><u>\$ 51,637,000</u></b>	<b><u>\$ 51,644,000</u></b>

### Administrative Budget

Table 7.1 displays PSERS Administrative Budget Request for FY2019-20. The \$51,644,000 administrative budget is not funded from the Commonwealth's General Fund, but rather from the earnings of the Fund itself. Historically, PSERS has under spent its approved budget, keeping more funds available to invest for PSERS' members.

PSERS' Administrative Budget Request for FY 2019-20 represents an increase of only \$7,000 or 0.1% above the FY 2018-19 available budget. Although personnel expenses will increase as new positions put in place due to Act 5 will be fully deployed, many operating expenses pertaining to Act 5 will decline as certain phases of the implementation are completed.

PSERS' continues to be prudent in its use of funds and managing its annual budget. In FY 2017-18, PSERS completed the upgrade of its pension administration system from

the "classic" to the "browser-based" version. Due to this change, a significant number of PSERS active and retired members have elected to receive newsletters, statement of accounts, 1099Rs and other documents electronically, thereby saving the agency thousands of dollars in postage, printing and paper costs annually for years to come. Other savings include a decline in contracted maintenance and repair services, a decrease in consultant and legal fees, and a reduction in equipment purchases, all part of PSERS' ongoing efforts to control costs and improve operational efficiency.

**Section 2 - FY2019-20 Budget**

**Public School Employees' Retirement System  
Fiscal Year 2019-20 Defined Contribution (DC) Administrative Budget**

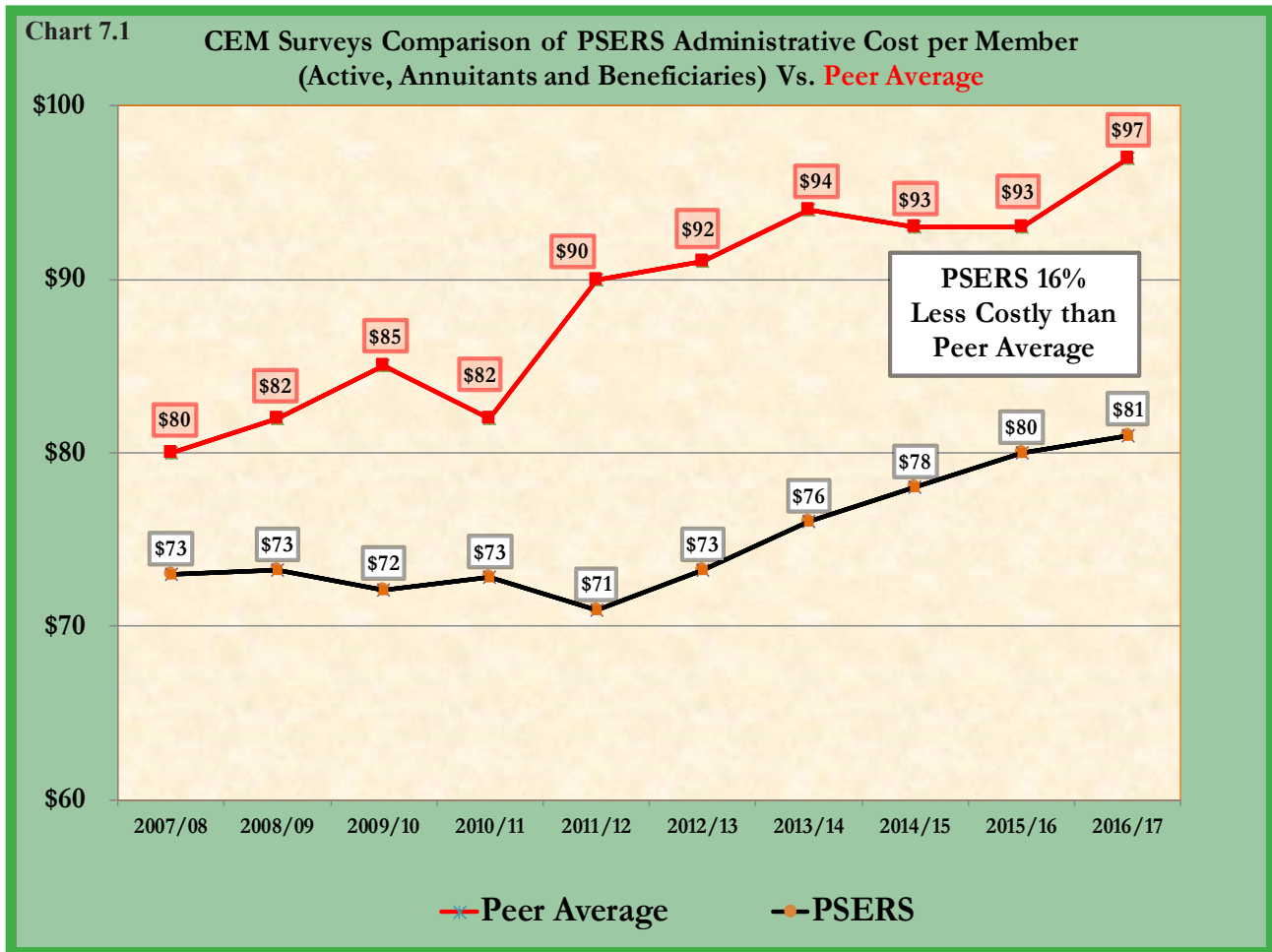
<b>Table 7.2</b>	<b>Budget FY 2017-2018</b>	<b>Budget FY2018-2019</b>	<b>PSERS' Budget Request FY2019-2020</b>
<b>Total Personnel Services</b>	\$ 610,000	\$ 771,000	\$ 895,000
<b>Operating Expenses and Fixed Assets</b>			
Consultant Services - Non EDP	\$ 3,800,000	\$ 2,415,000	\$ 640,000
Legal Services/Fees	275,000	250,000	145,000
Other Operational Expenses	191,000	131,500	70,000
SW License recurring greater than \$5,000	<u>1,925,000</u>	<u>1,382,500</u>	<u>700,000</u>
<b>Total Operating Expenses and Fixed Assets</b>	\$ 6,191,000	\$ 4,179,000	\$ 1,555,000
<b>Total Administrative Budget</b>	<u>\$ 6,801,000</u>	<u>\$ 4,950,000</u>	<u>\$ 2,450,000</u>

**Defined Contribution (DC) Administrative Budget**

Table 7.2 displays PSERS' Defined Contribution (DC) Administrative Budget Request for FY 2019-20. The \$2,450,000 amount requested represents a decrease of approximately 50% from the FY 2018-19 available budget as PSERS will be entering the third year of funding for Act 5 and the need for consulting services and software programming changes will be decreasing significantly.

## Section 2 - FY2019-20 Budget

### Public School Employees' Retirement System Fiscal Year 2019-20 Administrative Budget (continued)



### PSERS' Administrative Costs are Significantly Below Peers

PSERS participates in an independent, international benchmarking survey evaluating its costs and service performance in comparison to other similar public pension funds. Based on the results of the most recent survey, PSERS has 33% fewer full-time equivalent staff per member than the peer group average. Chart 7.1 above illustrates that PSERS had a 16% lower pension administration cost per member than the average cost for its peer group. By running a lean and efficient operation, PSERS saves the Commonwealth and school employers approximately \$8.2 million annually in administrative expenses compared to its peers.



**PSERS Directed Commissions  
Recapture Program**

**D**irected Commissions Recapture is a program whereby a portion of commissions incurred by PSERS through investment trading activity is returned to PSERS. These funds can be used for the administration of the Fund or can be reinvested back into the asset allocation through a transfer to the PSERS Retirement Account. Expenditures paid from the Directed Commissions Recapture Program Budget have the same PSERS' internal approval process as any other expenditure made by the Fund.

**Directed Commissions Recapture Program -  
Directed Commissions Appropriation #6012700000**

	<u>Budget FY2017-2018</u>	<u>Available FY2018-2019</u>	<u>PSERS' Budget FY2019-2020</u>
Budgetary Reserve	<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>
Total	<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>



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