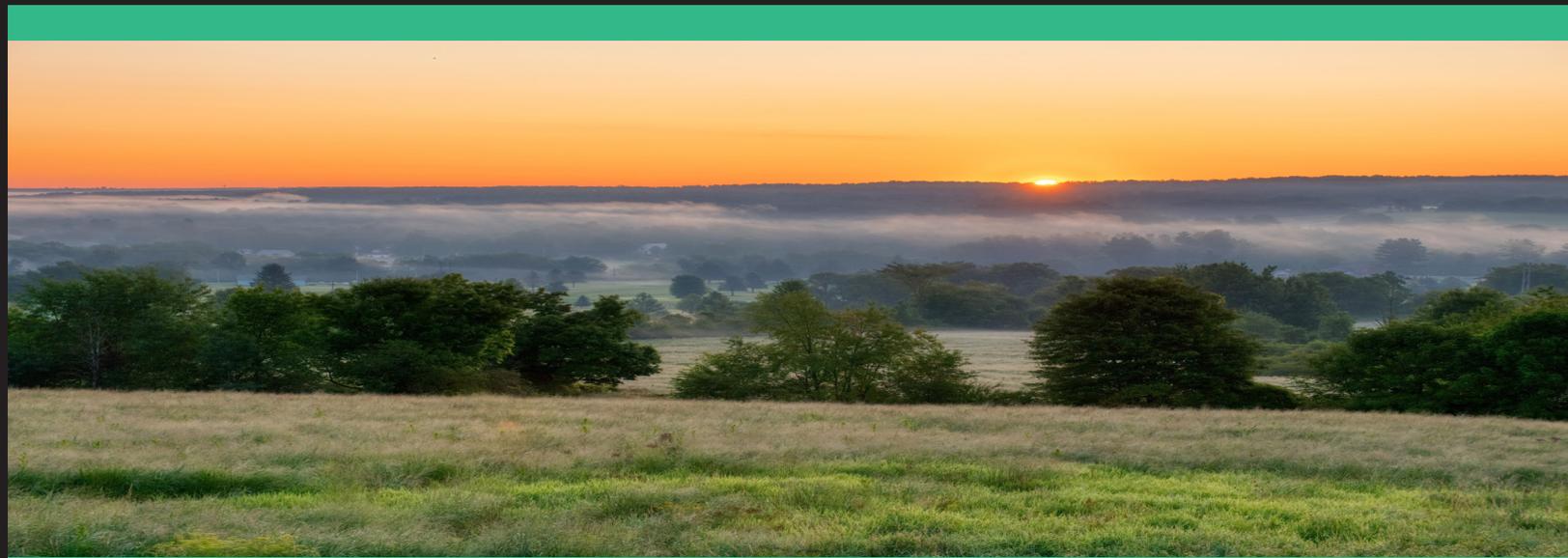


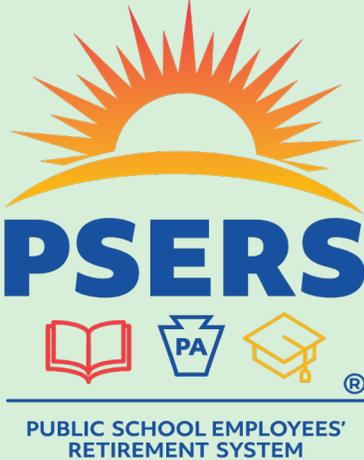
PSERS BUDGET REPORT - FY 2021-2022

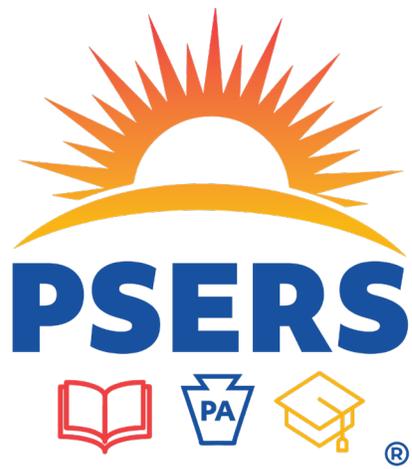


SECTION 2 - PSERS FY2021-22 BUDGET

Consultants’ Fees and Legislation Tab 6

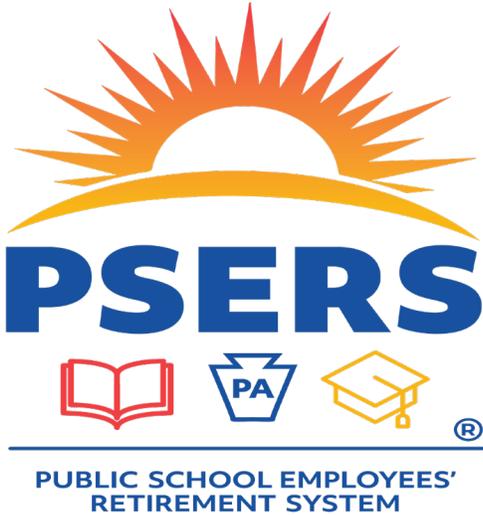
PSERS FY2021-22 Administrative, Defined Contribution Administrative,
and Directed Commissions Recapture Program Budgets Tab 7





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Consultants' Fees and Legislation



Section 2 - FY2021-22 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, 2020.

Table 6.1

Investment, Pension and Defined Contribution Plan Administration Consultants

<u>Firm</u>	<u>Services Provided</u>	<u>Consultant Fee</u>
ViTech Systems Group, Inc.	Pension administration system services	\$ 5,646,500 *
Hamilton Lane Advisors LLC	Private market consulting	\$ 2,000,000
Voya Holdings, Inc.	Defined Contribution Plan administration	\$ 1,854,000 *
Unisys Corporation	Server maintenance	\$ 1,820,021
OST, Inc.	Information technology services	\$ 713,619 *
Aksia LLC	Hedge fund investment consulting	\$ 700,000
Aon Investment Consulting	General investment consulting	\$ 687,337
Buck Global LLC	Pension Benefit Actuarial Services	\$ 389,505 *
Stepstone Group LP	General investment consulting	\$ 209,379
Clifton Larson Allen LLP	Financial audit - pension, defined contr., healthcare	\$ 181,570

Table 6.2

Health Options and Premium Assistance Program Consultants

<u>Firm</u>	<u>Services Provided</u>	<u>Consultant Fee</u>
Trustmark Health Benefits	Post employment healthcare benefits administration and claims adjudication	\$ 33,167,940 *
Optum Rx, Inc.	Post employment healthcare benefits administration and prescription drug plan	\$ 5,753,946 *
The Segal Company, Inc.	Consulting services for the Health Options Program and prescription drug plan	\$ 3,608,231 *
Blue Peak Advisors LLC	Pharmacy benefit consulting services	\$ 1,286,997 *
Tivity Health	Silver Sneakers Fitness Program administration	\$ 829,356 *

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

Legislation

PSERS-Related Legislation 2020

Act 12A (House Bill 2471) makes an appropriation of \$52,294,000 from the Public School Employees' Retirement Fund to provide for the expenses incurred by the Public School Employees' Retirement Board for the administration of the system for the fiscal year July 1, 2020, to June 30, 2021, and for the payment of bills incurred and remaining unpaid at the close of the fiscal year ending June 30, 2020. Additionally, the Act appropriates \$1,083,000 from the PSERS Defined Contribution Fund restricted revenue account to provide for the expenses incurred by the Public School Employees' Retirement Board for the implementation and administration of the defined contribution plan authorized by Act 5 of 2017 for the fiscal year beginning July 1, 2020, and for the payment of bills incurred and remaining unpaid at the close of the fiscal year ending June 30, 2020.

Act 13 of 2020 (Senate Bill 751) added a new section to the Public School Code concerning the pandemic of 2020, applicable only to the 2019-2020 school year. The main impact for PSERS members is that school entity employees will experience no loss of retirement benefits due to the pandemic of 2020 or due to action taken by the Secretary of Education under this section. The Act allows the Secretary of Education to order the closure of all school entities until the threat to health and safety caused by the pandemic of 2020 has ended and waive the requirement that school entities be open for at least 180 days of instruction. This waiver of the 180 instructional day requirement would also apply to home education programs and nonpublic schools if their governing bodies decide to close them. The Secretary may also increase the allowable number of flexible instructional days and waive the timeline to apply for flexible instructional days. The Secretary is also given the power to waive career and technical education program hours, the use of performance data in professional employee evaluation systems, prekindergarten instruction hours, and the 12-week student teacher preparation program requirement. An employee of a school entity employed as of March 13, 2020 may not receive more or less compensation than the employee would otherwise have been entitled to receive from the school entity had the pandemic of 2020 not occurred or had the Secretary

not taken action under this section. If employees were already furloughed, the school entity would need to bring those employees back and keep paying them. If the employee already applied for unemployment, it would be considered a no-fault overpayment and unemployment benefits would cease.

Act 20 of 2020 (House Bill 1076) created the Senior Tax Reduction Incentive Volunteer Exchange Program (STRIVE) by adding a new chapter to the Taxpayer Relief Act to create the Senior Tax Reduction Incentive Volunteer Exchange program. The legislation authorizes all public school districts in the Commonwealth to establish an optional program to allow older residents to volunteer in the school district and receive a real property tax credit in exchange for volunteer service. The legislation defines a "participant" in the program as an individual at least 60 years of age who has been a resident of this Commonwealth for at least 90 days, owns real property located in a participating school district and participates in the school district's program. Payment under the STRIVE Program is valued at no less than the required minimum hourly wage for each hour of service rendered and constitutes income subject to federal taxation, regardless of whether such income is diverted for use as a tax credit. Accordingly, payment earned under the STRIVE Program is retirement-covered compensation under the Retirement Code and the service rendered is school service that must be reported to PSERS.

Act 37 of 2020 (House Bill 2418) amended the Administrative Code to require the State Employees' Retirement System and the Public School Employees' Retirement System to provide the Independent Fiscal Office (IFO) with all information necessary to complete an actuarial note within 14 days of the request for information by the IFO. The act also requires that no later than October 1, 2020, July 31, 2021, and July 31 of each year thereafter, the State Employees' Retirement System and the Public School Employees' Retirement System shall each submit to the IFO data showing the 30-year baseline actuarial projections for the retirement systems based on the State law in effect at the time of the submission. The office may specify the data fields and the file format for the data to be transmitted under this subsection. Data submitted under this subsection shall include projections which simulate a 1.0 percentage point

Section 2 - FY2021-22 Budget

increase and a 1.0 percentage point decrease to the official assumed rate of return used by each retirement system.

The Act also requires a COVID-19 related debt reduction review to be conducted. The Treasury Department, in conjunction with the Secretary of the Budget, the Auditor General and any chairperson of an authority, commission, agency or board that has the power to issue debt, shall identify and review all outstanding debt obligations of the Commonwealth and its authorities, commissions, agencies or boards and submit a report of the findings to the General Assembly no later than October 30, 2020. In addition to the identification and review of all outstanding debt obligations, the report shall identify options for the refinancing of the outstanding debt obligations to reduce the costs to the Commonwealth and its authorities.

Act 77 of 2020 (House Bill 2463) amends the Administrative Code to add a new Article relating to Access to Public Records During Disaster Declaration. The main impact on PSERS involves how PSERS responds to Right-to-Know requests during an emergency, such as the COVID-19 pandemic. Under the new law, the Governor may not direct a Commonwealth agency to ignore requests for records or suspend the Commonwealth agency's process to answer a request for records during a disaster declaration. A Commonwealth agency may suspend the process by which a Commonwealth agency responds to a request for records during a disaster declaration only as provided under section 902(a) of the Right-to-Know Law (RTKL). If an extension of time is necessary, the agency shall comply with section 902(b) of the law. No later than 5 days after the effective date, the Office of Open Records shall publish guidelines for a Commonwealth agency specifying how the Commonwealth agency is required to respond to a request for records made during a disaster declaration when the Governor has ordered the Commonwealth agency to close the Commonwealth agency's physical location.

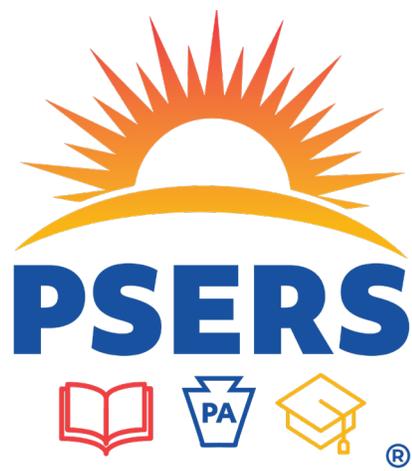
Act 128 of 2020 (House Bill 1962) amends both the PSERS and SERS Codes to provide for annual stress testing and provides additional Board governance processes through establishment of additional committees related to audit functions. The bill increases the required hours of annual mandatory training for members of the PSERS and

SERS Boards from 8 to 10 hours and expands the scope of training to include asset allocation and risk assessment. The legislation provides that in order to be appointed to the audit/compliance committee as a voting member, a member of the PSERS board or SERS board must complete at least 16 hours of training in risk assessment, internal control and auditing standards inclusive of the hours indicated for board training within 90 days of appointment. The Committee on Sponsoring Organizations Enterprise risk management guidelines may be considered as a guide to the training, and current members of the audit/compliance committee are exempt from the new 16-hour training requirement.

The bill provides that the PSERS board and SERS board may establish an executive committee consisting of the board chair, vice chair, the chair of the audit/compliance committee, the chair of the bylaws/policy committee, the chair of the investment committee and the chair of the budget/finance committee or other members of the board as determined by the board. The legislation provides for the PSERS board and SERS board to establish an asset liability contingency operating committee as a function within the investment committee, which shall be charged with evaluating the risk associated with the systems' assets and liabilities. The bill directs the PSERS and SERS boards to provide for an internal control audit of their respective systems and plans at least every five years. If an annual financial report or an internal control audit identifies a material weakness or significant deficiency, the board shall provide for an additional internal control audit of the system and the plan for the year subsequent to the report or audit in which the weakness or deficiency was identified.

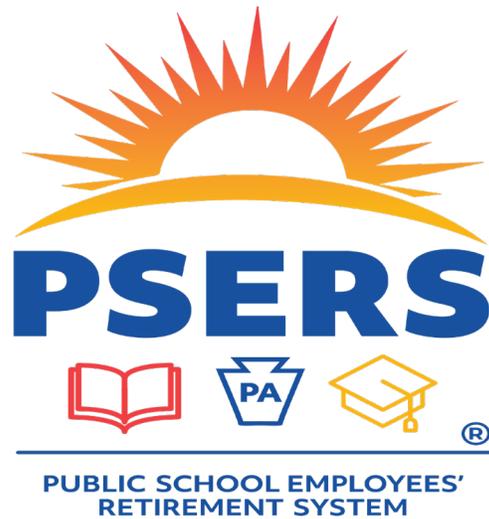
The bill requires the PSERS and SERS boards to conduct an annual stress test of their respective systems and submit the results to the Governor, the General Assembly and the Independent Fiscal Office no later than January 1 of each year. The stress test shall include a scenario analysis, simulation analysis and sensitivity analysis in accordance with accepted industry standards.

Finally, the bill directs that no later than March 1 of each year, the Independent Fiscal Office (IFO) shall produce a report summarizing the results of the stress tests, including a calculation of the ratio of projected employer pension contributions to projected State revenues under a scenario analysis.



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PSERS
FY2021-22 Administrative,
Defined Contribution Administrative,
and Directed Commissions
Recapture Program Budgets



Section 2 - FY2021-22 Budget

Public School Employees' Retirement System Fiscal Year 2021-2022 Administrative Budget

Table 7.1

	<u>Budget</u> <u>FY2019-20</u>	<u>Budget</u> <u>FY2020-21</u>	<u>Budget</u> <u>Request</u> <u>FY2021-22</u>
Total Personnel Services	\$ 28,293,000	\$ 28,749,000	\$ 28,577,000
Operating Expenses and Fixed Assets			
Travel	\$ 167,900	\$ 197,400	\$ 166,700
Training & Conference Registration	181,400	185,600	170,300
Telecomm	460,900	419,200	415,200
Electricity	22,300	20,700	20,700
Consultant Services - Non EDP	2,190,100	2,165,500	2,190,000
Outsourced IT Consulting For Appl & Development	40,000	110,000	70,000
Consulting - Maint & Support - (Post Implementation)	53,000	83,000	45,000
Consulting - Security (Outsourced Inf Sec Services)	75,000	75,000	45,000
Consulting - General IT Support	985,000	1,278,000	1,127,600
Consulting - Outsourced Infrastructure Svcs (PACS)	1,075,000	1,250,000	2,095,000
Legal Services/Fees	227,000	227,000	352,000
Specialized Services	646,500	821,800	715,000
Other Specialized Services	221,200	220,300	241,900
Advertising	10,000	10,000	10,000
Medical, Mental & Dental Services	4,700	6,500	6,500
IT Shared Services	255,800	204,640	225,000
Software Licensing - Maintenance	1,338,400	1,064,860	989,100
Hardware - Maintenance	96,000	90,300	58,000
Contracted Maintenance Non EDP	167,800	162,800	157,800
Telecomm Data Services	92,500	83,200	80,000
Contracted Repairs - Non EDP	15,500	15,500	15,500
Real Estate Rental	2,080,100	1,936,900	1,998,300
Vehicle Rental	2,600	5,500	6,300
Office Equipment Rental	290,700	314,900	308,400
Other Rentals	8,400	8,900	28,500
Office Supplies	253,000	229,600	216,500
Educational & Medical Supplies	8,600	8,300	6,300
Software License Non-Recurring < \$5,000	27,800	11,900	73,000
Software Licensing - Proc. - Recurring	295,000	297,500	399,100
Hardware Desktop < \$5,000	286,500	281,500	279,200
Furniture and Fixtures	69,500	75,200	66,700
Other Equipment	13,000	13,000	10,000

Section 2 - FY2021-22 Budget

Public School Employees' Retirement System Fiscal Year 2021-22 Administrative Budget (continued)

Table 7.1

	<u>Budget</u> FY2019-20	<u>Budget</u> FY2020-21	<u>Budget</u> <u>Request</u> FY2021-22
Motorized Equipment Supplies	\$ 21,000	\$ 21,000	\$ 10,000
Postage and Freight	1,086,500	953,000	850,000
Printing	210,200	210,400	203,300
Subscriptions	47,400	48,500	48,000
Member Dues	41,500	44,300	44,600
Conference Expense	61,000	69,200	74,700
Insurance, Surety & Fidelity Bonds	10,000	10,000	170,000
Other Operational Expenses	2,851,200	2,680,000	2,655,700
HW Network and Server	-	340,000	330,000
Automobiles	19,800	19,800	19,800
Software License	7,507,000	7,246,000	7,306,000
Office Equipment	28,200	28,300	28,300
Total Operating Expenses and Fixed Assets	\$ 23,545,000	\$ 23,545,000	\$ 24,329,000
Total Administrative Budget	<u>\$ 51,838,000</u>	<u>\$ 52,294,000</u>	<u>\$ 52,906,000</u>

Administrative Budget

Table 7.1 displays PSERS Administrative Budget Request for FY2021-22. The \$52,906,000 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.

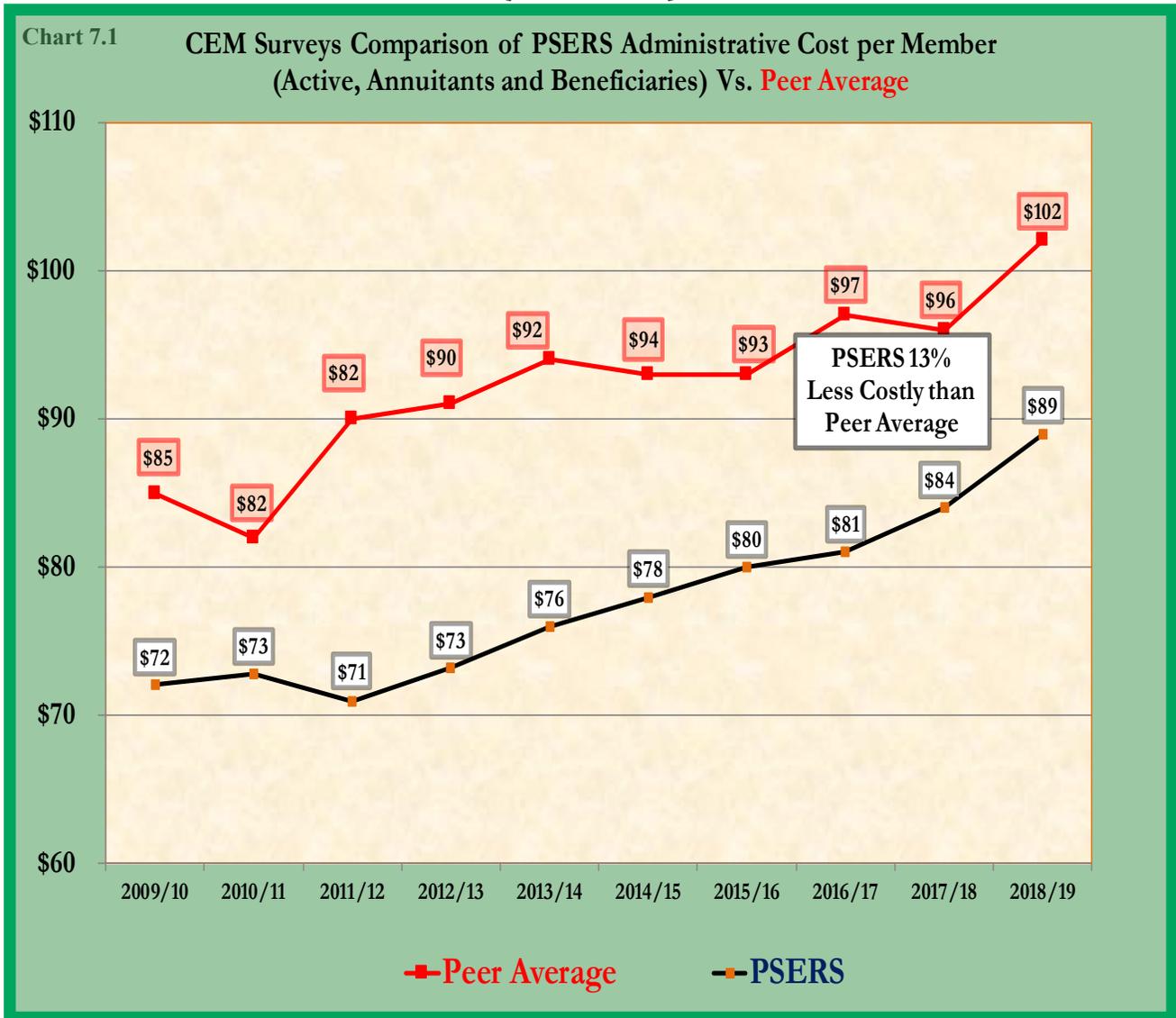
PSERS' Administrative Budget Request for FY 2021-22 represents an increase of \$612,000 or 1.17% above the FY 2021-22 available budget. Operating costs remain the same while personnel costs reflect increases in salaries and related benefits.

PSERS continues to be a leader among large U.S. public pension funds in its effective control of expenses while providing necessary services

to its membership. In the past two years, the System has added significantly to the number of active and retired members electing to receive newsletters, statement of accounts, 1099-Rs and other publications electronically, which saves the agency approximately \$250,000 per year in postage, printing and paper costs. During FY2021 specifically, the agency achieved a substantial savings in postage, reduced overtime, decreased rental of equipment and software, and lowered consultant and legal fees, all of which helps to maintain more investment earnings for the benefit of the Fund. In addition to these savings, PSERS purchased programming hours from its pension administration system vendor at a reduced prepaid rate in order to allow for vital changes to be made in the near future to the pension administration system.

Section 2 - FY2021-22 Budget

Public School Employees' Retirement System Fiscal Year 2021-22 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 30% fewer full-time equivalent staff per member than the peer group average. Chart 7.1 above illustrates

that PSERS had a 13% 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 \$6.4 million annually in administrative expenses compared to its peers.

Section 2 - FY2021-22 Budget

Public School Employees' Retirement System Fiscal Year 2021-22 Defined Contribution (DC) Administrative Budget

Table 7.2

	<u>Budget</u> FY2019-20	<u>Budget</u> FY2020-21	<u>Budget Request</u> FY2021-22
Total Personnel Services	\$895,000	\$497,000	\$586,000
Operating Expenses and Fixed Assets			
Consultant Services - Non EDP	640,000	270,000	207,000
Legal Services/Fees	145,000	50,000	25,000
Other Operational Expenses	70,000	66,000	112,000
SW License recurring > \$,5000	<u>700,000</u>	<u>200,000</u>	<u>25,000</u>
Total Operating Expenses and Fixed Assets	\$1,555,000	\$586,000	\$369,000
Total Administrative Budget	<u>\$2,450,000</u>	<u>\$1,083,000</u>	<u>\$955,000</u>

Defined Contribution (DC) Administrative Budget

Table 7.2 displays PSERS' Defined Contribution (DC) Administrative Budget Request for FY2021-22. The \$955,000 amount requested represents a decrease of almost 12% from the FY 2020-21 available budget. As the implementation stage of Act 5 is completed, the need for consulting services and software programming changes decreases significantly.

Waiver of Prior Year Remaining Budgets

PSERS received approval to waive \$3,675,800 and \$1,714,082 from the FY2018-19 Administrative and DC Appropriations, respectively, by extending the lapse date until June 30, 2020. PSERS also received approval to waive \$949,600 from the FY2019-20 DC Appropriation by extending the lapse date until June 30, 2021.

Section 2 - FY2021-22 Budget

PSERS Directed Commissions Recapture Program

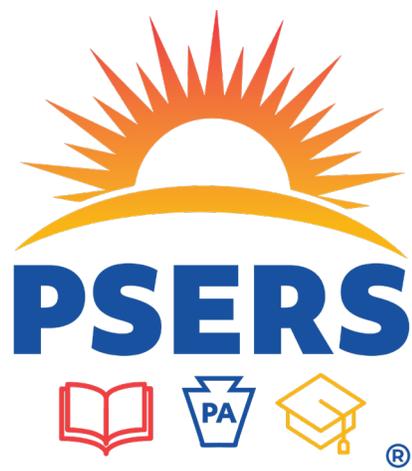
Directed Commissions Recapture is a program whereby a portion of commissions incurred by PSERS through investment trading activity is returned to PSERS. These funds can be used for the administration of the Fund or can be reinvested back into the asset allocation through a transfer

to 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

Table 7.3

	<u>Budget</u> <u>FY2019-20</u>	<u>Budget</u> <u>FY2020-21</u>	<u>Budget Request</u> <u>FY2021-22</u>
Budgetary Reserve	\$2,000,000	\$2,000,000	\$2,000,000
Total	\$2,000,000	\$2,000,000	\$2,000,000



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