



SECTION 2 - PSERS FY2018-19 BUDGET

PSERS Consultants' Fees and Legislation.....	Tab 6
PSERS FY2018-19 Administrative, Defined Contribution Administrative, and Directed Commissions Recapture Program Budgets.....	Tab 7



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Section 2 - FY2018-19 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, 2017.

Table 6.1 Investment and Pension Fund Administration Consultants		
<u>Firm</u>	<u>Services Provided</u>	<u>Consultant Fee</u>
ViTech Systems Group, Inc.	Pension administration system services	\$ 5,500,000 *
Portfolio Advisors, LLC	Private market consulting	\$ 1,900,000
Aksia LLC	Hedge fund investment consulting	\$ 700,000
AonHewitt	General investment consulting	\$ 699,892
STP Investment Services, LLC	Investment accounting application service provider	\$ 653,000
Conduent HR Services	Pension benefit actuarial services	\$ 629,815 *
OST, Inc.	Webmaster consulting	\$ 520,367 *
Courtland Partners, Ltd.	Real estate investment consulting	\$ 298,163
Glass, Lewis & Co., LLC	Proxy voting	\$ 178,681

Table 6.2 Health Options and Premium Assistance Program Consultants		
<u>Firm</u>	<u>Services Provided</u>	<u>Consultant Fee</u>
CoreSource, Inc.	Postemployment healthcare benefits administration and claims adjudication	\$ 26,093,049 *
Optum Rx, Inc.	Administration of postemployment healthcare benefits and prescription drug plan	\$ 6,741,479 *
The Segal Company, Inc.	Consulting services for the Health Options Program and prescription drug plan	\$ 3,649,567 *
Independent Pharmaceutical Consultants, Inc.	Pharmacy benefit consulting services	\$ 565,944 *
Healthways, Inc.	Administration of Silver Sneakers Fitness Program	\$ 763,843 *

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

Legislation

PSERS Related Legislation Activities during Calendar Year 2017

Act 3A of 2017

On July 21, 2017, Governor Wolf signed into law Senate Bill Number 681, Printer's Number 1029. This legislation makes an appropriation in the amount of \$52,453,000 from the Public School Employees' Retirement Fund to provide for the administrative expenses of PSERS for the fiscal year July 1, 2017 to June 30, 2018.

Act 5 of 2017

On June 12, 2017, Governor Wolf signed into law Senate Bill Number 1, Printer's Number 902. This legislation establishes a new hybrid defined benefit/defined contribution retirement benefit plan applicable to all new members of PSERS beginning July 1, 2019.

- **Hybrid Plan Design:** Beginning July 1, 2019, the new plan design will offer new members of PSERS (or current members who elect to "opt-in" to the new system) a choice among one of three retirement plans. Members will have 90 days to make an election following notification by the Board. New members hired on or after July 1, 2019 who fail to make a timely election will be placed in the default (Class T-G) hybrid plan.
- **Membership Class T-G (Default Hybrid):** Hybrid Defined Benefit and Defined Contribution plan. Members contribute 8.25% of compensation, with 5.5% allocated to the DB plan that has a 1.25% benefit multiplier, and 2.75% to the DC plan. The employer contribution rate to the DB plan is actuarially determined. The employer contribution rate to the DC plan is statutorily set at 2.25% of compensation.
- **Membership Class T-H (Alternative Hybrid):** Hybrid Defined Benefit and Defined Contribution plan. Members contribute 7.5% of compensation, with 4.5% allocated to the DB plan that has a 1.0% benefit multiplier, and 3.0% to the DC plan. The employer contribution rate to the DB plan is actuarially determined. The employer contribution rate to the DC plan is statutorily set at 2.0% of compensation.
- **Class Defined Contribution (DC) Plan:** A 401(a) defined contribution plan only (no defined benefit component). Participants contribute 7.5% of compensation with an employer contribution match of 2.0%.
- **Opt-in Provision:** Current, active members of PSERS as of July 1, 2019, will be permitted a one-time, irrevocable election to opt-in to one of the three new plan designs. The member contribution rate for a member opting in will not be more or less than what the member is currently contributing.
- **Superannuation Retirement:** For Class T-G Members, age 67 with 3 years of service or the "Rule of 97;" provided the member has at least 35 years of service and attains an age that in combination is equal to or greater than 97. For Class T-H Members, age 67 with 3 years of service.

Section 2 - FY2018-19 Budget

- **Early Retirement:** Class T-G members who terminate on or after attaining age 57 with at least 25 years of service would be able to commence benefits immediately, but benefits are reduced by 3% for each year the commencement occurs prior to superannuation. Class T-G and Class T-H members who are under age 62 and with less than 25 years of service will receive a benefit with a special two-step reduction factor: (1) one factor for a benefit received between age 62-67; and (2) another factor for a benefit received below age 62.
- **Vesting:**
 - **Defined Benefit:** 10 years.
 - **Defined Contribution:** Immediately for employee contributions; 3 years for employer contributions.
- **Final Average Salary:** Calculated using the five highest years of compensation for the defined benefit plan component.
- **Cost Neutral Option 4:** Class T-E, Class T-F, Class T-G, and Class T-H may elect a cost neutral withdrawal of their contributions and interest at the time of retirement. For Class T-E and Class T-F members, this provision applies to all contributions and interest withdrawn at the time of retirement. For Class T-C or Class T-D members who opt into Class T-G or Class T-H membership, this option will only apply to contributions and interest credited on or after July 1, 2019.
- **Shared-Risk / Shared-Gain:** Provides for “shared-risk” and “shared-gain” provisions to be calculated every 3 years comparing PSERS’ actual and assumed rate of return for the past 10 years. For every percentage point in earnings realized in excess of or below the assumed rate of return, the employee contribution requirement will be increased or reduced by 0.75%, not to exceed a maximum of 3% above or below the basic contribution rate. Class T-E and Class T-F members will continue to be subject to the current shared risk requirement, and will also immediately be subject to the shared gain provision, but, such rate will only be increased or reduced by 0.5%, not to exceed a maximum of 2% above or below the basic contribution rate.

Act 44 of 2017 (Fiscal Code)

On October 30, 2017, Governor Wolf signed into law House Bill Number 674, Printer’s Number 2624. Act 44 amended the act of April 9, 1929, (P.L. 343, No. 176), known as the Fiscal Code, implementing the 2017-2018 Commonwealth budget. Section 1799.6-E (Public School Employees’ Retirement System Restricted Account) of Act 44 transfers \$6,801,000 in prior year unexpended appropriations for school employees’ retirement to the PSERS board for costs associated with the implementation of the Public School Employees Defined Contribution Plan pursuant to Act 5 of 2017.



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Section 2 - FY2018-19 Budget

Public School Employees' Retirement System Fiscal Year 2018-19 Administrative Budget

Table 7.1	<u>Budget FY2016-2017</u>	<u>Budget FY2017-2018</u>	<u>PSERS' Budget Request FY2018-2019</u>
Total Personnel Services	\$ 25,644,000	\$ 27,068,000	\$ 28,014,000
Operating Expenses and Fixed Assets			
Travel	\$ 147,900	\$ 153,450	\$ 167,130
Training & Conference Registration	133,300	154,930	199,400
Telecomm - Recurring	349,700	388,900	420,900
Telecomm - Non-Recurring	12,500	13,000	15,000
Telecomm - Voice Hardware less than \$5,000	-	5,000	5,000
Electricity	35,000	30,000	22,300
Consultant Services - Non EDP	1,729,250	3,231,900	2,657,500
Consulting - Managed Services	1,631,000	76,900	20,000
Outsourced IT Consulting for apps & development	17,200	51,000	109,000
Consulting - Maint & Support - (post implementation)	79,800	-	125,000
Consulting - General IT Support	317,500	1,127,600	790,600
Consulting - Outsourced Infrastructure Svcs (DPH)	10,000	1,200,000	921,000
Legal Services/Fees	64,000	664,000	289,000
Specialized Services	427,300	448,750	484,750
Other Specialized Services	181,300	159,720	174,000
Advertising	10,000	10,000	10,000
Medical, Mental, & Dental Services	5,000	4,000	3,500
Software Licensing - Maintenance	1,608,700	1,703,800	1,753,100
Hardware Server - Maintenance	1,500	2,000	2,000
Hardware Network - Maintenance	22,000	61,800	75,000
Hardware Storage - Maintenance	33,400	-	-
Hardware Periph - Maintenance	8,000	8,000	13,000
Hardware Desktop - Maintenance	1,000	1,000	1,000
Contracted Maintenance Non EDP	153,500	166,100	168,000
Telecomm Data Services	87,700	87,700	88,900
Contracted Repairs - Non EDP	105,000	15,200	15,500
Real Estate Rental	2,006,000	2,036,500	2,059,500
Vehicle Rental	1,600	2,600	2,600
Office Equipment Rental	193,800	201,000	236,300
Other Rentals	3,900	8,300	8,400
Office Supplies	214,500	211,500	228,100
Educational Supplies (Books)	10,000	9,000	8,800
Medical Supplies	400	2,600	300
Software License non-recurring less than \$5,000	53,700	23,500	31,300
Hardware - Network	-	-	140,000

Section 2 - FY2018-19 Budget

Public School Employees' Retirement System Fiscal Year 2018-19 Administrative Budget (continued)

Table 7.1	Budget <u>FY2016-2017</u>	Budget <u>FY2017-2018</u>	PSERS Budget Request <u>FY2018-2019</u>
Hardware Desktop less than \$5,000	76,000	23,050	407,200
Furniture and Fixtures	58,450	58,100	68,100
Other Equipment	2,000	7,000	13,000
Motorized Equipment Supplies	21,000	21,000	21,000
Postage	1,113,600	1,191,790	1,148,500
Freight	5,000	5,000	3,000
Printing	213,000	212,500	221,000
Subscriptions	306,000	384,300	431,340
Membership Dues	34,500	35,510	38,280
Conference Expense	49,000	49,000	64,000
Insurance, Surety, & Fidelity Bonds	23,000	23,000	10,000
Other Operational Expenses	1,963,000	2,282,000	2,135,700
Hardware-Server	-	85,000	-
HW Network greater than \$25,000	-	-	75,000
Automobiles	40,000	40,000	20,000
Network Hardware	-	-	14,000
Purchase EDP - Computers	7,500	-	-
Software License non-recurring greater than \$5,000	-	-	50,000
Software License recurring greater than \$5,000	5,500,000	8,680,000	7,628,000
Office Equipment	<u>27,500</u>	<u>28,000</u>	<u>29,000</u>
Total Operating Expenses and Fixed Assets	\$ 19,095,000	\$ 25,385,000	\$ 23,623,000
Total Administrative Budget	<u>\$ 44,739,000</u>	<u>\$ 52,453,000</u>	<u>\$ 51,637,000</u>

Administrative Budget

Table 7.1 displays PSERS Administrative Budget Request for FY2018-19. The \$51,637,000 administrative budget is not funded from the Commonwealth's General Fund, but rather from the earnings of the Fund itself. Historically, PSERS has underspent its approved budget, keeping more funds available to invest for PSERS' members.

Total Administrative Budget for FY 2017-18 includes additional expenses for the implementation of Act 5. These totals include additional staff required, database system changes, legal expenses and other costs related to the defined contribution aspects of Act 5. Some of the

additional expenses pertaining to Act 5 will decrease slightly in FY 2018-19 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, PSERS expanded upon the process to stop payments sooner when a member dies, saving PSERS both time and money collecting the funds from the members' estate and reducing the amount of potentially uncollectible accounts. Working with its actuary, PSERS continues to save actuarial fees by completing various analyses in-house. Other savings include near historical low levels of overtime, a decrease in copier and printer rentals, and a reduction in overall printing expenses, all part of PSERS' ongoing efforts to control costs and improve operational efficiency.

Section 2 - FY2018-19 Budget

**Public School Employees' Retirement System
Fiscal Year 2018-19 Defined Contribution (DC) Administrative Budget**

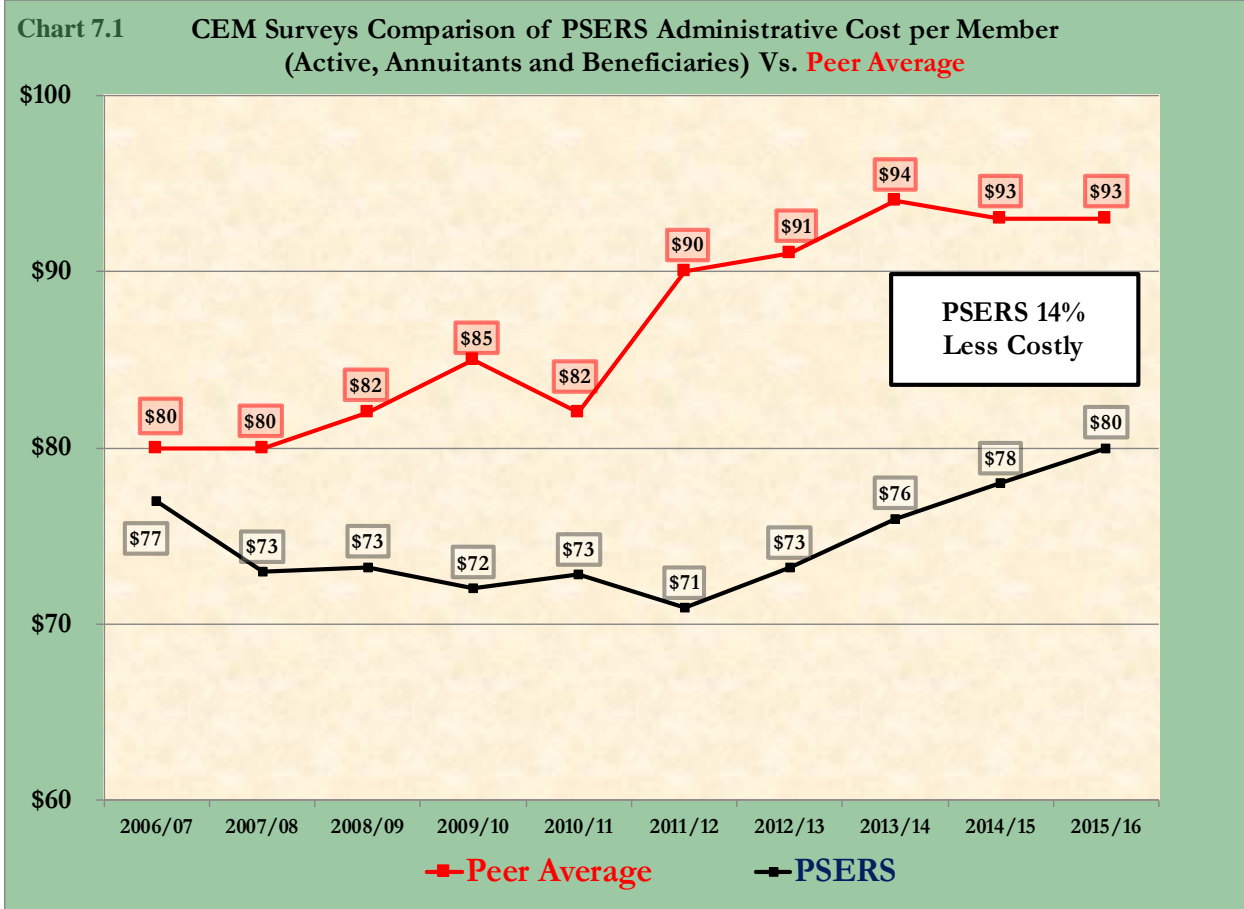
Table 7.2	Budget FY2017-2018	PSERS Budget Request FY2018-2019
Total Personnel Services	610,000	771,000
Operating Expenses and Fixed Assets		
Consultant Services - Non EDP	3,800,000	2,590,000
Legal Services/Fees	275,000	75,000
Other Operational Expenses	191,000	131,500
SW License recurring greater than \$5,000	1,925,000	1,382,500
Total Operating Expenses and Fixed Assets	\$ 6,191,000	\$ 4,179,000
Total Administrative Budget	<u>\$ 6,801,000</u>	<u>\$ 4,950,000</u>

**Defined Contribution (DC) Administrative
Budget**

Table 7.2 displays PSERS Defined Contribution (DC) Administrative Budget Request for FY 2018-19.

Section 2 - FY2018-19 Budget

**Public School Employees' Retirement System
Fiscal Year 2018-19 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 29% fewer full-time equivalent staff per member than the peer group average. Chart 7.1 above illustrates that PSERS had a 14% 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 \$6.3 million annually in administrative expenses compared to its peers.

**PSERS Directed Commissions
Recapture Program
(unaudited)**

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 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 #601270000**

	<u>Budget FY2016-2017</u>	<u>Available FY2017-2018</u>	<u>PSERS' Budget FY2018-2019</u>
Budgetary Reserve	\$2,000,000	<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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