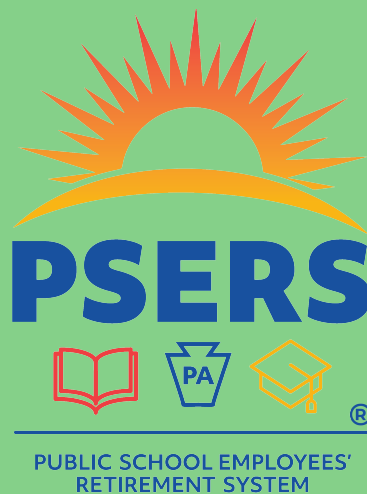


PSERS BUDGET REPORT - FY2022-2023

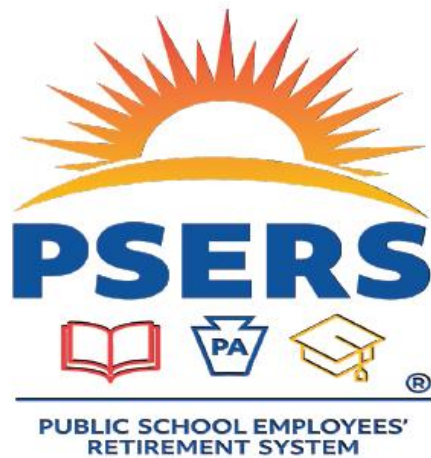


SECTION 2 - PSERS FY2022-23 BUDGET

Consultants Fees and Legislation	Tab 6
PSERS FY2022-23 Administrative, Defined Contribution Administrative, and Directed Commissions Recapture Program Budgets	Tab 7



Consultants Fees and Legislation



Section 2 - FY2022-23 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, 2021.

**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	\$ 5,300,000 *
Hamilton Lane Advisors LLC	Private market consulting	\$ 2,000,000
Unisys Corporation	Server maintenance	\$ 1,667,759
Aon Investment Consulting	General investment consulting	\$ 655,892
Aksia LLC	Hedge fund investment consulting	\$ 595,000
OST Inc.	Information technology services	\$ 594,119 *
Buck Global, LLC	Pension Benefit Actuarial Services	\$ 461,633
Funston Advisory Services LLC	Board Governance Consulting Services	\$ 400,000 *
Clifton Larson Allen LLP	Financial Audit - Pension, Defined Contribution, Healthcare	\$ 212,370

**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	\$ 32,810,296 *
Optum Rx, Inc.	Post employment healthcare benefits administration and prescription drug plan	\$ 6,146,201 *
The Segal Company, Inc.	Consulting services for the Health Options Program and prescription drug plan	\$ 3,543,649 *
Gallagher Benefits Services, Inc.	Pharmacy benefit consulting services	\$ 1,079,577 *
Tivity Health	Silver Sneakers Fitness Program administration	\$ 833,901 *

* Amounts as reported in PSERS Annual Comprehensive Financial Report.

Legislation PSERS-Related 2021

Act 11A of 2021 (House Bill 1512)

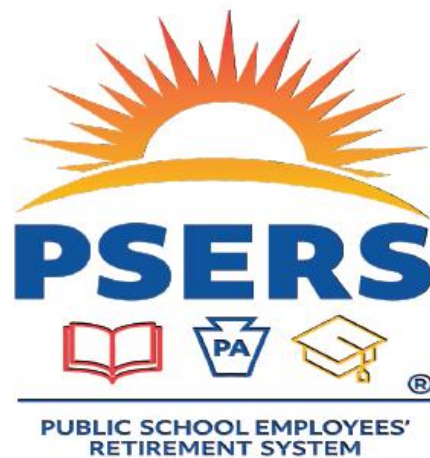
Act 11A of 2021 (House Bill 1512) makes an appropriation of \$52,906,000 from the Public School Employees Retirement Fund to provide for the expenses incurred by the Public School Employees Retirement Board for the administration of the system for the fiscal year July 1, 2021, to June 30, 2022, and for the payment of bills incurred and remaining unpaid at the close of the fiscal year ending June 30, 2021. Additionally, the Act appropriates \$955,000 from the PSERS Defined Contribution Fund restricted revenue account to provide for the expenses incurred by the Public School Employees Retirement Board for the administration of the defined contribution plan authorized by Act 5 of 2017 for the fiscal year beginning July 1, 2021, and for the payment of bills incurred and remaining unpaid at the close of the fiscal year ending June 30, 2022.

PSERS also manages non-appropriated funds that cover expenses for Investment-Related Expenses, Health Insurance Account, Health Options Program, and Directed Commissions. PSERS FY2021-22 budgets, including non-appropriated funds, total \$94,019,000.

Act 91 of 2021 (HB 412)

Act 91 of 2021 (HB 412) was enacted in December 2021 to provide additional flexibility regarding the hiring of substitute teachers through the 2022-2023 school year. For PSERS, this means that employers may hire a PSERS retiree as a day-to-day substitute under the emergency provisions of the Public School Employees Retirement Code without having to first offer such employment to a non-PSERS retiree; provided the employer first notifies and offers employment to those on a recall list.

PSERS FY2022-23 Administrative, Defined Contribution Administrative, and Directed Commissions Recapture Program Budgets



Section 2 - FY2022-23 Budget

Public School Employees Retirement System Fiscal Year 2022-2023 Administrative Budget

Table 7.1	<u>Appropriated Budget FY2020-21</u>	<u>Appropriated Budget FY2021-22</u>	<u>Budget Request FY2022-23</u>
Total Personnel Services	\$ 28,749,000	\$ 29,466,000	\$ 31,639,000
Operating Expenses and Fixed Assets			
Travel	\$ 197,400	\$ 163,800	\$ 158,800
Training & Conference Registration	185,600	170,400	164,900
Telecomm	419,200	415,200	427,000
Electricity	20,700	20,700	20,700
Consultant Services - Non EDP	2,165,500	1,602,000	1,543,600
Outsourced IT Consulting For Appl &	110,000	70,000	—
Consulting - Maint & Support - (Post Implementation)	83,000	45,000	45,000
Consulting - Security (Outsourced Inf Sec Services)	75,000	45,000	50,000
Consulting - General IT Support	1,278,000	1,108,600	900,600
Consulting - Outsourced Infrastructure Svcs (PACS)	1,250,000	2,095,000	2,655,000
Legal Services/Fees	227,000	352,000	1,362,200
Specialized Services	821,800	736,000	784,400
Other Specialized Services	220,300	244,400	243,800
Advertising	10,000	10,000	10,000
Medical, Mental & Dental Services	6,500	6,500	6,500
IT Shared Services	204,640	240,000	240,000
Software Licensing - Maintenance	1,064,860	1,114,100	1,084,800
Hardware - Maintenance	90,300	58,000	73,000
Contracted Maintenance Non EDP	162,800	162,800	158,000
Telecomm Data Services	83,200	64,000	56,000
Contracted Repairs - Non EDP	15,500	15,500	15,500
Real Estate Rental	1,936,900	2,039,100	2,022,900
Vehicle Rental	5,500	7,000	7,000
Office Equipment Rental	314,900	158,400	158,400
Other Rentals	8,900	10,000	10,600
Office Supplies	229,600	166,500	149,200
Educational & Medical Supplies	8,300	6,600	5,300
Software License Non-Recurring < \$5,000	11,900	261,000	246,100
Software Licensing - Proc. - Recurring	297,500	399,100	464,400
Hardware Desktop < \$5,000	281,500	134,500	49,500
Furniture and Fixtures	75,200	65,200	60,200
Other Equipment	13,000	10,000	10,000

Section 2 - FY2022-23 Budget

Table 7.1	<u>Appropriated Budget FY2020-21</u>	<u>Appropriated Budget FY2021-22</u>	<u>Budget Request FY2022-23</u>
Motorized Equipment Supplies	21,000	19,500	20,000
Postage and Freight	\$ 953,000	\$ 794,000	\$ 727,000
Printing	210,200	203,300	183,400
Subscriptions	47,400	48,300	37,200
Member Dues	41,500	44,800	49,300
Conference Expense	61,000	74,700	69,700
Insurance, Surety & Fidelity Bonds	10,000	170,000	189,500
Other Operational Expenses	2,851,200	2,630,900	2,620,500
HW Network and Server	—	—	200,000
Automobiles	19,800	19,800	20,000
Software License	7,507,000	6,798,000	6,500,000
Office Equipment	28,200	28,300	28,000
Total Operating Expenses and Fixed Assets	\$ 23,545,000	\$ 22,828,000	\$ 23,828,000
Total Administrative Budget	\$ 52,294,000	\$ 52,294,000	\$ 55,467,000

Administrative Budget

Table 7.1 displays PSERS Administrative Budget Request for FY2022-23. The \$55,467,000 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 FY2022-23 resulted in an increase of \$3,173,000 or 6.0% above the FY2021-22 available budget. The majority of the increase is in personnel costs due to PSERS requesting 7 new positions--5 in the Information Technology Office (ITO) and 2 in the Internal Audit Office (IAO). As a result of a governance study which was recently completed by an outside consultant, PSERS Board is putting a greater emphasis on enhancement of cyber incident response strategies and improved continuity and disaster recovery documentation. Two of the ITO positions will be Information Security Specialists who will develop and implement security standards and policies; ensure integrity of systems and data; and identify security threats and develop counter measures. Another two positions in ITO will be Project Managers who will lead large, high-impact IT projects with multiple business areas and

vendors; manage scope and resources; and assign and prioritize tasks. These 2 positions will result in net savings of \$100,000 annually by reducing the need for outside contractors. A fifth position in ITO will be an Application Developer to design, develop, test, and document PSERS custom business solutions. The first IAO position that is being requested is an Assistant Audit Executive. This person would assess the IT environment, internal controls, and security of systems; provide training on IT competencies to audit staff on planned engagements; and lead operational audits in areas such as procurements and third-party risk management. The second IAO position would be an Assistant Internal Auditor for Financial Reporting and Healthcare. This person would ensure PSERS meets healthcare compliance standards; conduct evaluations of internal controls related to the healthcare program; and assist with the financial statement audit and fraud, waste, and abuse investigations.

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 three years, the System has added significantly to the number of active and

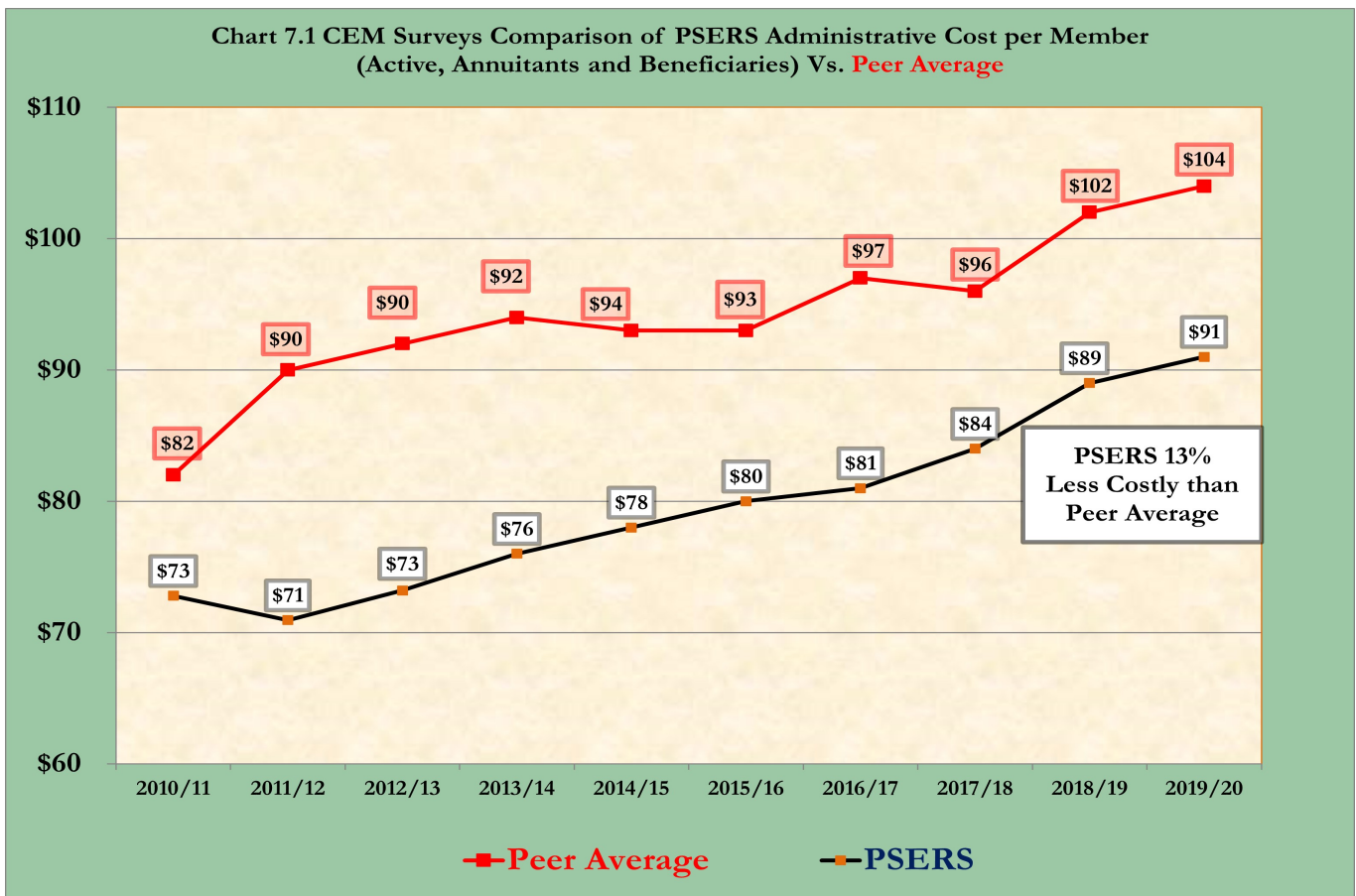
Section 2 - FY2022-23 Budget

Administrative Budget (continued)

retired members electing to receive newsletters, statement of accounts, 1099-Rs and other publications electronically, which saves the agency over \$225,000 per year in postage, printing and paper costs. During FY2021 specifically, the agency achieved a substantial savings in postage, reduced contracted maintenance and repair services, decreased rental of equipment and software, and lowered purchases of computer hardware and other equipment, all of which helps to maintain more investment earnings for the benefit of the Fund. In addition to these savings, PSERS renegotiated the terms with its database management system vendor through the Commonwealth of Pennsylvania contract in order to reduce costs by \$125,000.

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 39% 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 - FY2022-23 Budget

Investment Related Expenses Budget

Act 128 of 2020 directs the PSERS and SERS boards to provide for an internal control audit of their respective systems and plans at least once 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 PSERS Audit/Compliance Committee has made the determination for the system to conduct its audit in accordance with SOC 1 Type 2 standards established by the American Institute of Certified Public Accountants (AICPA). A System and Organization Controls (SOC) audit is performed by a certified public accounting firm and offers assurance that the controls that a service organization has put in place to protect its clients' assets (data in most cases) are operating effectively. A Type 1 report describes procedures and controls as of a specific point in time while a Type 2 report covers how the controls have been operating during a period of time, i.e., 6 months or 1 year. SOC 1 Type 1 or Type 2 audits are normally conducted on for-profit service companies such as banks or information technology providers.

An outside consultant hired by PSERS board in FY2020-21 to complete a governance study recommended the implementation of an Enterprise Risk Management program by performing internal control assessments and reporting, initiating a third-party risk management program, and improving coordination of monitoring, compliance, and audit functions. In addition to this, an investment consultant currently working for the board recommends that PSERS increase staffing to enhance operational oversight and reduce key-person risk; provide enhanced operational and compliance support to all asset classes and strategies managed by the Investment Office; and facilitate continuous improvement to current processes and procedures. As a result of these recommendations, and in response to the requirements of Act 128, the agency submitted a request to the Governor's Budget Office for 10 new

positions in FY2022-23 for the Investment Related Expenses appropriation. The Governor's Recommended Budget does not include these positions. It is worth noting that PSERS Board unanimously supported the new positions requested to achieve SOC 1 Type 2 compliance which is an unprecedented level of internal control assurance for a governmental cost-sharing multiple-employer pension plan such as PSERS. The following is a description of the requested positions:

Office of Financial Management (OFM) - Investment Accounting Specialist (2 Positions)

The Office of Financial Management (OFM) is seeking two Investment Accounting Specialist positions (one in the public investment markets and general accounting area and one in the private investment markets and employer accounting area) to assess the current internal control environment, document the controls in place, test the controls, and implement changes in processes and procedures where the current controls may be inadequate.

Investment Office (IO) - Intermediate Investment Professional - Risk Management

Perform in-depth assessments, reviews and updates of investment-related policies and related procedures periodically, including policies of the Board, the Investment Office and groups within the Investment Office, and support in the oversight of strategic business initiatives.

IO Senior Investment Professional - Non-Traditional Portfolio Oversight

Perform in-depth quantitative and qualitative risk assessments of Non-Traditional asset classes, portfolios, including in-depth research and reporting for the purposes of providing greater risk oversight. The work of the Senior Investment Professional will contribute to PSERS return by identifying and mitigating risks to which the fund is or could be exposed.

Investment Related Expenses Budget (continued)

IO Junior Investment Professional - Risk System and Modeling

Assist in providing the day-to-day back-up support to the senior members of the quantitative investment risk individual responsible for the risk system and investment risk modeling within the system.

IO Senior Investment Professional - External Operational Due Diligence

Perform in-depth reviews to determine the prospect for loss from inadequate or failed procedures, systems or policies of prospective and existing external investment managers, funds, and partnerships. Analysis will include legal, financial and accounting, and internal control-related documents, third-party service providers, organizational and staff criteria, regulatory compliance, and systems and technology matters.

IO Junior Investment Professional - Internal Operational and Internal Controls Risk

Assist in providing in-depth reviews to determine the prospect for loss from inadequate or failed procedures, systems or policies of prospective and existing internal and external investment managers, funds and partnerships. Supporting analysis, as applicable to internal and external managers, will include legal, financial and accounting, and tax documents, third-party service providers, organizational and staff criteria, investment compliance, and systems and technology matters.

IO Junior Investment Professional - Investment Compliance

Assist in the performance of in-depth compliance monitoring reviews of separate account portfolio guidelines, investment-related Board Policies and staff policies. The work of the Junior Investment Professional will contribute to PSERS return by enhancing compliance monitoring and oversight.

IO Intermediate Investment Professional - Investment Operations

This position will report to the Manager of Non-Traditional Investment Operations and be responsible for the analysis, verification, and entry of manager reported valuations in Burgiss Private i (PI) in coordination with the rest of operations, investment accounting, and consultants Aon, Aksia, and Hamilton Lane (HL). The position will also be expected to analyze cash flow and valuation activity as reported on Manager statements including impact on performance returns.

IO Intermediate Investment Professional - Investment Operations

This position will report to the Senior Manager of Investment Systems and will provide critical investment operational and portfolio data support and oversight for PSERS Non-Traditional asset classes; analyze, review, and approve non-traditional investment data entries and reconcile underlying Fund holdings in SimCorp Dimension to the overall Fund's NAV; and analyze quarterly financial statements to ensure all previously recorded investment activity and calculated performance is accurately reflected and reconciled with Fund managers.

Section 2 - FY2022-23 Budget

Public School Employees Retirement System Fiscal Year 2022-23 Defined Contribution (DC) Administrative Budget

Table 7.2

	<u>Budget</u> FY2020-21	<u>Budget</u> FY2021-22	<u>Budget</u> <u>Request</u> FY2022-23
Total Personnel Services	\$497,000	\$586,000	\$549,000
Operating Expenses and Fixed Assets			
Consultant Services - Non EDP	270,000	207,000	190,000
Legal Services/Fees	50,000	25,000	30,000
Other Operational Expenses	66,000	112,000	155,000
SW License recurring > \$,5000	200,000	25,000	25,000
Total Operating Expenses and Fixed Assets	\$586,000	\$369,000	\$400,000
Total Administrative Budget	\$1,083,000	\$955,000	\$949,000

Defined Contribution (DC) Administrative Budget

Table 7.2 displays PSERS Defined Contribution (DC) Administrative Budget Request for FY2022-23. The \$949,000 amount requested represents a decrease of almost 0.6% from the FY2021-22 available budget. As the implementation stage of Act 5 is completed, the need for consulting services and software programming changes is declining.

Waiver of Prior Year Remaining Budgets

PSERS received approval to waive all available balances from the FY2019-20 DC Appropriation by extending the lapse date until June 30, 2021. PSERS also received approval to waive all available balances from the FY2020-21 Administrative and DC Appropriations by extending the lapse date until June 30, 2022.

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.

Table 7.3

	<u>Budget</u> FY2020-21	<u>Budget</u> FY2021-22	<u>Budget</u> <u>Request</u> FY2022-23
Budgetary Reserve	\$2,000,000	\$2,000,000	\$2,000,000
Total	\$2,000,000	\$2,000,000	\$2,000,000