



A Case Study: PA Public School Employees' Retirement System

**Pennsylvania Association of
Public Employee Retirement
Systems (PAPERS)**

12th Annual Spring Forum

**Harrisburg, PA
May 25, 2016**

Public School Employees' Retirement System (PSERS)

- **Mandatory defined benefit plan for public school employees**
- **784 employer units**

- **259,868 active members**
- **219,775 annuitants**
- **137,186 inactive members**

- **\$48B net plan assets- \$18B (34%) invested internally by IO staff**
- **\$450M/month to retirees- \$6.3B/yr (90% to PA), \$10.2B Economic Impact**

- **316 employees located in 9 offices across the Commonwealth**

PSERS Board of Trustees Membership



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Active Member

Active Member

Active Member

Active Member



PSERS Board of Trustees Membership

**Retired
Member
Chair**

Active Member

Active Member

Active Member

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School Boards Rep

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Governor Appointee

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House Rep (R)

House Rep (D)

PA Treasurer

SEC of Education

Governor Appointee

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Chair

Senator (D)

Senator (R)

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House Rep (R)

House Rep (D)

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SEC of Education

Active Member

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ExDir of PSBA

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Secretary

Retired
Member
Chair

Chief Counsel

Senator (D)

PSERS CIO

Senator (R)

Active Member

House Rep (R)

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House Rep (D)

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Board Functions

- **Trustees for three separate Trusts**
 - Retirement Fund (24 Pa.C.S §8522)
 - Health Insurance Account for Premium Assistance (24 Pa.C.S. §8526)
 - Health Insurance Fund for the Health Options Program (24 Pa.C.S. §8902)
- **Provides oversight to three primary areas of operations**
 - Investment operations for all three Trusts
 - Benefits administration for all three Trusts
 - Agency administration in support of all three Trusts



Board Duties

- Annually establishes and monitors the asset allocation for the Retirement Fund
- Approves selection of consultants and external money managers
- Sets the compensation for PSERS' investment professionals
- Ensures the continuity of critical functions, e.g. annuitant payroll
- Approves and monitors PSERS' annual administrative, Health Options Program (HOP) and directed commissions budgets
- Conducts an annual actuarial valuation
- Conducts an actuarial experience study every five years
- Conducts an actuarial audit every five years



Board Duties

- Annually establishes the employer contribution rate
- Conducts an independent annual financial audit of PSERS
- Prepares and issues PSERS' annual Comprehensive Annual Financial Report (CAFR)
- Issues annual Member Statements of Account (FY 2015- 306,466)
- Prepares and sends 1099's (CY 2015 – 251,822)
- Adjudicates all benefits appeals
- Establishes and maintains the plan design for the HOP
- Promulgates regulations and policies for the operation of PSERS



Board Meetings

6 meetings/year

- 4- Quarterly performance cycle (March, June, August, October)
- 1- Board Education
- 1- Asset Allocation

Typical meeting schedule

- Day 1 – Committee Meeting
- Day 2 – Additional Committees Board Meeting



Typical Board Agenda

- **Welcome Guest and new employees**
- **Approval of Minutes**
- **New Business**
- **Chief Financial Officer's Report**
- **Deputy Executive Director's Report**
- **Chief Counsel's Report**
- **Committee Reports**
- **Executive Director's Report**
- **Visitor's Comments/Public Comments**
- **Board Member Comments**
- **Executive Session (if necessary)**
- **Adjournment**

Agenda Development

Post-meeting staff wrap-up (immediately following)

- After action items
- Preliminary Agenda for next Board meeting

Planning session- 3 to 4 weeks before

Develop detailed agenda- Board
Liaison and Executive Director

Preparation of Board minutes

Distribution of Board materials-
7 to 14 days

- Diligent Board books

Briefing Chair and Committee Chairs
Board meeting



Meeting Mechanics

Board Chair presides

Committee Chairs lead committees

Staff Liaisons provide support

Minutes and recording

Presentations

- **Staff**
- **Consultants**
- **Proposed investments**
- **Public comment**

Executive session(s)

Effective Meeting requires advance preparation and timely committee work

Committees

• Appeals/Member Services*

• Audit/Budget*

• Bylaws/Policy*

• Corporate Governance

• Elections

• Finance*

• Health Care*

• Personnel

• Technology Steering



Finance Committee

Chair- Jim Sando- Active Certified member on a 3 year term (2007)

- Chair of Finance Committee and Board Vice Chair since 2014

Staff Representative- James Grossman, Chief Investment Officer

Key Duties of the Finance Committee

- Recommends the asset allocation
- Oversees searches for new investment managers and consultants
- Monitors the performance of investment managers
- Oversees the implementation of investment objectives and guidelines

Reports the Committee receives on a regular basis

- Quarterly Performance Reports
- Market Overview

Challenges

- Learning curve on institutional investment portfolios (esp w/ new members)
- Appropriate level of delegation
- Conflicting responsibilities- serving more than one master
- Adequate staffing in Investment Office

Appeals/Member Services Committee

Chair- Deborah Beck-Active Non-Certified Member on 3 yr term (2013)

- Chair of Appeals/Members Services Committee since January 2013

Staff Representative- Terrill Sanchez, Deputy Executive Director

Key Duties of the Appeals/Member Services Committee

- Conducts formal member appeal process
- Reviews and makes recommendations on customer service issues

Reports the Committee receives on a regular basis

- Executive Staff Review Committee (ESRC) Report
- Adjudications

Challenges

- Legal requirements (PSERS Code) that restrict the latitude the Board has in deciding appeals in cases with unfortunate circumstances
- Consistently administering the Code as enacted when you may personally disagree or have a different opinion of what the law *should* be
- Keeping true to the duty of loyalty to the beneficiaries (members) of the system at all times, regardless of the hat you wear outside of the boardroom

Audit/Budget Committee

Chair- Fred Berestecky- Active Certified member on a 3 year term (2014)

- Chair Audit Budget Committee since January 2014

Staff Representative- Alicia James, Acting Internal Auditor

Key Duties of the Audit/Budget Committee

- Review the Administrative and Directed Commissions Budget
- Accepts the Financial Statements & the Independent Auditor Report each fiscal year
- Ratifies payments reflected in financial statements each fiscal year
- Accepts the actuarial audit report and findings on a five year basis

Reports the Committee receives on a regular basis

- Financial Statements
- Independent Auditors Report
- Administrative and Directed Commissions Budget Documents
- Actuarial Audit Report (every 5 yrs)

Challenges

- Education of members with limited financial background/expertise
- Balancing growing operational and investment needs in an austere budget environment

Healthcare Committee

Chair- Sue Lemmo- Active Certified members on 3 yr term (2014)

- Chair of the Health Care Committee since January 2014

Staff Representative- Joe Wasiak, Assistant Executive Director

Key Duties of the Health Care Committee

- Monitors and reviews health insurance & Premium Assistance Program
- Recommends the annual administrative budgets for the HOP and Premium Assistance Program

Reports the Committee receives on a regular basis

- Market Report and Migration Report
- Annual Benefit and Rate changes for all plans within HOP
- HOP and Premium Assistance Budgets

Challenges

- Complex nature of the changing federal health care world
- Changes in CMS rules may affect the premiums charged by group Medicare Advantage plans
- Selecting the next pharmacy benefit manager (PBM)

Bylaws/Policy Committee

Chair- Rep. Joe Markosek (Bernie Gallagher) House of Representatives (2011)

- Appointed by the Speaker of the House
- Has two designees
- Chair of the Bylaws/Policy Committee since March 2015

Staff Representative- Joe Wasiak, Assistant Executive Director

Key Duties of the Bylaws/Policy Committee

- Reviews and makes recommendations to the Board on all policies governing the overall internal operations of the Board

Challenges

- Restructuring of Board operational practices and meeting schedules
- Maintaining a diverse body of Board policies



Board Policies

Board Automation Policy

Education Policy

Elections Procedures and Guidelines

Ethics Policy

External Board Appointment and Attendance at Meetings

Health Options Program Eligibility

Investment Policy Guidelines

Non-US Proxy Voting Policy

Oral Argument Policy

Policy Manual for Investment Professional Staff

Premium Assistance Plan Approval Policy

Public Information Policy

Securities Litigation Policy

Statement of Organization, Bylaws and Other Procedures

US Proxy Voting Policy



Questions?