



INDEPENDENT FISCAL OFFICE

September 13, 2021

The Honorable Seth M. Grove
Chairman
House State Government Committee
7 East Wing
Harrisburg, PA 17120

Re: Requested Actuarial Note for House Bill 1671, Printer's Number 1874

Dear Chairman Grove:

This letter responds to your June 24, 2021 request concerning an actuarial note for House Bill 1671, Printer's Number 1874. The bill would amend Title 24 (Education) and Title 71 (State Government) of the Pennsylvania Consolidated Statutes to mandate new reporting and transparency-related requirements for the State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS). Major provisions of the legislation include, but are not limited to:

- The live-streaming of public board meetings and posting of unedited video and written records on the systems' publicly-accessible website. Videos shall remain posted online for a period of three years, and maintained for a period of seven years.
- Mandates that materials related to an investment shall be considered a record subject to public access unless, by reasonable judgement of the board, access to the record would: (1) violate an agreement to maintain confidentiality for information related to alternative investments and investment vehicles, (2) cause substantial competitive harm to the person from which the sensitive investment or financial information was received, or (3) have a substantial negative impact to the value of an investment, or would cause a breach of fiduciary responsibility.
- Requires both systems to submit a report to the General Assembly six months following the end of their fiscal years that includes:
 - Net of fee performance for all investments over 1-, 3-, 5-, 10-, and 20-year periods.
 - Performance of all investments by asset class and manager, both gross and net of fees, over each of the previously stated time horizons, compared to benchmarks reported for all investments made prospectively from the effective date. For investments made retroactively within five years of the effective date, only gross returns compared to benchmarks must be provided.
 - An itemized list of the fees and expenses paid to or retained by all investment managers for applicable reporting years, separated by type of fee (as prescribed) and informed by best practices and recommended by industry standards.

- All travel or other expenses incurred by system staff and paid for by external investment managers, funds or consultants.

For SERS, the bill contains additional requirements regarding information that must be accessible under the Right-to-Know Law for alternative investments and alternative investment vehicles. Similar provisions already apply to PSERS.

The legislation also requires the Office of Administration to revise management directives related to record management policies to conform with record retention requirements described in the legislation. The Office of Administration shall provide public notice by publishing the requirements on its website and shall transmit the requirements to the Legislative Reference Bureau for publication in the Pennsylvania Bulletin.

The legislation would take effect 60 days after being signed into law. Requirements that pertain to board meetings would become effective for meetings held more than 30 days after the effective date of the legislation. Requirements that pertain to reporting requirements would apply to contracts and agreements entered into after the effective date of the legislation.

The Independent Fiscal Office (IFO) requested actuarial cost estimates regarding this legislation from SERS and PSERS. If the systems did not project an actuarial cost, then the IFO requested an estimate of the potential financial impact related to the legislation. Neither system projected an actuarial impact, but both systems anticipate modest financial impacts:

- During the past year, SERS notes that the system spent \$125,000 on transparency-related initiatives, including live-streaming and publishing information from committee and board meetings. SERS estimates that annual recurring costs would be approximately \$20,000. SERS is also evaluating software to implement investment reporting as required by the legislation. The estimated annual cost of the software is \$500,000, with an additional \$200,000 first-year implementation charge. SERS notes that those costs would be incurred regardless of the proposed legislation as the system implements similar initiatives.
- PSERS estimates that costs related to the proposed legislation would be de minimis in nature but could change if the Commonwealth changes vendors in the future.

Full responses from both systems are attached to this letter.

Under section 615-B of the Administrative Code of 1929, the IFO has the responsibility to review legislative changes that may affect public employee pension or retirement plans and to provide actuarial notes for such legislation. Based upon internal review and information provided by SERS and PSERS, the IFO determined that there would be no material actuarial cost impact from House Bill 1671, Printer's Number 1874 and it does not require a full actuarial analysis prior to further consideration by the General Assembly. The office reviewed the legislation for actuarial cost impact, but it has not reviewed the provisions for legal, administrative or policy implications.

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I trust this letter adequately responds to your request. If I may provide further assistance, please contact me at (717) 230-8293.

Sincerely,

A handwritten signature in blue ink that reads "Matthew J. Knittel". The signature is written in a cursive style with a large initial 'M' and 'K'.

Matthew J. Knittel
Director, Independent Fiscal Office

cc: Governor Tom Wolf
Members of the General Assembly

August 31, 2021

Matthew Knittel, Director
Independent Fiscal Office
Rachel Carson State Office Building
400 Market Street
Harrisburg, PA 17105

Dear Mr. Knittel,

I am writing in response to your letter of August 18, 2021, requesting that the State Employees' Retirement System (SERS) provide information and an analysis of the potential additional costs likely to be incurred in complying with the following pieces of proposed legislation: HB 1671, PN 1874 and HB 1698, PN 1916.

We trust you will find the information we provide to be both valuable and practical.

HB 1671, PN 1874 – Transparency

Over the past year and more, SERS has worked steadily towards improved transparency, which includes live streaming and publishing information from public committee and board meetings on the SERS website. Costs incurred to date amount to approximately \$125,000. Our annual costs for maintenance, licensing, and closed captioning related to this endeavor are expected to be approximately \$20,000.

SERS has implemented or has plans to implement the investment reporting noted in the bill. Currently, SERS is evaluating software to help account, track, and report investment manager fees, expenses, and carried interest. Software costs are expected to be \$500,000 annually, with additional one-time implementation costs expected to be \$200,000.

Please note that because the SERS Board is already moving in the direction proposed by the legislation, SERS staff would be spending time on the requirements in the legislation and the above costs would be incurred regardless of whether or not the legislation is enacted.

H.B. 1698, P.N. 1916 - Global Investment Performance Standards (GIPS)

Type of Cost	Implementation Costs	Annual Costs
Internal Costs		
Two dedicated professional staff to: 1) ensure SERS annual compliance with GIPS; 2) document/monitor policies, procedures, and systems, needed and 3) oversee the compilation and external review of the annual GIPS Asset Owner Report for the Defined Benefit (DB) and Defined Contribution (DC) Plans.		\$ 267,750
External Costs		
Consultant to evaluate current state of SERS and assist with implementation plan towards GIPS compliance for DB and DC plans, including documentation of policies and procedures, training of staff, etc.	\$ 225,000	
Firm to conduct independent performance verification and examination of SERS GIPS Asset Owner Reports for DB and DC (<i>NOTE - this does not include a full recalculation of SERS performance</i>).		\$ 150,000
Total Estimated Costs	\$ 225,000	\$ 417,750

It is important to note that any costs incurred for the DC plan (approx. \$37,500 implementation and \$25,000 annually) will be directly charged to employers through the annual per-participant employer assessment.

SERS produced these estimates based on interpretation of legislation and best information available at the time of preparation. Actual costs incurred may differ from the estimates provided.

As always, we appreciate the opportunity to weigh-in and provide technical information that may be of assistance to you in the evaluation of this proposed legislation.

Please let us know if you have any additional questions or need additional clarification to what is presented above. Thanks again for your time and consideration.

Sincerely,

Thomas Derr
Director, Communications & Policy



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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www.pasers.pa.gov

August 31, 2021

Matthew Knittel, Director
Independent Fiscal Office
Rachel Carson State Office Building
400 Market Street
Harrisburg, PA 17105
RE: HB 1960, PN 2794

Dear Mr. Knittel,

I am writing in response to your letter of August 18, 2021, seeking an analysis of House Bill 1671, Printer's Number 1874.

PSERS management has reviewed House Bill 1671 and determined the bill would not cause a "material actuarial impact" on the System as defined under Act 37 of 2020. Therefore, it is not necessary to retain the System's contracted actuarial firm, Buck Global LLC, to conduct an actuarial note with 30-year projections.

Management's review of the bill has identified potential administrative and operational costs with the proposed legislation. Those costs in terms of existing staff time and resources could be reduced further if the General Assembly is amenable to making minor legislative changes as outlined below.

House Bill 1671, Printer's Number 1874

Summary Analysis

A version of this bill was introduced in the General Assembly during the 2019-20 legislative cycle, leading to a series of long, fruitful discussions among PSERS management, the prime sponsor and leaders of the General Assembly. House Bill 1671 carries the same language all sides negotiated last session with a few minor deviations:

- **Bill page 2, lines 7 & 8**, reverts to the original HB 1964 language requiring retention of public board meeting video and records online for a period of at least three years and maintained for a period of seven years. Language agreed to last session would have required retention of these records for only one year versus seven years.
- **Bill page 6, lines 3 through 8**, reverts to previous requirements in HB 1964 requiring the Board to annually submit an investment performance report to each

member of the General Assembly within **six months** of the end of the fiscal year. Agreed to language from last session would have required only notice be given to each member of the General Assembly and would have permitted the Board up to a one-year grace period after the close of the fiscal year to provide the report if reporting was delayed by late receipt of information that was beyond the control of PSERS.

- **Bill page 7, lines 2 through 4**, reverts to previous requirements in HB 1964 requiring reporting of all travel or other expenses incurred by staff of the system or plan and paid for by an external investment manager, fund or consultant. Agreed to language from last session's bill specified that the travel expenses would be disclosed in a manner determined by the Board and specified that the staff being referenced were staff of PSERS.

Financial Cost Estimates

- Board Meeting Videos: PSERS management estimates the cost for storing the online meeting videos and records to be relatively *de minimis* based on current contractual and technology procedures used by PSERS and the Governor's Office of Administration.
 1. PSERS did not have the technological and contractual resources needed to livestream Board of Trustees meetings and store the footage when a version of HB 1671 was introduced in 2019-20. When the COVID-19 pandemic began in March 2020, PSERS expended the necessary funds to establish the resources needed to conduct virtual public Board meetings via the Microsoft Teams platform and Microsoft cloud.
 2. PSERS currently pays about \$23 per month per user for all Microsoft 365 services, which is the approved vendor authorized by the Governor's Office of Administration. PSERS Technology Office believes the current Microsoft contract should provide enough cloud space to store the recordings for the years outlined in the bill. If more space is required, the cost would be about 15 cents per GB per month for regular storage, and less than 1 cent per GB per month for archive storage. (A Teams meeting recording takes about 0.5 GB per hour.)
 3. The technology and contracting cost estimates could change if the Commonwealth switched providers in the future.
- Investment Performance Report: No additional personnel or contractual costs are envisioned for the investment performance reporting time frame. However, PSERS Investment Office is very concerned that it would not be able to finalize the report in the six-month timeframe due to late receipt of required information from outside entities. If a one-year reporting grace period is not feasible, a minimum of 9 months would allow more grace time to ensure PSERS is able to receive, audit and compile the report.

- Travel report: PSERS Board recently passed a travel policy that provides significantly more detail than what is being contemplated in the bill. It would be more beneficial and cost effective if PSERS provided a link to the more detailed travel information it publishes on PSERS website than incur additional staff time and costs creating a new travel report envisioned by the bill.

In closing, I thank you for the opportunity to opine on HB1671 as part of IFO's responsibility to review pension-related legislation under section 615-B of the Administrative Code of 1929. My staff is always here to assist you and your agency with historical, financial or operational information you need to better understand how PSERS operates and its mission to serve roughly half a million Pennsylvanians each year.

Sincerely,

Glen R. Grell
Executive Director