



## INDEPENDENT FISCAL OFFICE

March 30, 2022

The Honorable Kerry A. Benninghoff  
Majority Leader  
Pennsylvania House of Representatives  
110 Main Capitol Building  
Harrisburg, PA 17120

Re: Requested Actuarial Note for House Bill 2447, Printer's Number 2869

Dear Leader Benninghoff:

This letter responds to your request of March 24, 2022 concerning an actuarial note for House Bill 2447, Printer's Number 2869. The bill directs the Pennsylvania Office of the State Treasurer, the State Employees' Retirement System (SERS), the Public School Employees' Retirement System (PSERS) and the Pennsylvania Municipal Retirement System (PMRS) to identify all direct, indirect and alternative investments and securities of sanctioned Russian companies, sanctioned Belarusian companies, scrutinized companies, and the governments of Russia and Belarus. Those entities must, as permissible under federal law, divest themselves from these identified investments. The legislation also prohibits public funds from acquiring any of these investments after the effective date of the legislation. The legislation is effective immediately upon enactment. Provisions of the bill do not apply to SERS and PSERS direct contribution plans.

The legislation also stipulates that public funds must submit two reports. The first report, which must be submitted 30 days after enactment, will be directed to the U.S. Attorney General, the Secretary of the U.S. Treasury, and the Director of the Office of Foreign Assets Control for the U.S. Treasury and details the requirements in the bill. The second report is submitted to the General Assembly, Governor and board members of SERS, PSERS and PMRS not less than three months after the effective date of the legislation and provides a list of all scrutinized companies in which the fund has holdings and all investments sold, redeemed, divested or withdrawn in compliance with the bill. The legislation requires that the Commonwealth shall reimburse the public fund for net losses, costs and expenses incurred as a result of initial and subsequent divestment of direct holdings in compliance with the bill. Public funds will submit to the Secretary of the Budget an itemized list of the amounts necessary to reimburse the funds for covered losses. The Independent Fiscal Office (IFO) contacted SERS, PSERS and PMRS for estimates of direct and indirect holdings and any anticipated administrative costs related to the bill. The systems expect minimal administrative costs, and holdings are as follows:

- SERS: \$0 in direct holdings; \$6 million in indirect holdings
- PSERS: \$17 million in direct holdings; \$51 million in indirect holdings
- PMRS: \$0 in direct holdings; \$1.6 million in indirect holdings
- Total: \$17 million in direct holdings; \$58.6 million in indirect holdings

Official responses from SERS and PSERS are attached to this letter.

March 30, 2022

Page 2

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. The IFO reviewed House Bill 2447, Printer's Number 2869 and submitted commentary from the systems and determined that it is unlikely there would be a material impact on the systems. The value of direct and indirect holdings can fluctuate significantly due to market conditions until divestment can be completed. Currently, the maximum total potential impact on the systems is \$76 million, of which an estimated \$17 million would be reimbursable by the Commonwealth. That amount would be in addition to any direct or indirect holdings in Commonwealth funds managed by the State Treasurer. Based on these estimates, the IFO determined that the bill would not require an actuarial note 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.

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

Sincerely,



Matthew J. Knittel  
Director, Independent Fiscal Office

#### Attachments

cc: Governor Tom Wolf  
Members of the General Assembly

March 25, 2022

Mathieu Taylor  
Fiscal Analyst II  
Independent Fiscal Office  
Rachel Carson State Office Building  
400 Market Street  
Harrisburg, PA 17105

RE: H.B. 2447, P.N. PN 2869

Dear Mathieu,

I am writing in response to your email message of March 23, 2022, asking for information from SERS concerning the possible impact of H.B. 2447 on the system.

**House Bill 2447, Printer's Number 2869**

House Bill 2447, P.N. 2869, requires the State Treasurer as custodian of Commonwealth funds, the State Employees' Retirement System, the Public School Employees' Retirement System, and the Pennsylvania Municipal Retirement Fund to divest all direct and indirect investment holdings and alternative investments of companies that are sanctioned Russian companies, sanctioned Belarusian companies, and scrutinized companies, including the government of Russia, the government of Belarus, and their respective subdivisions.

HB 2447's divestiture rules and definitions do not apply to SERS' defined contribution plan, created under Act 2017-5, or the Commonwealth's Deferred Compensation Plan created under 72 P.S. §4521.2.

SERS' leadership team has reviewed the bill and determined that we have no major technical or implementation objections or concerns to the bill as currently written, although we understand that there may be additional technical correction amendments by the sponsor. We have no comments on the substantive public policy position of the bill.

**SERS Russian and Belarus Investment Holdings**

As of March 10, 2022, SERS estimated the fund had \$0 (zero) of direct exposure and approximately \$5 million of indirect exposure of Russian public equity through SERS public equity commingled funds and approximately \$1 million of Russia exposure through private equity funds. Of the \$6 million of indirect Russia exposure, there is approximately \$2 million of exposure to sanctioned companies. Furthermore, SERS has \$0 (zero) exposure to Belarus (direct and indirect).

On March 4, 2022, SERS Board of Trustees passed Motion 2022-13, which states:

*That the board, in response to Russia's invasion of Ukraine, the SERS administrative staff, investment office staff and the board's investment consultants are to begin immediately to take all actions necessary to divest SERS of all Russia-related and Belarus-related assets and investments held by SERS in a fiduciarily prudent manner and within a reasonable time;*

*AND FURTHER, the administrative and investment office staff of SERS shall direct the investment managers, consultants, and other investment partners of SERS to cease making further Russia-related and Belarus-related investments until such time as the board, after receiving the advice of internal staff and outside investment consultants and advisors, concludes that it is fiduciarily prudent to again do so.*

In accordance with the above motion, all staff, hired managers, and consultants were directed to take all actions necessary to divest SERS of all Russia-related and Belarus-related assets and investments in a prudent manner and within a reasonable time. In addition, they were instructed to make no purchases on behalf of SERS of any securities of Russia-related or Belarus-related investments until further notice.

Since that time, the amount of SERS' investment holdings in Russia has declined due in part to indexes rebalancing through the removal of Russian exposure. That decline is expected to continue.

Given the volatility of the markets, and ongoing uncertainty in how long it could take to divest SERS' Russia-related assets and investments in a fiduciarily prudent manner, total projected losses are indeterminable at this time.

### **Estimated Administrative Costs of Compliance / Reporting**

In addition to potential losses identified above, costs and expenses likely to be incurred by SERS as a result of compliance with HB 2447 are anticipated to be minimal. Administrative expenses, including salaries of staff related to various compliance activities such as report preparation and communication with managers, are also expected to be minimal.

I trust this provides you with the information you need to assess H.B. 2447, P.N. 2869, and its potential impact on SERS.

Please feel free to reach out if you have any questions or concerns.

Very truly yours,



Thomas Derr  
Director, Communications & Policy



COMMONWEALTH OF PENNSYLVANIA  
**PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

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Harrisburg PA 17101-1905

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**Local:** 717.787.8540  
[www.psers.pa.gov](http://www.psers.pa.gov)

March 25, 2022

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

RE: HB 2447, P.N. PN 2869

Dear Mr. Knittel:

I am writing in response to an email of March 23, 2022, from Mathieu Taylor, requesting that the Public School Employees' Retirement System (PSERS) submit an analysis of House Bill 2447, Printer's Number 2869 to the Independent Fiscal Office.

PSERS management has reviewed House Bill 2447 and determined the bill will 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. PSERS management consulted with Buck staff and Buck concurs with management's determination.

PSERS understands that there will be additional technical correction amendments with which we currently concur.

Management's review of the bill has identified some potential divestiture losses on direct holdings. The value of the losses, however, may change between the date of this letter and the effective date of the legislation as the values of these holdings have continued to decline since the invasion of Ukraine began. According to BNY Mellon, custodian bank for the Commonwealth, losses of up to \$17 million could occur on the sale of PSERS directly held securities. The value of these holdings, however, may be closer to \$0 because certain equity markets are frozen and not trading, and PSERS bond exposure is restricted and cannot be traded at this time. Additionally, potential losses on indirect holdings and alternative investments are expected to be minimal at this time given the stated ability in the legislation to prudently divest of those positions over time.

**House Bill 2447, Printer's Number 2869**

House Bill 2447, P.N. 2869, requires the State Treasurer as custodian of Commonwealth funds, the State Employees' Retirement System, the Public School Employees' Retirement System, and the Pennsylvania Municipal Retirement System to divest all direct and indirect investment holdings and alternative investments of companies that are sanctioned Russian companies, sanctioned Belarusian companies, and scrutinized companies, including the government of Russia and the government of Belarus. This bill expands upon Act 44 of 2010's mandate to divest from investments related to Iran and Sudan.

HB 2447's divesture rules and definitions do not apply to PSERS defined contribution plan, which was enacted under Act 5 of 2017.

PSERS Management and Office of Chief Counsel have reviewed the bill and determined there are no major objections or concerns to the bill as currently written.

### **PSERS Russian and Belarus Investment Holdings**

At the start of the Russian invasion of Ukraine in late February 2022, PSERS had estimated the Fund had under \$300 million (less than ½ of 1% of PSERS total assets of \$72.5 billion) invested in Russian and Belarus investment holdings.

On March 3, 2022, PSERS Board of Trustees passed Resolution 2022-12 to “*authorize the Interim Chief Investment Officer to take all necessary action to divest PSERS from investments in Russia and Belarus as expeditiously as possible, consistent with the Board's fiduciary duty of prudence.*” In addition, future investments involving Russia or Belarus were prohibited until directed otherwise by the Board.

Since that time, the amount of PSERS investment holdings in Russia and Belarus has steadily declined due in part to indexes rebalancing through the removal of Russian exposure, and declines are expected to continue.

PSERS conservatively estimates:

- **Direct Holdings** - As of March 16, 2022, PSERS direct holdings had market value of approximately \$17 million according to our custodian bank, BNY Mellon. Of that \$17 million, approximately \$3 million was in Belarus holdings.
- **Indirect Holdings and Alternative Investments:** As of March 16, 2022, PSERS had indirect holdings and alternative investments of approximately \$51 million in Russian holdings. The majority of this exposure is in foreign currency forward contracts, which will expire at the end of March 2022.

### **Estimated Administrative Costs of Compliance**

In addition to potential losses identified above, costs and expenses likely to be incurred by PSERS to comply with HB 2447 are anticipated to be minimal. Administrative expenses, including PSERS’ pro-rata share of consulting services obtained by the public funds and salaries of staff related to various compliance activities such as report preparation and correspondence with managers, is not projected to exceed \$10,000 annually.

In closing, I thank you for the opportunity to opine on HB 2447 as part of IFO’s responsibility to review pension-related legislation under section 615-B of the Administrative Code of 1929. PSERS is ready to assist you and your agency with any 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,



Jennifer A. Mills, Esq.  
Deputy Executive Director and Director of Defined Contribution Investments