COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

STATE GOVERNMENT COMMITTEE
SUBCOMMITTEE ON PUBLIC PENSIONS,
BENEFITS, AND RISK MANAGEMENT

PUBLIC HEARING ON PENSION LEGISLATION:
HB 811, HB 967, HB 1442, HB 1578, HB 1671, HB 1698, HB 2010, HR 59, SB 423

ROOM 515
IRVIS OFFICE BUILDING
HARRISBURG, PENNSYLVANIA

THURSDAY, JANUARY 20, 2022
11:00 A.M.

BEFORE:

HONORABLE BRETT MILLER,
MAJORITY SUBCOMMITTEE CHAIRMAN
HONORABLE SETH GROVE,
MAJORITY CHAIRMAN
HONORABLE BENJAMIN SANCHEZ,
MINORITY SUBCOMMITTEE CHAIRMAN
HONORABLE SCOTT CONKLIN
MINORITY CHAIRMAN

HONORABLE DAWN KEEFER
HONORABLE RYAN FRANK
HONORABLE PAUL SCHEMEL
HONORABLE JOE WEBSTER

Pennsylvania House of Representatives
Commonwealth of Pennsylvania

I N D E X

TESTIFIERS

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(Continued) I N D E X

SUBMITTED WRITTEN TESTIMONY

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(See submitted written testimony
and handouts online.)

P R O C E E D I N G S

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SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Well, good morning, everyone. Welcome to this public hearing of the Pennsylvania House State Government Committee Subcommittee on Public Pensions, Benefits, and Risk Management.

The title of our hearing today is a Public Hearing on pension Legislation: HB 11, HB 967, HB 1442, HB 1578, HB 1671, HB 1698, HB 2010, HR 59, and SB 423. I am the Subcommittee's Chairman, Brett Miller, representing the 41st District in Lancaster County and I'd like to call this meeting to order and ask that everyone please rise for a moment of silence followed by the pledge to the flag, which will be led by Frank - Representative Frank Ryan, who represents parts of Lebanon County.

Please rise for a moment of silence. Thank you.

(Whereupon, the Pledge of Allegiance was recited.)

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Thank you. You may be seated.

The Chairman of the House State

Government Committee referred the bills read earlier to this Committee for review. As part of that review, we will have representatives from both of the State pension systems, SERS and PSERS, to provide their analysis of each bill and to answer questions from members of the Committee as we look to strengthen our statewide and local pension systems.

And for the record, in addition to the written material that we have received from the two Systems, we also received written testimony from PSEA, the Pennsylvania Association of Public Employee Retirement Systems, AFT, and PMRS.

By way of some introductory comments, the scope of this issue that we are considering today is an important one. Our State's two statewide pension systems, PSERS and SERS, collectively have approximately 383,000 active participants and approximately 349 retirees, for a combined total of 732,000 individuals all across Pennsylvania.

This number does not include the many thousands of individuals who are either actively involved or are retirees of a local public pension plan. In addition to the impact on the citizens who rely on this State's two statewide pension funds for their current or future financial security, the financial impact of providing these benefits in our statewide pension systems impacts nearly 14 percent of our entire General Fund budget, which translates to a $2.734 billion payment to PSERS and for SERS, $2.115 billion, for a combined cost of $4.849 billion when using the most available numbers, most available numbers for both systems.

These figures do not include the amount of money represented by our county and municipal governments. In addition to this, we also need to consider the taxpayers who will also directly participate in the State and local pension funds by paying their property taxes, which is the primary source of funding for these pension plans. With the broad impact on the lives of so many Pennsylvanians and their families, we are depending on a solid pension system, the broad impact on our State budget and the taxpayers who pay for these benefits, it is incumbent on us to ensure that we carefully review all legislation that would amend our pension systems, so that we can be informed of all the relevant issues and make the best possible decisions.

With that, I'd like to turn it over to Subcommittee Chairman, Representative Ben Sanchez, who represents parts of Montgomery County, for any opening remarks.

Chairman Sanchez.

SUBCOMMITTEE MINORITY CHAIRMAN SANCHEZ:

Thank you, Chairman Miller.

Ben Sanchez from the 153d in Montgomery County. I appreciate you having the hearing today, lots of bills on deck here, and some very important stuff as you outlined nicely. So looking forward to hearing from the respective agencies and on their positions on these bills. And I thank them for coming here for their testimony today.

So thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Thank you, Chairman.

We have members and testifiers in attendance in person and, as well, virtually. Due to the Sunshine Law requirements, if either of these platforms experience technical difficulties, we will pause the meeting in order to correct the issues.

Will the members and those in the room please take a moment to silence your devices. And for members participating virtually, please mute your microphones. Please know that when you speak, we all hear you.

If you want to be recognized for comments, please use the raise hand function. And after being recognized, but prior to speaking, turn on your camera and unmute your microphone. After you have completed your question, please mute your microphone.

We will start with Committee members in the room for introductions. And for members attending virtually, I will call on you one by one after the introductions here in the room.

Representative Ryan -- or Keefer.

REPRESENTATIVE KEEFER: Representative Dawn Keefer, 92nd Legislative District, York and Cumberland Counties.

REPRESENTATIVE RYAN: Representative Frank Ryan, 101st District in Lebanon county. And by way of full disclosure, I'm in the capacity today as a member of the State Government Committee and as a State Representative and not representing the Public

School Employee Retirement System as the vice-chair.

I do want to say though it's been a distinct pleasure and honor to work with our Chair, Chris Santa Maria, and to the Executive Director, and the entire team, I've been a -- we've been through a year of combat and I am incredibly impressed and thankful for your service and your willingness and dedication to serve during this.

And over the past couple of years, I've had a great pleasure of working with our colleagues at SERS. And your cooperativeness has been absolutely tremendous. And we thank you for giving us your former Executive Director who retired, which she can do another 20-year career at PSERS. But thank you very much.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. For our virtual attendees, Paul Schemel.

REPRESENTATIVE SCHEMEL: This is Paul Schemel, representing portions of southern Franklin County.

Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Representative Webster.

REPRESENTATIVE WEBSTER: Good morning. And thank you, Mr. Chairman.

It's Joe Webster, and I represent the 150th District in Montgomery County.

Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Representative Conklin.

All right. We'll move on, and hopefully he'll be able to come back.

Chairman Grove.

MAJORITY CHAIRMAN GROVE: Hey. Great job, Chairman Miller.

Seth Grove, State House Member, 196th District.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Thank you.

And one last time, Chairman Conklin, are you online?

MINORITY CHAIRMAN CONKLIN: Sorry about that. I got a -- I'm using my phone, so I got a text when it came through and it over-shadowed.

Scott Conklin, the 77th District, western Centre County, Penn State. And I'm glad PSERS and everyone is there today because there's a rumor that you're giving an early buyout plan for legislators that are going to retire early with the -- that's why I'm wondering if there's such an exodus of individuals. So if you can confirm or deny that sometime through the testimony, I'd appreciate it.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Thank you for those comments.

And last but not least, once again, Chairman Sanchez.

SUBCOMMITTEE MINORITY CHAIRMAN SANCHEZ:

Thanks again, Chairman Miller.

Ben Sanchez here, representing the 153d from Montgomery county.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. Thank you, Chairman.

With that, we will move to our first panel, which will include members of SERS. And what I'd like to do is if the members of SERS could please introduce themselves who are here and then we'll move to the virtual introductions. And then we will proceed from there.

EXECUTIVE DIRECTOR TORTA: I do have an opening statement to introduce our staff. We can handle that any way you wish, Mr. Chairman.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. Well, if you could, let's start with introductions. That would be good, just with introductions. Then you can have your opening statement.

EXECUTIVE DIRECTOR TORTA: Thank you.

My name is Joe Torta, and I'm the Executive Director of the State Employees Retirement System. We're happy to be here.

MR. MARCUCCI: Joe Marcucci. I am Chief Counsel.

MS. MCSURDY: Sara McSurdy, I'm the Chief Financial Officer.

MR. NOLAN: James Nolan, and I'm in the Chief Investment Officer role.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. We'll move to the online individuals for SERS. The ones that I have listed here are Chris Houston.

MR. HOUSTON: Good morning. My name is Christopher Houston. I'm the Deputy Executive Director for Administration at SERS.

Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

My apologies, sir.

Next, William Truong.

MR. TRUONG: Yes, good morning.

William Truong, Deputy CIO at SERS. Pleasure to be here.

Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Thank you. And Karen Lynne.

MS. LYNNE: Good morning. I'm the Internal Audit Director for SERS, Karen Lynne.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Next, Jo Anne Collins.

MS. COLLINS: Good morning. This is Jo Anne Collins. I'm the Chief Compliance Officer at SERS.

Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Next, Michael -- is it McGeoy.

MR. MCGEOY: McGeoy, yes. Good morning.

My name is Michael McGeoy. I'm the Assistant Chief Financial Officer.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

All right. Thank you for the correction on your name.

Next, Jeff Meyer.

MR. MEYER: Good morning.

My name is Jeff Meyer. I'm the Managing Director of Investment Operations at SERS.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

And the last on my list is Meredith Jones.

MS. JONES: Good -- oh, my camera, did it come on? I'm not seeing it on my screen.

Good morning. This is Meredith Jones. I'm a Portfolio Manager at SERS.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Thank you.

We could see you fine --

MS. JONES: Okay.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

-- so just to let you know.

MS. JONES: Good.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

And is that all of the SERS testifiers?

Okay. I just wanted to make sure I did that.

So with that -- just one moment.

Okay. With that, we'll have you proceed with your opening comments, and then we'll proceed through the rest of the agenda.

EXECUTIVE DIRECTOR TORTA: Thank you, Mr. Chairman, and members of the Committee for inviting the State Employees Retirement System here to speak with you today.

My know is Joe Torta, as you just heard, and I am the Executive Director of the State? Employees Retirement System. While this is a fairly new title for me, our Board honored me with this designation about a month ago. I have been with SERS for over 32 years.

By way of background, briefly, I started out in 1989 working in a regional field office meeting one-on-one with our members and participants to assist them with their retirement issues and concerns. In my most recent role, I was Deputy Executive Director for Member and Participant Services. So my focus is and always has been on customer service and the well-being of the approximately 240,000 active and retired State employees that we as an agency serve every day.

Over the years, I've had the opportunity to meet with -- to meet and work with legislative leaders and members on numerous occasions. But in the coming weeks and months, I am looking forward to reaching out and meeting with you and your colleagues as part of my expanded responsibilities.

A key part of our role at SERS is to help keep you informed and educated on topics that touch on what we do every day, topics that can sometimes be somewhat arcane, so that you can do your job, formulating public policy to the best of your ability. My predecessor in this position, Terri Sanchez, who is in the room, set a clear course for the agency in terms of striving for greater transparency and accountability. I intend to continue that course. That is, in part, why I welcome opportunities such as today's meeting, so that we can continue to have a productive dialogue that in the end will lead to legislation that best serves and protects our members and participants and the taxpayers of Pennsylvania.

Historically, leadership at SERS has tried to take a balanced approach in our dealings with legislators and staff. We try to focus on what we do best, providing technical information to help sponsors craft their legislation. And while we typically do not directly lobby for or against specific bills, we frequently can provide guidance that addresses the potential implications of various policy options or proposals.

This kind of dialogue, I believe, can be a tremendous benefit to sponsors of legislation, as well as to the citizens who will be affected by it. If I could stress one thing, it would be this. We are here for you. We deal with the Retirement Code and the related issues every day. I think we can be a tremendous resource for legislators who are looking to develop solutions to problems and concerns relating to retirement issues that impact their constituents and other Pennsylvania taxpayers.

So please feel free to reach out to me or my staff at any time. Our doors are open, and we are happy to work with you in any way we can. I will not reintroduce the SERS panel today. That has already been done. But as you know, we are here to talk about nine pieces of legislation that are currently before this Subcommittee. Last week, we provided a short synopsis of our general prospective of each bill.

I do want to clarify an inaccurate number that was sent over, related to HR 59. That's the study on an early retirement incentive. In our material, it was referenced that approximately 1500 members would be impacted. The actual number is between 9,000 and 10,000. My apologies.

With that, we are here, and we are happy to take any questions that you may have.

Thank you, Mr. Chairman.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Thank you very much for that introduction and those kind remarks.

I want to -- what I thought we would do here is take the bills that you have prepared for in the order in which that you have presented them in your written testimony. I thought that would be the most simple for you and those of us that received your materials.

So I don't know how you have established it for presentation purposes or just by way of giving -- answering questions, but I would like, if you could, just however you have it set out to give a brief statement about each one and then we'll delve into questions. So beginning with HB 811, is there anything that one of your members would like to add to, and then we'll take questions from there?

EXECUTIVE DIRECTOR TORTA: Just that, you know, identifying that HB 811 would prospectively eliminate the Susquehanna River Basin Commission going forward, but we would welcome any questions that you have.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. Well, before I ask questions, I would like to open it up to the members. So are there any questions here from the members, either virtually or here in the room.

Representative Ryan.

REPRESENTATIVE RYAN: I'm not sure if this is the best question to ask you or actually ask RBC or DRBC, based upon the general question. But from any experience that you've had, what type of impact do you think that that would have on the management of the fund, if you've got one group of employees in the system and another group within the same agency not in the system?

Do you have any perspective on that?

I realize that's more of a question of the agency affected at issue. What would your thoughts be?

EXECUTIVE DIRECTOR TORTA: Well, we've seen situations similar to that as the benefit classes have changed and the retirement multipliers have been reduced. We have agencies with employees that are SERS members that have drastically different types of benefits. We've seen a clear distinction in the haves and the have nots in those examples. I think this would be an extension of that and would -- the severity of which would depend largely on what type of retirement plan going forward, if any, people would be eligible to participate in.

If there was no retirement plan offered by that agency and you had Legacy employees who over 20, 25, 30 years would systematically drop off the rolls as SERS members, I think there would be a clear distinction and it would have an impact on employee morale.

REPRESENTATIVE RYAN: You know, it's interesting you bring that up.

Mr. Chairman, do you mind if I ask another question?

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Yes, proceed.

REPRESENTATIVE RYAN: The -- one of the

things that's kind of a quandary in the private sector that I've come out of, human relations and the entire function of personnel would all -- and to include the pension fund management would all fall within the same spectrum of the same organization. There wouldn't be outside organizations.

And so I hear the comment frequently, but we have a unique concept here in that the group of the people that are paying for the pension, the public, are really the have nots because the pension system structure has changed so drastically outside, as well. So as part of your -- and I realize this is a little bit beyond the scope of 811 and other types of things, but what impact are you seeing relative to comments, complaints, discussions that you're having with annuitants and members about the comparability of the entire package of benefits that would be provided?

Now, I'll give you a perfect example. We have a situation where the health care plan in the Commonwealth is probably second to none. And anywhere else, people don't consider that a benefit. They view that as a given. In the private sector, I would tell you we would call that a substantial benefit.

So how do we get comparability and get a better understanding from a totality perspective in that -- and have you -- have your annuitants given you any idea about what the impact is on them?

EXECUTIVE DIRECTO TORTA: The annuitants are a very active group. We hear from annuitants every day. I heard from two this morning.

But they're more concerned not with what the current State employees have in comparison to what their pension benefits were when they retired. They're primarily concerned that they haven't had a COLA in 19 years. And we hear more about that from the annuitants than anything else.

So as far as active State employees, no, they're really -- they're retired. They're concerned about their retirement-related matters. They're concerned about paying their bills, you know, as they've transitioned from the State Employees -- the Retired Employees Health Program coverage to Medicare as their primary insurer. Their health care benefits have remained solid, but their monthly pension annuities have not changed in a very long time, for some -- for many of them, they've never changed. And that's what we hear about more than anything.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Chairman Grove.

MAJORITY CHAIRMAN GROVE: Thank you, Mr. Chairman.

Appreciate everybody coming in today and providing -- (Inaudible) -- important bills. I want to start off with SB 423 and ask kind of one general large question about this legislation and then one a little more specific to the bill.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Chairman Grove, I'd --

MAJORITY CHAIRMAN GROVE: Yeah.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: -- like to interrupt if I can. Your question -- what I think we want to do here is just go straight through the bills. So currently we're on 811.

MAJORITY CHAIRMAN GROVE: Okay.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: And then we're just going to walk through them systematically according to the testimony that they provided. Okay.

MAJORITY CHAIRMAN GROVE: Got you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Any questions on 811.

MAJORITY CHAIRMAN GROVE: 811, not at this time, Mr. Chairman.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. We'll get to your questions shortly.

Okay. I have some follow-up questions on 811. The question that I have is what is the impact to the system?

So currently, as I understand it, the SRBC has about 62 active members within SERS. If there were to be a date in the future where future employees of SRBC were to not be allowed to enter SERS, what would be the impact on SERS, but the 62 that are in there now would remain until their employment was completed, but there were no new employees for SRBC? What would be the impact on SERS?

EXECUTIVE DIRECTOR TORTA: The financial impact would be minimal because we're talking about 62 individuals who would drop off the rolls, not all at one time, but over many, many years. I would anticipate probably 25 or 30 years before there were no active members at SRBC. So to answer your question from a financial standpoint, with over 100,000 contributing members and participants in the plan, 62 people being removed systematically over a 30-year period would have virtually no impact.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. The plan is designed so that individuals who are in this system pay into it to pay for their benefits ultimately. And those benefits accrue over time to pay back what they have contributed to the system; is that correct.

EXECUTIVE DIRECTOR TORTA: Essentially. You know, mandatory contributions and using the defined benefit formula, yeah, a pension benefit is calculated and paid for life upon retirement.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay.

EXECUTIVE DIRECTOR TORTA: Yes.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: So if an organization like the SRBC were to cease having new members added, the liability to the System would be covered by those employees who would continue to contribute over the time of their career, and then that would pay for their benefits long term; is that correct.

EXECUTIVE DIRECTOR TORTA: That is correct. It wouldn't fall to the individual employees. It would fall to the employer and the other participating employers.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Yes, that's right. Okay. Thank you.

Any other questions?

Representative Ryan.

REPRESENTATIVE RYAN: Thank you.

Based upon your question, that does bring up a follow-up. On the annual comprehensive financial report, does SRBC have their unfunded liabilities shown on their financials and is it removed from the liability that's shown to the Commonwealth of Pennsylvania?

MS. MCSURDY: I'd have to check into that because I'm not sure what they classify themselves as, whether they get consolidated into the Commonwealth PCFR or whether they issue their own financial statements, but I can find that out and get back to you.

REPRESENTATIVE RYAN: Yeah, I would really -- the reason I bring it up is one of the things that we're trying to sort out, which has come about with HB 811 and other similar bills, is when we have ancillary agencies that are ending up not necessarily -- they're quasi-governmental entities, for lack of a better term. And we see this in a number of different entities. So they're beyond the reach of the Commonwealth in certain things, but it becomes a multi- employer plan.

And I have a personal perspective from a financial stability issue that as a multi-employer plan, one of the things that I deal with extensively in terms of the PSERS System with the multi-employer plan is if a school district is unable to pay its requirements, those obligations could become part of the responsibility of others.

And so I'm curious in this case, if it's as a multi-employer plan, if that's a similar issue that occurs with the SRBC and what the implication of that would be. And it might, from a materiality standard perspective, Joe, I agree with you 100 percent. From a SERS perspective, when you're looking at billions of dollars, that's not material. But from an accounting materiality standard, it might be material to SRBC. And as you decompose the number, for lack of a better term, it would help.

So if you could get that back to us, I would appreciate it. That would be very helpful. Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Thank you.

Chairman Conklin.

MINORITY CHAIRMAN CONKLIN: My question may be for now, or when the appropriate bill or person comes up, it can be answered.

One of the conversations I've had with many of the supervisors in the local PennDOT, especially the CDL drivers and many of their employees is that they're telling me they're losing a large amount of their recent hires who are in the new system, the new downgraded system. And they're saying the reason is that the older employees are staying because of the pension system, you know, even though the pay is lower, but they're telling me that they're losing drivers, they're losing workers who had to come in under the new system and they're going elsewhere because the 401-K, they don't get as much and the other employers, they can make more money using their CDL and their other training.

Are you seeing that within this System at all, or isn't that system that you've been able to track or are unable to track?

EXECUTIVE DIRECTOR TORTA: That's a very good question. And yes, we are seeing that across the Commonwealth when new members are hired that aren't in hazardous duty positions that do not have footprints that are required to choose from one of the hybrid, one of the two hybrid pension benefit plans or the straight defined contribution plan. Approximately 95 percent of those are ending up in Class A5, which is a hybrid class. That's the default plan.

The defined benefit vesting for that is 10 years. The defined contribution vesting for all plans, including straight defined contribution is three years. We are seeing a considerable number of non-vested member and participant accounts terminating service with the Commonwealth, and we are processing refund applications for non-vested members out of the new benefit classes in numbers that we -- that we have never processed in the past.

So the turnover rate is very high. It is not exclusive to the Department of Transportation. It is across the Commonwealth for all participating employers.

MINORITY CHAIRMAN CONKLIN: We were warned when the pension system was changed that this would happen. And you know, it's -- I'm sad to see it's happening, but yeah, I'm getting a lot of phone calls. Especially -- the reason I'm bringing up PennDOT, with this winter, they just don't have the personnel to plow the roads and they just don't have the individuals.

EXECUTIVE DIRECTOR TORTA: Yeah.

MINORITY CHAIRMAN CONKLIN: With that, the only comment I'll make is that we shouldn't take pensions away from everybody. We should put everybody in Pennsylvania in the pension system, but that's my personal -- so with that, sorry to interrupt. Please enjoy.

EXECUTIVE DIRECTOR TORTA: And to add to those thoughts, it's hard to retain those new hires. It's also hard to hire people. We're hearing that from the employers, as well. We're experiencing that as an employer ourselves, that people aren't attracted to Commonwealth employment because of the lower pension benefits, higher vesting periods, those types of things.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. Thank you.

Just a reminder to the members. I would like to keep the topic related to the individual bills that we're discussing. And then at the conclusion, we'll have a general time for overall questions related to the pensions, but this hearing is about these particular pension bills.

I want to follow up on the comment, we're talking about the SRBC. The DRBC, as I understand it, is already out and it would be a housekeeping measure to remove the DRBC from the legislation. But my understanding is the definition of an eligible employer in Pennsylvania for SERS would include the Pennsylvania Turnpike Commission, the Delaware River Port Authority, the Port Authority Transit Federation, the Philadelphia Port Authority, the Delaware River Joint Toll Bridge Commission, the State Public School Building Authority, the Department of General Services, the State Highway and Bridge Authority, the Delaware Valley Regional Planning Commission. We mentioned the

Delaware River Basin Commission, which has been removed, my understanding. And then finally, the SRBC.

And my understanding, too, is that there are other organizations and quasi-organizations that are not strictly Pennsylvania -- under the umbrella of Pennsylvania, but they are through a quasi-relationship. So what would be true of the SRBC, if they have a certain number of employees in them collectively, and if that were, that number were to end, then the employees that are in the System, they would pay for their benefits, which would accrue to cover the costs of their benefits over time, correct?

EXECUTIVE DIRECTOR TORTA: Correct.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay.

Last call for any questions on 811. I will add -- I think we're done with that.

Okay. We'll move on to HB 1442 and any general comments you have about that before we go into questions.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: I mean, the term pension hopping is associated with this bill. It limits public employees to receiving a pension benefit from one system only, regardless of the level of government: State, county, local. We have a current -- it's in our Retirement Code as well as the PSERS Retirement Code, the ability for SERS members who have time with the public school system, and PSERS members who have time with the State to declare what's called multiple service and receive a joint benefit between the Public School Employees Retirement System and the State Employees Retirement System.

There is no connection with -- legal connection -- for members to be eligible to combine a lower level of government, county or local government pension benefits, with their State pension benefits, only the public school employees benefit system. And that's only if they make that election within their first 365 days of employment.

So parts of this bill could potentially impact our membership, and a large portion of it would not.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. We'll open it up for comments or questions from the members.

Any questions?

Chairman Grove.

MAJORITY CHAIRMAN GROVE: Thank you.

On this bill, you brought up the fact that you kind of have a so-to-speak anti-hopping provision between the two State Systems. Is there any pension system -- statewide pension system out there from any other State that would allow that same sharing capacity with local governments in any other State, are you aware of?

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I do not know the answer as to whether that's permissible in other states.

MAJORITY CHAIRMAN GROVE: Okay.

Dealing with this legislation, have you looked with Federal ERISA laws, pension laws, is that allowable, that transaction between the State pensions and the other political subdivisions?

MR. MARCUCCI: As a governmental plan, we are not subject to ERISA, so the ERISA limitations are not applicable. It is possible to have various levels of coordination and consolidation or separation between different levels of government. There are some states that

I believe have statewide plans that cover all employees. There are other states where they're very differentiated.

Pennsylvania is probably the most balkanized pension system in the country. We have somewhere in the vicinity -- you hear different numbers -- between a quarter and a third of all pension plans are in Pennsylvania in the United States. The General Assembly has considerable flexibility to the degree they would want to coordinate or separate. And we would be more than happy, I think, to work with the policy makers on how they would want to do that.

The key issues are on the technical aspects of it. So speaking to simply 1442, for instance, while it sets up a rule -- and setting aside whether it's a good public policy rule, it sets up a rule to control membership, but it doesn't actually amend the membership fields, the mandatory participation fields, the mandatory contribution fields of State employees, and then doesn't deal with how to -- what do you do with the back-end after somebody has worked for the State and you figured out how to deal with them on the front end? Do they have to contribute or not contribute or what happens.

Then the back end, it doesn't change the eligibility for benefits. And how do you end up cashing somebody out if they end up not qualifying for a benefit?

So the devil is in the details. And we would be glad to work with the legislature on working those out if they decided to move on this.

MAJORITY CHAIRMAN GROVE: Got you.

And this would -- I assume you would -- you already have provisions if a local law enforcement officer would get hired by the State Police, right, go through the Academy and get hired by the State Police? There's -- you probably have those scenarios within your System to deal with those kind of pension transactions, correct?

MR. MARCUCCI: Yeah.

Oh, I'm sorry, Joe. Go ahead.

Currently those are separate pension benefits, and Pennsylvania does not, as a rule, allow the purchase of municipal credit in SERS. We have seen over the years various bills introduced to allow certain types of credit to be purchased in SERS. Those generally do not make it through to the final stage.

So currently, municipal employees, their pensions are separate from ours and they are -- they are two separate benefits. The consolidation, the combining, happens mostly between SERS and PSERS, the Public School Employees Retirement System.

MAJORITY CHAIRMAN GROVE: Okay.

MR. MARCUCCI: However, at the municipal level, PMRS does allow consolidation and combining of benefits of the municipalities that are in PRMS.

MAJORITY CHAIRMAN GROVE: And you would not view this bill as a kind of consolidation piece for transitioning pensions between applicable subdivision up to SERS, correct?

It is more extensive than that simple transaction, correct?

MR. MARCUCCI: Go ahead, Joe.

EXECUTIVE DIRECTOR TORTA: Go ahead.

MR. MARCUCCI: Actually, it's the opposite.

MAJORITY CHAIRMAN GROVE: Okay.

MR. MARCUCCI: It's not a consolidation

bill. It's a separation bill, and it would cause a situation, if somebody works 15 years in a municipality and 15 years for SERS, right now, having worked a full career, they would have a full career pension, basically, you know, half with us, half with PMRS, half with the municipality. With this bill, they'd have half a pension, whichever half of the career was larger.

So this is a separation bill, not a consolidation.

MAJORITY CHAIRMAN GROVE: Got you. Okay. Thank you very much.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Chairman Sanchez.

SUBCOMMITTEE MINORITY CHAIRMAN SANCHEZ: Thank you, Mr. Chairman.

I think, to some extent, my question was covered by Chairman Grove and also the SERS folks that are there. It just -- I know it was clearly stated that the policy consideration was set aside, but as we, with the -- even when we talked about the mechanics of it instead. But as the -- as the last question kind of elicited, this, you know, really may affect the compensation, you know. Pensions, as I view it, are part of the compensation for the job or for a career.

And if we're, you know, instead of earning two pensions and, you know, the expectations of someone that may return to the workforce or take another job, you know, for a salary maybe that's lower than they might otherwise, but then also add in the pension factor as a reason, as an incentive to do so, may very well be in their career, you know, be counting on those two pensions.

And I realize it wouldn't operate retroactively, but at least it may operate to discourage workers to reenter the workforce and, you know, and also share their expertise as we may need, you know, seasoned employees in some of these careers. And various examples were given in that last exchange.

So I know you declined to comment on the policy, but if you, you know, would care to comment at all, I'd welcome that, or I could just leave it as a comment with that. But you know, I'd suggest we need to take a much deeper dive into how many things this would affect. I'd note in the written response, it was very difficult to quantify any cost savings. So maybe you'd care to elaborate on that part a little bit, so we would know.

Thanks very much.

EXECUTIVE DIRECTOR TORTA: I really don't know that it would have any financial impact with SERS, at least we wouldn't be able to tell, unless we had some very profound specifics on how it would be applied, who all it would apply to, and what the limitations on what the individual pension benefits would be.

I think there would be, if you're going to limit an individual to one public pension and limit -- take away a vested benefit from other public pension plans, there would be a significant cost savings across the board because you'd be eliminating someone's right to a public pension benefit. And while that may or may not impact SERS -- SERS could certainly be one of the -- if it's not the highest benefit, it would be one that would be eliminated. We would just need -- need to really take a comprehensive look at this before we would be able to cost that for you.

SUBCOMMITTEE MINORITY CHAIRMAN SANCHEZ:

And I'd just, you know, I can't see that operating retroactively. I don't know if you wish to comment on that, but it would almost, you know, undoubtedly have to operate prospectively, unless I'm missing something.

EXECUTIVE DIRECTOR TORTA: It's always cleaner constitutionally to have these things applied prospectively. There is some ambiguity in the statute as drafted that does raise a few questions as to whether it would apply only prospectively. We would be glad to work with the legislature on further analyzing those situations. So there -- there is that issue.

The other mechanical issue that we are not certain of is whether the legislation is intended to include only defined benefits plans. It talks about any pension plan. The General Assembly, as you know, in Act 5 recently enacted a defined contribution plan. One of the very reasons for a defined contribution plan is that they are portable and they can be combined with other plans. We are guessing but aren't certain that this legislation is drafted to prohibit defined benefit double -- getting two defined benefits, but that's another aspect in terms of retroactivity and policy that would need to be further explored.

SUBCOMMITTEE MINORITY CHAIRMAN SANCHEZ: Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Representative Ryan.

REPRESENTATIVE RYAN: Mr. Chair, thank you.

I'm actually going to echo your concerns candidly about the bill in general. Pension -- one of the things I've come to appreciate in the past three years is that pension law is fairly complicated. I'm of the opinion it would have to be done prospectively. In light of the concerns that you've already expressed about the change in the pension plan, I actually think this would actually operate across purposes to that, unless the language was spelled out differently. And I think -- I can't speak for the prime sponsor of the bill, but I would be suggesting that he might be willing to sit down with all of you to see the way to do it.

But I can tell you, as a legislator, when I got elected, I made a decision that I don't think as a legislator I don't think that I should participate in the pension plan, so I declined the benefits. But I was told very clearly that if I did and left the legislature and went to work for another system, I was to declining that benefit permanently.

So I think you have to be very careful. And Joe, I think I appreciate your admonition. I think we have to be very careful how we do it.

And I want to go back to something you had said earlier, Joe. I know we have two Joes there, so Joe -- and my other brother, Joe. There's a -- thank you.

The -- there's a danger in making assumptions about why there's a difficulty of retaining people in a period of an intense labor shortage to begin with. We have a demographic issue that people my age, us elderly people -- when Ben Franklin and I first went into the legislature, we knew that there's a demographic period. A lot of baby boomers are retiring. And those replacing us are basically about 60 percent of the numbers of those of us who are retiring. That in and of itself is a recipe for a labor shortfall of Biblical proportions.

So I would just say that on 1442, I would ask that the prime sponsor be willing to sit down with SERS and PSERS and look at those issues. Because I think, as I've become very clearly aware in the past couple of years, pension law is very, very unique, and there could be some significant unintended consequences that could have some very bad public policy implications if we're not careful.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Thank you to each of the questioners.

I would just add a comment. I was impressed with the document that you submitted relative to the concerns you had of the complications over the issue outlining them in great detail. I, too, was taken by the fact of the constitutional issues, the complications across the municipal/county/State going forward. There are legal issues relative to beneficiaries and so on. PSERS also provided a lot of testimony that was similar, echoed a lot of the same things that you did.

It just seems to me that there's a lot of work that this bill needs to have prior to it moving forward because I think it would run into all kinds of issues. So that's more of a comment, not a question. But I appreciated your time and effort you put into that bill to prepare for us. So we'll thank you for that.

Let's then move onto the next bill, which is HB 1578, with any intro comments you have on that. And then, we'll proceed to questions.

EXECUTIVE DIRECTOR TORTA: SERS essentially views this as a housekeeping piece of legislation, officially recognizing that the Act 120 collars are no longer in effect.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. So with that, we'll open it up for any questions.

Representative Keefer.

REPRESENTATIVE KEEFER: I'm of the same opinion. It's just housekeeping, but with that said, in reviewing 1578, did you see any technicalities or anything, language that needed to be clarified or any cleanup within the language of the actual bill itself?

MR. MARCUCCI: No, we think it -- we reviewed the draft before it was submitted. The sponsor was -- gave us the courtesy of doing that, for which -- which we appreciated. And it seems to be a clean bill which does what it's supposed to do.

REPRESENTATIVE KEEFER: Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I want a follow-up question.

Just on the topic in general, of course, this removes collars, which were the result of Act, what -- what was it, Act 120 of 2010. My question is this. Act 20 -- 120 of 2010 was -- which is now expired -- it was designed in theory to save costs.

My question for you is what in your estimation were the actual costs of 120? Because it essentially reamortized that debt, how much did that cost the Commonwealth?

MS. MCSURDY: So first, before I answer your question, I just want to thank -- thank you for the support and dedication that the legislature has shown in fully funding our actuarily-determined contribution over the past few years. It's really -- really helped us to get all of that funding in.

Just to provide some overview. There was a collar in the 2010-2011 fiscal year of 1 percent. Then the next year it went to 3 percent, 3 1/2 percent, and then 4 1/2 percent thereafter. The collars came off in '17-18 fiscal year when they were no longer needed -- (Inaudible) -- we did have our actuaries look at the cost of this and how much it added to our unfunded liability.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: And while you're looking for that, that would just be for SERS.

MS. MCSURDY: For SERS.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: SERS only, yes. Okay.

MS. MCSURDY: Yes. We had our actuaries look into this, and they said the initial impact of the Act 120 collars on our unfunded actuarial liability was approximately $4.9 billion. The remaining amount is $4.5 billion, which is about 20 percent of our current unfunded actuarial liability.

But you're right, these costs are amortized, so the Act 120 collars will be $12.1 billion over the 30 year amortization period, assuming our 7 percent assumed rate of return.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. So $12.1 billion over 30 years for the cost of these collars. So it's an expensive addition to our pension fund. I am in support of the General Assembly paying our full freight. I think the General Assembly has done well to do that over the past number of years.

My question to you is can you calculate -- is there any way to calculate the savings that have been brought about by paying that full amount?

MS. MCSURDY: So just to get some clarification on your question, are you talking about comparing what the costs were because of the collars in place versus what -- where we would be right now if actuarily --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Yeah, that's better stated.

MS. MCSURDY: Okay.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Thank you. Yes.

MS. MCSURDY: I think we can -- we can look into getting that information obviously on an estimated basis.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Of course.

Yeah, I think it's self-evident that when we pay our bills on time, it saves us costs in the long run and it just does the whole system a whole lot better.

So any other questions?

Representative Ryan.

REPRESENTATIVE RYAN: Mr. Chair, I would encourage you to get from both systems what percentage of the employer contribution rate is increased because of the unfunded shortfall. I think that might give us a clearer perspective of what happened when we didn't make the ARC payment.

Because as that number -- as an example, in the case of PSERS, the number is 35.29 percent. Of that, a significant portion of it, as our CFO will tell us -- and I'm sure it's the same case with SERS -- that's a big percentage of that employer contribution rate that comes about annually because we didn't do it. Because if there's any one thing I would really like to emphasize to us in the legislature, it's how critical it is that we continue to make that payment, so that we don't find ourselves in this situation we're in today.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

So with that, will you be able to provide us with that estimate as well? Yes.

And PSERS, while you're here, that's a pre-question for you. So just take note of that. We're asking for that information, as well.

For those that may be watching here, we have PSERS who will follow up after the SERS has completed their testimony.

Let's move on to H -- oh, I do want to add, Representative Keefer, thank you for offering this bill. It's a good bill, HB 1578.

HB 1671 is next. So any opening comments you have, and then we'll take questions.

EXECUTIVE DIRECTOR TORTA: Just that it -- HB 1671 adds additional investment transparency and reporting requirements. So we welcome your questions on this also.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. We'll open it up to member questions.

REPRESENTATIVE RYAN: Mr. Chair, this is actually something that you and I have to work on with the GIPS bill and your bill, which is -- we've worked on for a number of years. You've done a phenomenal job.

But before I ask you any questions, first, we do need to talk about the gross versus net comparison between the two bills. And Bob Devine from PSERS will be happy to do it, and I'm sure SERS would do the same thing. The question I want to ask you is this, that the maintenance of the System and the records online are really designed to provide some degree of ability for the public to have us be more transparent.

I've noticed in your quarterly reporting, that SERS has a fairly robust transparency portal. Do you see anything in the bill that would cause -- make it difficult, other than what you've provided in written testimony, that would make it difficult to comply or have an adverse effect on your ability to make investment?

EXECUTIVE DIRECTOR TORTA: I'm going to defer to our Chief Investment Officer. Our general impression is that it does not, but I will defer to Jim Nolan.

MR. NOLAN: Yeah, we've worked through with the team on this at length. And no, we don't see any hurdles that would -- (Inaudible) -- negatively.

REPRESENTATIVE RYAN: I want to compliment you on the -- on how robust your quarterly reporting is. So it's very useful for somebody like myself. So thank you.

EXECUTIVE DIRECTOR TORTA: Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Chairman Sanchez.

SUBCOMMITTEE MINORITY CHAIRMAN SANCHEZ: Thank you, Chairman Miller. Just a question. And chairman Miller, you may even be able to address this.

But in the written materials for the SERS testimony, it says this bill received second consideration. And then, if I'm not reading it incorrectly, there was an amendment by Representative Brad -- Matt Bradford. And then, it seems like that's made HB 1671 -- it seemed as if everyone is working together, and that made it something that SERS now feels they can comply with; is that -- am I reading all of that correctly?

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: I will give a quick comment and then to SERS.

Yes, that was last session. Chairman Bradford offered that amendment, which I agreed to. And that section about disclosure elements was removed from the bill. And the current bill, 1671, keeps those disclosure elements out of the bill as it was amended last year.

So any comments for SERS on that?

EXECUTIVE DIRECTOR TORTA: No, that was welcomed and addressed the concerns that we had, as did PSERS -- they currently submitted. So yes, it's greatly appreciated.

SUBCOMMITTEE MINORITY CHAIRMAN SANCHEZ: Excellent. Pleased to see everyone working together on that. And it looks like it's going to be a great result.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. Thank you.

Chairman Grove.

MAJORITY CHAIRMAN GROVE: Thank you.

Just to follow up on that line of questioning. After that amendment was taken out, was that the only -- I don't mean to say opposition, but concern your System had with that legislation, that provision? I guess it was on redacted slides, if I'm not mistaken.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Are you asking me or the System.

MAJORITY CHAIRMAN GROVE: The System.

EXECUTIVE DIRECTOR TORTA: No. I don't

know that there were any other concerns on our part regarding that.

MAJORITY CHAIRMAN GROVE: Okay. So with that provision, same spot as last time, you have no technical or any kind of policy issues with that legislation?

EXECUTIVE DIRECTOR TORTA: That's correct.

MAJORITY CHAIRMAN GROVE: Okay. Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I have some follow-up questions.

I first want to say I appreciate both SERS and PSERS. I worked with them extensively on this bill and the -- so I want to go through a series of questions here.

You know that the bill sets forth that videos and records be kept online for three years and then maintained for seven. Is there any reason in your mind why this information should be shielded from the public?

EXECUTIVE DIRECTOR TORTA: The public board meetings, no.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. All right.

Any logistical issues with the posting of such information?

EXECUTIVE DIRECTOR TORTA: None.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. Let's see, how long does it take for SERS, at the conclusion of your year, to complete your -- you said you call it the ACFR, the Annual Comprehensive Financial Report. Now, how long does it take you to complete that.

MS. MCSURDY: The deadline for completing the Annual Comprehensive Financial Report is 6 months after our year-end. We do a lot to get to that point. We use standalone financial statements and undergo auditors. And then, those -- that makes the financial section of what we call the ACFR now. And then, we proceed to work and fill in actuarial information, the physical information, and the Department investment information.

And we normally look to complete this by, you know, the beginning or mid -- (Inaudible -- there's a lot of work that goes into. I mean, I have it with me. It's a very thick comprehensive -- (Inaudible).

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Yes. For some of us, it's great reading. So we appreciate it.

Have you had any trouble with completing that within six months.

MS. MCSURDY: No. I mean, we even met our deadline when -- back in 2020 when we went on emergency work. We sort of had to -- everybody was getting used to not being together in person and we still, you know, found our way through being able to get what we needed to get done to produce our financial statements. We underwent our audit, and we produced our ACFR.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

In this day of electronics, that thick booklet that you have there can be condensed into a PDF file.

MS. MCSURDY: We do have it on PDF on our website.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Is there any objection on your part, as the bill requires, that this be disseminated to the members of the General Assembly, whenever you're out with it, just send it out to the members of the General Assembly? Any problem with that.

EXECUTIVE DIRECTOR TORTA: No objection.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. In your testimony, you described some of the costs associated with increasing of the system's transparency, notably a cost for a video and the reporting requirements.

You said that SERS is already moving in that direction and would have been moving in that direction independent of this bill anyway.

Can you describe what were your policy discussions, like what was going on within SERS, you, your Board, that moved you in that direction?

EXECUTIVE DIRECTOR TORTA: Yeah, I can address that. That was actually an initiative by our new Executive Director at the time, Terri Sanchez. It was pre-pandemic, and thank goodness we did it. As it turns out, you know, to make the boardroom, you know, technologically sound prior to the implementation of all of the audio visual, you know, the capabilities, it was a room, not unlike this, where we had a tape recording. That's what we had.

That's what we did for a very long time. And one of our initiatives -- she came in and said, we've got to step into this century. And I don't know where our Board would have been -- it would have been very difficult under the provisions of the -- or the situation where during the pandemic shut down and the abruptness of it for us to -- for our Board to function without that initiative.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I personally have been working on this bill for over four years, and the idea of transparency is very important to me. And I know it's very important to the public. And I just want to say publicly, I appreciate all the work that both PSERS and SERS have done to increase the transparency. And this bill is moving in that direction and codifying some of the things that we discussed, so I appreciate it.

All right. Let's move on to HB 1698 and any initial comments on that, and then we'll take questions.

EXECUTIVE DIRECTOR TORTA: No comments. We'll just field questions.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay.

Any questions on 1698?

Representative Ryan, I'm sure you may want to opine here.

REPRESENTATIVE RYAN: This is probably not one of the bigger bills that people have on their radar screen. No one writes home to their parents and says that they wrote a bill on GIPS. But for people like me, that's what we like to do.

There is obviously a cost associated with GIPS, but there's a standardization, as well, that comes about. Do you see any difficulty in the coordination between HB 1698 and HB 1671 in terms of the gross versus net comparison? The GIPS is typically done on a net basis. GIPS is typically -- or the 1671 is done on the gross debt.

Do you see any difficulty in your reporting on that?

MR. NOLAN: No. No, we don't.

REPRESENTATIVE RYAN: Fantastic. So from a transparency perspective, they'd both be okay in that regard.

MR. NOLAN: Right.

REPRESENTATIVE RYAN: One of the real values of GIPS in my mind is that creating a measure of effectiveness. And I apologize to all my friends at PSERS, but a saigon [phonetic] type 2 engagement, which I get harassed about on a regular basis for mentioning that so frequently, is designed to provide a degree of standardization and measure of effectiveness relative to how organizations manage their performance.

My intent on this legislation is have the GIPS serve as a reinforcement of what a saigon [phonetic] type 2 would do, although there are different areas of the organization. Do you see any area where the saigon [phonetic] type 2 or the GIPS would conflict with one another, that we might need to legislatively fix?

MS. MCSURDY: No. I think they're actually complimentary.

REPRESENTATIVE RYAN: They're intended to be. So you see it that way, as well?

MS. MCSURDY: Right. The one thing we need to keep in mind is, you know, coordinating our efforts between the bills, that the GIPS gets passed, make sure we have enough staff capacity and assistance to be able to move the bills forward to, you know -- (Inaudible) -- a directory with both of those at the same time.

REPRESENTATIVE RYAN: Okay. Fantastic.

And we are having an amendment that's done to the bills. Have you had a chance yet to look at the amendment?

If not, we'll have to make sure that we get it over to you.

EXECUTIVE DIRECTOR TORTA: No. We would like to receive that.

REPRESENTATIVE RYAN: Okay. Please, if we could.

And that was to actually clarify a question, a concern that PSERS had that we put into that. So we'll make sure that we get that to you. And I would like to get -- Joe, you've always been very good about getting back to me very quickly.

EXECUTIVE DIRECTOR TORTA: Thank you.

REPRESENTATIVE RYAN: So I would appreciate that.

The -- there is an issue relative to the cost of GIPS as it relates to passing on some of those costs on the defined contribution side. What's your perspective on that, in addition to what you've written in the testimony?

MS. MCSURDY: Yeah, so in our cost estimate, about $25,000 of it was related to the defined contribution plan, so out of the total $420,000-issue that we bid it. The way that our plan is set up, our administrative costs for our defined contribution plan are charged to our employers through a per participant assessment that was granted and passed.

The bill passed, I believe, last year or the year before. This is the second year that we're billing employers. So it's really the employer that would pay for this on our side.

REPRESENTATIVE RYAN: Okay. Fantastic. Thank you.

From your perspective, we obviously, in legislation, we can't associate a standard body as the standard for the System. So we had to lock it into a particular year for the current standard, but we provided the degree of flexibility that the Board would be able to adopt if there is a change in the GIPS standard.

Is that satisfactory to you?

EXECUTIVE DIRECTOR TORTA: Yes.

REPRESENTATIVE RYAN: Okay. Fantastic. Thank you.

That's all the questions I have, Mr. Chair.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. Thank you.

And Chairman Grove.

MAJORITY CHAIRMAN GROVE: Thank you. Now that PSERS has an Executive Director that's very familiar -- acting -- that's very familiar with SERS, policies like this create an opportunity for shared services. Have PSERS and SERS maybe discussed options maybe, you know, related to potential GIPS, but doing some cost sharing to lower costs between -- for both systems?

EXECUTIVE DIRECTOR TORTA: Not to my knowledge.

MAJORITY CHAIRMAN GROVE: Okay. Maybe that's a good thing. If you're -- if we're going to require this, there's a cost, maybe shared services between the two of your entities will reduce costs. And I don't know if there are other ways where the Systems can kind of share costs to reduce those administrative costs moving forward, so just something to kind of keep in mind now that there is an acting PSERS Executive Director with some experience with SERS. So hopefully work will continue between you two Systems.

Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Yeah, I would like to piggyback on that.

Since -- I don't know what percentage of investments that SERS would have that PSERS would have that would overlap. There would probably be a significant amount of investments that would overlap. And if you're doing the GIPS analysis for SERS and the GIPS analysis for PSERS, could there, in fact, be a melding of those services to reduce costs for both systems, assuming that this bill goes forward?

EXECUTIVE DIRECTOR TORTA: That's a discussion that we could have. Absolutely.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. All right. Thank you.

Representative Schemel.

REPRESENTATIVE Schemel: My question was asked and answered.

Thank you, Chair.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I would just add, for my part, the idea of the DC plan, it seems to me, since that's technically governed by the individual as opposed to the System, that I'm just personally -- no offense, Representative Ryan -- but I'm wondering if the GIPS standards should, in fact, apply to the DC plan personally.

It's -- it seems to me like it's the individuals as opposed to the Systems, and I just am wondering about that, if that would thereby add costs to the DC plan that I'm not sure that that was intended.

So do you have any reaction to that comment?

REPRESENTATIVE RYAN: I do. And my concern is by keeping them on different standards, it's an investment performance standard, and it provides insight to us on the Board and to the investment offices, too, which trustees and which investment vehicles to use and for consideration. It also provides some pretty valuable feedback, but I'm willing to entertain -- I'm not going to die on that issue, but I also want to be careful that we don't start getting -- at some point in time, the DC plans will start, over the years, will become a larger portion of what we have in the System. So that in 30 years, when I re-retire, we -- you might see a completely different demographic and more people will be in the DC plan.

So yeah, I just think it's worthwhile to examine. And again, I'm open to any suggestions that people have, but once you get the GIPS involved and get the standards into place, the annual cost of keeping it is significantly lower as it becomes more of a methodology and the standard for doing it. Otherwise, we're going to have a dichotomy that will grow over time.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. Well, thank you.

Let's move on to HB 2010.

Oh, sorry. Go ahead.

MR. NOLAN: Just a follow-up comment to that. The DC plans, as you're referencing, the employees are making decisions, the asset allocation, fund selection, but all of our investments, and there are -- by investment managers that are GIPS compliant -- are ready.

So the DB plan level, there's money moving around from decisions in the boardroom, that leaves room for that analysis. But in terms of the individual funds, they're all -- the managers are signed up for -- 100 percent of our managers, public managers, are signed up for GIPS at the fund level. Just clarifying that.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: So from a policy standpoint, SERS has said our fund managers for the DC plan will be GIPS compliant.

MR. NOLAN: Yeah, 100 percent of our public funds managers currently are already GIPS compliant.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay.

MR. NOLAN: Yes.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. So therefore, technically, we maybe wouldn't need the analysis to apply, since they're already in accordance with the standard --

MR. NOLAN: In the DC --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: -- in the DC.

MR. NOLAN: -- deferred comp, because of the structures of those, we're not into alternative assets, private markets, and that types of thing, so it's all 100 percent GIPS

-compliant managers right now. Not for assets managers. That's a separate set of rules.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Right.

REPRESENTATIVE RYAN: I understand, but I want to -- I'm just going to caution you to what you're currently seeing now versus where we could be going with this. Don't -- be careful not to write legislation based upon current portfolio allocations because we're seeing a significant growth of SPACs, although they're falling into disfavor in certain areas.

We're seeing a significant growth of alternative investment vehicles within DC plans that typically hadn't been done. And you're seeing significant changes in investment vehicles, such as digital currencies and other types of things that historically hadn't been done. This legislation was designed to look forward and provide that type of analytic capability.

Because candidly, any fund now is GIPS compliant. That's part of how we came up with the idea to do it. But we are seeing in DC plans a growth of areas that are outside of a norm that you would normally see. Would you agree with that?

MR. NOLAN: Yeah, that is starting to happen, not with us -- (Inaudible) --

REPRESENTATIVE RYAN: But you wouldn't have to maintain. You wouldn't -- if SERS decided -- if you decided to change your investment philosophy and you went to something more aggressive in a different way, you wouldn't have to -- this legislation, under 1698, is designed to provide that type of ability, should it occur.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: May -- I'll make a quick suggestion that, perhaps, the -- an amendment to your amendment is that the System must only do business with GIPS -compliant individuals. Just something to consider.

REPRESENTATIVE RYAN: I wouldn't recommend it. I don't know if you -- I mean -- you know what, we should probably talk offline.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: That's fine.

REPRESENTATIVE RYAN: But we do have to get your perspective on that. I -- I would encourage that, you know what, I'm a legislator today. So yes, sir, whatever -- we should leave it to the testifiers and not me to respond to.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Any comments.

MS. MCSURDY: The only thing I want to bring up is GIPS is widely known. It's been around for a long time. Mainly, investment managers are compliant with GIPS right now. The GIPS standards for asset owners are relatively new. So when we read the legislation and tried to, you know, find out as much as we could about it, there's not many current asset owners that are in compliance, but since it's relatively new, maybe that will pick up steam.

So right now, we're finding there's not a lot of asset owners that we can, you know, talk to and rely on, but it's more prevalent in the investment manager area. And I think Jim can comment on, you know, his investment managers in the GIPS.

MR. NOLAN: Yeah, as I previously stated there, 100 percent of our public exposure managers have become GIPS compliant. And that's largely just around to ensure performance is being calculated similarly across all funds, geography and so forth. But the asset owner is a different animal. It's looking at different things at a higher level.

It's not a replacement. Neither are the funds that are doing it. As I mentioned, most of their public managers are probably GIPS compliant, as well, at the asset manager level. And then, they've adopted the higher level asset owner, but we can go into more detail like the Representative said, offline if you want on technicality specifics, the differences between asset manager and asset owner, GIPS structures.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. Thank you.

All right. We'll move on to HB 2010 and the fiduciary training. Any quick comments on that?

EXECUTIVE DIRECTOR TORTA: Very briefly. SERS sees this, you know, as innocuous in both its implementation and cost. We welcome this, you know, to improve fiduciary education for our board members. So we welcome questions on it.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. Any questions or -- Representative

Schemel.

REPRESENTATIVE Schemel: Thanks. Any concern on your part that amongst your members you're getting training fatigue, that it's so much training obligations that, you know, members or folks are not going to be compliant or they're not going to pay attention?

EXECUTIVE DIRECTOR TORTA: Well, we're always concerned about our Board members paying attention and them being compliant with the educational requirements. Looking forward, we're going to be utilizing our annual retreat to provide extensive creditable training, Representative Schemel, which should come as an interest to you.

And going forward, any additional requirements, I think, would be absorbed, you know, by that approach, so that it shouldn't be onerous on our individual Board members or designees.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Any follow up, Representative Schemel.

REPRESENTATIVE SCHEMEL: No. Thanks, Brett.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Representative Ryan.

REPRESENTATIVE RYAN: To Representative Schemel's question, this is my bill obviously. And our Audit Committee requirement is eight hours. We specifically drafted this so that the hours for fiduciary training would count as hours for the audit requirement, so they're not in addition to. But Representative Schemel's got a really good point to bring up, but I think it's important that the public recognize that board members, even of public boards, have a responsibility and a liability.

I made a comment to the speaker that when you leave the PSERS or SERS or PHEAA Board or whatever, the statute of limitations applies to us as board members about activities that might have taken place seven years earlier. And so I was stunned when I was talking with school board members and others who were not necessarily aware of that. And so part of what we wanted to do was specify, as an example, that those persons who serve would have their legal expenses paid post-board membership in the event that something happened.

So part of this -- and this goes back to something that I saw back in 2008 or '09. And for those of you that know my career, I've been a harsh critic of boards of directors in the -- and I don't mean private sector, but I'm talking about in publicly traded companies that sometimes we have to recognize that our responsibility is to the annuitants, in this case and in other cases.

But I also think it's important if somebody is on a school board or somebody is serving in a municipality, that they be aware of this because they could inadvertently find themselves in a predicament whereby they're making decisions, making comments for which they could be violating their fiduciary responsibility and find themselves not covered. As an example, just so that everybody is clear, because I spent a lot of time in drafting this legislation, I worked extensively with Penn State a decade and a half ago on this type of an issue.

And if you look, as an example, what happened with Penn State with the Jerry Sandusky issue, those issues are real. They're severe. They're a concern. We've had it with school boards. If someone has a teacher or someone who does something inappropriate, and the person gets moved on to another entity without documenting it properly and that person has a problem, that school board that passed that person on could find themselves in a fairly significant predicament. This is designed to give that member of a board a comprehensive understanding of what those responsibilities are.

But to address Representative Schemel's concern, I made specifically sure that this counted towards your board training requirement. And if you were an Audit Committee member, it was not in addition to, but it could be included as part of that because this issue about system of internal controls and understanding that are particularly important.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Representative Ryan, as I said, we are, as an agency, fully in support of those additional education requirements. An aspect of the bill that would need to be negotiated or discussed would be the fact that it allows for designee compensation. That can get sticky, where if you have somebody that's already an employee, say the Treasurer or the House of

Representatives that acts as a board designee, the compensation that they would receive would be considered retirement covered.

That might actually make them a dual employee, as serving the Board and working for both the House and SERS. It's doable. It would just need to be discussed and defined a little more clearly.

REPRESENTATIVE RYAN: That's correct.

And we appreciate the feedback because that's why we put the word may. And what we were hoping is that the individual caucuses and individual organizations, if they're statutory members, would be able to compensate them that way from their own employment and not from -- that would definitely -- it was not intended -- if I need to make this more clear, it's not intended that that be paid by SERS or PSERS.

EXECUTIVE DIRECTOR TORTA: Understood.

REPRESENTATIVE RYAN: It's just a -- I did that -- I put that in there specifically because I'm not completely convinced that the primary completely understands that there was a significant post-employment liability for that member, even as a designee.

EXECUTIVE DIRECTOR TORTA: Yeah, we would need to navigate that issue.

REPRESENTATIVE RYAN: And I would welcome whatever we need to do to navigate it, but that was the intent. That was why we put the word may in there.

EXECUTIVE DIRECTOR TORTA: I just have a follow-up question related to that. The bill specifies board or governing body. Does that include -- that does not include political subdivision. So a board or this -- my point is this may have to be further defined.

A board, a political subdivision would include schools, for instance. I'm just saying that there may need to be some -- a look at the definition of this as the bill moves forward. That's just a question because there is a difference between a board, a political subdivision, and a governing body. They may have to be defined.

So with that, I don't see any other questions. So we will move on then to HR 59 and any quick comments you have there. And we'll take questions.

EXECUTIVE DIRECTOR TORTA: Yeah, very

briefly.

It commissions a study to look at an early retirement incentive for somebody who is over 55, a Commonwealth employee, a SERS member who is over 55 or has 30 or more years of service. Our assumption was that that person would be able to retire without penalty, the early retirement penalty, which only applies to the monthly annuity payment would be eliminated. Traditionally, that's been the early retirement window application.

And when I say traditionally, we're going back a lot of years, but we would welcome questions on this.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: I'll open it up for questions.

Representative -- or Chairman Sanchez.

SUBCOMMITTEE MINORITY CHAIRMAN SANCHEZ: Thank you, Chairman.

Just a quick question. Wondering if a study like this has been conducted in the past or if there's -- if you've seen in another comparably-sized plans and, you know, any effects, positive or negative, that have come of that?

EXECUTIVE DIRECTOR TORTA: When I said it's been a long time, SERS hasn't had a retirement window in place, a 30-year retirement window that would allow people with 30 or more years of service to retire without penalty since Governor Ridge was in office. It's been that long.

We haven't had -- to the best of my knowledge, we only had one pension enhancement that impacted people at a certain age, age 55. That would have been in 1991. Unfortunately, Joe M. and I were here then. We remember that. That's commonly referred to as the Mellow Bill, and it supplied a 10-percent supplement for anybody who retired at 10 or more years of service and retired by the end of 1991.

What we saw -- 30-year windows really do flush out a lot of people. What they tend to look at, the individual members tend to look at are what would they receive under the provisions of the 30-year window with their penalty being eliminated and how much longer would they have to work if they passed on that early retirement incentive, continued to be employed by the Commonwealth for their pension benefits to again get to the point where they would be able to receive the same amount of retirement compensation had they taken the window.

Usually, it's an additional one or two years. Utilization of these types of things was always traditionally quite high. On the other hand, for people that are stipulated based on age, it's really predicated on whether or not they are eligible for the retired employees health program coverage.

In my experience, again, 32 years with SERS in retirement counseling, the two main drivers -- or the main driver of when people retire is when they're eligible for retired health care coverage. You have to have -- if you're -- if you're age 55, you have to have 25 years or more of service to be health-care eligible.

So you would see very low utilization for people that are 55 or older that have under 25 years of service and very high utilization of this for people that have more than 25 years of service, but are age 55. When you're age 55, you know, your retirement penalty is five to six percent per year for every year you are away from your normal retirement age. If your normal retirement age is 60, you're looking at 25 to 30 percent more in your monthly pension benefit. But the value, the real and perceived value of the retired employees health program, health care coverage and retirement is really the driver for those types of individuals.

SUBCOMMITTEE MINORITY CHAIRMAN SANCHEZ: Thank you for that insight.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Chairman Grove.

MAJORITY CHAIRMAN GROVE: Thank you, Chairman.

From the co-sponsorship memo for the bill, the sponsor says he wants to ideally save dollars by doing this analysis. And ultimately, I think, obviously the prime sponsor would like to see a 30 and out put into place for both of the Systems.

But the calls for implementing an early retirement age according to the System is $72 million and $308 million. Now, the House -- I know the House Republican Caucus -- I don't know about the House Democratic Caucus -- but I know the House Republican Caucus did an early retirement for members. We implemented it ourselves, I think, twice in the past decade. And we did realize some savings from that.

So can you kind of go through your analysis of cost and any potential savings and where there's costs within the concept of a 30 and out?

EXECUTIVE DIRECTOR TORTA: Sure. A critical component would be how the new benefit tiers would tie in to the new employees. You don't save money if you retire somebody early, pay them an enhanced pension benefit and then just promote somebody in the next lower pay class up into their position. However, if the position in the complement is filled directly or indirectly by someone who is going into one of the hybrid plans or the defined contribution plans, the cost is going to be considerably less than someone who is retiring from one of the Legacy plans, say Class AA, that have been eliminated over time.

The vast majority of the people that would be eligible for the 30-year window would be Class AA, just because that's the class of service that was available to them at the time of enrollment. There are approximately 500 members left still working for the Commonwealth that did not elect Class AA. So those numbers would be minimal. That's a new twist in the costing of these things, compared to when I talk about a 30-year window hasn't been done for many, many years. It's never been done where the complement, the position of the complement would, in all likelihood, be replaced by somebody in one of the much less expensive benefit tiers.

And that would need to be part of the actuarial analysis. I hope that addresses your question.

MAJORITY CHAIRMAN GROVE: Absolutely. Thank you very much.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Do you have any experience or any estimation of if this were to be offered to those that were eligible, which is roughly 38,000 for PSERS and 9 to 10,000 for SERS, what percentage of that total number of qualifying individuals would take it.

EXECUTIVE DIRECTOR TORTA: That's a great question. I would need to look at the demographic breakdown of the people 55 and older to give you a very good answer. But I would think the utilization would be very high. I would think anywhere between 25 and 50 percent, and that is just a blind guess on my part based on my experience.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Sure.

This analysis, you said something like this really hasn't been done for -- since the Mellow Bill, which when was that?

EXECUTIVE DIRECTOR TORTA: 1991.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: 1991, so that was quite some time.

Do you -- do you see this study, should this HR 59 go forward, do you see this study as being complicated or that you would be taking a wild guess at what the estimates would be or you'd be pretty close to what you think they could be?

EXECUTIVE DIRECTOR TORTA: I think we could get fairly close. What's going to differentiate this from the utilization under the Melissa bill, at the time the Melissa bill pass, you had to be 55 years or older and have 10 years of service to be to qualifies for health care coverage, now it's 20 years of service, which would limit utilization because it would limit the eligible number of members that it would apply to.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. All right.

Anyone else?

Okay. That's all for that one. We'll move on to SB 423. Any quick comments there and then we'll take questions?

EXECUTIVE DIRECTOR TORTA: Yeah, the legislation is fairly limited in its scope. As SERS interpreted it, it looks like someone who has received certification as a firefighting training instructor from the Pennsylvania State Fire Academy could return as an annuitant at a very limited number of educational institutions that are SERS-participating employers, including the Firefighting Academy, the Department of Education, community college, State System of Higher Education facility, or Penn State University or one of its branch campuses, and still receive their pension benefit while teaching without limitations. That was our basic understanding.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: First question is Chairman Grove.

MAJORITY CHAIRMAN GROVE: Thank you, Chairman Miller.

This is an interesting one because we just got into a discussion of kind of allowing State employees to retire earlier. And obviously, I think we all realize the employee crunch. Employers are having a tough time hiring people.

Having a discussion with the prime sponsor of this bill, Senator Judy Ward, she introduced this to actually get individuals, retired firefighters, to come back and actually teach fire classes. They're having a hard time filling these positions in rural Pennsylvania.

So we have a quandary here, right? At one point, we're looking at how do we reduce costs by potentially putting out one bill. The next bill, we're coming out and saying we don't have enough employees to fill jobs. How do we get them back into work?

We also have a bill for PSERS for substitute teachers because there's a huge crunch. Actually, one of my schools districts is going virtual the next two days because they have severe staffing issues trying to get people in because of COVID and so forth.

So I guess a global question, how do we address employee shortages in State government, particularly talking with SERS, how do we fill those vacancies if one of the strategies agencies want to use is bring back former employees more globally, rather than doing the small, little carve-outs here or there when we need them.

Do you have any thoughts on that?

EXECUTIVE DIRECTOR TORTA: I do.

Right now, under the Retirement Code, on emergency situations, members can return -- retired members can return for up to 95 days in a calendar year and still receive their pension benefits. SERS receives a varying number of these per year.

2020 and 2021 were an anomaly because SERS, the SERS Board, took the unprecedented step in the spring of 2020 when the pandemic hit, at the request of the Governor, to suspend that 95-day limit for positions that were COVID related, primarily unemployment compensation processors. As a result, they were able to bring back hundreds. And we're very pleased that the SERS Board did take that step.

On average, again, the numbers fluctuate ever year. We may get three or 400 requests across the Commonwealth for the 95-day emergency appointments. A justification has to be provided. If the justification isn't sufficient, SERS works with the employers to craft the justification so that we can approve the appointment of a 95-day emergency re-hire.

We're experiencing this not only as the administrators of the pension plan, but also as an employer. We have multiple annuitants working at SERS right now because we're feeling the same crunch that the other State agencies are. The way to address this, if we're looking at bringing back the expertise of retirees, would be to go in and modify the Retirement Code to change the limit from the 95-day appointment, and only under emergency circumstances.

Our legal office and myself, we would welcome that discussion with the General Assembly to look at ways of expanding that to meet the Commonwealth's needs. We're feeling it ourselves as an employer.

MAJORITY CHAIRMAN GROVE: Yeah, that's great. Because I think that's where the discussion needs to happen. I mean, in this circumstance, we're doing five employees. Is that the best policy for the Commonwealth to do, you know, small five employees at a time or going to allowing a longer threshold for PSERS and so forth?

But as far as current policy, the fire school could come back to you and request an exception or approval for a 95-day hire for these individuals currently, correct?

EXECUTIVE DIRECTOR TORTA: As long -- that's correct, as long as they met the requirements of being 60 or older or being separated from their position for at least a year. That's an IRC requirement that we're in compliance with. So you know, we would -- we would absolutely entertain that under the those circumstances.

MAJORITY CHAIRMAN GROVE: Got you.

But as far as global, I can see we're kind of on a similar path of we probably need to go in and reform this moving forward because I think we're going to continue, outside of even

COVID, continue to struggle with hiring and, you know, the government needs to move, we need people to do these jobs, and you know, utilizing that experience would be a good thing. So I welcome that conversation for a larger fix to this quandary we're in right now.

So I really appreciate those comments.

EXECUTIVE DIRECTOR TORTA: We echo those sentiments, Representative Grove.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I have a follow-up question. So if in SB 423 or in future legislation that might include a more global amount of individuals, these individuals would not be able to qualify for the DB plan, nor the DC plan, correct, under this provision.

EXECUTIVE DIRECTOR TORTA: That's correct. They would receive a salary for their day's work -- or their hours worked as a return to service employee while receiving their pension benefits.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

All right. So here's my question. Would this, not this bill, but would there be any provision in the Code that you're aware of that would preclude that individual from enrolling themselves in a deferred compensation plan.

EXECUTIVE DIRECTOR TORTA: I believe so. I don't have it in front of me, but I believe only people who are eligible to be active members in the SERS are also eligible to be in the defined contribution plan. I'd have to look at the -- or a deferred compensation. I'd have to look at the participation fields of the deferred compensation plan. I just don't have them memorized.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Could you kindly do that, because I could see that being a potential benefit to these individuals. They already have their pension. Maybe they don't qualify for the DC or the DB, but they want to put that money in a deferred comp plan.

EXECUTIVE DIRECTOR TORTA: It would absolutely depend on the laws that govern -- the tax laws --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Right.

EXECUTIVE DIRECTOR TORTA: -- that govern the 457 requirements, the 457 plan requirements, but we can look at those for you and get that.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. Yeah, I would appreciate that, because I could see some of these folks might, perhaps, want to look at that as an option.

Any other questions?

Okay. I think we're all finished here. I would like to open it up to any of you for any final comments that you have before we take a quick recess to get our new panel here, but --

EXECUTIVE DIRECTOR TORTA: Only to thank you for having us here. My opening statement, we really want to work with you. I hope that our appearance today and the performance of our team, which I'm very proud of and pleased with, is indicative of how we wish to work with the General Assembly and members of the General Assembly in formulation of legislation addressing public policy concerns and pension benefit concerns.

So we thank you very much.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

You're very welcome.

And thank you to all of the participants for your work, not only here at the hearing, but the prep work for this meeting, in helping us understand these bills, get your perspective, and have a better direction for the future. So thanks so much.

At this point, we will take a five-minute brake to let the SERS folks leave and the PSERS take their position. So we'll take a five-minute break.

(Whereupon, a brief recess was taken.)

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. Our recess is now concluded. We're back in order, and we will start with a quick comment.

We've done introductions previously, but I want to do a quick comment from Representative Ryan. Then we'll go to introductions to each of you, and then we'll have your testimony.

Representative Ryan.

REPRESENTATIVE RYAN: Mr. Chair, thanks.

While I'm here as a legislator, I'm a legislative member appointed by the Speaker of the House, I think it's really important that I state publicly how honored I am to serve on the PSERS Board with such a great group of folks.

Chris, you and I, I'm honored to call you a friend. We've had an interesting year. You're a person of tremendous personal character. I've gotten to know you incredibly well. You probably regret knowing me this well at this point, but we frequently talk at church -- occasionally, I've been known to answer the phone in church, but I've been chastised for that.

And Brian, again, thank you for the great job you've done. Terri, welcome back. I enjoyed working with you on the SERS side.

Chuck, we worked together extensively. Then when I came onboard, you decided to retire. I hope that was not a coincidence, but welcome back.

And Bob, it's been an honor to get to know you, as well. We just really appreciate the great work you do.

I'm really looking forward to the day where I can come out and publicly open up -- I'm Chair of the Audit Committee, so I'm somewhat on a gag order, but when that's over with, I'm really looking forward to coming up and letting the public know how good and faithful a group of public servants we have and the great group of volunteers that we have across the Board.

So I want to thank you personally from the bottom of my heart for your friendship and your dedication. You're doing a great job.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Thank you, Representative Ryan.

And welcome, once again. We've done our introductions. So Terri, I will leave you to give some intro comments or have your members introduce themselves here, and then we'll go online for those that are virtual.

EXECUTIVE DIRECTOR SANCHEZ: Okay. Thank you. Thank you very much.

Well, good morning, Representatives and staff of the Public Pensions Benefit and Risk Management Subcommittee of the broader State Government Committee.

My name again is Terri Sanchez. On January 6, I was hired on an emergency basis to be the interim Executive Director of the Public School Employees Retirement System, better known as PSERS. And as you all know by now, this morning it's a homecoming of sorts. Most of my public service career actually was spent at PSERS before I was hired to lead SERS in May of 2018, and I held that position until my retirement last year.

And if I may, just a quick thank you to my colleagues at SERS for their very gracious words this morning. I want to thank the Subcommittee for holding this public hearing today. We're honored -- excuse me. Let me get myself organized here. It's a little difficult to speak with that mask on.

We are honored here to testify. PSERS has a long and historical practice of remaining neutral on legislative policy matters, as you'll see today. We do, however, welcome the opportunity to answer any legal, technical, and operational questions about pension legislation and PSERS operations in general. And those are my short opening remarks, Representative.

I will start down at the end of the table and allow my colleagues to introduce themselves.

MR. CARL: Thank you for the decorum.

I'm Brian Carl, Chief Financial Officer at PSERS.

MR. SANTA MARIA: Hello. I'm Chris Santa Maria, the Chairman of the Board Trustees at PSERS and a high school teacher from Lower Marion School district.

I just want to take a moment to thank the Committee for inviting us here today to give input, and to thank the House of Representatives for their support and for their patience while PSERS has been through a rough year last year, this past year. But I look forward to -- and the Board looks forward to moving ahead this year with some real progress.

So I just want to take a moment -- I also want to return my shout-out to Representative Ryan. Frank, it's been a pleasure working with you. It's been great getting to know you and to call you my friend. And you've been a great ally on the Board and to me, and I really appreciate your help through the last year.

Thank you.

MR. SERINE: Hi. I'm Chuck Serine, Acting Chief Counsel.

MR. DEVINE: My name is Bob Devine. I'm the Acting Chief Investment Officer.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

And my understanding, in this order that I have, we have Dwight Decker virtually.

Oh, he is here. All right. Thank you, Dwight.

Steve Esack, I think is also here. Yep.

Let's see, we have Jennifer Mills.

EXECUTIVE DIRECTOR SANCHEZ: Online.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Great.

DEPUTY EXECUTIVE DIRECTOR MILLS: Yes. Good afternoon now.

My name is Jennifer Mills, the Deputy Executive Director and Director of Defined Contributions Investments.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Thank you.

Next, Bev Hudson.

DEPUTY EXECUTIVE DIRECTOR HUDSON: Good afternoon. My name is Beverly Hudson. I'm the Deputy Executive Director for Administration.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

And then, last on my list is Evelyn Williams.

MS. WILLIAMS: Good morning. I'm Evelyn Williams, PSERS Communications Director.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Thank you.

Is there anyone that I missed?

EXECUTIVE DIRECTOR SANCHEZ: No, you've

got everyone.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. Very good.

Well, I want to just say again, thank you for being here. And as I said to SERS, thank you for the prep work that you did ahead of this meeting and the testimony that you provided written. I appreciate that very much because I know it doesn't just happen. And so thank you for that work and then your work here.

Now, SERS gave a lot of testimony so you got a front row seat to hear their comments on many of the topics that we discussed. So what we will do here, as similar to how we handled things with SERS, I went through the order in which they provided their testimony. So we will do that in the order in which you provided your testimony to make it simpler. And we will start with HR 59.

So are there any comments, introductory comments that you have related to HR 59? Then we'll go with questions.

EXECUTIVE DIRECTOR SANCHEZ: Simply just as a recap, it would permit the House of Representatives to direct the Legislative Budget and Finance Committee to conduct an early retirement study. And as PSERS has always done in the past, should such a study occur, we would be happy to provide relevant data and commentary as required to make informed decisions and the appropriate answers to your questions.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. The first question is Chairman Grove.

MAJORITY CHAIRMAN GROVE: Thank you, Chairman Miller.

And welcome back to the pension forefront, Terri. Great to see you again. And happy retirement and re-hiring. Is that what we're going with?

EXECUTIVE DIRECTOR SANCHEZ: Seems to be a topic these days.

MAJORITY CHAIRMAN GROVE: Right. We'll get into bringing retired employees back for a later bill, but on HR 59, similar question as I asked SERS. Their analysis showed a cost, as does your analysis, of potentially between $307.5 million if 10 percent of eligible members take the incentive, up to $3 billion if 100 percent take the incentive.

Can you just walk us through that analysis?

And again, I'll point out -- (Inaudible) -- an early retirement buyout plan for members or for individuals, which ended up lowering our kind of cost. So can you kind of walk through the costs associated with it? Are there any savings?

And if you see if there's any greater savings than any incurred costs because I think that's where the prime sponsor wants to go with this to try to reduce costs to the pension systems?

EXECUTIVE DIRECTOR SANCHEZ: I think that we are in a position to be able to identify some of the estimated costs for the 1-year period. However, the savings would all be dependent on the employer side, in terms of people leaving and people coming in.

In terms of the costs, I will talk about it at a high level. And then Brian Carl, our CFO, will certainly delve into it more deeply. But PSERS has a special early retirement option currently. And that is where members who are at least age 55 with at least 25 years of service have less of an early retirement reduction.

Their reduction is one-quarter percent per month, you know, depending on the years that they are away from service.

And so already in the Retirement Code, we have somewhat of a subsidy, if you will, for those employees. So the first row on the chart that you see in our costs represents the cost of those members who are currently eligible for the early retirement incentive that is in the proposed legislation.

So if their -- some of the members who would meet the 50 or -- age 50 or 30 -- age 55, I'm sorry -- or 30, some of those also meet the requirement of 55 and 25. So they already have some of those costs offset. So the first row represents new costs associated with this proposed legislation.

The second row is for all those other members who meet the 55 or 30, but not the 55 and 25. So their -- it's just two different populations that would qualify currently for this proposed legislation. And the bottom row, as you mentioned, Chairman, represents costs for a year from 10 percent of those eligibles taking advantage of this through 100 percent.

MAJORITY CHAIRMAN GROVE: Got you.

Your opening kind of brought another question to mind. This -- this has LBFC, Legislative Budget and Finance Committee, review this. They're an audit by way of the General Assembly. They traditionally do Pennsylvania's audits.

So kind of my question -- and it may be a little bit more on the policy side, but the Independent Fiscal Office, obviously, does the work of the actuarial notes for our legislation. So they have a working relationship with both pension systems currently. They also do budget analysis. And based on the information your -- the systems are gathering us for this, you have a view into the pension cost side of this. You don't have the employee costs, as far as shifting around employees, less employees, refilling roles --

EXECUTIVE DIRECTOR SANCHEZ: Correct.

MAJORITY CHAIRMAN GROVE: -- and that aspect within the budgetary confines of each agency.

Would it be a better premise for the prime sponsor to actually include or have the IFO do this analysis, rather than the LBFC?

EXECUTIVE DIRECTOR SANCHEZ: I don't have a particular comment on that, in terms of which particular entity would be best suited to do that. I don't know if any of my colleagues do, but -- no comment, I guess.

MAJORITY CHAIRMAN GROVE: Okay.

EXECUTIVE DIRECTOR SANCHEZ: No comment.

MAJORITY CHAIRMAN GROVE: That's fine. That's fine. I just thought I would bring that up.

EXECUTIVE DIRECTOR SANCHEZ: Thank you for --

MAJORITY CHAIRMAN GROVE: It seems like the IFO is a better link between the State agencies, since they already do budget analysis and they already do actuarial analysis, and they have a working relationship with State agencies and obviously the pension system. So I just thought I would bring that up.

EXECUTIVE DIRECTOR SANCHEZ: Sure. It could be true. It's just that I'm, you know, just not in a position to comment.

MAJORITY CHAIRMAN GROVE: Right. Okay. All right. Thank you so much, and welcome back.

EXECUTIVE DIRECTOR SANCHEZ: Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. I have a question.

I had asked the SERS folks this and maybe some of you can opine. Of the individuals that you might anticipate who are eligible, roughly 38,000 people, what percentage of those do you think may, in fact, accept this offer?

EXECUTIVE DIRECTOR SANCHEZ: Brian, do you have any sense of that or maybe Jenn Mills, who is on the line? I just haven't been here recently to get a -- it's been so long, number one, similar to what SERS' comments were, but they may have some insight that I don't have.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

And I'm not holding you to your estimated -- whatever you estimate because, obviously, a $302 million to $3 billion potential unfunded liability is a big difference.

MR. CARL: Yeah. So if I could add some clarification. The 100 percent is just there. That's not a likely outcome obviously, but what we did provide in the exhibit was a range of 10 to 60 percent. We mirrored that after the 2005 study that was done. That was part of -- I think it was HR -- (Inaudible). So that, I think, is probably, again, we don't have a crystal ball on this.

And comparing to prior ones, they're so old and it was so long ago, it would be very difficult to say, well, we did this. You know, so we couldn't really, we didn't have anything recent, so we just stuck with that 10 to 60 percent estimate. So when you look at it that way, it really narrows it down to 307 -- $307 million to $1.8 billion.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. A follow-up question, do you -- as I had asked previously, do you have any estimation of what this may, in fact, save the Commonwealth, if let's just say 50 percent go into this ultimately? It will cost up front, but there will be a savings.

So what is that differential? And I recognize this is an estimate.

MR. CARL: Yeah, so that I -- we wouldn't have. So that involves, you know, the 770-plus employers that we have. In trying to determine what the impact would be if they had employees that retired and then were filled by folks that came in at a lower salary. So we do not have any at this point for that -- (Inaudible) -- or could be.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

The SERS -- I can't remember who it was that mentioned this. They referenced that -- oh, it was Joe Torta, in fact. He mentioned that if folks go out at the higher level and then come in at the hybrid level, there would be a cost savings there, but what is also noticeable, too, in your written testimony is that relative to the 2011 -- you had 279,000 employees and the annualized salaries was $12.9 billion. And now, you're down roughly 30,000 to 248,000 employees, and the annualized salary is $14 billion.

So the pension benefit will be lower, but the wage is higher. So I'm just wondering how that would factor into any potential cost savings. Do you have a comment on that?

I realize this is just on the fly and you'd have to do some actuarial studies, but --

MR. CARL: Yeah, and your comment about the wages being higher than --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Because pension benefits -- pension amounts that are contributed are higher because the wages are higher.

MR. CARL: Oh, right. Right.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Right.

MR. CARL: So we have seen that, you know, there's a statistical -- the average, what the average salary of our active membership is, and that does tend to go up, you know, fairly close to long term inflation. We're going through an extraordinary period right now, but that 2 percent, 2 1/2 percent, that's what we've seen in wage growth.

So you're correct in saying that that would be a factor, but we don't have estimates that would, you know -- we can just show you the history of those -- of how that information has grown and what would be likely the growth rate, as well.

If I may about the exhibit, I just may add one comment. Sometimes you do have to look at the fine print. And underneath the exhibit, there's a part that's very fine print. And I just wanted to make sure that the Committee is aware of what's in there. So for just really highlighting off of what you said about Joe Torta, the same goes for PSERS.

If a retiring member is in one of the classes, one of the Legacy classes that has higher costs than the folks coming in, there will be an offsetting savings, these liability numbers, these cost numbers we have here. We weren't able to prepare that in time, you know, for the hearing, but that would be something that as the Committee did the study, that would be dealt with, too.

So these numbers are probably on the high side because we weren't able to add that offset savings.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Then I have one follow-up question. As HR 59 is written, any problems with the language or suggestions or comments relative to the language of the resolution?

EXECUTIVE DIRECTOR SANCHEZ: I don't believe so.

Chuck, did you -- no.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: No. Okay.

All right. Thank you for that. We will then move on to HB 967. So any quick comments, and then we'll go to comments.

EXECUTIVE DIRECTOR SANCHEZ: HB 967 deals with return to service annuitants. The main difference between current original legislation, the more recent Act 191 and this potential legislation is -- the real differentiator is that piece of legislation allows the return without an emergency, where the other two, the current legislation requires that an emergency exists.

And of course, the other difference being that this legislation limits it to 90 days, again without an emergency. No emergency required. And the current legislation, the original legislation is for up to the full school year or as long as the emergency exists. The differences are emergency or no emergency and the length of time of return is allowed while they continue to -- (Inaudible).

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

This is the first that we'll hear about this bill because SERS didn't have to weight in on this. So now you all are on the hot seat first time.

So we'll take questions. Anyone with questions on HB 967 -- Chairman Grove.

MAJORITY CHAIRMAN GROVE: Thank you.

Again, kind of a follow-up to my question with SERS. Obviously, we had a legislation dealing with some retired firefighters who want to go back to work because they have some issues in hiring them to train firefighters at county fire schools. We've seen a similar issue for substitute teachers.

Prior to COVID-19, we had a problem getting substitute teachers in. It has only gotten worse. As I stated earlier, I have a school district that's going virtual today and tomorrow because of personnel issues and not being able to fill substitute teacher issues.

We did some changes with Act 91. It seems that at least SERS is interested in maybe some global discussion of trying to address a more comprehensive fix to those trying to get employees back, retirees back to work to kind of fill temporary spots or making sure our government institutions continue running to provide the services, et cetera, that they need to.

So obviously, we did some work on Act 91. Do you think we need to address a global substitute teacher issue to get those employees back because even after COVID, I still think we're going to have substitute issues like we did prior. Hopefully they're not as drastic, but getting those retirees back in the classroom to fill that role -- (Inaudible) -- our education system, make sure our students are in person are critically important.

So thoughts on that?

EXECUTIVE DIRECTOR SANCHEZ: We're all -- we're all personally familiar with the challenges that are in schools. And Chris is particularly aware of those issues.

However, it may be that another stakeholder group may be in a better position to opine on what is causing those shortages. But what we can certainly provide to you would be, again, some data or the implications on any legislation that might be considered. But we, you know, it's kind of more of a why people aren't returning, COVID, post-COVID, you know, during COVID. Really, it would only be anecdotal comments and probably best left to stakeholder groups to give you some real facts and data.

MR. SANTA MARIA: If --

MAJORITY CHAIRMAN GROVE: Okay.

EXECUTIVE DIRECTOR SANCHEZ: Chris --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Chairman Grove, Chris Santa Maria is going to give comment.

MR. SANTA MARIA: Yeah, I agree with Terri on that, in that different stakeholder groups might be able to provide real data on this, if they've done some surveying perhaps. I would just mention that the substitute shortage -- this is from my perspective as a teacher. The substitute shortage right now is heavily affected by the pandemic more than anything else.

It was there to a degree before the pandemic began, but the pandemic has added a whole other element to it. So you know, in reference to the current bill we're considering here, I think we need to keep in mind that the effect of the pandemic has -- is not going to be permanent, and that once the pandemic eases, we'll be back to the systemic issues that were causing the substitute shortage in the first place.

So I just wanted to drop that in there. Thank you.

MAJORITY CHAIRMAN GROVE: I don't disagree with that. I know I've had discussions with some of my retired teachers in the district. Some ready to retire, and you know, they're more than happy to come back on a part-time basis to substitute, but they always cite the pension as one of the big reasons they don't opt to do that. So I do know that -- that is something on their mind of wanting to come back and be a substitute.

But can I ask this, how does the bill sponsored by Representative Kinsey align with Act 91? And what are kind of the differences, if the two of you can work through that with me?

EXECUTIVE DIRECTOR SANCHEZ: Well, Act 91 was temporary. So it's in effect for two years, the '21-22 school year and the '22-23 school year. Act 91 still requires that an emergency exists, but it does not require, as the current legislation does, that the schools attempt to get a non-annuitant first. They just have to go to the recall list.

So it provides administrative ease in that respect. But again, Act 91 still requires an emergency exists, but as long as that emergency goes through the school year, you know, they can return and not lose their annuity or have their annuities docked.

This particular piece of legislation does not require that an emergency exists. So you can -- an annuitant can return regardless of the emergency. So there's no need to show or state that there is an emergency to bring the annuitant back. However, the time frame is limited to 90 days.

Those are the two primary differences in the legislation. 91, again, is for a temporary period. Emergency has to exist through the end of the school year. This legislation, no emergency has to exist, but it's 90 days.

There could be some questions on if an annuitant returns under one of these sections of the Code, are they prevented from returning on another section of the Code? So there are some coordination issues we might want to look at and maybe have some further discussions on, but those are the primary differences.

Is there anything, Chuck, you wanted to add or --

MR. SERINE: I think I would just point out that we have been working over the years with the school districts to simplify and streamline the process for getting subs. We recognize it is very difficult to get subs, particularly a day-to-day sub. And we have procedures set in place that allow the school employers to quickly go down their list of substitute teachers. And we continue to look for ways to do that.

EXECUTIVE DIRECTOR SANCHEZ: We actually changed it -- changed it to more of looking at their process, so they can, once they kind of certify to us what their process is for filling these vacancies, these day-to-day substitute vacancies, then they're given like a school year approval. That's been quite a few years now that we've done that, and that's helped in those situations. Again, trying to work with those stakeholder groups and make things as administratively easy as possible.

MAJORITY CHAIRMAN GROVE: Okay. And if my short term memory is correct, I believe SERS stated they have a 95-day -- ability to allow annuitants to come back for 95 days, and you're at 90, correct?

EXECUTIVE DIRECTOR SANCHEZ: We are actually currently through the end of the school year or as long as the emergency exists. So that's where we differ.

MAJORITY CHAIRMAN GROVE: Okay. All right. Okay. All right. Fair enough.

Thank you very much for those comments.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Representative Keefer.

REPRESENTATIVE KEEFER: Thank you, Mr. Chair.

I just want to clarify that this, under this proposal, since the annuitant wouldn't be going back into the defined benefit or the defined contribution plan, this wouldn't have an impact on PSERS, correct, on --

EXECUTIVE DIRECTOR SANCHEZ: They would no -- they're still an annuitant --

REPRESENTATIVE KEEFER: Right.

EXECUTIVE DIRECTOR SANCHEZ: -- in 91 and with this, they're still annuitants. So while they're back under any of these conditions, they are not earning additional retirement credit. Their final average salary is not impacted, nor is the employer providing employer contribution.

That kind of ends. They've earned that benefit. That's done.

When they come back, their -- that benefit doesn't grow -- (Inaudible).

REPRESENTATIVE KEEFER: Right. That's just what I was trying to clarify.

EXECUTIVE DIRECTOR SANCHEZ: That is correct.

REPRESENTATIVE KEEFER: There's no impact on the actual system itself. So I mean, this could be a win-win if we could get one more hurdle out of the way.

Thank you.

EXECUTIVE DIRECTOR SANCHEZ: You're welcome.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I have some questions.

One thing I couldn't discern was I understand that HB 967 does no longer need to meet the emergency criteria and that's up to 90 days. But what I couldn't find out was whether or not the school district would have to exhaust the candidate pool or first go through their recall list.

EXECUTIVE DIRECTOR SANCHEZ: Chuck, did

you have a -- I did not see that, but I'm going to -- page 8 right here? Yes.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: I couldn't see any of that in the testimony that you provided --

EXECUTIVE DIRECTOR SANCHEZ: Yes. It says --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: -- but --

EXECUTIVE DIRECTOR SANCHEZ: Yeah, on page 8, at the top of page 8. It does authorize employers to hire a PSERS retiree as a day-to-day substitute without first attempting to secure a non-PSERS retiree.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Excuse me, but that's Act 91 --

EXECUTIVE DIRECTOR SANCHEZ: Oh, I'm sorry.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: -- not HB 967.

EXECUTIVE DIRECTOR SANCHEZ: Oh, correct. I'm sorry. Yes, correct. You are correct. You are correct.

There is a -- Chuck, do you want to take a look? But it says without regard to whether there is an emergency increase --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Here's my ultimate question --

EXECUTIVE DIRECTOR SANCHEZ: -- but we will find out exactly the answer for you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Yes, please.

Here's my ultimate question. PSEA provided testimony. And they write in the very opening paragraph, the legislation, while well intentioned, would weaken the current ability of retirees to return to service as day-to-day substitutes in schools for an entire school year. It would for the entire school year because it's only 90 days, but it would not weaken it otherwise, I guess, in my estimation.

So what I am asking you to weigh in on is their statement that it would, in fact, weaken the ability of schools to hire people. And I see one of --

EXECUTIVE DIRECTOR SANCHEZ: Jennifer Mills.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Did you -- you can comment.

DEPUTY EXECUTIVE DIRECTOR MILLS: Thank

you very much. I do want to clear it up. The requirements that the school go through or exhaust a list of active members or those who are not retired really is a recommendation. It's not embedded in the Retirement Code.

What we've done is we've provided a number of aids and guides to our school employers to assist them in basically developing what an emergency shortage of personnel looks like. So obviously, if you have a shortage of personnel, it means I don't have any other employees that I can call on and I have to go to annuitants. Therefore, I have a shortage of personnel.

So I just wanted to give a little background on where that comes from. That's a guidance from -- for them to make it a little bit easier for them to establish the shortage. I'm not sure I can comment on someone else's statement with respect to, you know, weakening the current provisions. I think our concern was we don't know whether or not it is because we're not sure what the interaction would be with respect to a non-emergency return versus an emergency return. So that might just require some additional communication so that we can clarify that.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Jennifer, I want to be clear. Is it correct that the requirement for exhausting the candidate pool or the recall list is, in fact, not a requirement but a suggestion? Is it statutory or is it a suggestion.

DEPUTY EXECUTIVE DIRECTOR MILLS: In the Retirement Code, it simply states that the school employer must establish that there is a shortage of personnel or an emergency that increases the workload. Our guidance that we provided to school employers was to say this is how you can establish a shortage of personnel, and that would be the sample letters that we've attached.

Now, the recall list is something not within the Retirement Code. That was the most recent act that was passed regarding the return to service provisions, and that's what we were discussing previously.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. Thank you for that.

My question has to do with whether or not HB 967 is, in fact, good and beneficial for schools to give them additional flexibility to meet this need. That is the question.

And I know you're not to opine on whether the legislation is good or bad, but do you have a perspective on this issue relative to PSEA's comment that it would, in fact, weaken the ability of schools to get replacements?

Chris.

MR. SANTA MARIA: Yeah, I'm not going to speak for PSEA directly, but I think I might be able to address it with a realistic scenario where it's an elementary school and an elementary teacher is working up into the eighth or ninth month of pregnancy and then delivers a baby in October and goes out on a maternity leave and then extends it into a child leave for the remainder of that school year.

If my understanding is correct with 967, then the retiree who maybe used -- previously had taught at that elementary school, is very familiar with that elementary school, it's a real advantage for that person to come back to that third grade classroom, that teacher would only be able to come back for 90 days. And then you'd have the utter disruption of having to replace that person sometime in March for the remainder of the school year because their time limit would be up. I think that might be something that they're referring to. It's to the advantage of an employer to be able to put that teacher in for the entire year, rather than having to replace them.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I would acknowledge that to me, the weakness of HB 967 was that it was limited to 90 days. And if there was any amendment to the bill if this moves forward, I would suggest that it be expanded. Because as was mentioned, Act 21 expires in '22-23. And I personally don't think that the crisis that we're facing in terms of substitute needs is going to be over by then. I hope I'm wrong, but I don't think that's going to be the case.

MR. SERINE: I think that very discussion is why at some point, maybe 10 or 15 years ago, the PSERS code also had the 95-day limit, as did SERS. And the legislator recognized a need to expand the ability of substitute teachers to come back. And that's why our Code reads differently than the SERS Code, and substitutes in our Code can come back up to the length of the school year.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

So can you comment on if this bill were to move forward what should the language say for SERS and what should it say for PSERS.

MR. SERINE: Well, I don't want to talk about the policy differences. State employees might have different policy concerns. But I know from the PSERS perspective, the school teachers, there was a need to have more flexibility in allowing particularly the situation that Chris just talked about, where you have a long-term sub that would exceed 95 days. It just doesn't work. You don't want to disrupt the school year twice for that situation.

So that's why our Code was drafted differently than the SERS Code. So if they have to make a different policy consideration going forward, then they would adjust their limit, as well.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay.

EXECUTIVE DIRECTOR SANCHEZ: I think that if -- and one thing that we would like to ask is that we do have the opportunity and we'd be happy to discuss with the sponsor of the bill, if it does not get amended in any way, just to clarify, to make it clear, again, if someone comes back non-emergency, then there's an emergency, are they prevented or can they somehow be coordinated to better work together to address situations?

So we'd be happy to have some discussions.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Any other comments.

Okay. Thank you for that. And we will now move to HB 1442.

Any introductory comments there?

EXECUTIVE DIRECTOR SANCHEZ: Well, I know that it's referred to as pension hopping. I prefer not to refer to it that way because it's -- yes, I just prefer not to refer to it in that manner.

Again, it limits future public employees to become invested in only one pension plan. So it's not like you go to multiple, because if you hop, you're only going to get, you know, one place anyway. So I think that's a bit of a misnomer, if you will. There are -- there are a number of issues, technical, legal issues that

SERS shared with you this morning. We worked together, PSERS and SERS and PMRS, worked together in analyzing this piece of legislation.

And I'm going to turn it over to chief counsel if there are any specific comments, but there are a number of issues that we would need to work through, and that's why we, frankly, couldn't do the costing on it initially. There were just too many design kind of questions on it. But again, we would be happy to work with the sponsor to help, again, resolve some of the issues that we believe might exist.

Chuck, is there anything you want to add?

MR. SERINE: No. I think the SERS also mentioned the fact that rather than consolidating pensions it's really separating pensions. The real issue is you work for one employer for 10 years, and then you go to another employer. You don't know at that point whether your first pension is going to be greater than the pension that you are working for. You won't know that for, perhaps, many years.

And then, at the end of the day, this says you have to choose which pension. Well, that creates issues because you've already contributed to one pension, and you would be entitled to receive that. And yet, you're now going and receiving another pension. And the choice is made, depending on how -- what the better pension is. So that creates some difficulties in terms of, you know, when somebody would know what pensions they're going to have and different decisions as to how long you might want to stay there.

So there's some inner-related issues there that we need to work on.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Is it your understanding that an employee works 15 years for the State and leaves employment, then goes to work for the county, that that person instead of having a 30-year career, then has a 15-year career under the bill?

MR. SERINE: Yes. I think what happens, you take the situation -- I think SERS addressed this. You work 15 years as a State police officer, so you have a pension in SERS. Then you go to the Sinking Spring Borough and you have -- you're in a municipal pension plan. It's separate. And let's say you work 15 years there.

At some point, when you ultimately

retire, this language says you have to choose which pension to take. Well, again, that creates some issues of, you know, is it -- is it right, is it fair to destroy a pension that somebody's contributed to?

So it's not like they're getting a gratuity. They've contributed to both pensions under those pension plans. And what you're doing is, you're saying, at the end of the day, we're going to take away one of those pensions. So I think there's some -- those kinds of issues. And when we talked about constitutional issues, we need to work through those.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I don't mean to be the one talking all the time, but I have some follow-up.

You were going -- were you going to say something?

You all were here, of course, for the testimony of SERS. And we went around this bill pretty well. I was impressed with the testimony that you put together for this bill, as well, with SERS. And the combination, I think, really elucidated the fact that there's a lot of problems with this bill, constitutional issues, logistical issues, many questions covering many aspects of, really, life.

And personally, I think that this bill needs a lot of work before it can move forward. So I'm sure you'll be willing to work with the maker of the bill --

EXECUTIVE DIRECTOR SANCHEZ: Absolutely.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: -- if he wants to pursue getting this fixed.

EXECUTIVE DIRECTOR SANCHEZ: Absolutely.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay.

Representative Ryan.

REPRESENTATIVE RYAN: Mr. Chairman, I just wanted to be -- so that everybody is aware because I've already had a couple of comments.

Because I'm also the vice-chair of the Board and the Chair of the Audit Committee, I'm only going to address any comments relating to bills for which I'm a prime sponsor of to avoid any conflict. And I am aware of the System's position on it. So to avoid any potential conflict and to recognize my role here today is as a legislator, that's the reason I've been remarkably quiet.

REPRESENTATIVE KEEFER: You have?

REPRESENTATIVE RYAN: My dear friend to my right just said, I have?

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I will not entertain any comments about how joyful individuals are that will you will be limiting your comments.

Okay. Well, thank you for that.

Let us then move along to HB 1578 -- or no, I'm sorry. Our next one I have is 1578.

EXECUTIVE DIRECTOR SANCHEZ: Yep. Uh-huh. This again is the removal of the collars. And again, kind of a housekeeping bill, but certainly the message gets through, but you know, what message it is we're trying to get across, and that is funding, remove the collars.

So we don't have any issues whatsoever, technical and legislative -- I'm sorry legal or otherwise.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Representative Keefer.

REPRESENTATIVE KEEFER: Thank you, Mr. Chair.

That's all I was going to confirm is

having reviewed the actual language, did you have anything that you thought needed to be clarified or any technicalities or anything in there?

EXECUTIVE DIRECTOR SANCHEZ: Nothing whatsoever.

REPRESENTATIVE KEEFER: Great. Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I have a follow-up question. The same question that I asked SERS.

The collars, of course, essentially expanded the costs. So does anyone have an estimate of how much additional cost was put on the System because of the collars?

MR. CARL: So we don't have an estimate in hindsight, but I can share with you the original numbers that were estimated when the bill was put together. At that time, the cost of the collars was to be $7.4 billion, 32 years.

We do have a -- what we call our course of our unfunded liability. That does relate. Specifically, there is a piece related to underfunding. That's a total number, and the collars would just be a piece of that, but I'm working to get a breakout of that.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Now, SERS said that it was $12.1 billion over 30 years. The number that you just referenced was $7.4 billion. You're a much larger System, so I would have expected your number to be higher.

MR. CARL: Yeah. So --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

It may not be apples to apples.

MR. CARL: -- I believe that, if I recall SERS' testimony correctly, what they did was then they looked at -- so that was the point in time. So they looked at the accumulated costs of the deferral since Act 120. I think they had -- I don't know if they had two numbers or not, but their comparable number to our $7.4 was probably smaller. And so much in the same way, I would suspect that our $7.4 billion will be bigger when it's done and factoring in the costs, the interest basically.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Probably the comparable numbers SERS referenced were $4.9 billion. That may be relative to your $7.4 billion. But then over 30 years, it would also be much higher, as well.

MR. CARL: So we'll work on that. I may have it before the end of the hearing. And if I do, I'll let the Chair know.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. And I would presume that PSERS would also share the view that it is wise money management to meet the actuarial required --

EXECUTIVE DIRECTOR SANCHEZ: One hundred percent.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

-- contribution.

I thought I would hear that answer.

Any other questions? Okay. Seeing none, let's then move along to HB 1671.

EXECUTIVE DIRECTOR SANCHEZ: This is pre-comprehensive transparency bill, and I'm going to turn it over to Bob Devine, our interim Chief Investment Officer.

MR. DEVINE: Thank you, Terri.

PSERS has been making great strides with such things as live streaming, which COVID has brought to the forefront here. Our Board has issued a posting of travel expenses. So these are different things that are covered in the bill that we are working towards.

There were some areas that we appreciate your flexibility on. That's the removal of certain things that may cause financial harm to the System. So we appreciate that flexibility and understanding there. There were -- we did in our testimony request the possibility of 90 -- nine months to provide the information, instead of the six months, just to provide some additional time to provide -- to get our information together for -- (Inaudible) -- if that is included.

Our current alternative investment consultant, Hamilton Lane, does not report on a gross basis. So we will have to get them up to speed to work with SERS and work with staff if that is included in this bill, and it may include additional costs.

One additional point I just wanted to make is -- and I think we've discussed it briefly before, the GIPS bill versus this bill, just want to make sure there isn't any -- (Inaudible) -- between the two. That's my only point there.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. We'll open this up for questions.

Any questions?

Chairman Grove.

MAJORITY CHAIRMAN GROVE: Thank you, Chairman Miller.

This bill, we heard comments from SERS that they didn't have any issues with it. Obviously, the one aspect you asked for is a little longer, from six months to nine months. There was a provision last session that removed an amendment by Chairman Bradford, as brought up by SERS, removed -- or with the SERS hearing that removed some language.

Being on Appropriations last year, we had long discussions about this bill in Committee. It seemed or appeared to me the opposition came from PSERS on this. So I just want to make sure we're all on the record, you're -- as far as concerns of this bill, as it's stated currently, is a request to go from six to nine months for implementation. Is there anything else in this bill that gives PSERS pause?

MR. DEVINE: The one would be the gross returns. As I mentioned earlier, we're not calculating gross returns. Our external consultant does not do that for any of their clients, and they mentioned that it's not in their practice. We did submit that information through this Committee prior, and I was not part of those negotiations when they were discussed previously, but open to --

MAJORITY CHAIRMAN GROVE: Okay.

THE WITNESS: -- hearing any additional information or working with the House on this.

MAJORITY CHAIRMAN GROVE: Got you.

MR. DEVINE: Providing additional flexibility for --

MAJORITY CHAIRMAN GROVE: So --

MR. DEVINE: -- us would give us, if it was included, more time to get up to speed and work with our consultants and SERS, make sure we meet the requirements in the bill.

MAJORITY CHAIRMAN GROVE: Okay. Thank you.

That's all I have.

MR. DEVINE: You're welcome.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Anyone else?

Okay. I have some additional questions.

I asked the question of SERS the same. The keeping of records, video and records online for three years and maintained for seven. Is there any reason -- or any reason that PSERS would offer why that should not be done?

MR. DEVINE: I see none.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. All right.

EXECUTIVE DIRECTOR SANCHEZ: It's a de minimis cost. And we're in a different place now than we were back when things were first brought up as far as technology goes.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. All right.

Do you -- does PSERS have any problem with submitting the annual comprehensive financial report to each of the members of the General Assembly?

MR. DEVINE: I'll let Brian handle that.

MR. CARL: It is available online for the general public and the General Assembly, but if you desire to have individual copies -- (Inaudible) --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Well, it wouldn't be an individual paper copy. It would be an e-mail.

MR. CARL: Oh --

EXECUTIVE DIRECTOR SANCHEZ: It's not --

MR. CARL: Well, that -- yeah.

EXECUTIVE DIRECTOR SANCHEZ: -- an issue.

MR. CARL: There'd be no issue with that at all.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay.

EXECUTIVE DIRECTOR SANCHEZ: Chairman, if I may?

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Yes, please.

EXECUTIVE DIRECTOR SANCHEZ: There was an issue with -- not an issue, just a point of information, kind of similar along those lines of distributing the ACFR -- I think I have it right.

Currently, the PSERS Board has a travel policy that has a lot -- and report -- that has a lot more detail than what is required. That just happens to be where PSERS is now, and we do make that available on our website. I think maybe when this response was put together, we envisioned that it would be sending a paper report out. I don't know that that's what was intended, but I -- I have to imagine that this legislation would not limit what the Board chooses to include in its travel report.

And if we were to provide that additional information, as we do normally, we wouldn't have to do a second report with less information. I think that's something that, you know, just to clarify, just a minor point. We're already providing something that has more data that would satisfy and cover the needs of this requirement.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I welcome your feedback on this. When this was written, it was to include the travel expenses, et cetera, by staff or managers, and the Board did not have the policy at the time.

EXECUTIVE DIRECTOR SANCHEZ: Correct. And in a different place, once again.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Correct.

So the question that I have for you is the requirement of the bill would say when you send along the information of the ACFR that you would include with it the travel expense material. And if the minimum material was five things and you wanted to include 10, that would be completely fine. So is that your question, could you include more?

EXECUTIVE DIRECTOR SANCHEZ: Can we use

our -- the report that we do, if it meets and exceeds your requirements, and if it's an electronic --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Submission.

EXECUTIVE DIRECTOR SANCHEZ: Yeah. Yes, this is not a big issue.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. I would like if we could work together --

EXECUTIVE DIRECTOR SANCHEZ: Yes, I agree.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: -- on developing language to put whatever you have in that report and we can just amend it into this bill potentially.

EXECUTIVE DIRECTOR SANCHEZ: Happy to work with you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay.

Representative Ryan, I'm not completed yet with my questions.

REPRESENTATIVE RYAN: Oh, I'm sorry. I thought you were.

EXECUTIVE DIRECTOR SANCHEZ: He's going

to tell us how to pronounce --

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: No, please go ahead. We haven't heard you for about 10 minutes, so it's about time.

REPRESENTATIVE RYAN: I feel the compelling need to -- it's ACFR. If we're going to speak acronym-ese, we're going to require everyone to take military training, join the military compulsory military education, so we can produce the -- or pronounce the acronyms properly.

EXECUTIVE DIRECTOR SANCHEZ: Thank you.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Oh, that was it?

EXECUTIVE DIRECTOR SANCHEZ: I could tell.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay.

The last was related to the cost for implementing this transparency, which I do want to commend PSERS for, the steps that you've taken in terms of additional transparency. That's very commendable.

So if the costs are -- that you referenced were not -- they had some costs associated with them, but what has transpired within PSERS that has moved you in the direction towards the transparency?

EXECUTIVE DIRECTOR SANCHEZ: I'm going to call on a colleague since I haven't been there for the last three years. Maybe Brian or Chris. That would be great.

MR. SANTA MARIA: I would just say that there's been an overall direction the Board has taken to be more transparent at all levels. It was brought on by new board membership over the last couple of years, and I think the Board has embraced it. I think we want to see PSERS as a leader among other systems in that area.

We have a travel policy that's, I think, more granular than most other systems now. And so we're, as a Board, moving more in the direction of transparency. And that's a Board -- a Board initiative, but we've met no resistance within the System to do it. So that's where I think it has come from.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Well, I would again reiterate that the steps that the System has taken, I know I appreciate personally. I know others have appreciated it very much. And it's laudable, so thank you for that.

A question I have -- or I guess more of a statement in general. As you know, this bill would apply towards the fees associated with alternative investments and it would apply going forward, not to existing contracts. They would not be touched or whatever. Now, any concerns relative to that?

Most of those were addressed by the Bradford amendment, and that still applies here to this bill. Any concerns related to anything with that?

MR. DEVINE: The only concern would be the possibility of additional fees through our consultants and possibly more staff to calculate gross. That's my only concern at this point, and we could probably get back to you with a more concrete dollar figure.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. All right.

Any final questions?

Okay. Seeing none, we'll move on to HB 1698. Any quick updates?

EXECUTIVE DIRECTOR SANCHEZ: 1698. Of

course this is the other GIPS legislation and it would require PSERS, as well as SERS, to follow the 2020 global investment professional standards and any future updates beginning with the '22-23 fiscal year. Basically, a standard way -- and it really focuses on performance, a standard way to publish and calculate and share performance data so that systems can be compared on an even basis.

I would just say for those systems that do use GIPS, when you compare them against systems who do not use GIPS, it can look like a slight difference in performance. And so it would be important to make clear when one fund is being compared to another, if it's using GIPS and another is not, because GIPS acknowledges or incorporates additional fees -- additional costs, like internal investment costs that, perhaps, other entities don't. This is applying standards across the board.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Representative Ryan.

REPRESENTATIVE RYAN: On this -- first of all, thank you for the help on that. And we do have an amendment.

Michael, did you want to go over the

amendment? That would be helpful because -- okay. Well, we've got an amendment that's being prepared.

You've already seen -- because you helped us draft it. Are you comfortable with the amendment, what you've seen of it?

EXECUTIVE DIRECTOR SANCHEZ: This is the amendment relative to the DC?

REPRESENTATIVE RYAN: That's correct.

EXECUTIVE DIRECTOR SANCHEZ: Yes.

Are you -- you're familiar with the amendment to excluding the DC plan?

REPRESENTATIVE RYAN: We'll make sure that we get you the copy of the amendment, that you have the most recent one.

EXECUTIVE DIRECTOR SANCHEZ: We have. We have. And we don't see any issues with it, but we can certainly double-check and get back to you to be sure.

REPRESENTATIVE RYAN: Yeah, I just want to make sure with all the changes. We do have to make another amendment to the bill because it's global investment performance standards, not professional standards. So in all the proofing that I did of that, I didn't pick up on that one.

So we're going to make that change.

But also, the concern and the question comes up is it's -- because SERS' perspective vis-à-vis SERS' perspective is that SERS does not have quite the number of alternative investments that PSERS does, and that does create an issue. Do you think that's going to be a problem?

I know GIPS does it on a net basis. We were talking about under Representative Miller's bill that does gross, but that's really independent of the GIPS issue, is the fact that we don't -- our consultant doesn't typically get in as much reporting on the gross basis.

Do you see the compliance ability for PSERS to be able to comply with the GIPS legislation if it's approved?

MR. DEVINE: Yeah, I don't believe it should. I think it's -- but we have to go through it. From my review, there's an asset owner -- (Inaudible) -- if we were an asset -- (Inaudible) -- selling our product -- (Inaudible) -- and more difficult for us to -- so that's the differential that I see in the GIPS standard. (Inaudible).

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. We'll have to make sure though because that really relates more to the 1671, but which we're going to need to be able to do because it looks -- we've been working together on this one for quite some time. And that's kind of the point I want to make is that now under the GIPS standard, if that were approved, that's more of a net on the provider basis, but under Representative Miller's bill, it would have to be on a gross basis, which we would have to get an outside consultant -- you would have to get an outside consultant to be able to do.

In terms of the issue that I just want everybody to be aware of, and it comes into play relative to 16 -- to saigon [phonetic] type 2. So that the public is aware, you don't flip a switch and go to these standards. This is going to take a while to develop these. And I want the public to be -- we're already doing some of the implementation.

When I've done it with other systems -- and I know PSERS is doing this now -- working on getting compliance and developing the standards for saigon [phonetic] type 2. What time period do you think it would take to fully develop the standards necessary to be GIPS compliant?

MR. DEVINE: My initial estimate is at least over a year.

REPRESENTATIVE RYAN: And then the second issue that kind of dovetails into that just a little bit, with the cost of the compliance and the fact that the standards can change, we -- the bill leaves it to the discretion of the Board to change it because, one, we can't in a bill prescribe future standards. Does that provide you the flexibility you need to be able to say GIPS is not necessarily -- the change that they're looking at might not necessarily be something you wish to prescribe to?

Does that give you the flexibility you need to be able to comply with the intent of the bill, while at the same time meet the -- what your fiduciary responsibilities are?

MR. DEVINE: From my impression, this GIPS standard is best practice industry. So I would leave it up to the industry to decide what we should be doing as a whole. And if there were any provisions that would occur at that point in time, have that conversation with the Board. But from my perspective, this is an arms length, best practice organization looking to have a standardized way of reporting that's apples to apples across the board. So I look at it as a step in the right direction.

REPRESENTATIVE RYAN: And so I would ask this for Terri and Chris. Do you still want the flexibility for the Board to make that decision, should there be a change in the standards?

EXECUTIVE DIRECTOR SANCHEZ: I believe we always try to have flexibility for our Board wherever we can.

Chris.

MR. SANTA MARIA: Yeah. Absolutely, Frank.

I think it's something that the Board would appreciate the -- that flexibility. So it can adjust to whatever the best practice, best practice adjusts so the Board has the ability to adjust with it. We always want to be at the forefront on those. Yep.

REPRESENTATIVE RYAN: And for the benefit of the public -- and Mr. Chair, this will be the last comment.

For the benefit of the public, if you look at the equivalent ESG standards as an example, the way that was originally set up versus what it is now starting to morph into are two entirely different things. And so when I drafted this, we wanted to specifically make it to where the recognition exists that we have to be concerned about the annuitants as well as the person that's paying the actuarily-required contribution.

Mr. Chair, that was my last comment.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. I want to refer to a question I asked SERS.

There will be any number of investments that you will have that PSERS will have. The cost of implementation of the GIPS component has some heftiness to it. Do you envision being able to work with PSERS -- or SERS rather -- on maybe combining efforts to reduce your costs?

EXECUTIVE DIRECTOR SANCHEZ: We would certainly have conversations and explore that. There's a very good relationship between organizations. And I think we're happy to go and have a discussion to see where there might be cost savings.

MR. DEVINE: Yeah. We are definitely

open and willing to work with SERS. I don't know what those -- (Inaudible) -- might be, but we're open to it.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. Yeah, any time that we can have that cost savings potential, I think it's worth looking into. It would benefit both Systems, and then benefit the taxpayer.

EXECUTIVE DIRECTOR SANCHEZ: Absolutely.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay.

Any final comments?

All right. Seeing none, let us then move on to HB 2010.

EXECUTIVE DIRECTOR SANCHEZ: 2010 has -- addresses really three different matters. It requires Board members and their designees to complete some fiduciary training. It permits the Board to compensate designees. And I'll come back to that in a little bit.

And it also provides some language around the payment of legal fees. As far as the fiduciary training, PSERS already does it. There certainly would be no issue with having it promulgated in legislation. And again, you're not limiting it to just what's here. We -- the Board has the option to always do more with it.

Representative Ryan had already mentioned how the training hours in this count towards other training hours. But there are a couple of points, I think, that I'm going to want Chuck to opine on, perhaps, that we just want to be careful of in terms of -- and I believe SERS brought it up earlier today when it comes to compensation of designees.

And then, on the third matter, just to get that out of the way, there is a policy that PSERS has, it's a little broader than this policy. But again, there's nothing here preventing the Board from having a policy that's broader or -- so I'm going to just turn it over to Chuck now.

MR. SERINE: Yeah, I just wanted to reiterate, I think, some of the items that SERS had mentioned in terms of the designee who is already a full-time State employee also then being allowed to be compensated.

And Representative Ryan, you said it wasn't the intent of your bill to have the PSERS Fund pay the designees, but as I read the language, it does say that the Board may compensate a designee. So we'd have -- if your intent was different than that, I think we'd have to work on the language to eliminate that portion.

REPRESENTATIVE RYAN: The intent is definitely not to have the System pay it.

MR. SERINE: Then we'd have to work on changing the language.

REPRESENTATIVE RYAN: But the reason I -- that's the reason we put the word may in because there's a growing -- and many members of the legislature have heard me say this. There's a growing concern I have that -- and I don't mean this in any disparaging way at all in any case, but just because someone gets elected office doesn't necessarily mean they have the financial expertise or the expertise on governance.

And that -- I would ask anyone who's watching this, please don't read anything into that comment. I felt that way on -- when we had the financial crisis in 2008 and 2009. The FDIC actually and the Federal -- I'm sorry, I apologize -- the Federal Reserve actually made that comment about some corporate boards, where individuals that might have been public figures were put on corporate boards of fairly large banks that didn't necessarily have the governance expertise to do things.

And so -- and for those of you who have known me over the decades, my concern about corporate governance has been significant and severe. I'm a very harsh critic of boards. Many times, board membership is viewed as a patronage type of thing in the publicly-traded companies sphere. And I think that's led to some substandard results.

I'm relatively new to it in the public sector side, and I've been very pleased with all the members that I've been serving with. We had an example, a comment, someone said it's good that the Board always be unanimous. And I had some personal experience in my private sector where the unanimous decisions by the Board were the goal that was sought for. I don't subscribe to that.

I firmly believe that dissent is a good idea. It's a good idea to get -- to a point, by the way. And I'm saying that for public purposes relative to my wife, in case she's listening to this because I get a lot of dissent at home as a commentary, from the dogs predominantly.

But we need to -- we need to recognize that by that type of thoughtful accommodation to people, group think doesn't fall into place. And I think at times I've seen that. So what my intent on that was -- and if I were able to write statute, I would say what I'd like to have is a situation where the speaker of the House and the President pro tempore would have the ability to say from the Democratic and Republican Caucuses, or a statutory member -- as an example, I believe the Treasurer sits on a substantial number of boards.

And I would welcome the opportunities to say to the -- and by the way, the Treasurer has not asked for this, but to say, could the Treasurer appoint designee as being the primary. We need to give people that type of flexibility. And if you look at the Auditor General comment that came about from the Auditor General report on the System, Board attendance is a major issue. We all have full-time jobs.

Chris, I would tell you, you and I have -- I'm wondering at times if you are actually able to spend as much time teaching as much time we spend together. I mean, it's literally probably five, six, seven hours a week. And then, on top of that, we have separate meetings in and of itself.

And Terri, I know you and chuck and I and Brian, we've had extensive discussions on those types of things. So the purpose of that, about the conversation was merely to say there could be some circumstances in which we should conceptually rethink how we do some of these memberships. And that was the intent by what -- by which it was done.

I'm happy, I said to Michael, if she wouldn't mind talking to Sue Vecchio and Susan Boyle, I'm even happy to take it out and say, perhaps, at some future point in time, we could have a special -- I know I've asked Susan Boyle, our Director of Research, who's an absolute genius, to ask her to take a look at in a separate bill, perhaps, giving greater degree of flexibility.

But the point I'm trying to convey is being a board member, be it a school board member, a township council member, a PHEAA, PSERS, SERS Board member, those are very real responsibilities for which the annuitants and others are banking upon us to do the right thing, and that's the intent behind it.

So I'm actually happy to do an amendment and remove it and have it as part of a separate bill. I already sent an e-mail to Susan and Jill this morning saying -- on a separate issue, not knowing this was going to surface today -- but that we need to really take a good hard look at this about how we deal with these issues. I personally think as a -- and I've said this to the Speaker of the House, as a legislative member, I've not yet missed one board meeting or Committee meeting at PSERS. And I would tell you it's almost a full-time position.

Chris, I think you would probably agree, yourself, as well?

MR. SANTA MARIA: Certainly over the last 12 months.

REPRESENTATIVE RYAN: And my last comment is I actually made a comment one time at a meeting that we had. And I said, the decisions we make at PSERS could have a bigger impact on the budget at the Commonwealth than I could ever have as a relatively new legislative member. And so as a result, it's really critically important that we all, be it statutory, elected, or appointed members of any of these boards, understand that there are members, annuitants, and there is the public at large that's dependent upon us to put their interests first and foremost in absolutely everything we do.

And I'm proud to say the members I've met at PSERS, even when we've disagreed, have taken that approach. And so I applaud them. And that's the reason and intent behind the bill.

So Chuck, I'm more than happy to pull that out and leave that for another day, but there will be another bill that we will be getting back together with you on because I do think that we need to address this issue.

EXECUTIVE DIRECTOR SANCHEZ: Happy to help.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

I just would like to publicly thank Frank for his service on the PSERS Board, the many hours he's put in, as well as Paul Schemel, for his work on the SERS, and to you, as well, as a Board member.

Thank you.

I want to ask a question to follow up on this 2010. The issue of the 5,000. I just want to go back to that issue, the $5,000 for the Board -- the Board members' designee. I just want to be clear, no compensation for the Board member, but only the designee?

REPRESENTATIVE RYAN: Absolutely correct.

An elected member should not be getting compensated. The only reason is -- and I'm particularly concerned about this because I don't think a lot of people are aware of this, particularly in the public, that when you leave that Board, it is very likely that -- no, not very likely, it's a guarantee -- that you are responsible for your actions on that Board during the period of time of the statute of limitations.

And that could be seven years. If it's fraud, it's forever. But if it's fraud, you're not covered by the System anyway, but it's really important that people understand it. And that was the intent behind it. So it would be designees only.

And again, based upon some of the feedback that I'm getting, I think -- and based upon the question that I asked Susan Boyle today and Jill Vecchio, whom I have just the greatest confidence in, I would very much like to just sit down with them and get together with the two Systems, say, is there a better way for us to craft that and do an amendment to pull the $5,000 out, so we can take a look at a better perspective because I don't want anything to impede 2010 on the fiduciary side of this.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Several questions following up.

Is it envisioned that the training can be online?

REPRESENTATIVE RYAN: Absolutely beyond a shadow of a doubt.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Okay. The other comment I would want to give, again, is just the question about political subdivision, governing body, board, that should probably be very clearly delineated in the bill.

And the final question I have is the Pennsylvania Association of Public Employees Retirement Systems, in their written submission, they write, the Systems would -- the Pennsylvania Association of Public Employees Retirement

Systems would offer a recommendation to the bill to require a Commonwealth agency to oversee compliance, like the Office of Auditor General.

Do you have any comment on their statement?

EXECUTIVE DIRECTOR SANCHEZ: No comments.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER:

Representative Ryan, do you have any comment on that.

REPRESENTATIVE RYAN: Not at all. The -- Bob Mettley is a good friend of mine, by the way. He's the Lebanon County Controller.

Typically, the Office of Auditor General would have oversight on these types of things anyway. So an additional spelling it out would not be a problem, but it's typically something that's covered. I know in the Auditor General report they do look at the amount of education and training.

I was told apparently that I outperformed on training and education for continuing education this year by 50 hours. So I think I get the award this year for continuing professional education.

But having the Office of Auditor General look at that is, in my mind, already part of the purview of what they do.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. Thank you.

Well, that wraps up the bills. And as I said at the start here, I want to thank each of you for your time, both here and your prep time in preparation, and I'll add a future component, your help with us going forward with these bills.

We want to try to get good policy put into place, and it's important when we do that that we get the words right because the words make a difference. So thank you in advance for the past, for the present, and for the future.

Any closing comments that you all have?

EXECUTIVE DIRECTOR SANCHEZ: We appreciate the opportunity to help. And we'll always do our best to serve.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Okay. Thank you.

Chairman Sanchez, do you have any closing remarks as we wrap up the hearing?

SUBCOMMITTEE MINORITY CHAIRMAN SANCHEZ: Just to echo your comments there, Chair Miller, really appreciate all the preparation, testimony, insight, and the discussion today. Very helpful. We learned a lot about each of these bills and ways that we can improve them. Look forward to being part of this process as it moves forward.

So thank you so much.

SUBCOMMITTEE MAJORITY CHAIRMAN MILLER: Thank you, Chairman Sanchez.

And with that, we will conclude this hearing and look forward to working with you in the days to come.

Thank you very much.

EXECUTIVE DIRECTOR SANCHEZ: Thank you.

(Whereupon, the proceedings concluded at 2:08 p.m.)

C E R T I F I C A T E

I hereby certify that the proceedings are contained fully and accurately in the notes taken by me from audio of the within proceedings and that this is a correct transcript of the same.

Tracy L. Powell

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Tracy L. Powell,

Court Reporter