



INDEPENDENT FISCAL OFFICE

September 13, 2021

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

Re: Requested Actuarial Note for House Bill 1698, Printer's Number 1916

Dear Chairman Grove:

This letter responds to your June 24, 2021 request concerning an actuarial note for House Bill 1698, Printer's Number 1916. The bill would amend Title 24 (Education) and Title 71 (State Government) of the Pennsylvania Consolidated Statutes to require the State Employees' Retirement System (SERS) and Public School Employees' Retirement System (PSERS) to comply with requirements contained in the 2020 Global Investment Professional Standards (GIPS), as promulgated by the CFA Institute beginning with Fiscal Year 2022-23. Both systems must document compliance with the standards, create an annual GIPS Asset Owner Report, and retain a firm to conduct independent performance verification. The legislation also includes provisions that allow the boards to adopt updates to the standards at a public meeting. The legislation would take effect 60 days after being signed into law.

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

- SERS estimates that the legislation would result in \$225,000 in one-time implementation costs, and \$417,750 in recurring annual costs. SERS notes that any costs related to the Defined Contribution plan would be charged directly to employers through the annual per-participant employer assessment.
- PSERS estimates that the legislation would result in \$200,000 in one-time implementation costs, and \$439,500 in recurring annual costs. The estimate includes (1) the addition of one full-time employee in the Investment Office and (2) \$45,000 for compliance costs related to the Defined Contribution plan, the latter of which would be charged directly to plan participants.

Full responses from both systems are attached to this letter.

September 13, 2021
Page 2

Under section 615-B of the Administrative Code of 1929, the IFO has the responsibility to review legislative changes that may affect public employee pension or retirement plans and to provide actuarial notes for such legislation. Based upon internal review and information provided by SERS and PSERS, the IFO determined that there is no material actuarial cost impact from House Bill 1698, Printer's Number 1916 and it does not require a full actuarial analysis prior to further consideration by the General Assembly. The office reviewed the legislation for actuarial cost impact, but it has not reviewed the provisions for legal, administrative or policy implications.

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

Sincerely,



Matthew J. Knittel
Director, Independent Fiscal Office

cc: Governor Tom Wolf
Members of the General Assembly

August 31, 2021

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

Dear Mr. Knittel,

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

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

HB 1671, PN 1874 – Transparency

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

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

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

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

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

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

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

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

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

Sincerely,

Thomas Derr
Director, Communications & Policy



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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August 31, 2021

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

Dear Mr. Knittel,

I am writing in response to your letter of August 18, 2021, in which you requested that the Public School Employees' Retirement System (PSERS) provide an analysis of House Bill 1698, Printer's Number 1916.

PSERS has identified additional administrative and operational costs associated with HB 1698. The estimated costs, however, would not cause a "material actuarial impact" on the defined benefit plan or the School Employees' Defined Contribution Plan (DC Plan) as defined under Act 37 of 2020. Therefore, PSERS' contracted actuarial firm, Buck Global LLC, does not need to conduct an actuarial note with 30-year projections.

PSERS has been involved in conversations that may result in some minor amendments to this legislation, and we reserve the right to update this note should those amendments occur.

Please accept the following analysis of the potential additional costs that would be incurred in complying with the current proposed legislation.

House Bill 1698, Printer's Number 1916

Summary Analysis

The current version of the bill states the Boards of Trustees of PSERS and the State Employee Retirement System "shall" comply with the 2020 edition of Global Investment Performance Standards for Asset Owners and may adopt any subsequent updates issued by the CFA Institute, a professional investment organization. The standards were developed by the CFA Institute with the goal of creating recommended best practices of calculating and presenting historical investment performance data and conducting due diligence on investment managers.

Financial Cost Estimates

The Institute's 2020 edition of Global Investment Performance Standards (GIPS®) for Asset Owners are comprised of six chapters: Fundamentals of Compliance; Input Data and Calculation Methodology; Total

Fund and Composite Maintenance; Total Fund and Composite Time-Weighted Return Report; Additional Composite Money-Weighted Return Report; and GIPS Advertising Guidelines. Each chapter includes multiple subsections detailing rules and regulations for complying with 248 different GIPS provisions. Some provisions are more in-depth than others and all may not pertain to an institutional investor such as PSERS. Nonetheless, compliance with such provisions would require additional funding as follows:

- PSERS Investment Office estimates that it would need to hire 1 additional full-time (manager level) position dedicated to ensuring the defined benefit plan is GIPS compliant. The Investment Office also estimates that it could incur up to \$200,000 in operational start-up costs in the initial year of adoption.

- If the final version of the bill continues to include the DC Plan, PSERS Deputy Executive Director and Director of Defined Contribution Investments estimates that it could incur at least \$45,000 in additional contractual costs to ensure the DC Plan is GIPS complaint. Compliance would include additional due diligence on each current DC investment manager, conducting interviews, preparing reporting enhancements, and more. This cost could increase if PSERS were to add additional fund managers to its existing array of investments. Any GIPS costs associated with the increased due diligence must be paid by the participants of the Plan and if the Commonwealth does not earmark money for DC-related GIPS costs in its annual General Fund Budget.

- PSERS Internal Audit Office estimates increased contractual costs of \$150,000 for the bill’s component that reads “engage a firm to conduct an independent performance verification and examination.” The bill does not specify how often the “performance verification and examination” would have to be performed. The estimated cost is for each individual examination and is assumed to occur on an annual basis.

The above potential costs, on a 1-year basis, are summarized below:

PSERS Potential Annual Cost of GIPS Legislation				
August 25, 2021				
	Personnel (Salary & Benefits)		Consulting / Development	Certification / Audit
Investment Office	\$244,500		\$200,000	\$0
Internal Audit	\$0		\$0	\$150,000
DC Plan	\$0		\$45,000	\$0
Totals	\$244,500		\$245,000	\$150,000
Grand Total	\$639,500			

Source: PSERS Office of Financial Management

In closing, I thank you for the opportunity to opine on HB 1698 as part of IFO's responsibility to review pension-related legislation under section 615-B of the Administrative Code of 1929. PSERS staff is always here to assist you and your agency with historical, financial or operational information you may need to better understand PSERS operations and its mission to serve roughly half a million Pennsylvanians.

Sincerely,

Glen R. Grell
Executive Director