



pennsylvania
PUBLIC SCHOOL EMPLOYEES'
RETIREMENT SYSTEM

DATE: September 20, 2012

SUBJECT: Administrative and Directed Commissions Budgets for Fiscal Year 2013-14

TO: Members of the Audit/Budget Committee

FROM: Brian S. Carl, CPA, CTP  Chief Financial Officer

Andrew D. Fiscus  APF
Office of Financial Management
Director - Investment Accounting
& Budget

At the September 28, 2012 Audit/Budget Committee meeting the 2013-14 Administrative and Directed Commissions Budget Request will be presented.

2013-14 Budget Request Summary

The proposed Administrative Budget for the 2013-2014 fiscal year totals \$41,179,000 compared to \$44,144,000 for the current year. The overall decrease in the Administrative Budget when compared to the current year is 6.72%; this is primarily caused by moving the Investment Professional personnel costs and certain Investment Office line items from the Administrative appropriation to the Investment Related Expenses appropriation. This decrease is partially offset by rising benefit factors within the Personnel Services control level, which will be further discussed during the presentation.

The Directed Commissions Recapture Program Budget for 2013-14 totals \$2,000,000, the same as in the current year. The Directed Commissions program budget may be used for actuarial fees, change orders, and enhancements to the pension system required due to pension legislation.

Attached you will find:

- A summary of the 2013-14 Administrative Budget request with a comparison to the 2012-13 enacted budget and the actual expenditures to date for the 2011-12 and 2010-11 fiscal years.
- Line item notes of explanation for the 2013-14 Administrative Budget.
- The 2013-14 Directed Commissions Recapture Program Budget.
- A power point presentation.
- A proposed resolution recommending Board approval of the 2013-14 Administrative Budget and the 2013-14 Directed Commissions Budget.

Budget Process

The budget process is similar to past years. The Audit/Budget Committee will review the proposed budget at its meeting on September 28, 2012. The presentation to the Committee will cover the Administrative Budget and the Directed Commissions Recapture Program Budget for the 2013-14 fiscal year. Analysis of relevant changes will be provided, along with details of major categories of proposed expenditures. It is anticipated that the Board of Trustees will consider the budget at the full Board meeting on September 28, 2012. Following approval by the Board, the budget will be submitted, as required, to the Governor's Office of the Budget. The Governor's Budget Office will review PSERS' budget request and prepare a recommended budget amount. It is expected that the Legislature will hold budget hearings in February/March 2013 at which time PSERS' Board Chair, Executive Director and Chief Investment Officer may be asked to appear before the House and/or Senate Appropriations Committee to provide information on the budget or any other matters regarding PSERS. Upon passage of the budget appropriation by the Legislature and approval by the Governor, PSERS' modified budget request (rebudget) will be approved by the Office of the Budget. The rebudget is PSERS' opportunity to recast the initial budget amounts, thereby conforming to the final amount appropriated by the Legislature and approved by the Governor.

If you have any questions before the meeting on September 28, please call either Brian Carl at 717-720-4905 or Andy Fiscus at 717-720-4664.

Public School Employees' Retirement System

Budget Request
Fiscal Year 2013-14



Administrative Budget Request 2013-14

- **Personnel** \$23,566,000
14.4% decrease from 2012-13
- **Operational & Fixed Assets** \$15,613,000
6.0% decrease from 2012-13
- **PRR – V3 Browser Conversion** \$2,000,000
- **Total** \$41,179,000
Over all a 6.7% decrease from 2012-13

Administrative Budget Request 2013-14

Administrative Items Moved To Investment Related Appropriation - 5003300000

Investment Professionals Personnel Costs -	\$6,354,671
Investment Office share of Operational Costs -	<u>555,450</u>
Total Administrative Budget Items moved -	<u>\$6,910,121</u>

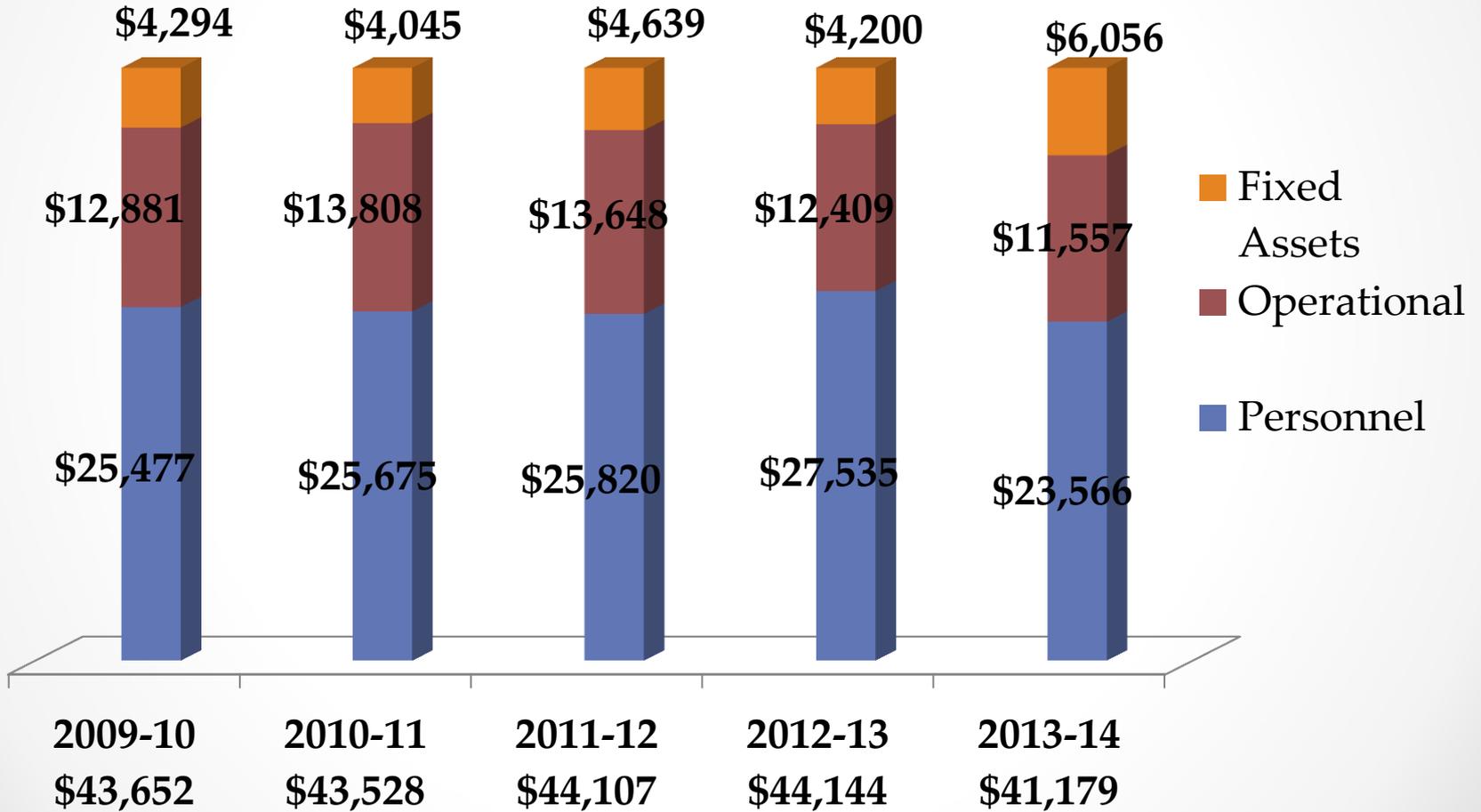
- All Investment costs will be captured in the Investment Related Appropriation effective July 1, 2013
- Improve consistency of reporting between the Financial Statements and Budgeting
- Budgeted costs will be aligned in the same manner as PSERS' Operations are managed

Administrative Budget Request 2013-14

- **Employee Benefit Rate Increases**
 - **Personnel factors increased:**
 - Employer Retirement Contributions increased by 43%
 - Annuitant health 15% and active employee health insurance 9%
 - Leave payout 6.2%
- **Operational Line Items Decreased**
 - Investment Related Share
 - Bureau reductions to line items without losing Operational Integrity
- **Formal Worksheets/Template Due to Office of the Budget upon Board Approval**
 - Upon Board approval of the Resolution – staff will finish the preparation of all required schedules and templates and forward them to the Office of the Budget.

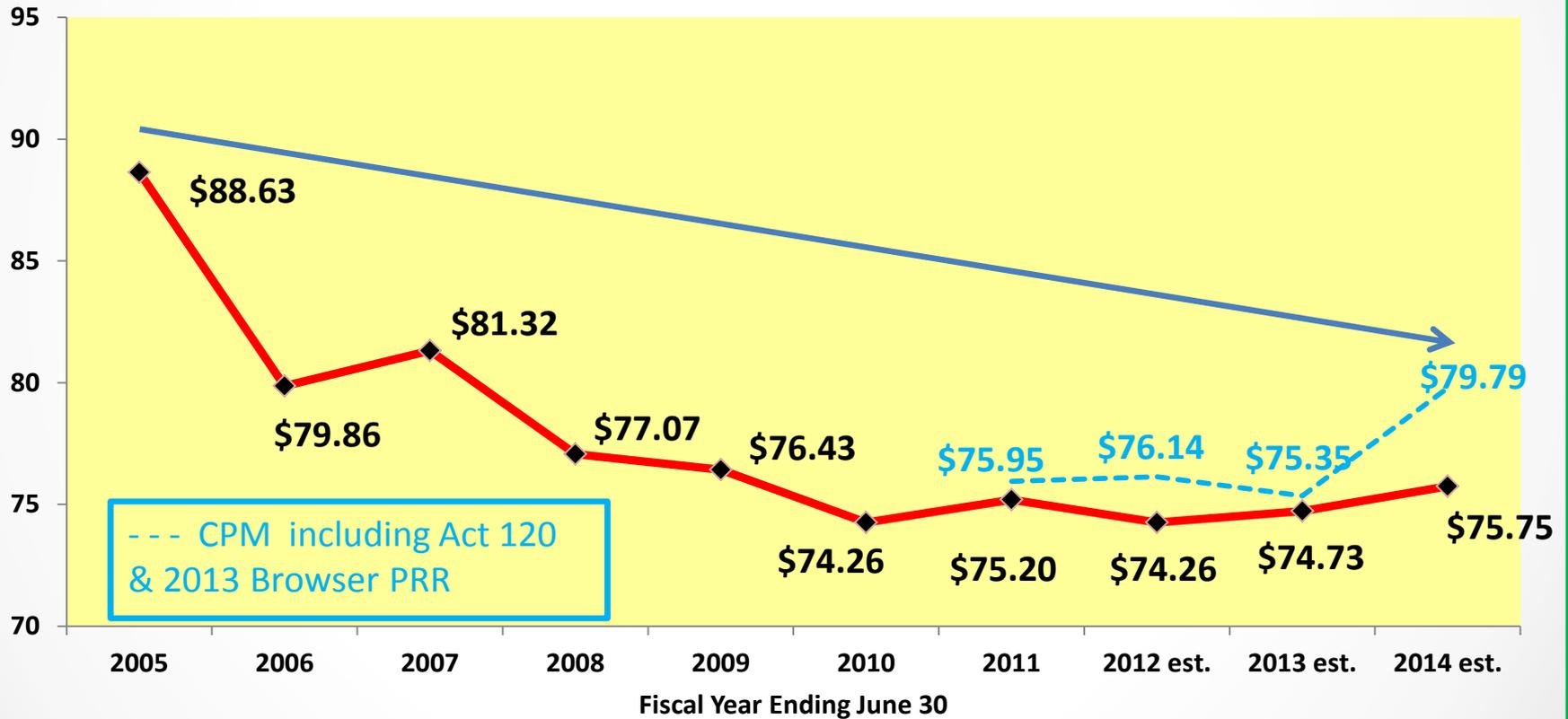
Administrative Budget Request 2013-14

Five Year Budget Comparison (in thousands)



Administrative Budget Request 2013-14

10 Year Trend of PSERS' Administrative Cost per Member (Active, Annuitants and Beneficiaries)



Administrative Budget Request 2013-14

- **Personnel Services**

- .5% General Pay July 2013 and a .5% General Pay January 2014 and a 2.25% Longevity increase due April 2014
- Wages and Overtime combined
 - 18.9% less than 2012-13 enacted budget
- Increases to Benefit factors
 - 5 - Retiree Health to \$305 from \$265
 - 8 - Retirement contribution to 15.22% from 10.62%
 - 9 – State Workers Insurance Fund to 2.05% from 1.80%
 - 11 - Active Health to \$425 from \$390
 - 13 - Leave payout assessment to 1.7% from 1.6%

Administrative Budget Request 2013-14

- Total Personnel Costs as distributed within the Administrative, Investment Related, Health Insurance Account and Health Options Program Budgets:

Number of Personnel	Administrative Budget	Investment Related Budget	Health Insurance Account Budget	Health Options Program Budget	Total Personnel Budget
274	23,566,000		726,178	242,080	\$ 24,534,258
31		6,354,671	62,587	20,867	6,438,125
8			549,632	183,211	732,843
313	23,566,000	6,354,671	1,338,397	446,158	\$ 31,705,226

Administrative Budget Request 2013-14

- **Operational**

- 24 - Data Powerhouse - \$2,084,000
- 26 - Interagency services - \$351,000
- 27 - Board elections - \$177,000
- 31 - Software Licensing - Maintenance \$1,075,000
- 37 - Real Estate Rental - \$1,783,000
- 50 - Postage - \$1,145,600
- 58 - Treasury Services - \$1,643,000

- **Fixed Assets**

- 64 – ViTech - \$3,850,000
- 64 - PRR V3 Browser Conversion - \$2,000,000

Administrative Budget Request 2013-14

Program Revision Request (PRR) –Upgrade the PSERS V3-Classic Version Benefits Administration System to V3 Browser Edition

- \$2,000,000 is being utilized from FY2011-12 waiver for 2012-13 expenses
- \$2,000,000 in FY2013-14 Budget Request
- Estimated to be completed in FY2016-17 at a total PRR cost of \$10 million (\$2 million per year)

Administrative Budget Request 2013-14

In Summary –

Administrative Budget Request Total is
\$41,179,000

2013-14 Directed Commissions

Recapture Program

Directed Commissions Appropriation Budget

- \$2,000,000
 - Budgetary Reserve (same as 2012-13)
 - May be used for actuarial fees, change orders, and enhancements to the pension system required due to pension legislation.

QUESTIONS?



PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
2013-2014 Administrative Budget Request

COMMITMENT		Expenditures	Expenditures (8/20/12)	Enacted Budget Request	Budget Request	Percentage	
ITEM #	DESCRIPTION	2010/2011	2011/2012	2012/2013	2013/2014	+/(-)	
	6000000						
	<i>Budgetary Reserve</i>						
1	6111000	Salaries	16,371,696	16,461,080	17,561,050	13,881,751	-21.0%
2	6113000	Higher Classification Pay	41,279	3,240	2,880	1,000	-65.3%
3	6121000	Wages	326,271	355,152	602,997	355,014	-41.1%
4	6131000	Overtime	478,834	604,985	505,920	544,800	7.7%
5	6142000	Hospitalization - State Share	1,449,077	1,707,696	1,961,677	2,037,352	3.9%
6	6143000	Social Security Contributions - State Share	981,950	999,360	1,161,935	914,380	-21.3%
7	6144000	Medicare - State Share	244,992	247,657	271,744	213,845	-21.3%
8	6145000	Retirement Contributions - State Share	734,226	1,220,301	1,910,145	2,195,505	14.9%
9	6146000	State Workers Insurance Fund - State Share	262,234	293,487	336,493	302,646	-10.1%
10	6147000	Employee Life Insurance - State Share	29,716	32,046	33,312	30,060	-9.8%
11	6148000	Health Benefits - State Share	2,838,470	2,647,997	2,886,992	2,838,932	-1.7%
12	6149000	Unemployment Compensation - State Share	21,681	3,957	-	-	0.0%
13	6151000	Leave Payout Assessment	303,482	242,731	299,855	250,715	-16.4%
	PERSONNEL SERVICES TOTAL	\$24,083,906	\$24,819,689	\$27,535,000	\$23,566,000	-14.4%	
14	6311000	Travel	104,206	79,784	145,000	143,300	-1.2%
15	6321000	Training & Conference Registration	94,886	81,461	130,000	119,500	-8.1%
16	6331100	Telecomm - Recurring	605,021	505,453	545,000	397,000	-27.2%
	6331200	Telephone-Non-Recurring	-	9,027	-	-	
17	6331320	Telecomm - Voice Hardware less than \$5,000	57,132	222	5,000	2,000	-60.0%
18	6332300	Electricity	47,330	44,392	60,000	44,000	-26.7%
19	6341100	Consultant Services - Non IT	814,584	864,150	848,000	785,000	-7.4%
20	6341212	Consulting- Managed Services - (vendor hosted SW)	-	2,098	30,000	10,000	-66.7%
21	6341215	Consulting - Maint & Support - (post implementation)	-	2,641	115,000	82,000	-28.7%
22	6341216	Consulting - Security (Outsourced Inf Sec Services)	-	10,288	12,000	12,000	0.0%
23	6341218	Consulting - General (IT Support)	-	185,331	100,000	30,000	-70.0%
24	6341219	Consulting - Outsourced Infrastructure Svcs (DPH)	2,008,483	1,883,197	1,950,000	2,084,000	6.9%
25	6342100	Legal Services/Fees	36,306	119,660	36,000	58,000	61.1%
26	6343100	Specialized Services	302,938	320,375	363,000	351,000	-3.3%
27	6343117	Other Specialized Services	78,796	75,831	76,000	210,000	176.3%
28	6343200	Advertising	5,771	-	10,000	10,000	0.0%
29	6343300	Medical, Mental, & Dental Services	3,972	3,972	5,000	4,000	-20.0%
30	6344100	Contracted EDP Svcs - Vendor Provided	172,132	-	-	-	
31	6344302	Software Licensing - Maintenance	763,755	817,183	1,054,000	1,075,000	2.0%
32	6344303	Hardware Server - Maintenance	7,453	448	1,000	1,000	0.0%
33	6344304	Hardware Network - Maintenance	4,073	12,893	15,000	4,000	-73.3%
33a	6344306	Hardware Periph - Maintenance	-	16,712	18,000	20,000	11.1%
34	6344307	Hardware Desktop - Maintenance	15,696	8,649	1,000	1,000	0.0%
35	6344400	Contracted Maintenance Non EDP	225,065	220,729	197,000	194,000	-1.5%
35a	6344420	Telecom Data Services	-	107,651	120,000	48,000	-60.0%
36	6344600	Contracted Repairs - Non EDP	18,628	29,676	15,000	10,000	-33.3%
37	6351200	Real Estate Rental	1,916,028	1,975,118	1,950,000	1,783,000	-8.6%
38	6351300	Vehicle Rental	1,994	1,953	4,000	3,000	-25.0%
39	6351400	Office Equipment Rental	263,351	271,539	303,000	278,000	-8.3%
40	6351500	Other Rentals	12,774	21,647	28,000	26,000	100.0%
41	6361100	Office Supplies	230,262	249,048	262,000	230,000	-12.2%
42	6361300	Educational Supplies (Books)	1,868	6,714	11,000	11,000	0.0%
43	6362100	Medical Supplies	314	642	1,000	-	
44	6371010	SW License non-recurring less than \$5,000	22,678	27,429	171,000	46,000	-73.1%
45	6371011	SW License recurring less than \$5,000	-	2,121	-	-	
46	6372005	HW Desktop less than \$5,000	256,184	160,007	55,000	114,000	107.3%
47	6373000	Furniture and Fixtures	67,191	106,915	48,000	23,300	-51.5%
48	6374000	Other Equipment	45,820	10,839	-	-	
49	6380710	Motorized Equipment Supplies	29,958	26,092	41,000	22,000	-46.3%
50	6391010	Postage	1,185,283	995,113	1,200,000	1,145,600	-4.5%
51	6391020	Freight	7,409	6,062	10,000	7,000	-30.0%
52	6391030	Printing	398,288	305,304	444,000	315,000	-29.1%
53	6391040	Subscriptions	79,513	78,050	101,000	96,100	-4.9%
54	6391050	Membership Dues	38,971	31,875	45,000	32,200	-28.4%
55	6391070	Conference Expense	42,410	34,451	72,000	49,000	-31.9%
56	6391120	Insurance, Surety & Fidelity Bonds	20,658	20,118	24,000	24,000	0.0%
57	6399998	Graphic Services	178	-	1,000	-	-100.0%
58	6399999	Other Operational Expenses	1,758,804	1,790,496	1,787,000	1,657,000	-7.3%
	OPERATING EXPENSES TOTAL	\$11,746,161	\$11,523,356	\$12,409,000	\$11,557,000	-6.9%	
59	6400621	HW Server greater than \$25,000	260,987	-	-	-	
60	6400651	Telecomm -Voice HW greater than \$25,000	-	648,000	-	-	
61	6450210	Automobiles	-	61,996	-	-	
62	6450280	Purchase EDP - Computers	-	37,330	-	-	
63	6450301	SW License non-recurring greater than \$5,000	-	9,013	75,000	10,000	-86.7%
64	6450302	SW License recurring greater than \$5,000	4,254,530	4,885,615	4,125,000	6,046,000	46.6%
65	6450310	Office Equipment	19,800	-	-	-	
66	6450350	Telecommunications Equipment	6,500	-	-	-	
	FIXED ASSETS TOTAL	\$4,541,817	\$5,641,954	\$4,200,000	\$6,056,000	44.2%	
	TOTAL	\$40,371,884	\$41,984,999	\$44,144,000	\$41,179,000	-6.72%	

* Operational Expenses and Fixed Asset combined % change:

16,609,000

17,613,000

6.0%