



COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

PSERS
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DATE: September 19, 2017

SUBJECT: Administrative, Defined Contribution and Directed Commissions Budget Requests for Fiscal Year 2018-19

TO: Members of the Budget/Finance Committee

FROM: Brian S. Carl, CPA, CFP[®] Chief Financial Officer
Andrew D. Fiscus, CPA
Office of Financial Management
Director - Investment Accounting & Budget

At the October 5, 2017 Budget/Finance Committee meeting the Fiscal Year 2018-19 Administrative, Defined Contribution, and Directed Commissions Budget Request will be presented.

2018-19 Budget Request Summary

The proposed Administrative Budget for the 2018-19 fiscal year totals \$51,637,000 compared to \$52,453,000 for the current year. PSERS request includes additional staff required for the implementation and ongoing activities associated with Act 5 but results in an overall decrease to the Administrative Budget of 1.6% when compared to the current year (2017-18). The decrease is primarily due to database system changes, implementation consultants, legal expenses and other costs related to the defined benefit aspects of Act 5 that are expected to be higher in the current fiscal year than in 2018-19.

The Defined Contribution Budget for 2018-19 totals \$4,950,000 compared to \$6,801,000 for the current fiscal year, representing a decrease of 27.2%. Similar to the Administrative Budget, the decrease is mostly due to database system changes, implementation consultants, legal expenses and other costs related to the defined contribution aspects of Act 5 that are expected to be higher in the current fiscal year than next year.

The Directed Commissions Recapture Program Budget for 2018-19 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 2018-19 Administrative Budget request with a comparison to the 2017-18 enacted budget including separately identified Act 5 Defined Benefit (DB) costs.
- A summary of the 2018-19 Defined Contribution (DC) Budget request with a comparison to the 2017-18 enacted budget.
- Line item notes of explanation for the 2018-19 Administrative and Defined Contribution Budgets.

- The 2018-19 Directed Commissions Recapture Program Budget.
- A power point presentation.
- A proposed resolution recommending Budget/Finance Committee approval of the 2018-19 Administrative Budget, Defined Contribution Budget, and Directed Commissions Budget.

Budget Process

The budget process is similar to past years. The Budget/Finance Committee will review the proposed budget at its meeting on October 5, 2017. The presentation to the Committee will cover the Administrative Budget, Defined Contribution Budget, and the Directed Commissions Recapture Program Budget for the 2018-19 fiscal year. Analysis of relevant changes will be provided, along with details of major categories of proposed expenditures. The Board of Trustees will consider the budgets at the full Board meeting also on October 5, 2017. Following approval by the Board, the budgets will be submitted, as required, to the Governor's Office of the Budget. The Governor's Budget Office will review PSERS' budget requests and prepare recommended budget amounts to be included in the Governor's Budget to be released in February 2018. It is expected that the Legislature will hold budget hearings in February/March 2018 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 budgets or any other matters regarding PSERS. Upon passage of the budget appropriations by the Legislature and approval by the Governor, both required by June 30, PSERS' modified Administrative and Defined Contribution Budget requests (rebudget) will be approved by the Governor's Office of the Budget in July/August 2018. The rebudget is PSERS' opportunity to recast the initial budget amounts, thereby conforming to the final amounts appropriated by the Legislature and approved by the Governor.

If you have any questions before the meeting on October 5, please call either Brian Carl at 717-720-4905 or Andy Fiscus at 717-720-4664.

**PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
2018-2019 Administrative Budget Request**

		(A)	(B)	(C)	(D)	(E)	(F)	(D-A)/A	(F-C)/C
		Administrative w/o Act 5 (DB) Budget 2017/2018	Act 5 (DB) Budget 2017/2018	Total Administrative with Act 5 (DB) Enacted Budget 2017/2018	Administrative w/o Act 5 (DB) Budget Request 2018/2019	Act 5 (DB) Budget Request 2018/2019	Total Administrative with Act 5 (DB) Budget Request 2018/2019	Admin. w/o Act 5 (DB) Percentage +/-	Total Admin. with Act 5 (DB) Percentage +/-
COMMITMENT	DESCRIPTION								
6000000	Budgetary Reserve	-	-	-	-	-	-		
1	6111000 Salaries	14,168,593	472,000	14,640,593	14,462,994	681,000	15,143,994	2.1%	3.4%
2	6113000 Higher Classification Pay	1,000	-	1,000	1,500	-	1,500	50.0%	50.0%
3	6121000 Wages	312,640	10,000	322,640	306,093	14,000	320,093	-2.1%	-0.8%
4	6131000 Overtime	365,950	281,000	646,950	352,460	198,000	550,460	-3.7%	-14.9%
5	6142000 Hospitalization - State Share	1,858,605	62,000	1,920,605	1,890,720	89,000	1,979,720	1.7%	3.1%
6	6143000 Social Security Contributions - State Share	873,400	29,000	902,400	891,552	42,000	933,552	2.1%	3.5%
7	6144000 Medicare - State Share	206,792	7,000	213,792	211,124	10,000	221,124	2.1%	3.4%
8	6145000 Retirement Contributions - State Share	4,693,341	156,000	4,849,341	4,870,884	230,000	5,100,884	3.8%	5.2%
9	6146000 State Workers Insurance Fund - State Share	213,920	7,000	220,920	222,542	10,000	232,542	4.0%	5.3%
10	6147000 Employee Life Insurance - State Share	28,445	1,000	29,445	28,613	1,000	29,613	0.6%	0.6%
11	6148000 Health Benefits - State Share	2,963,324	99,000	3,062,324	3,082,966	145,000	3,227,966	4.0%	5.4%
12	6151000 Leave Payout Assessment	249,990	8,000	257,990	260,552	12,000	272,552	4.2%	5.6%
	PERSONNEL SERVICES TOTAL	25,936,000	1,132,000	27,068,000	26,582,000	1,432,000	28,014,000	2.5%	3.5%
13	6311000 Travel	153,450		153,450	167,130		167,130	8.9%	8.9%
14	6321000 Training & Conference Registration	154,930		154,930	199,400		199,400	28.7%	28.7%
15	6331100 Telecomm - Recurring	388,900		388,900	420,900		420,900	8.2%	8.2%
16	6331200 Telephone-Non-Recurring	13,000		13,000	15,000		15,000	15.4%	15.4%
17	6331320 Telecomm - Voice Hardware less than \$5,000	5,000		5,000	5,000		5,000	0.0%	0.0%
18	6332300 Electricity	30,000		30,000	22,300		22,300	-25.7%	-25.7%
19	6341100 Consultant Services - Non EDP	2,281,900	950,000	3,231,900	2,017,500	640,000	2,657,500	-11.6%	-17.8%
20	6341212 Consulting Services- EDP	76,900		76,900	20,000		20,000	-74.0%	-74.0%
21	6341215 Consulting - Maint & Support - (post implementation)	51,000		51,000	109,000		109,000	113.7%	113.7%
22	6341216 Consulting - Security (Outsourced Info Sec Services)	-		-	125,000		125,000	0.0%	0.0%
23	6341218 Consulting - General (IT Support)	1,127,600		1,127,600	790,600		790,600	-29.9%	-29.9%
24	6341219 Consulting - Outsourced Infrastructure Svcs (DPH)	1,200,000		1,200,000	921,000		921,000	-23.3%	-23.3%
25	6342100 Legal Services/Fees	64,000	600,000	664,000	64,000	225,000	289,000	0.0%	-56.5%
26	6343100 Specialized Services	448,750		448,750	484,750		484,750	8.0%	8.0%
27	6343117 Other Specialized Services	159,720		159,720	174,000		174,000	8.9%	8.9%
28	6343200 Advertising	10,000		10,000	10,000		10,000	0.0%	0.0%
29	6343300 Medical, Mental, & Dental Services	4,000		4,000	3,500		3,500	-12.5%	-12.5%
30	6344302 Software Licensing - Maintenance	1,703,800		1,703,800	1,753,100		1,753,100	2.9%	2.9%
31	6344303 Hardware Server - Maintenance	2,000		2,000	2,000		2,000	0.0%	0.0%
32	6344304 Hardware Network - Maintenance	61,800		61,800	75,000		75,000	21.4%	21.4%
33	6344306 Hardware Periph - Maintenance	8,000		8,000	13,000		13,000	62.5%	62.5%
34	6344307 Hardware Desktop - Maintenance	1,000		1,000	1,000		1,000	0.0%	0.0%
35	6344400 Contracted Maintenance Non EDP	166,100		166,100	168,000		168,000	1.1%	1.1%
36	6344442 Telecom Data Services	87,700		87,700	88,900		88,900	1.4%	1.4%
37	6344600 Contracted Repairs - Non EDP	15,200		15,200	15,500		15,500	2.0%	2.0%
38	6351200 Real Estate Rental	2,036,500		2,036,500	2,059,500		2,059,500	1.1%	1.1%
39	6351300 Vehicle Rental	2,600		2,600	2,600		2,600	0.0%	0.0%
40	6351400 Office Equipment Rental	201,000		201,000	236,300		236,300	17.6%	17.6%
41	6351500 Other Rentals	8,300		8,300	8,400		8,400	1.2%	1.2%
42	6361100 Office Supplies	211,500		211,500	228,100		228,100	7.8%	7.8%
43	6361300 Educational Supplies (Books)	9,000		9,000	8,800		8,800	-2.2%	-2.2%
44	6362100 Medical Supplies	2,600		2,600	300		300	-88.5%	-88.5%
45	6371010 SW License non-recurring less than \$5,000	23,500		23,500	31,300		31,300	33.2%	33.2%

**PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
2018-2019 Administrative Budget Request**

			(A)	(B)	(C)	(D)	(E)	(F)	(D-A)/A	(F-C)/C
			Administrative w/o Act 5 (DB) Budget 2017/2018	Act 5 (DB) Budget 2017/2018	Total Administrative with Act 5 (DB) Enacted Budget 2017/2018	Administrative w/o Act 5 (DB) Budget Request 2018/2019	Act 5 (DB) Budget Request 2018/2019	Total Administrative with Act 5 (DB) Budget Request 2018/2019	Admin. w/o Act 5 (DB) Percentage +/-	Total Admin. with Act 5 (DB) Percentage +/-
COMMITMENT	ITEM #	DESCRIPTION								
46	6372002	HW - Network	-		-	140,000		140,000	0.0%	0.0%
47	6372005	HW Desktop less than \$5,000	23,050		23,050	407,200		407,200	1666.6%	1666.6%
48	6373000	Furniture and Fixtures	58,100		58,100	68,100		68,100	17.2%	17.2%
49	6374000	Other Equipment	7,000		7,000	13,000		13,000	85.7%	85.7%
50	6380710	Motorized Equipment Supplies	21,000		21,000	21,000		21,000	0.0%	0.0%
51	6391010	Postage	1,191,790		1,191,790	1,148,500		1,148,500	-3.6%	-3.6%
52	6391020	Freight	5,000		5,000	3,000		3,000	-40.0%	-40.0%
53	6391030	Printing	212,500		212,500	221,000		221,000	4.0%	4.0%
54	6391040	Subscriptions	384,300		384,300	431,340		431,340	12.2%	12.2%
55	6391050	Membership Dues	35,510		35,510	38,280		38,280	7.8%	7.8%
56	6391070	Conference Expense	49,000		49,000	64,000		64,000	30.6%	30.6%
57	6391120	Insurance, Surety & Fidelity Bonds	23,000		23,000	10,000		10,000	-56.5%	-56.5%
58	6399999	Other Operational Expenses	1,927,000	355,000	2,282,000	1,892,700	243,000	2,135,700	-1.8%	-6.4%
59	6400621	Hardware - Server	85,000		85,000	-		-	-100.0%	-100.0%
60	6400622	HW Network greater than \$25,000			-	75,000		75,000	0.0%	0.0%
61	6450210	Automobiles	40,000		40,000	20,000		20,000	-50.0%	-50.0%
62	6450282	Network HW	-		-	14,000		14,000	0.0%	0.0%
63	6450301	SW License non-recurring greater than \$5,000	-		-	50,000		50,000	0.0%	0.0%
64	6450302	SW License recurring greater than \$5,000	5,105,000	3,575,000	8,680,000	5,060,000	2,568,000	7,628,000	-0.9%	-12.1%
65	6450310	Office Equipment	28,000		28,000	29,000		29,000	3.6%	3.6%
OPERATIONAL & FIXED ASSETS TOTAL			\$19,905,000	\$5,480,000	\$25,385,000	\$19,947,000	\$3,676,000	\$23,623,000	0.2%	-6.9%
TOTAL			\$45,841,000	\$6,612,000	\$52,453,000	\$46,529,000	\$5,108,000	\$51,637,000	1.50%	-1.56%

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
2018-2019 Defind Contribution Budget Request

COMMITMENT		DC Enacted Budget 2017/2018	DC Budget Request 2018/2019	Percentage +/-
ITEM #	DESCRIPTION			
	6000000			
	<i>Budgetary Reserve</i>	-	-	
1	6111000	257,200	370,800	44.2%
4	6131000	151,500	106,400	-29.8%
5	6142000	33,700	48,500	43.9%
6	6143000	15,900	23,300	46.5%
7	6144000	3,800	5,500	44.7%
8	6145000	85,200	124,900	46.6%
9	6146000	3,900	5,700	46.2%
10	6147000	500	700	40.0%
11	6148000	53,800	78,500	45.9%
12	6151000	4,500	6,700	48.9%
	PERSONNEL SERVICES TOTAL	610,000	771,000	26.4%
19	6341100	3,800,000	2,590,000	-31.8%
25	6342100	275,000	75,000	-72.7%
58	6399999	191,000	131,500	-31.2%
64	6450302	1,925,000	1,382,500	-28.2%
	OPERATIONAL & FIXED ASSETS TOTAL	\$6,191,000	\$4,179,000	-32.5%
	TOTAL	\$6,801,000	\$4,950,000	-27.2%

2018-19 Administrative w/o Act 5 (DB) Budget Request --- Notes of Explanation

Line #	Commitment Item Number & Description	Notes:
1	6111000 Salaries	260 existing Positions; includes 2.50% general salary increase on 7/1/2018 as well as a 2.25% step increase in 1/1/2019 offset by increase in turnover ratio.
2	6113000 Higher classification pay	An estimate.
3	6121000 Wages	Board Per Diem, 1 Intern for Office of Chief Counsel, 2 Summer Interns for Office of Chief Counsel, 1 Annuitant return for ITO, 2 Annuitant returns for BBA, 11 Gov't Svc Interns for BOCC, 1 Human Resources Management Trainee or Annuitant return for HR.
4	6131000 Overtime	Overtime is required to meet operational needs; mainly to meet retirement application deadlines during peak (May-Sept) retirement season, After-Hour Programs (Foundations for Your Future, Retiree Meetings); Additional overtime in 17-18 due to V3 Browser project and closure of the Fleetwood Office.
5	6142000 Hospitalization - State Share	REHP - Annuitant group health program costs. \$300/person/pay - is \$300 in 17-18.
6	6143000 Social Security Contributions - State Share	6.2% - same as 17-18.
7	6144000 Medicare - State Share	1.45% - same as 17-18.
8	6145000 Retirement Contributions - State Share	Average rate of all PSERS employees is 32.88% - is 31.17% in 17-18.
9	6146000 State Workers Insurance Fund - State Share	1.5% - same as 17-18.
10	6147000 Employee Life Insurance - State Share	\$4.54 /person/pay - is \$4.54 in 17-18 (up to \$1,000 of payroll/month -- up to a \$40,000 salary limit).
11	6148000 Health Benefits - State Share	Active employee group health program costs. \$486/person/pay - is \$473 in 17-18.
12	6151000 Leave Payout Assessment	1.80% of Salary and OT, 1.80% - 17-18.
13	6311000 Travel	An estimate for travel to train staff, attend benefit counseling sessions, meetings, and various conferences.
14	6321000 Training & Conference Registration	An estimate for training opportunities and conference registrations, including: NCTR, NASRA, NAPPA, P2F2, PAPERS, GFOA, CPE courses, Lawson Training, etc. ITO increased in 18-19 for cross training on Cisco telephone, VMWare, and Microsoft Office.
15	6331100 Telecomm - Recurring	An estimate for recurring charges for trunk lines, Direct Inward Dialing (DIDs), toll free lines, data lines, cell phones, etc.
16	6331200 Telecomm - Non-Recurring	Telecomm Security Services provided by Verizon.
17	6331320 Telecom - Voice Hardware less than \$5,000	An estimate for the purchase of telephones, headsets, phone cords and to replace broken and/or stock equipment.
18	6332300 Electricity	Electricity estimate for the computer room, server room, post processing and portion of 4th floor. Less A/C needed in server room in 18-19.
19	6341100 Consultant Services - Non EDP	Includes actuarial services, annual financial audit, and medical services related to disability retirement applications. General Pension Consulting of \$300,000 included in 17-18; not in 18-19.
20	6341212 Consultant Services - EDP	WebEx for online meetings and Web conferencing in 18-19. A portion of PA Compute Services (PACS) was reported here in 17-18, now reported in Consulting-General (IT Support) in 18-19.
21	6341215 Consulting - Maint & Support - (post implementation)	Consulting for existing non-V3 application customization and support (ImageTech, Kofax, VMWare, Infolmage-UeWI); includes new switch configuration, training (Varonis), and SharePoint support in 18-19.
22	6341216 Consulting - Security (Outsourced Info Sec Services)	Security Assessments for Investments, OFM, and Penetration tests for ESS new in 18-19.
23	6341218 Consulting - General (IT Support)	Staff augmentations decreased in 18-19; includes a portion of PACS which was reported in Consultant Svc - Non EDP in 17-18; also includes Switch replacement install & configuration in 18-19.
24	6341219 Consulting - Outsourced Infrastructure Svcs	A portion of PACS decreased in 18-19 due to shutting down the classic servers after V3 Browser conversion.
25	6342100 Legal Services/Fees	An estimate for monitoring security class actions, court fees, reporting services, hearing examiners, subpoena witnesses, as well as, offset from the Municipal Retirement System.
26	6343100 Specialized Services	Commonwealth Interagency billings: including IES, Civil Service, Comptroller, HR services, Payroll & Travel Services, Purchasing, Classification & Pay, Clerical Pool, SEAP, Labor Relations, and Real Estate Services (DGS Leasing Services).
27	6343117 Other Specialized Services	Includes CEM Survey, address updates/verifications (Equifax & Lexis Nexis), offsite storage of PSERS records (Iron Mountain), surplus removal, shredding of confidential documents, and the administrative cost of two Board elections; Tiff Backup Microfilm (Interagency).

2018-19 Administrative w/o Act 5 (DB) Budget Request --- Notes of Explanation

Line #	Commitment Item Number & Description	Notes:
28	6343200 Advertising	An estimate for ads in newspapers and on-line for recruiting.
29	6343300 Medical, Mental, & Dental Services	Maintenance of AED (Automated External Defibrillator) equipment on 5 units at HQ & 6 field offices.
30	6344302 Software Licensing - Maintenance	Software Maintenance includes Helpdesk and patch support for: Oracle (DLT), Cypress printing software, Imaging UeWI, Microsoft Software Assurance, Kofax-Ascent scanning software, and Cisco VM Ware-Telecom software upgrade. Additional funding due to increased Oracle software requirements for V3 Browser, and supporting two platforms (Classic & Browser) during migration; also includes Champion Software for Gunther Operating System and Software support for mailing machine and tracking system in Mail Center.
31	6344303 Hardware Server - Maintenance	Maintenance services on PSERS in-house servers (Pomeroy) and IBM Lenovo.
32	6344304 Hardware Network - Maintenance	Includes Cisco SmartNet Maintenance and (ePlus) routers & switches and network firewall equipment; includes maintenance and support for the Trade Room switch in 18-19.
33	6344306 Hardware Periphery - Maintenance	Maintenance services for printers and scanners out of warranty (Pomeroy). AppleCare (CDW-G) added in 18-19.
34	6344307 Hardware Desktop - Maintenance	Maintenance for desktop computer equipment (Pomeroy).
35	6344400 Contracted Maintenance Non EDP	Maintenance for projectors, copiers, printers (Gunther), fax machines, wireless scanners and other office equipment.
36	6344442 Telecom Data Services	Maintenance support for data telecommunications hardware. Includes maintenance for Voice Over Internet Protocol (VOIP) equipment.
37	6344600 Contracted Repairs - Non EDP	An estimate for services provided by an electrical service contractor and Headquarter\Field Office renovations.
38	6351200 Real Estate Rental	Includes headquarters and field office leases, parking and storage rentals.
39	6351300 Vehicle Rental	Vehicle lease for the Mail Center, temporary transportation when required, and leasing service costs.
40	6351400 Office Equipment Rental	Copier and printer leases for Agency. New leases include the cost of toner. Additional printer/copier for \$35,000 in 18-19.
41	6351500 Other Rentals	Lease of new NeopostUSA Tracking System for mail center and various water coolers.
42	6361100 Office Supplies	Office supplies and post processing equipment supplies; includes paper and printer supplies for the document processing of annuitant checks in 18-19.
43	6361300 Educational Supplies (Books)	An estimate including costs associated with mandated updates and replacements, reference material for Chief Counsel's Office, along with Governmental Plans, GAAP Guide, Thompson Reuters Tax.
44	6362100 Medical Supplies	First aid kits and other supplies. No new AED's budgeted for 18-19, only maintenance on the existing AEDs.
45	6371010 SW License non-recurring less than \$5,000	Includes Rebex, Tableau SW license and VM Ware SW(Interagency); costs increased for 18-19.
46	6372002 HW Network	Cisco router switch and tranceiver; not included in 17-18.
47	6372005 HW Desktop less than \$5,000	Includes PC Refresh - Replacement of 33% of Agency PCs and Board computer equipment not included in 17-18.
48	6373000 Furniture and Fixtures	An estimate of replacement furniture including field offices.
49	6374000 Other Equipment	Includes replacement of PowerPoint projectors and cameras, also includes folder/insertor for document processing of annuitant checks.
50	6380710 Motorized Equipment Supplies	An estimate for fuel purchases and repairs for PSERS vehicles.
51	6391010 Postage	An estimate for postage requirements that includes annual updates, statement of accounts, member newsletters, 1099s. Includes two Board elections in 18-19.
52	6391020 Freight	An estimate for United Parcel Service, FedEx and DHL.
53	6391030 Printing	Printing costs for newsletters, annual updates, and other member communications, CAFR, and letterhead, includes photographs of employees for PSERS Financial Report.
54	6391040 Subscriptions	An estimate of the Agency's subscriptions. ITO subscriptions include AutoCAD; Adobe Cloud (increased \$20,000 over 17-18); Diligent; Gartner; ListServ; Secunia, JIRA Zephyr; includes Office 365 for an additional \$20,000 in 18-19.
55	6391050 Membership Dues	An estimate of the Agency's memberships including NIRS, PASBO, NASRA, NCTR, NAPPA, AICPA, GFOA, etc.
56	6391070 Conference Expense	An estimate including Board Meeting Luncheons, Field Office Room Rentals, and Exit Counseling Meetings increasing in 18-19 due to less available free locations.

2018-19 Administrative w/o Act 5 (DB) Budget Request --- Notes of Explanation

Line #	Commitment Item Number & Description	Notes:
57	6391120 Insurance, Surety & Fidelity Bonds	General Services: including Employee Liability Self Insurance, which has decreased from 17-18 rates; also includes Property Insurance, Automobile Insurance, Tort Claims, and other Insurances.
58	6399999 Other Operational Expenses	Treasury Services and state records center billings.
59	6400621 Fixed Asset - Hardware - Server	Palo Alto Redundant (Network Security device) in 17-18. Included in Hardware Network (line 60) for 18-19.
60	6400622 HW Network greater than \$25,000	Palo Alto Redundant (Network Security device) in 18-19. Included in Fixed Asset - Hardware - Server in 17-18.
61	6450210 Automobiles	PSERS owns 11 automobiles. An estimate to replace 1 fleet vehicles in 18-19; 2 vehicles to be replaced in 17-18.
62	6450282 Network Hardware	Voice Gateway routers; not included in 17-18.
63	6450301 SW License non-recurring greater than \$5,000	Security Software (Varonis); not included in 17-18.
64	6450302 SW License recurring greater than \$5,000	Vitech Systems Group annual license for technical and helpdesk support for V3 business application
65	6450310 Office Equipment	Purchase lease of mail machines for the (6) field offices, mail system for mail center, letter opener.

2018-19 Act 5 Defined Benefit (DB) Budget Request --- Notes of Explanation

Line #	Commitment Item Number & Description	Notes:
1	6111000 Salaries	Includes new positions in 17-18 and 18-19 for DB portion of Act 5.
4	6131000 Overtime	Required for V3 System Change Request testing for all new DB processing due to changes to pension system.
19	6341100 Consultant Services - Non EDP	Additional Actuary fees for the new member classes; additional Audit fees for the new system plan; Consulting/Training/Publications for employers and new active members.
25	6342100 Legal Services/Fees	Legal fees of independent counsel including drafting trust document, tax qualification & compliance.
58	6399999 Other Operational Expenses	Reserve for contingent expenses of approximately 5%.
64	6450302 SW License recurring greater than \$5,000	V3 change requests for new DB functionality.

2018-19 Defined Contribution Budget Request --- Notes of Explanation

Line #	Commitment Item Number & Description	Notes:
1	6111000 Salaries	Includes new positions in 17-18 and 18-19 for DC portion of Act 5.
4	6131000 Overtime	Required for V3 System Change Request testing for all new DC processing due to changes to pension system.
19	6341100 Consultant Services - Non EDP	Includes Third Party Administrator, Investment Consultant and Implementation Oversight Consultant; additional Actuary fees for the new member classes; additional Audit fees for the new system plan; and Consulting/Training/Publications for employers and new active members.
25	6342100 Legal Services/Fees	Legal fees of independent counsel including drafting trust document, tax qualification & compliance.
58	6399999 Other Operational Expenses	Reserve for contingent expenses of approximately 5%.
64	6450302 SW License recurring greater than \$5,000	V3 change requests for new DC functionality. DC changes will include reporting of data from Third Party Administrator.

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
DIRECTED COMMISSIONS RECAPTURE PROGRAM
DIRECTED COMMISSIONS APPROPRIATION

Directed Commissions Appropriation #6012700000

	<u>2016-17</u> <u>Actual</u>	<u>2017-18</u> <u>Budget</u>	<u>2018-19</u> <u>Request</u>
Budgetary Reserve*	\$ -	\$ 2,000,000.00	\$ 2,000,000.00

*May be used for actuarial fees, change orders, and enhancements to the pension system required due to pension legislation.

Public School Employees' Retirement System

**Budget Request
Fiscal Year 2018-19**



Budget Request 2018-19

Cost Drivers

- Act 5 DB/DC implementation
- Overall membership continues to grow
- Services provided are required by Law - PSERS cannot eliminate programs or services
- Scheduled salary increases and higher retirement contributions
- New investments to improve member services

Key Considerations

- PSERS continues to make investments to improve efficiencies to the System
- PSERS staff constantly looks for cost saving opportunities
- PSERS administrative costs remain below peer group average
- PSERS Admin Budget funded from investment earnings;
- PSERS DC Budget requires an appropriation from non-PSERS source

Budget Request 2018-19

This slide is repeated from
Sept. 15th Board Meeting

Administrative Budget

FY2017-18

(Dollar Amounts in Thousands)

	Board Approved Budget Request FY2017-18	Act 5 DB Budget FY2017-18	Final Enacted Budget FY2017-18	Act 5 DC Budget* FY2017-18
Personnel Services	\$ 26,591	\$ 1,132	\$ 27,723	\$ 610
Operational & Fixed Asset Expenses	<u>19,250</u>	<u>5,480</u>	<u>24,730</u>	<u>6,191</u>
Total	<u>\$ 45,841</u>	<u>\$ 6,612</u>	<u>\$ 52,453</u>	<u>\$ 6,801</u>

* FY2017/18 Defined Contribution (DC) Budget is pending passage of fiscal code by General Assembly.

Budget Request 2018-19

This slide is repeated from
Sept. 15th Board Meeting

Total Administrative and DC Budget

FY2017-18 and FY 2018-19

(Dollar Amounts in Thousands)

	Final Enacted <u>FY2017-18</u>	Proposed Budget <u>FY2018-19</u>	<u>% Change</u>
Personnel Services	\$ 25,936	\$ 26,582	2.49%
Operational & Fixed Asset Expenses	<u>19,905</u>	<u>19,947</u>	0.21%
Subtotal	\$ 45,841	\$ 46,529	1.50%
Act 5 DB	6,612	5,108	-22.75%
Act 5 DC	<u>6,801</u> *	<u>4,950</u>	-27.22%
Total	<u>\$ 59,254</u> *	<u>\$ 56,587</u>	-4.50%

* FY2017/18 DC Budget is pending passage of fiscal code by General Assembly

Budget Request 2018-19

Traditional Administrative Budget

- **Personnel Services** - \$26,582,000
2.5% increase above FY2017-18 Personnel Services budget
Calculated at the “cost-to-carry” PSERS staff
- **Operational & Fixed Assets** - \$19,947,000
0.2% increase above FY2017-18
- **Total** \$46,529,000
Overall a 1.5% increase above FY2017-18

Budget Request 2018-19

Traditional Administrative Budget

- **Personnel Services**

- General Salary increase of 2.50% July 2018
- Longevity (step) increase of 2.25% January 2019
- Wages and Overtime combined decreased by 3.0%
- Increase to Retirement contributions of 5.2%

- **Operational & Fixed Assets**

- 64 – ViTech - \$5,060,000
- 39 - Real Estate Rental - \$2,059,500
- 19 – Consultant Services Non EDP - \$2,017,500
- 58 - Treasury Services & Other Operational Expenses - \$1,892,700
- 30 - Software Licensing – Maintenance - \$1,753,100
- 23/24 – PA Compute Services (PACS) - \$1,450,000
- 51 - Postage - \$1,148,500

Budget Request 2018-19

Administrative Budget – Includes Act 5 Defined Benefit (DB) Costs

- **Personnel Services** - \$28,014,000
3.5% increase above FY2017-18 Personnel Services budget
- **Operational & Fixed Assets** - \$23,623,000
6.9% decrease below FY2017-18
- **Total** \$51,637,000
Overall a 1.6% decrease below FY2017-18

Budget Request 2018-19

Act 5 Defined Contribution (DC) Costs

- **Personnel Services - \$771,000**
26.4% increase above FY2017-18 Personnel Services budget
- **Operational & Fixed Assets - \$4,179,000**
32.5% decrease below FY2017-18
- **Total \$4,950,000**
Overall a 27.2% decrease below FY2017-18

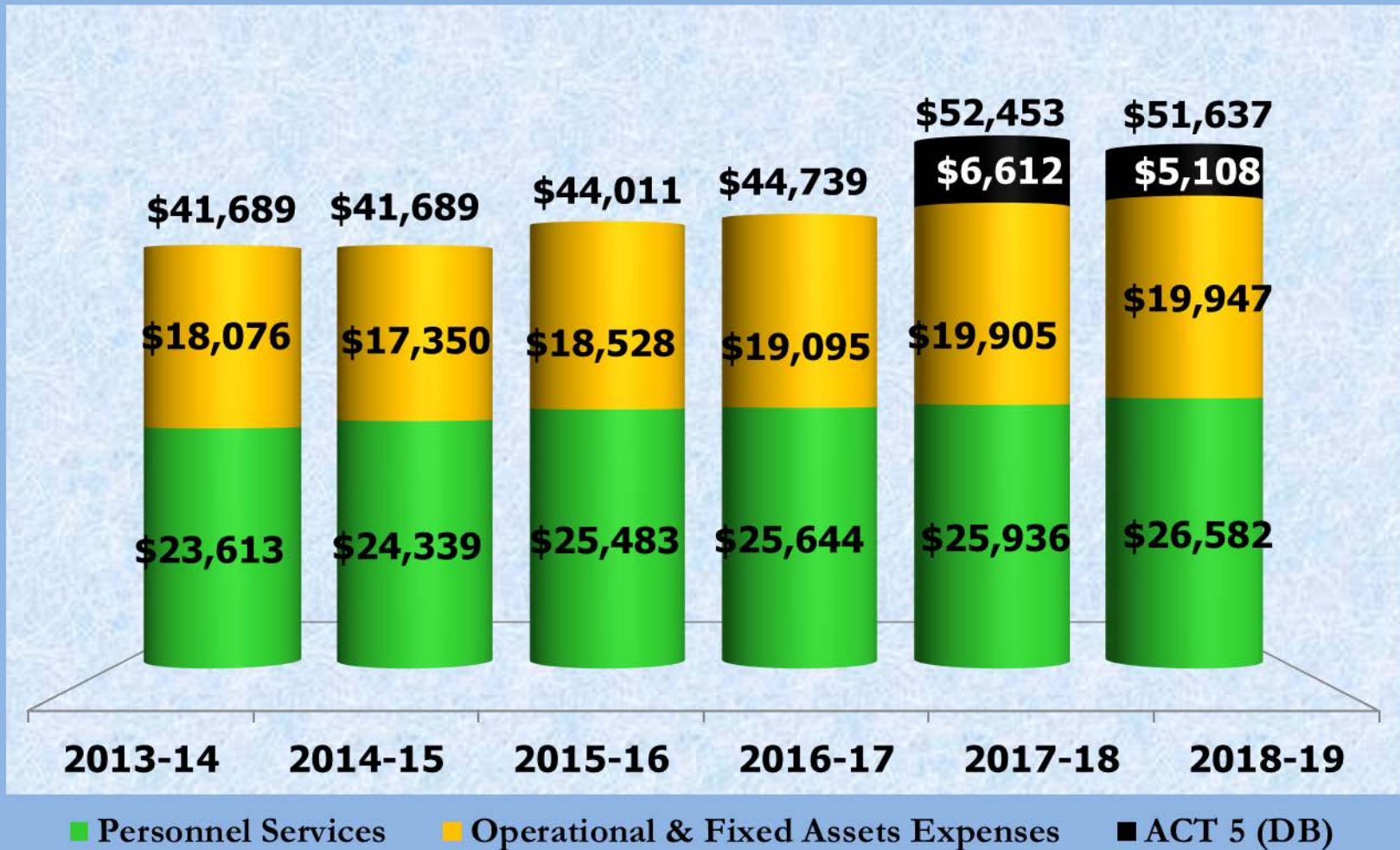
Budget Request 2018-19

SUMMARY BY FUND & APPROPRIATION Public School Employees' Retirement System (\$ in thousands)

<u>Appropriation</u>		<u>FY2018-19 Budget</u>
Administrative including Act 5 DB Costs	\$	51,637
Defined Contribution		4,950
TOTAL Administrative and DC Budget	\$	56,587
Directed Commissions		2,000
Health Insurance Account (HIA) (Administrative only)		1,910
HIA Health Options Program (Administrative only)		1,247
Investment Related		21,665
TOTAL Budget	\$	83,409

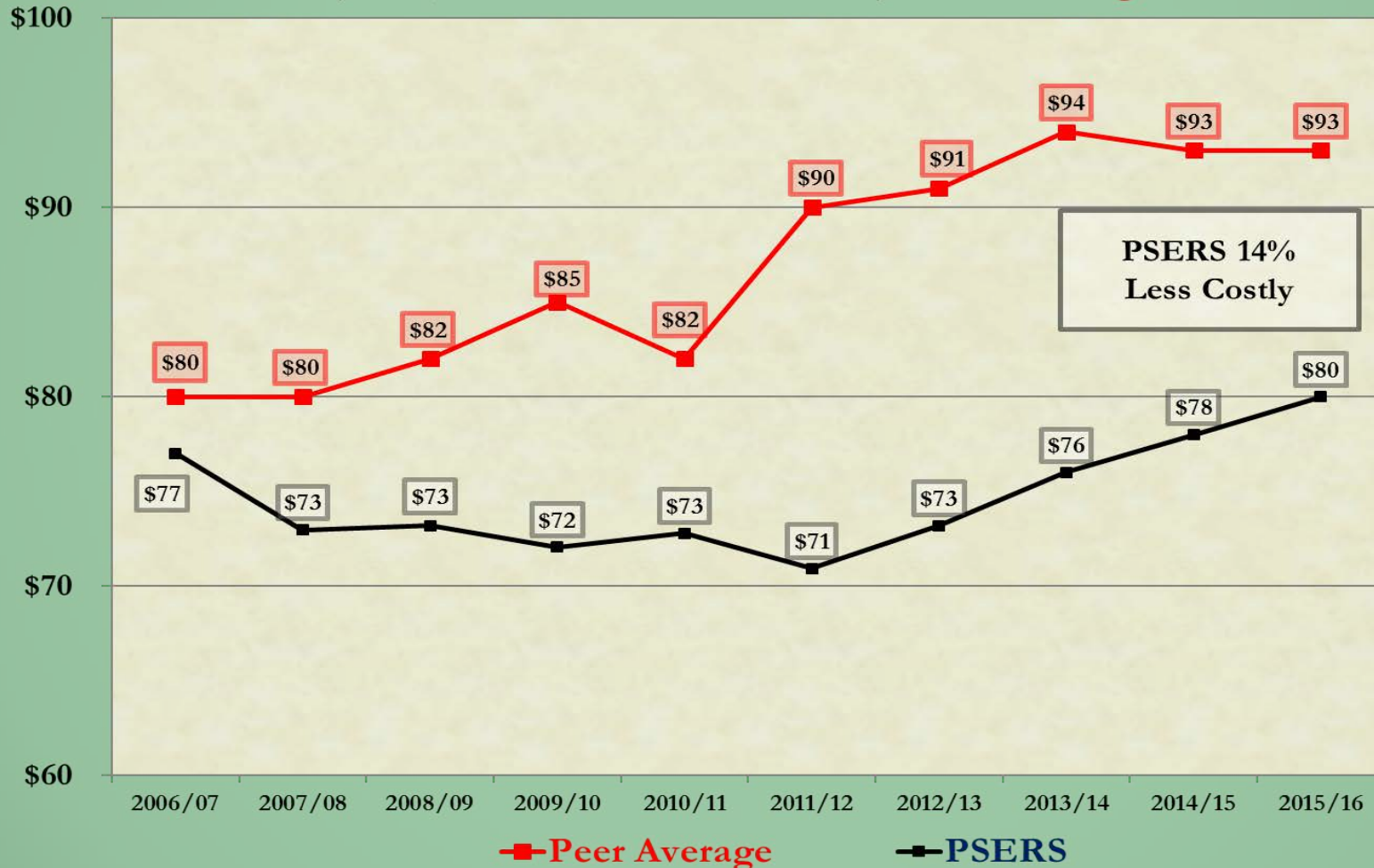
Budget Request 2018-19

Six Year Budget Comparison
(in thousands)



Budget Request 2018-19

CEM Surveys Comparison of PSERS Administrative Cost per Member
(Active, Annuitants and Beneficiaries) Vs. Peer Average



Budget Request 2018-19

Current Annual Cost Saving Initiatives

- PSERS Admin Cost/Member is \$13 under peer avg. – annual savings of \$6.3 Million
- Shift to Internally Managed Investments– reduction of \$32,000,000
- Oracle Products thru Unlimited Licensing Agreement – savings of \$3.2 Million/5yrs.
- Stop Payments for Deceased Members – \$1.7 Million/year
- Change made to actuarial assumptions on multiple service transfers between PSERS & SERS- annual savings of \$750,000
- Overtime Reduced from Peak of \$605,000 in FY2011-12 to \$261,000 in FY2016-17
- Browser Electronic Communications– reduction of \$100,000/yr.
- Benefit Change Letters Mailed w/1099s & Increased use of EFT's – reduction of \$100,000/yr.

Budget Request 2018-19

In Summary –

Administrative Budget Request Total is:

\$51,637,000

Defined Contribution Request Total is:

\$4,950,000

Formal Worksheets/Templates Due to Office of the Budget upon Board Approval

2018-19 Directed Commissions Recapture Program

Directed Commissions Appropriation Budget

\$2,000,000

(same as 2017-18)

Budgetary Reserve - May be used for actuarial fees, change orders, and enhancements to the pension system required due to pension legislation.

QUESTIONS?



Board Resolution