

**2018 - 2020**

# ***SERS Strategic Business Plan***

*The member is our ultimate customer*



**pennsylvania**

STATE EMPLOYEES' RETIREMENT SYSTEM

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## **INTRODUCTION**

Established in 1923, the Pennsylvania State Employees' Retirement System is one of the nation's oldest statewide retirement plans for public employees. We are proud to serve our members as they work to make Pennsylvania great. SERS manages the pension benefits of more than 239,000 members, representing 103 public sector employers. Last year, SERS paid about \$3.2 billion in benefits and managed approximately \$26.4 billion in assets.

## **MISSION**

The mission of SERS is to provide retirement benefits and services to our members through sound administration and prudent investments.

## **VISION**

SERS' vision is to navigate organizational, fiscal and legislative challenges so that SERS continues to progress toward fully-funded status while enhancing and sustaining effective and responsive member services.



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## **GUIDING PRINCIPLES**

### **Demonstrate Integrity**

- Commit to honesty, respect, professionalism and truth in every facet of behavior
- Act ethically

### **Develop and Empower Employees**

- Delegate meaningful responsibility, mentor others and foster employee growth and development
- Provide and seek constructive feedback and clear expectations to facilitate employee success
- Recognize performance
- Be accountable and hold others accountable

### **Focus on Customer Service**

- Provide accurate, complete and timely information
- Provide quality service at a reasonable cost
- Know and support our customers
- Educate members and employers as to their responsibilities

### **Fulfill Fiduciary Obligations**

- Act solely and exclusively in the interest of the membership
- Comply with the Retirement Code and other applicable laws, policies and procedures
- Exercise prudent governance over the activities of third party advisors and other entities acting as agents in whom we place our trust



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## **GUIDING PRINCIPLES**

### **Lead Innovation and Improvement**

- Pursue innovation and continuous improvement in quality, productivity and member services
- Identify operational issues and pursue desirable changes
- Monitor and assess service delivery through continuous communication and feedback channels
- Utilize qualitative and quantitative information to enhance operations wherever possible

### **Learn from Mistakes**

- Focus on solving problems, not on assigning blame
- Improve processes to prevent recurrence of problems and mistakes

### **Safeguard Information, Facilities, and Staff**

- Continuously assess information security
- Understand the importance of information and physical security
- Enforce information and physical security
- Respect the policies for system security, access and use
- Comply with internal controls

### **Share Knowledge**

- Securely utilize technology infrastructure to support knowledge sharing
- Share information with others to add value to business operations and processes
- Support and encourage collaboration among internal program areas
- Support and encourage collaboration with external stakeholders

### **Think Strategically**

- Envision future opportunities, from internal and external sources, that support SERS in its mission
- Keep abreast of changing trends, market opportunities and competitive threats
- Identify strategic responses to issues facing SERS and its membership



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## GOALS

### **Viability | Strategic Goal 1**

Ensure that the Fund remains viable so that it can honor its obligations to all current and future commonwealth retirees.

### **Stewardship | Strategic Goal 2**

Maintain efficient and effective control over funds and information entrusted to SERS.

### **Member Services | Strategic Goal 3**

Provide accurate, consistent and timely information, services and tools to help members to know what they need to know and do what they need to do.



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# VIABILITY

## Strategy

### Efficiently Manage Investment Assets

SERS will develop and implement an investment strategy that, first and foremost, ensures that adequate funds are available for benefit payments to our members. These efforts include managing a diverse asset portfolio in the most effective and efficient manner, using industry best practice, investment professionals and data to enable smart investment decision-making.

## Strategy

### Proper Accounting and Reporting

The Office of Finance and Administration provides proper accounting and reporting of SERS funds.

## Strategy

### Enhance Internal Controls

The Internal Audit division reports directly to the Board's Audit Committee and tests business processes and controls to confirm they are adequate and operating properly. It performs external on-site audits; coordinates independent and external audits on an annual basis; and performs special projects at the direction of SERS Board, Audit Committee and executive staff.

## Strategy

### Outreach and Transparency

The Office of Communications and Policy will monitor, deploy and enhance business operational activities to ensure the system is meeting the ongoing needs of its members and stakeholders.

## Strategy

### Address and Complete Annual Recurring Processes (Appendix 1)



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# STEWARDSHIP

## Strategy

### Investments

- SERS will pursue the highest quality investments at the most reasonable costs to meet portfolio return targets. SERS' efforts will be bolstered by its commitment to honesty and transparency as they relate to stakeholder communications, investment return information and business dealings. By employing these ideals, SERS will strive to be seen as an industry thought leader.
- SERS will provide a diversified menu of high quality investment options to meet the needs of participants in the 457 and 401(a) plans.

## Strategy

### Address and Meet External Authoritative Entities' Requirements

Governmental Accounting Standards Board (GASB 75):

The GASB issued statement number 75, Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB) in June of 2015, which establishes standards for recognizing and measuring liabilities and expenses for postemployment benefits other than pensions. This statement requires SERS to report liabilities and expenses on its financial statements and alter its footnote disclosures. The impact will mainly be related to the Pennsylvania Office of Administration's Retired Employees Health Program (REHP) and will be effective for the December 31, 2018, financial statements.



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# STEWARDSHIP

## Strategy

### Develop a Board Governance Manual

On April 27, 2016, SERS Board accepted a consultant-generated report with recommendations to enhance the board and agency's governance structure and policies. In addition, the audit conducted by the Auditor General also recommended that the board adopt a governance manual. SERS board with assistance from SERS staff, is in the process of implementing the appropriate recommendations as well as developing a comprehensive governance manual that provides a framework for the SERS board, its committees, duties, powers and responsibilities. SERS legal office will ensure compliance with state laws and regulations, as well as governance policy best practices.

## Strategy

### Implement Act 2017-5 related to Stewardship

- The Board will establish a SERS independent counsel office to include organization, function and complement.
- SERS will provide data/information as requested to the Public Pension Management and Asset Investment Review Commission and participate in hearings if required.

## Strategy

### Investment Data Warehouse

SERS has recently awarded the contract to a new vendor to maintain SERS historical investment data in a new investment data warehouse. Over the next year, SERS will be working with the new vendor and custodian to establish the new warehouse structure and feeds, and transfer historical investment transactions to the new database.



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# MEMBER SERVICES

## Strategy

### **Modernize the State Employees Retirement Information System (SERIS 2.0)**

SERIS is the core business application used for maintaining member account information, processing member retirements, etc. The system was built using Oracle technology, implemented in 1995 and has been upgraded over the years. The version of Oracle Forms used for SERIS will no longer be supported after December 31, 2018. In order for SERIS to be supported and remain a robust system, SERS needs to modernize it. This is a major initiative and will include Act 2017-5 requirements. SERIS 2.0 is slated to be implemented by December 2018.

## Strategy

### **Implement Act 2017-5 related to Member Services**

Establish two new Defined Benefit (DB)- Defined Contribution (DC) hybrid tiers and a straight DC option effective 1/1/2019, with a limited time option for current employees to elect into one of the new tiers.



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## Appendix 1 - Annual Recurring Processes

Process Name	Process Lead	Technical/Subject Matter Expert Support	Begins Approximately Month/Day	Ends Approximately Month/Day
SERS Portion of Annual Commonwealth GAAP CAFR	Office of Finance Administration (OFA)	OFA Legal - Responses to Letters of Audit Inquiry for GAAP CAFR and Single Audit)	July 1	July 31 Legal – March of following year)
Annual Budget Submission	OFA	OFA	July 1	September 30
1099-R Testing	Office of Member Services (OMS)	OMS	July 31	August 31
Agency Strategic Plan	Executive Office (EO)	All Program Areas	September 1	November 15
Act 44 Divestment Reimbursement Request and Letter to the Board	Investment Office (IO), OFA	IO, OFA	September 15	October 31
1099-R Production, Reconciliation, Testing, and Issuance	OMS	OMS, OFA, OIT, Communications & Policy Office (C&P)	October 1	January 31
Global Markets Entity Identifier (GMEI) Interim Compliant Identifiers (CICI) Registration	Legal Office (Legal)	Legal – Business Team	October 1	October 31
Annuitant Statement Production, Reconciliation, Testing, and Issuance	OMS	OMS, OFA, OIT, C&P	October 31	January 31
Committee of Sponsoring Organizations (COSO)/Internal Control Audit	Internal Audit	IO, OFA, OMS, OIT	November 1	April 30

See next page

## Appendix 1 - Annual Recurring Processes (continued)

Process Name	Process Lead	Technical/Subject Matter Expert Support	Begins Approximately Month/Day	Ends Approximately Month/Day
Active Member Statement Production, Reconciliation, Testing, and Issuance	OMS	OMS, OFA, OIT, C&P	November 2	March 31
Tax Qualification Cumulative List Review	Legal	Legal	December 1	December 31
Bi-Annual Regulatory Agenda (EO 1996-1)	Legal	OMS/EO	December 1 May 1	February 1 July 1
Independent Audit	Internal Audit	OFA, IO, (Legal - Responses to Letters of Audit Inquiry)	Late December	June 10
Annual Actuarial Valuation	OMS	Legal	January 1	June 30
Annual Actuarial Valuation of the Benefits Completion Plan	OMS	Legal	January 1	June 30
Annual Report of Benefits Litigation	Legal	Legal	January 1	January 31
Budget Hearing Supplemental Book	OFA	OFA, IO, OMS, Legal, EO, C&P	January 2	February 15
Comprehensive Annual Financial Report Issuance and DCP Financial Statement Issuance	OFA	OFA, IO, OMS, Legal, EO, C&P	January 20	June 20
Non-regulatory Catalog of Documents (EO 1996-1)	EO	All Bureaus and Directors/ Legal	May 1	June 15

Note: The Five Year Actuarial Investigation and Evaluation is a recurring process not listed here since it does not recur on an annual basis.

## Appendix 2 - Long-Term Asset Allocation Policy Targets

### SERS 2016 – 2017 Strategic Asset Allocation Policy

	Current Exposure 6/30/2017	2018 – 2019 Asset Allocation Policy	Policy Ranges
Private Equity	15%	16%	
Global Equity	51%	48%	
<b>Total Equity</b>	<b>66%</b>	<b>64%</b>	<b>+/-5%</b>
Real Estate	8%	12%	+/-3%
Multi-Strategy	6%	10%	+/-3%
Fixed Income	16%	11%	+/-3%
Cash	4%	3%	+/-3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	
Expected Return	7.27%	7.55%	
Risk (Standard Deviation)	13.86%	14.44%	
RVK Liquidity Metric	68	62	

Note: Pending approval at the December 6, 2017 board meeting.

# Annual Recurring Processes Chart

