



FY2015-16 Budget Hearing Recap Monday, March 23, 2015

Public School Employee's Retirement System (PSERS)/ State Employee's Retirement System (SERS)

Testifying: Terrill J. Sanchez, Deputy Executive Director (PSERS); Melva Vogler, Chairwoman of the Board of PSERS; James Grossman, Chief Investment Officer for PSERS; David Durbin, Executive Director (SERS); Glenn Becker, Chairman of the Board of SERS; Thomas Brier, Chief Investment Officer for SERS

For FY 2015-16, the Governor is proposing to move the PSERS state contribution from the General Fund to a restricted fund. The required contribution under Act 120 of 2010 would be \$1.75 billion.

The Governor is also proposing a \$3 billion bond to help lower PSERS unfunded liability. The debt service for the bond would be paid for by new revenue from liquor modernization and further backed by sales tax revenue. The bond is projected to reduce PSERS's unfunded liability by \$7.9 billion.

As of June 30, 2014 PSERS had an unfunded liability of \$35.1 billion. The testifiers stated this unfunded liability was the result of legislation that increased benefits, legislation that caused years of lower-than-required employer contributions, and the 2008 stock market crash.

The average pension benefit for PSERS is \$24,962 and the average beneficiary age is 70 years old.

The current unfunded liability for SERS is \$18.2 billion.

The average pension benefit for SERS is \$26,426 and the average beneficiary age is 68 years old.

The Governor has raised the issue of reducing expenditures on outside money managers and increasing the use of index funds to lower the cost of fees paid by the systems. Both PSERS and SERS routinely negotiate for the lowest possible fees with the best returns. Both systems are open to the conversation but stated that it is important that any proposal is examined thoroughly to ensure there will be no negative impact. PSERS for instance over the last 15

years earned net investment of an additional \$11.5 billion over and above what PSERS would have earned if the investment staff had just passively indexed the investment portfolio.

Department of Banking & Securities

Testifying: Acting Secretary Robin Weissmann

For FY 2015-16, the Governor is proposing \$33.18 million for the Department of Banking and Securities. This is an increase of \$1.85 million or 8.7%. The Department is funded out of the Banking Fund.

Members questioned the Acting Secretary about the proposed Bank Shares tax in the Governor's budget proposal. The Acting Secretary stated that there is concern about this from an industry perspective, but she could not speak further to the impact of the tax on the industry.

Cyber security is a top priority for the Department and they are working hard to make sure their systems are secure.

The Acting Secretary acknowledged that one of the unintended consequences of the federal Dodd-Frank Act was the burden it put on community banks. The Acting Secretary stated that a possible solution would be to exempt community banks with a certain threshold in total assets. This would have to be done at the federal level.