



**Testimony of State Treasurer Joseph M. Torsella
Fiscal Year 2019-2020 Executive Budget Proposal for Pennsylvania Treasury
House Appropriations Committee
February 13, 2019**

Chairman Saylor, Chairman Bradford, and Committee members, I appreciate the opportunity to appear before you to discuss the proposed appropriation for the Treasury Department. It is a privilege to be here, too, on behalf of the talented and dedicated employees of Treasury. We look forward to working with you in taking on the challenge of developing this year's budget and collectively seeking ways to improve the long-term financial health and stability of Pennsylvania.

As an independent office, the Treasury's role is to provide stewardship of Commonwealth assets and to help increase the economic security and prosperity of both the Commonwealth and its citizens. This mission has been especially critical in recent years, as the Commonwealth has faced serious and recurring fiscal challenges.

Treasury is responsible for paying the Commonwealth's bills, as well as safeguarding and in some cases investing Commonwealth funds that total more than \$115 billion. Treasury staffs the Board of Finance and Revenue and has seats on the boards of the two state pension systems, along with 12 other boards.

I want to convey my commitment to be a partner in seeking real solutions far beyond adoption of the Commonwealth's new budget, and to building our common wealth and financial strength.

As Treasurer, everything I do supports one of three goals:

1. To operate Treasury at the highest levels of integrity, ethics, transparency and accountability;
2. To be a responsible steward of the taxpayers' money, creating savings and efficiencies whenever possible; and
3. To empower Pennsylvanians to earn, save and invest their own money to build their own financial security.

Integrity, Ethics, Transparency and Accountability

- Treasury continued to enforce ethical policies put in place on my first day in office: the ban on middleman fees and the first-ever code of conduct on investment activities. The ban on middleman fees prohibits investment contracts that include third-party agreements that pay a middleman finder's fee as a reward for acquiring Treasury investment contracts. The code of conduct identifies and prohibits actual and perceived conflicts of interest for Treasury investment staff and other personnel.
- Over the past two years, updates to the Treasury Transparency Portal have optimized the user-experience and increased capabilities, giving taxpayers expanded access. Now in its fifth phase of ongoing improvements, the Transparency Portal features a redesign that displays a dashboard of new graphics to evaluate the trend lines for the General Fund balance and the General Obligation bond for the past 10 years. Users can also view the historical cash balances for every fund and compare that data for the past three fiscal years, and view the expenditures for every department, fund, and appropriation, and generate and export this data in multiple formats. The portal now provides the budgetary status for the General Fund along with collected revenue data. We anticipate future improvements to the Transparency Portal to include the optimization of the Contracts e-Library, where state agencies are required to upload all third-party contracts exceeding \$5,000 under Pennsylvania's Right-to-Know law.
- Treasury appointed its first-ever Chief Integrity Officer to concentrate on policies and procedures that are rooted in integrity, transparency, and ensuring compliance with the Department's commitment to ethical conduct. All Treasury employees attended a mandatory ethics training, taught by the Chief Integrity Officer.

Public Pension Management and Asset Investment Review Commission

- As a result of Act 5 of 2017, the Public Pension Management and Asset Investment Review Commission (PPMAIRC) was established to conduct a comprehensive review of PSERS and SERS investment management and report findings and recommendations for improvement. The PPMAIRC was charged with identifying \$1.5 billion in savings opportunities at each of the two systems, for a total of \$3 billion in savings over the next 30 years.
- Alongside Representative Mike Tobash, Chair, I was honored to serve as Vice Chair of the PPMAIRC, which identified nearly \$10 billion in savings opportunities over the next 30 years and recommended meaningful reforms that will improve transparency, efficiency and performance at Pennsylvania's two largest public pension systems.

Fiscal Efficiency

- During the last fiscal year, Treasury processed 19.7 million payments worth more than \$102 billion. Importantly, Treasury's pre-audit review prevented \$72.2 million in erroneous payments.
- Treasury's Bureau of Unemployment Compensation Disbursements processed 7.4 million payments totaling over \$2 billion in benefits. These payments included \$1.7 billion in unemployment payments, \$95 million in Supplemental Social Security payments and almost

\$199 million in State Workers' Insurance Fund payments, helping hundreds of thousands of families.

- Treasury is continuing to successfully implement the transfer of investment management of three special insurance funds (Workers' Compensation Security Fund, Underground Storage Tank Indemnification Fund and State Workers' Insurance Fund) into Treasury, providing annual savings of approximately \$4.4 million across all of the funds.

Economic Security and Investing for Our Future

The Pennsylvania Treasury is responsible for managing the Commonwealth's financial assets. Today, we are the custodian of more than \$115 billion, and we are the sole fiduciary for \$24.4 billion in investments.

- The Commonwealth continues to prudently grow its investments, as we navigate the challenges of volatile financial markets performance and a low interest rate environment. Over the past five fiscal years, the four primary "pools" managed at Treasury—Long-term Investment Pool 198, Short-term Investment Pool 99, the Tuition Account Program, and Other-Post Employment Benefits—have gained more than \$1.9 billion.

INDEXING INVESTMENT STRATEGY

- In May of 2018, Treasury announced the expansion of the Department's indexing investment strategy to include the publicly-traded fixed income portfolio. More than \$2.9 billion in fixed-income investment holdings were transitioned from active managers to lower-cost indexing strategies that will result in an estimated savings of \$3.78 million annually paid in fees, and almost \$110 million in additional savings when compounded at 3.5% over 20 years.
- Combined with the Department's earlier transition in 2017 of public equity investment holdings, the Department will save nearly \$9 million per year in fees, totaling approximately \$300 million when compounded over 20 years.

FEE TRANSPARENCY

- Treasury set a new standard for investment fee transparency by mandating the disclosure of all fees paid by the Department for the management of Commonwealth assets, whether paid directly or indirectly. Treasury now discloses carried interest, sub-manager, and base management fees, joining leading investment funds around the country who understand that fee transparency serves the interests of investors—in our case, the taxpayers of Pennsylvania.

PA 529 COLLEGE AND CAREER SAVINGS PROGRAM FEE REDUCTION

- Treasury reduced the asset-based fees that PA 529 Investment Plan (IP) account owners pay by 10.5 basis points, a nearly 1/3rd reduction from their current level. PA 529 IP fees now range from 0.23-0.33 percent, depending upon the investment option selected, a 24.4 – 31.8 percent reduction from current levels. Over the life of the five-year contract Treasury projects that savings will be approximately \$17.5 million for Pennsylvania families.

- Treasury reduced the asset-based fees by four basis points for PA 529 Guaranteed Savings Plan account owners that receive account documents through the mail and by five basis points for those who have established electronic delivery, a reduction of 9% and 14%, respectively. Over the life of the five-year contract, Treasury projects that savings will be approximately \$3.6 million for Pennsylvania families.

Consumer Programs

PA ABLE SAVINGS PROGRAM

- Since the PA ABLE Savings Program was launched in April of 2017, Treasury has helped almost 2,000 families open ABLE accounts and contribute over \$11 million to save for qualified, disability-related expenses.
- Modeled after 529 college savings accounts, PA ABLE provides tax-advantaged savings accounts for individuals with qualified disabilities and their families. ABLE savings accounts are excluded from eligibility determinations for Supplemental Security Income (SSI) benefits (savings up to \$100,000), Medical Assistance, and other federal and state means-tested disability and health benefits programs on which individuals with disabilities often depend.
- Before the PA ABLE Savings Program, Pennsylvanians with disabilities were unable to save for a secure financial future without putting their necessary assistance at risk.
- The PA ABLE Savings Program is the fastest-growing program in the National ABLE Alliance.

KEYSTONE SCHOLARS

- Keystone Scholars provides a \$100 529 account opening deposit to every child born or adopted in Pennsylvania to use for future postsecondary education expenses, whether career education or four-year college, without using any taxpayer dollars.
- Research shows that children with a college savings account at birth are three times more likely to go on to pursue postsecondary education and four times more likely to graduate, which for one of the 140,000 Pennsylvania children born every year could mean up to a million dollars more in lifetime income.
- With bipartisan support, Keystone Scholars launched a demonstration project in six Pennsylvania counties in 2018—Delaware, Elk, Indiana, Luzerne, Mifflin and Westmoreland—and received legislative approval for statewide implementation and was signed into law by Governor Wolf. The statewide Keystone Scholars program opened on January 1, 2019.

COLLEGE AND CAREER SAVINGS PROGRAM

- In calendar year 2018, Treasury helped families contribute over \$585.4 million into their Pennsylvania 529 College and Career Savings Program accounts and opened over 21,000 new accounts, marking the highest year on record for annual contributions in the history of the program.

- Importantly, the actuarial status of the Guaranteed Savings Plan remained positive in the past year and as of December 31, the plan was 116 percent funded with an actuarial reserve of \$270.1 million.
- Overall, the program ended 2018 with \$4.6 billion in assets. Of this total, \$1.9 billion was in the Guaranteed Savings Plan and \$2.7 billion was in the Investment Plan.
- This continues the impressive turnaround from where the Fund was eight years ago when it was at its low, at only 70.36% funded and with an actuarial deficit of approximately \$400 million in March 2009.

RETIREMENT SECURITY

- During calendar year 2018, Treasury concluded its statewide hearings before the Treasury Task Force for Private Sector Retirement Security.
- The Treasury Task Force for Private Sector Retirement Security convened public informational hearings across the Commonwealth to examine the scope and urgency of the retirement savings crisis in Pennsylvania. In Pennsylvania, there are more than 2 million working people without access to a workplace-sponsored retirement savings plan. Research shows that the Commonwealth will spend an additional \$14.3 billion in state assistance costs due to insufficient savings by 2030, absent a commonsense solution.
- After hearing from experts, business owners, and officials in other states, Treasury is working with stakeholders and legislative leaders to develop such a commonsense solution and to propose new options for helping Pennsylvanians save for a secure retirement, while bolstering the success of small and mid-sized businesses.

UNCLAIMED PROPERTY

- Our Bureau of Unclaimed Property has contributed more than \$1.8 billion in net revenue to the General Fund since January 2009. Treasury has returned approximately \$1.4 billion to its rightful owners since 2009, including families, businesses and community nonprofits.
- In calendar year 2018, Treasury dedicated resources towards reuniting veterans and their families with military decorations that made their way to Treasury's vault as unclaimed property. By dedicating more personnel time and launching an online searchable database, Treasury has reunited 120 war decorations with their rightful owners, including six Purple Hearts and two Bronze Stars. This is an important initiative that we will continue to grow.

In the next two years, we look forward to growing these important initiatives as well as promoting programs in other areas. We are committed to maintaining the high level of service we currently provide to the Commonwealth's citizens and agencies and look forward to reaching beyond our current services into new areas.

Personnel and Staffing

One of our greatest challenges will be maintaining adequate personnel to carry out our core functions. Treasury's complement will remain at 322 employees in general government operations, down from 470

employees as of January 1, 2007. We are proud of what we have been able to accomplish, despite the decline in the number of employees working within our Department, and we will continue to be an entrepreneurial Department that strives for continuous improvements in how we do business.

While we have been able to absorb these losses, it is clear that any further personnel reductions will threaten our ability to fulfill our core duties. Additional reductions in staffing will jeopardize functions such as managing the Commonwealth's cash balances, pre-auditing of expenditures, accurate execution and settlement of transactions, and collecting and returning unclaimed property to our residents.

Conclusion

In summary, we will strive to operate at the highest levels of transparency and accountability, to save the taxpayers as much as we can, and to implement programs that empower the Commonwealth and its citizens economically. I am proud of Treasury's accomplishments on behalf of the Commonwealth's citizens, even with a serious decline in its workforce.

I am grateful for the trust that Pennsylvanians have placed in me to work with the dedicated professionals at Treasury to discharge our many vital functions for the benefit of the Commonwealth.

I pledge to work closely and constructively with the General Assembly and the Governor to find solutions that allow Pennsylvania's government to continue to serve our citizens as we face budget challenges. I will work to ensure that Treasury embodies the values of integrity, transparency, accountability and good stewardship of our tax dollars every day.

I hope the Commonwealth will continue to value the high level of service Treasury provides to our citizens and will work with us to address our funding needs to prevent any interruptions to that service.

Chairmen Saylor and Bradford, Committee members, thank you for this opportunity to present our work at Treasury. I look forward to finding ways we can work together for the Commonwealth and citizens in the months and years to come.

Thank you for your support.