

Steve, my bosses have asked me to research the impact, such as it was, of past treasurer Joe Torsella on PSERS. He came into office calling for greater transparency and more efficient investment (who doesn't?). He supported and served as vice chair of the pension *reform* commission per the law signed by Gov. Wolf. He voted against a long series of PSERS investments, and was sometimes joined in opposition by members of diverse background, though seldom by members' or annuitants' reps.

PSERS has recently and over the past four years increased disclosure of investment manager compensation including "shared profits", travel expenses, and other items. It has started livestreaming board meetings. It has made changes in investment policy. Was treasurer Torsella a factor in each or any of these, or would they have happened anyway?

I remember and noted a number of statements thanking the past board chairman when she stood down, and legislative members when they went off the board. I transcribed comments from CIO Grossman at a legislative hearing where he was fairly scathing on the subject of the pension reform commission, its composition, methods and conclusions (if you have an official transcript I'd like to review yours.) Anything he'd like to say in summary and at this distance about that episode? Which of the commission's conclusions ultimately adopted?

I've heard testimonials for a few departing trustees over the years, but I don't remember hearing much by other trustees about Torsella at the last meeting where he was represented; I didn't hear the whole meeting. Did Chairman Santa Maria or anyone else make a statement thanking (or for that matter repudiating) Torsella or summarizing his efforts and any achievements?

I don't need this today, Monday during business hours would be fine. Thanks, Joe D.

The responses to your questions are attributed to Steve Esack, PSERS spokesman, solely on behalf of PSERS administration. Nothing in this response can be or should be attributed to PSERS Board of Trustees or any individual trustees.

On your celebration/recognition question

PSERS historically has recognized trustees and long-time employees with a sheet cake, inexpensive meal, resolution, or small token of appreciation when they leave the board and agency. Those celebratory events are more easily done during a public meeting when all attendees are face-to-face as was done when Mel Vogler, our longest serving trustee, said she preferred to relinquish her role as board chairwoman in early 2020.

Such recognitions are more difficult when meetings are held virtually during a pandemic. At the Dec. 3, 2020, virtual public meeting Executive Director Glen Grell and Board Chairman Christopher Santamaria publicly thanked Joe Torsella for his service to the board and retiring Assistant Executive Director Joe Wasiak for his service to the agency. In his comments, Mr. Grell said he'd be sending Mr. Torsella a small wood carving of the PSERS building, a token often presented to officials. Mr. Torsella was not present to hear those words because he had a designee sitting in at the time. Similar virtual comments were extended when state Sen. John Blake, D-Lackawanna, stepped down last year.

On your streaming question

The pandemic caused PSERS to stream its meetings virtually. Prior to the pandemic, there was no Board consensus to begin streaming meetings due to the additional technology needs and expense. To date, the public/media attendance at our virtual meetings is rather sparse, confirming that the Act 5 virtual meetings “transparency” recommendation has not led to a spike in public participation in our meetings. We will keep the virtual meeting formats when the pandemic subsides, as we now have the additional technology and vendors in place.

Your questions about Mr. Torsella’s interactions with PSERS

On balance, PSERS is a better organization today as a result of Joe Torsella’s time on the board during his four years as state treasurer.

- Mr. Torsella was the first treasurer who took an interest in helping PSERS address our long-time concerns with the Commonwealth’s custodian bank. Mr. Torsella’s administration helped negotiate the first ever service level agreement with the custodian bank.
- Mr. Torsella often challenged the administration and Board to consider different investment and governance views and objectives, leading to robust discussions, debates that led to better understanding of issues and better informed decisions.
- Mr. Torsella often suggested new ways management could improve its public investment reports and presentations to offer more clarity, understanding and transparency. Several of his suggestions have been implemented.
- Mr. Torsella was the driving force behind the adoption of PSERS’ Investment Transparency Policy in December 2019 and the ongoing development of a travel policy.
- Mr. Torsella advocated for the Board to issue a public RFP for PSERS to hire its first independent fiduciary counsel. The Board did so, and both management and the Board could not be happier with the legal advice we are receiving from a world-class firm, Cohen Milstein.

However, as with any healthy democratic institution, there were some disagreements between Mr. Torsella and management or other Board members. Sometimes when Mr. Torsella’s views on investments and governance were in the minority he became intractable, causing him to vote against his own previously negotiated resolutions or refusing to believe management’s data or the data presented by the Board’s own consultants causing feelings of mistrust. Other times, other trustees, particularly Board Chair Christopher SantaMaria and Board Vice Chair Rep. Frank Ryan and Nathan Mains, stepped in and brokered compromises that were suitable to Mr. Torsella and workable for staff. Regardless, those episodic debates and compromises made PSERS a better organization in the long run.

On your investments questions/comments

As you noted, Mr. Torsella often voted in the negative against private markets investments, or submitted recusals or abstentions. I can only assume Mr. Torsella voted his convictions. Mr. Torsella came into office with a publicly stated dislike for private equity investments, a belief that investment costs were too high, and that PSERS should merge some investment operations with the State Employees Retirement System as you can see from a April 13, 2017 letter he sent to the PSERS Board as



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one of his first acts as treasurer. (A copy of his letter is attached here:);

The letter's fee cap proposal was opposed by PSERS management because it would have impeded our ability to invest for the fiduciary benefit of members. Management also decided it was not politically wise for PSERS to implement its own new policies while the General Assembly was in the throes of negotiating a major pension bill. That bill became Act 5 of 2017 on June 12, 2017. It did not include fee caps and it had its own language concerning another aspect of Mr. Torsella's letter, supplemental retirement benefit plans independently offered by school districts and not administered by PSERS.

Despite management's initial misgivings, PSERS staff worked with Mr. Torsella and the rest of the Board to write and eventually adopt resolutions that addressed the three main concepts outlined in his April 13, 2017, letter. Mr. Torsella's letter was helpful in that it foreshadowed some of the concepts and complexity we would face with implementing Act 5.

On Dec. 8, 2017, the Board adopted three resolutions:

- Resolution [2017-41](#) requiring the Investment Office to present a three-year plan in summer 2018 to reduce management fees and change how the system reports base fees and profit sharing expenses.
- Resolution 2017-42 required PSERS administration to work with the State Employees Retirement System on ways to merge the two systems together.
- Resolution 2017-43 required the administration to study whether the system could implement a new retirement program for 403(b) plans.

As can be expected, not all resolutions led to unanimous or fruitful conclusions.

- In August 2018, Mr. Torsella apparently changed his mind about the need for PSERS to do its own fee reduction plan he initiated. He unexpectedly urged the Board not to accept the fee savings plan because he was co-chairing the Act 5 Commission. The Board approved the fee reduction proposal, which was written to allow further changes and incorporate future recommendations from the Commission. Although Mr. Torsella voted against his own Board resolution, he deserves credit for management's ongoing implementation of that resolution, including our profit share reports, which have matured from aggregate total lists for private markets assets to manager-by-manager lists. (According to the Wall Street Journal, PSERS is now one of the few pension funds to publish profit share reports by manager.)
- PSERS met several times with their SERS counterparts in 2018 and 2019, and both systems hired the same consulting firm, McKinsey & Co., to help with the best merger concepts that would allow the systems to maintain their fiduciary duties free of political influence. (PSERS contract cost \$250,000; I am not sure how much SERS spent.) The consultant's report allowed PSERS management to better understand the complexity of merging PSERS and SERS investments operations in an apolitical professional manner as some Canadian pension funds had done successfully.
- Finally, management surveyed school employers and wrote a report detailing the robust private financial industry that already exists for school employees' 403(b) and 457 plans. The Board did not ask for further work on this issue.

[On your Act 5 comment/question](#)

PSERS administration strives to be an apolitical resource for policymakers. On occasions PSERS administration must enter Harrisburg's political fray to present testimony and respond to questions on behalf of the system. Mr. Grell and other PSERS administrators did express disappointment on multiple occasions in recent years in relation to the way we believe the Act 5 Pension Review Commission was politicized from the outset.

Management's three main concerns were:

- The enabling legislation charged the Joint State Government Commission with conducting the study, but their role was minimal.
- The enabling legislation called for an independent expert panel, but the panelists ended up being mostly elected or appointed officials.
- Public records showed Treasury not only paid for all contract costs but selected the consultants and managed the reports and data presented from the consultants – and the final report ended up with some of the same conclusions Mr. Torsella initially outlined in his April 13, 2017 letter.

Mr. Grell voiced some concerns at his [Oct. 25, 2018](#), testimony about the some commission panelists' claims PSERS was "hiding fees" even though PSERS was in the midst of producing a fee report per PSERS Resolution 2017-41 and there is no government accounting standard for how pension funds report profit share expenses.

Under questioning from legislators at PSERS' [March 5, 2019, testimony](#) House Appropriations Committee hearing, Mr. Grell reported how the commission's consultant only spent three hours with PSERS staff and did not accept our requests for more time over the 14-month time period the Commission was operating. Mr. Grell called the report's recommendation to create a new PAID oversight pension board of politically appointees "one of the worst ideas I've heard of in Harrisburg."

Finally, PSERS administration never allowed our concerns over the politics of the Commission to interfere with its legal duties to implement other requirements of Act 5. PSERS administration successfully implemented the new retirement plan structure for new members.

Upon receipt of the report, PSERS administration conducted a professional review of the 300+-page commission report and accompanying addendums. The staff prepared a comprehensive spreadsheet with all the recommendations and reviewed them with the Board. PSERS Board formed an ad-hoc transparency committee that examined the report's transparency recommendations in detail. This led to the passage of a transparency policy in 2019 where many Commission recommendations were included: https://www.media.pa.gov/pages/Public-School-Employees-Retirement-System_details.aspx?newsid=82

Mr. Grell also worked closely with Rep. Ryan to pass legislation that would address key recommendations of the Commission report yet be workable for the system. That was accomplished when the governor signed into law House Bill 1962, which included provisions on stress testing, solvency analysis, Trustee education, board structure and governance, etc.

[On your travel question/comment](#)

Over the past year, PSERS administration and Board of Trustee have been in the process of writing and passing a travel policy following an ongoing extensive internal review of PSERS travel records and costs

from 2017-2020. This review to date has found no improper behavior or costs on the part of PSERS or managers.

As you correctly pointed out, Mr. Torsella asked the board to adopt a new travel policy that would be in addition to the Commonwealth travel policies and internal PSERS travel policies the agency already uses.

However, Rep. Ryan and Mr. SantaMaria deserve praise for brokering a compromise that allowed the board to pass a travel policy resolution that requires the staff to draft the policy for ongoing Board consideration. The policy, still in the drafting phase, initially could have been rejected because of opposition to Mr. Torsella's plan to ban all contractual reimbursement of travel costs, which would have increased costs to the system and made PSERS an outlier in how it negotiates private markets contracts and conducts ongoing monitoring of investments.

Mr. SantaMaria proposed amended travel approval language a majority of the board accepted. Rep. Ryan proposed and a majority of trustees accepted policy language that reads, "Where appropriate, the System shall seek to minimize any costs from potential "double-billing" for travel and shall report to the Board within ninety (90) days on mechanisms for doing so."

PSERS declines further comment.