



**PennState**

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**Board of Trustees**

**THE PENNSYLVANIA STATE UNIVERSITY  
BOARD OF TRUSTEES  
PUBLIC MEETING – MARCH 19, 2020  
11:00 a.m.  
Telephonic**

**Public Session**

1. Call to Order
2. Authorization to negotiate a Funding Agreement with State Employees' Retirement System and to incur related indebtedness

# SERS Pre-funding Debt Resolution

March 2020



# SERS Unfunded Actuarial Liability (UAL)

- Updated estimate of December 31, 2019 UAL at SERS plan level – \$23.405 billion (B)
- PSU estimated percentage of total group – 5.9%
- PSU allocated share of UAL – \$1.381B
- PSU is considering pre-funding the liability at 75% – currently estimated at a payment range of \$1.036B to \$1.061B
- SERS will provide an audited liability in April 2020 and has advised that a “reduced risk target” in the payment range of \$1.101B to \$1.127B would provide a reasonable cushion for planning purposes

# What is Penn State buying from SERS?

- SERS will provide a 30-year schedule of credits which will reduce (or setoff) PSU's contribution requirement for a predetermined amount to cover 75% to 100% of the currently in place unfunded actuarial liability amortizations.
- Funding at 75% is an estimated payment between \$1.036 billion (B) and \$1.127B (pending final valuation results).
- At the end of the 30 years, no further "setoff" is provided.
- PSU is NOT getting a reduction in future risk. Actuarial gains/losses and aggregate investment performance are still shared among all employers.
- PSU expects a reduction in total pension contributions by substituting interest payments currently estimated at 3.25% on a liability valued at 7.125%.
- Estimated present value savings of \$435M using a discount rate of 3.25% with a \$1.061B loan; provided by Aon.

# SERS/PSU Pre-Funding Strategy = 75% of UAL

- Pre-funding secures 30-year schedule of applicable “credits”
- Debt service for 30-year bond at 3.25%
  - \$55.9M on \$1.061B of bonds
  - \$58.0M on \$1.101B of bonds
  - \$59.4M on \$1.127B of bonds
- Estimated available annual funding from LTIP beginning FY 2020-21 is \$55.6M
- Anticipated net annual budget savings at \$1.061B pre-funding level
  - Total University budget – \$57.3M
  - E&G budget – \$39.0M

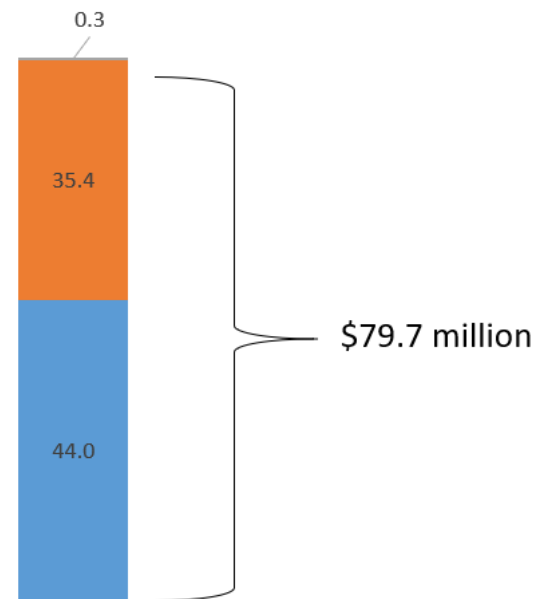
# SERS Expense FY 2021 (\$1.061B Scenario)

(amounts in \$ millions)

**After applying \$93.0 million credit:**

Net amount due to SERS – FY 2021	\$44.0
Add: Amortization of pre-funding credit	\$35.4
<u>Add: Fund shortfall for debt service</u>	<u>\$0.3</u>
<b>Estimated PSU expense after pre-funding</b>	<b><u>\$79.7</u></b>

Represents an expense savings of \$57.3 million in FY2021



# Risks of Pre-funding Strategy

- PSU as a **debtor** issuing bonds to make special SERS contribution
  - Impact on debt capacity
- PSU as **securities holder** of SERS contract
  - Adverse legislative and legal actions
- PSU as a **participating employer** in SERS
  - Net SERS contribution will be smaller but highly variable
  - Slight risk that SERS contribution drops permanently below the “Setoff”
- **SERS risk as a debtor** to PSU
  - Sustainability of guaranteed 7.125%
- **SERS risk as a pension plan**
  - Market timing risk of special contribution (bear market reduces this risk)

# Pre-Funding Strategy – Next Steps

- April 2020 – PSU to work with Barclays to secure a short-term loan to cover the pre-funding payment pending the issuance of taxable bonds
- April 2020 – Anticipated SERS Board approval of final pre-funding agreement and pre-funding payment amount
- May 2020 – PSU to pay pre-funding amount to SERS no later than May 1, 2020
- June 2020 – PSU to issue taxable bonds and replace short-term loan



# Resolution

THEREFORE, BE IT RESOLVED, that officers of the University are hereby authorized to negotiate a funding agreement with SERS pursuant to Act 105; which shall be subject to final approval by the Board of Trustees at a later meeting; and

FURTHER RESOLVED, that the total authorized Obligations is increased from \$2.012 billion to an amount not to exceed \$3.139 billion, with the allocation of such increase (in an amount not to exceed \$1.127 billion) to fund a one-time advance contribution to SERS; and

FURTHER RESOLVED, that the University is authorized to enter into a loan agreement or other similar agreement with Barclays Bank PLC to borrow an amount not to exceed \$1.127 billion (the "Loan Amount") to fund its one-time advance contribution to SERS upon such terms and secured by such assets of the University as any officer of the University may determine and the University is authorized to issue or incur Obligations (as defined in the 2017 Resolution) to repay Barclays Bank PLC for such Loan Amount; and

# Resolution (continued)

FURTHER RESOLVED, that except as amended by the 2019 Resolution and as amended hereby, the 2017 Resolution remains in effect; and

FURTHER RESOLVED, that the officers of the University are hereby authorized and directed to execute and deliver such other agreements and documents and to take such other action as may be necessary or appropriate in order to effectuate the foregoing resolutions.