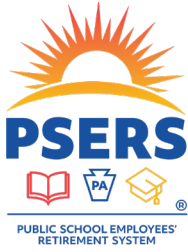


Governance Manual of the Public School Employees' Retirement Board

TAB 1

Introduction and Governing Laws



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INTRODUCTION AND GOVERNING LAWS

Introduction

The Governance Manual of the Public School Employees' Retirement Board (Board) is a collection of the bylaws, charters, position descriptions, and policies governing the functions of the Board. The contents of this Manual provide guidance regarding the proper conduct of members of the Board and its committees in performing their responsibilities to ensure that they are functioning in an effective and efficient manner and in accordance with applicable law.

Board Responsibilities and Composition

The Pennsylvania Public School Employees' Retirement System (PSERS) is one of the oldest pension plans in the United States. Established in 1917 PSERS began operations in 1919 to serve the public school employees of the Commonwealth of Pennsylvania (Commonwealth). PSERS is a governmental, cost-sharing, multiple-employer pension plan to which public school employers, the Commonwealth, and public school employees contribute. PSERS was created by statute through the Public School Employees' Retirement Code (Retirement Code) as a traditional defined benefit plan and a qualified trust under Section 401(a) of the Internal Revenue Service Code (DB Plan; Fund). Upon the passage of Act 5 of 2017, effective July 1, 2019, PSERS was expanded to include the School Employees' Defined Contribution Plan, a separate qualified 401(a) Defined Contribution Plan (DC Plan; Trust).

The Board is established by state law as an independent administrative board of the Commonwealth responsible for the administration and oversight of the PSERS plans. The Board's 15 trustees stand in a fiduciary relationship to its members by exercising exclusive control and management of the DB Plan, including the investment of its assets, and the DC Plan within applicable state and federal laws. The Board members are:

- 4 ex-officio members (State Treasurer, Secretary of Education, Secretary of Banking & Securities, Executive Director of Pa. School Boards Association)
- 1 member appointed by the Governor
- 1 member elected by school boards members
- 5 members elected by the members of the System (1 annuitant member, 4 active members)
- 2 appointed House members, one from the majority and one from the minority
- 2 appointed Senators, one from the majority and one from the minority

The Board is responsible for oversight of the investments and benefit administration of the DB Plan and selects the investment options and oversees the contracted third-party administrator of the DC Plan. In addition to retirement benefits, the Board administers a Premium Assistance Program and a PSERS Health Options Program.

Governing Statutes and Regulations

The Board, as well as the funds and programs it administers, were created, and are governed by state statutes. The primary statutes and codes that govern the Board's responsibilities include the following:

- Pennsylvania Constitution
- Public School Employees' Retirement Code, 24 Pa.C.S. § 8101, et seq.
- Administrative Code of 1929, 71 P.S. § 51, et seq.
- Commonwealth Procurement Code, 62 Pa.C.S. § 101, et seq.
- Charter School Law, 24 P.S. § 17-1701-A, et seq.
- Public School Code of 1949, 24 P.S. § 1-101, et seq.
- Public Employee Pension Forfeiture Act, 43 P.S. § 1311, et seq.
- Commonwealth Attorneys Act, 71 P.S. § 732-102, et seq.
- Sovereign Immunity Act, 42 Pa.C.S. §§ 8521- 8527
- Employee Retirement Income Security Act (ERISA), 29 U.S.C.S. § 1001, et seq.
- Probate, Estates, and Fiduciaries Code, 20 Pa.C.S. § 101, et seq.
- Pennsylvania Sunshine Law, 65 P.S. § 261, et seq.
- Pennsylvania Right-to-Know Law, 65 Pa.C.S. §§ 67.101-67.3104
- Internal Revenue Code, 26 U.S.C.S. § 1, et seq.
- Public Official and Employee Ethics Act, 65 Pa.C.S. § 1101, et seq.

Fiduciary Responsibilities

As trustees, members of the Board have fiduciary responsibilities. These fiduciary duties establish standards of conduct that are generally stricter than those observed by other public officials or directors of corporations. The primary fiduciary responsibilities are imposed on Board members and other PSERS fiduciaries by 24 Pa. C.S. §§ 8401 and 8521(e), and include:

Duty of Loyalty

PSERS fiduciaries are subject to the exclusive benefit standard, which requires them to act solely in the interests of the plan's participants and beneficiaries, and for the exclusive purpose of providing benefits to participants and beneficiaries.

Duty of Care

In exercising their fiduciary responsibilities, PSERS fiduciaries are governed by the "prudent fiduciary rule" and each must perform these responsibilities "with the degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence, who are familiar with such matters, exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the funds, considering the probable income to be derived therefrom as well as the probable safety of their capital."

Common Law Fiduciary Duties

In addition to the above statutory and code provisions, trust law sets forth fiduciary duties and contain the following principles:

- **Duty to Diversify:** Trustees must diversify investments so as to minimize the risk of loss, unless under the circumstances it is clearly not prudent to do so.
- **Duty to Delegate:** Trustees may delegate functions that a prudent trustee would delegate under the circumstances, provided that they exercise reasonable care in selecting, instructing and monitoring the delegated agents.
- **Duty to Control Costs:** Trustees may incur costs that are appropriate and reasonable to prudently accomplish the purposes of the trust.
- **Duty of Impartiality:** Trustees must discharge their duties impartially, taking into account any differing interests of various participants and beneficiaries.
- **Duty of Good Faith:** Trustees must exercise their responsibilities in accordance with a good-faith interpretation of applicable law and governing documents.

Construction

The headings and captions in this Governance Manual are for convenience and ease in navigating the governing documents of the Board and shall not be construed or deemed to explain, modify, amplify, or aid in the interpretation, construction, or meaning of the documents.