



## **Written Testimony of Timothy A. Reese**

### **Chief Executive Officer, Pennsylvania Municipal Retirement System**

#### **Pennsylvania Senate State Government Committee Hearing on HB 2447, a bill requiring Pennsylvania's public pension funds divest from certain Russian and Belarusian assets.**

Chairman Argall and Members of the Committee, thank you for the opportunity to testify on HB 2447 which would require Pennsylvania's public pension funds including the Pennsylvania Municipal Retirement System to divest all direct and indirect investment holdings and alternative investments of companies that are sanctioned Russian and Belarusian companies.

Established in 1974, PMRS is an independent state agency based in Harrisburg. We help local government organizations throughout the commonwealth secure the future retirement of their employees by providing comprehensive, cost-efficient, pension administration services, and plans.

PMRS is governed by an 11-member board of trustees who are responsible for the organization and administration of the pension system, offering oversight for the system's investments. As a former state treasurer, entrepreneur and executive at finance and technology companies, I became CEO about 18 months ago when the board asked me to lead the modernization of the agency's operations.

As the largest single administrator of Pennsylvania local government plans, PMRS administers nearly 1100 pension plans and serves approximately 17,000 active and retired members. We offer pension plans tailored to meet the specific needs of employers and their employees. Our members include police officers and fireman, non-uniform employees and librarians, utility and road crew workers, and union and non-union employees.

The utmost priority of the PMRS board and staff is to protect and grow the retirement assets of our members -- all of whom go to work every day to serve the citizens and communities across the commonwealth.



To accomplish this, we invest the retirement contributions of members and employers in a diverse mix of investments that include stocks, corporate and governmental bonds, and real estate. We place great emphasis on the quality of investments, consistency of return, and adding value to the municipal plan assets while placing them at minimum risk.

PMRS' financial standing is extremely strong. At the end of the first quarter of this year our plan assets total more than \$3.3 billion. As of our most recent actuarial valuation, PMRS is 106 percent funded which places PMRS among the few public pensions in the nation whose assets are greater than their actuarial liabilities.

Because we have the benefit of being fully funded, we are not compelled to chase returns that are typically associated with riskier investments. As a result, I have worked with our board and investment team to derisk our investments and protect our portfolio from downturns. This strategy has included moving into more passively managed investments and reducing our exposure to high growth and international equities.

Over the course of this initiative, PMRS has reallocated more than 40 percent of our portfolio to reduce our exposure to risk, increase asset diversification, and save an estimated \$4.5 million annually in management expenses.

This has been a timely undertaking given the considerable volatility in equity markets, rising inflation, continuing risks related to the pandemic, and, of course, the invasion of Ukraine.

As part of this strategy, we had already reduced exposure to emerging markets including Russia. At the time of the invasion, PMRS had no direct investments in Russia or Belarus and our total investment through mutual funds was approximately \$1.6 million -- less than one half of one percent of our entire portfolio.

Still, in March the PMRS board passed a resolution to divest these relatively small remaining holdings as soon as financially prudent and to forgo future investments in these countries.



Because of these actions, the impact of HR2447 would have little to no impact on PMRS operations or financial performance.

While reimbursement of any costs and investment losses associated with complying is included in the legislation, for PMRS these costs would be minimal.

Currently the investments in question have a marked value of zero given that selling these assets is difficult with certain markets frozen. Therefore, at most the loss associated with divestiture would be the approximately \$1.6 million that the investments were valued at before the invasion. However, losses would likely be much less once the assets are sold for some value. At this time, we do not have an estimate on when these sales would be completed.

I appreciate the opportunity to share how this legislation would affect PMRS and am confident that should it become law our operations and financial standing would face little to no change. I look forward to addressing any additional questions or providing any further information the committee requires.