



**pennsylvania**  
State Employees' Retirement System

# **2014 Financial Highlights**

*Service and stewardship since 1923.*

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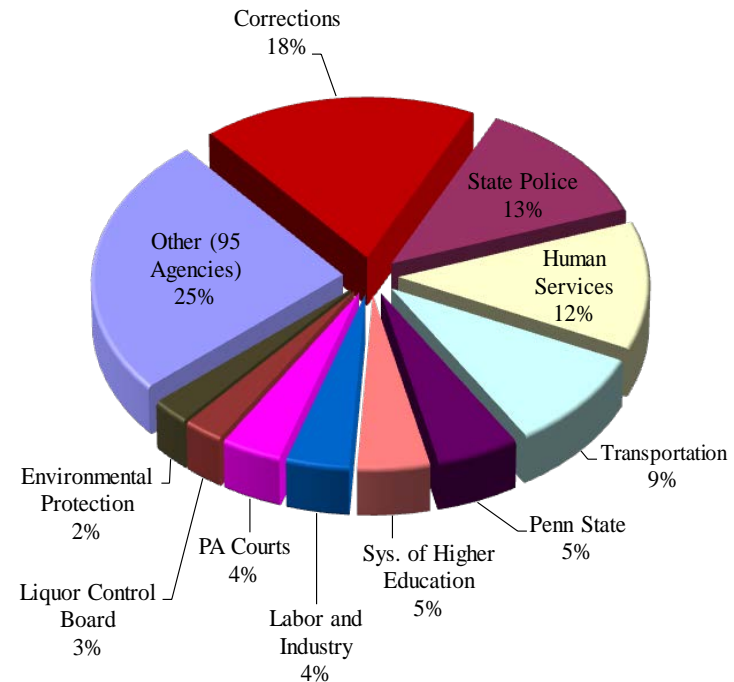
## Changes in Net Position Available for Benefits (\$ millions)

	<b>2014</b>	<b>2013</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Net Position - Beginning	\$ 27,394	\$ 25,389		
Contributions	1,450	1,147	\$ 303	26%
Net Investment Income	1,462	3,724	(2,262)	-61%
Less:				
Benefit Payments and Refunds	2,946	2,844	102	4%
Administrative Expenses	22	22	-	0%
Net Increase/(Decrease)	(56)	2,005		
Net Position - End of Year	<u>\$ 27,338</u>	<u>\$ 27,394</u>		

## Contributions Highlights For the Year Ended December 31, 2014

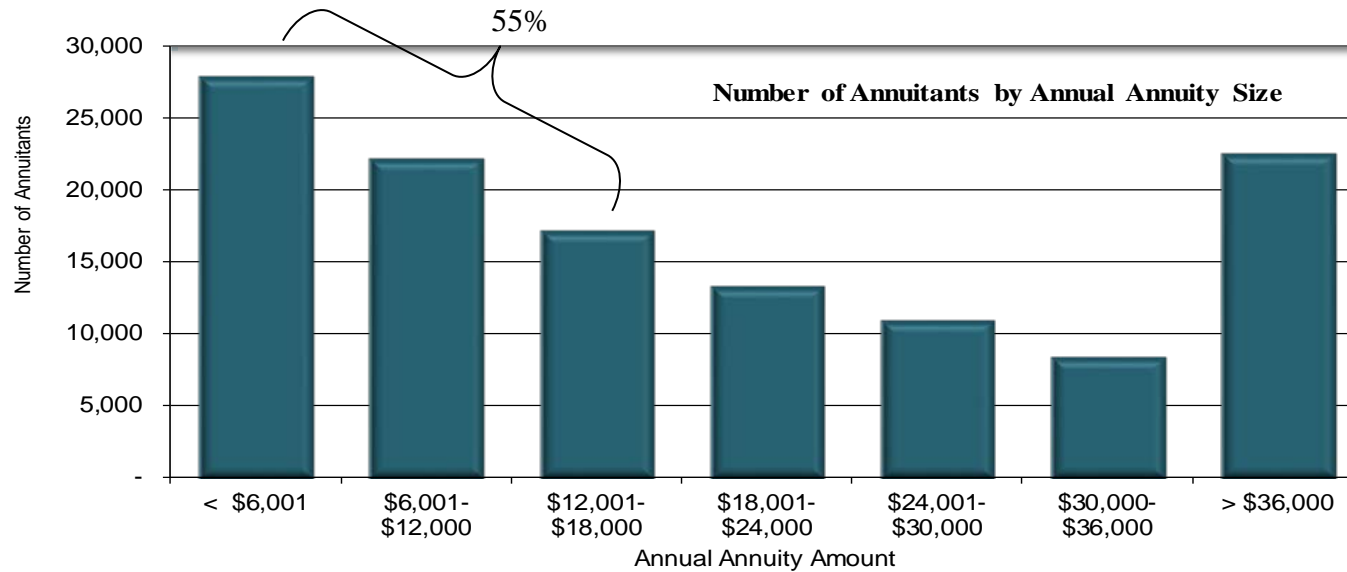
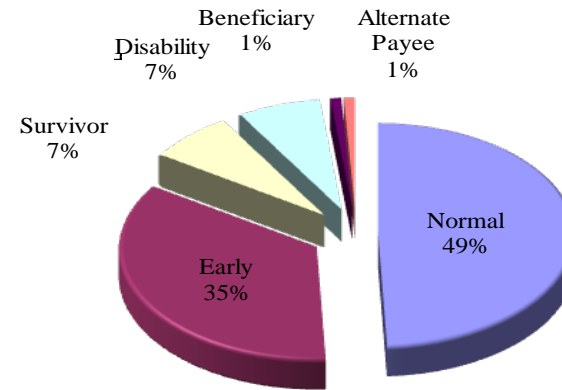
<u>Employer</u>	<u>Employer Contributions (\$ millions)</u>	<u>Active Members</u>
Corrections	\$ 198	14,916
State Police	135	6,323
Human Services	134	16,870
Transportation	101	12,325
Penn State	56	6,123
Sys. of Higher Education	49	4,977
Labor and Industry	43	4,981
PA Courts	41	2,009
Liquor Control Board	27	4,340
Environmental Protection	26	2,510
Other (95 Employers)	274	29,057
<b>Total Employer</b>	<b>\$ 1,084</b>	<b>104,431</b>
	<b>Member Contributions</b>	
All 104 Employers	\$ 366	
<b>Total Contributions</b>	<b>\$ 1,450</b>	

**Top 10 Contributing Employers as a Percent of Total Contribution Dollars**



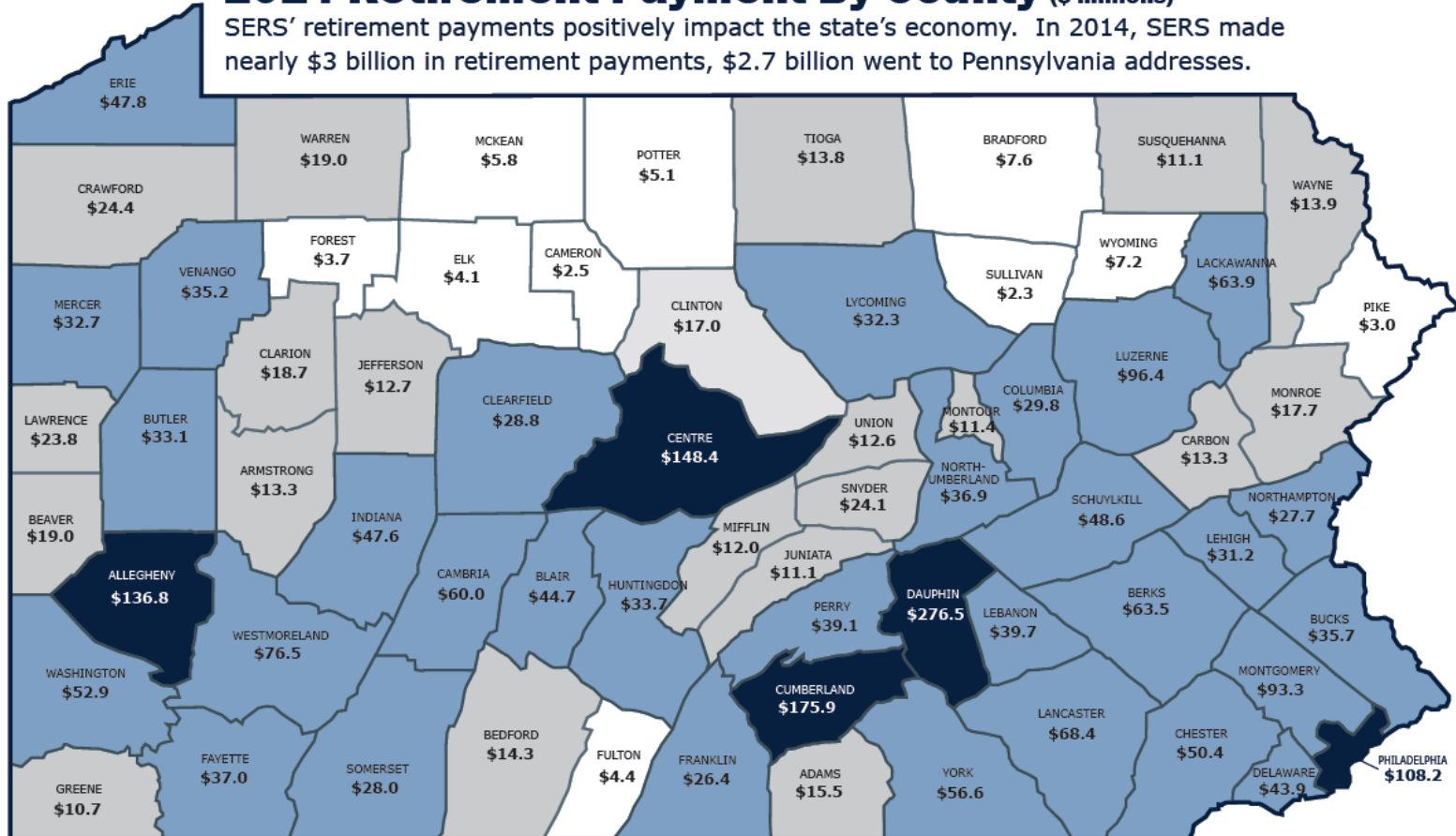
## Annuity Payroll as of December 31, 2014

<b>Retirement Member by Type</b>	<b>Number of Annuitants</b>	<b>Average Annual Annuity</b>
Normal	60,231	\$ 26,426
Early	42,683	16,603
Survivor	8,721	11,854
Disability	8,414	14,798
Beneficiary	1,084	11,977
Alternate Payee	1,116	9,750
<b>Total</b>	<b>122,249</b>	<b>\$ 20,876</b>



## 2014 Retirement Payment By County (\$ millions)

SERS' retirement payments positively impact the state's economy. In 2014, SERS made nearly \$3 billion in retirement payments, \$2.7 billion went to Pennsylvania addresses.



☐ \$0 - \$9.9 million

■ \$10 - \$24.9 million

■ \$25 - \$99.9 million

■ \$100 million +

Out of State \$262.9 million

Out of Country \$1.5 million

## 10 Year Funding and Payment Activity

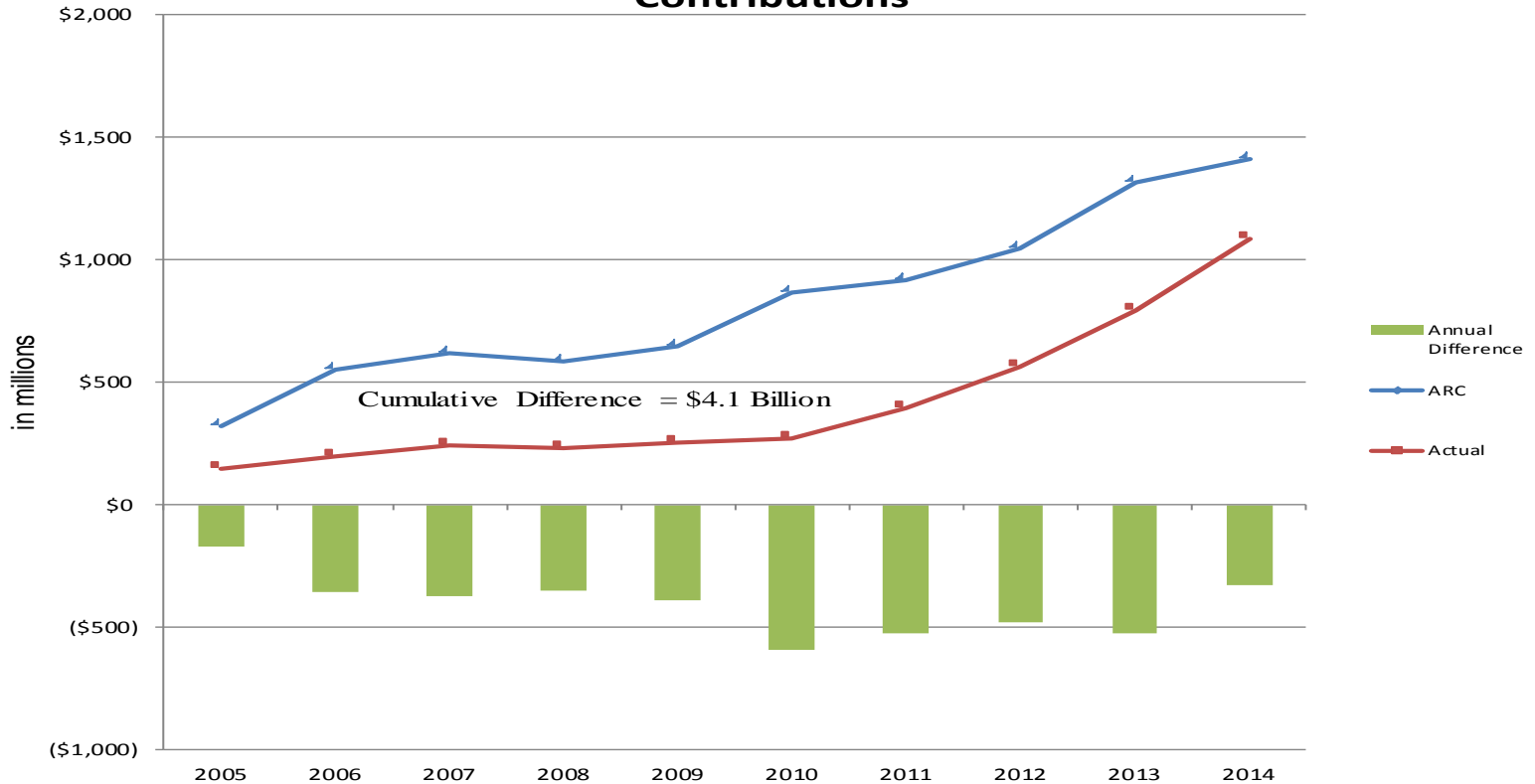


## Statement of Change Activity by year (in millions)

Calendar Year	Contributions			Investment Earnings	Benefits and Expenses	Fair Value
	Employer	Member	Total			
2014	\$1,084	\$366	\$1,450	\$1,462	\$(2,968)	\$27,338
2013	795	352	1,147	3,724	(2,866)	27,394
2012	565	348	913	2,795	(2,696)	25,389
2011	392	351	743	480	(2,732)	24,377
2010	273	349	622	3,076	(2,474)	25,886
2009	253	349	602	3,561	(2,297)	24,662
2008	235	337	572	(11,061)	(2,231)	22,796
2007	244	334	578	5,246	(2,361)	35,516
2006	196	318	514	4,730	(1,943)	32,053
2005	148	306	454	3,623	(1,966)	28,752
<b>10 Yr. Total</b>	<b>\$4,185</b>	<b>\$3,410</b>	<b>\$7,595</b>	<b>\$17,636</b>	<b>\$(24,534)</b>	

Annotations: 10.9% change in Fair Value (2013-2014), 6.8% change in Fair Value (2005-2006), 51% Increase in Investment Earnings (2008-2009), 5.17% Decrease in Fair Value (2009-2010).

## Annual Required Contributions (ARC)\* vs. Actual Contributions



\*ARC calculation is based on methods established by General Accounting Standards Board(GASB) 25, which was superseded by GASB 67 in 2014.



**Projected Funding Levels and Contribution Rates <sup>1/</sup>**  
(\$ millions)

<b>Valuation Year Ended Dec 31</b>	<b>Funded Ratio</b>	<b>Fiscal Year</b>	<b>Funding Payroll</b>	<b>Employer Normal Cost Rate</b>	<b>Unfunded Liability Rate</b>	<b>Preliminary Employer Contribution Rate</b>	<b>Final Employer Contribution Rate <sup>2/</sup></b>	<b>Employer Contribution Dollars</b>
2014	59.4 %	15/16	\$ 6,022	4.95 %	26.56 %	31.51 %	25.00 %	\$ 1,506
2015	59.7	16/17	6,205	4.95	26.44	31.39	29.50	1,830
2016 <sup>3/</sup>	61.4	17/18	6,395	4.95	25.46	30.41	30.41	1,945
2017	63.2	18/19	6,590	4.95	24.45	29.40	29.40	1,937
2018	64.2	19/20	6,791	4.95	23.87	28.82	28.82	1,957
2019	65.4	20/21	6,998	4.95	23.20	28.15	28.15	1,970
2020	66.6	21/22	7,211	4.95	22.57	27.52	27.52	1,984
2021	67.8	22/23	7,431	4.95	21.97	26.92	26.92	2,000
2022	68.9	23/24	7,658	4.95	21.39	26.34	26.34	2,017
2023	70.0	24/25	7,891	4.95	20.83	25.78	25.78	2,034
2024	71.2	25/26	8,132	4.95	20.28	25.23	25.23	2,052
2025	72.3	26/27	8,380	4.95	19.75	24.70	24.70	2,070

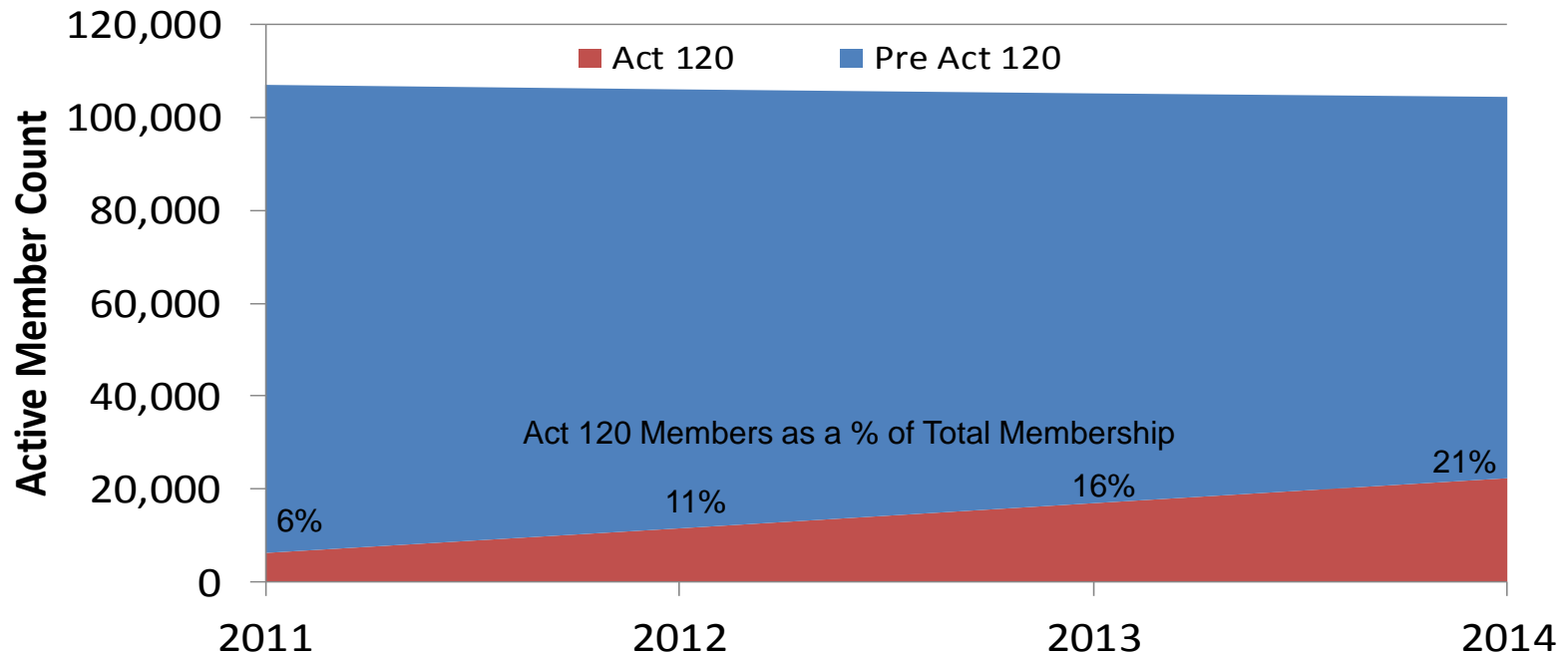
<sup>1/</sup> Other than funded ratio, rates and values are for the fiscal year beginning July 1<sup>st</sup> following the funding valuation year and do not include the Benefits Completion Plan contribution. All information on this page is based on statutory funding requirements.

<sup>2/</sup> Act 2010-120 amended the Retirement Code to place a collar on increases to employer contribution rate of 4.50% for fiscal year beginning July 1, 2013 and thereafter until collar becomes unnecessary.

<sup>3/</sup> Act 2010-120 amended the Retirement Code to place a permanent floor at employer normal cost after collars expire.

## Active Member Profile

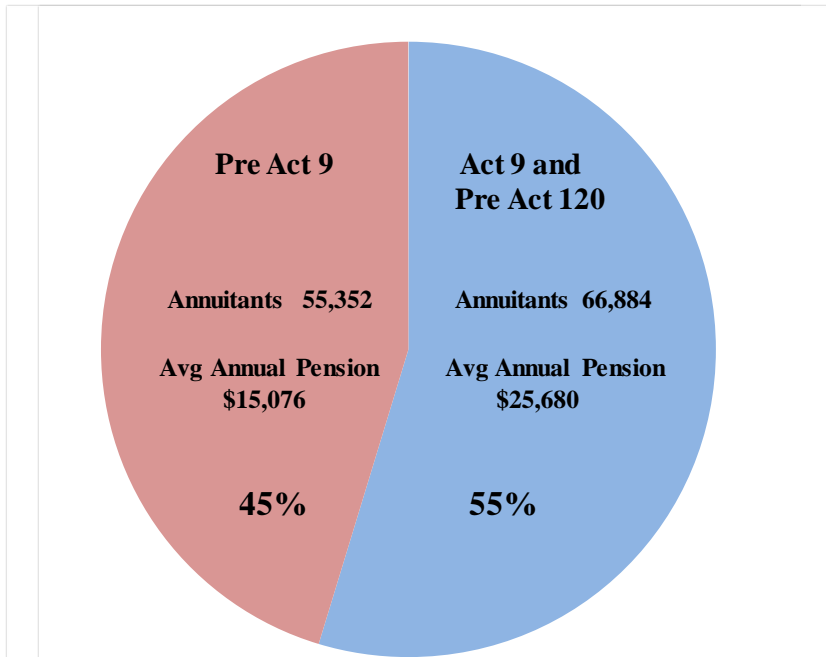
- As of December 31, 2014, total active membership was 104,431.
- Act 2010-120 membership totaled 22,356, or 21% of total active membership.
- Of the total Act 120 members, 2,355 or 10% of Act 120 membership have selected the higher 2.5% benefit accrual, or class A-4 status.



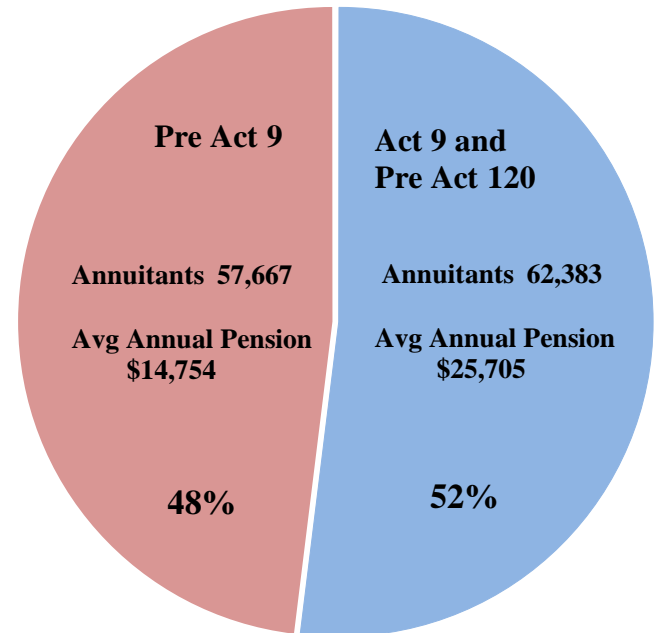
## Annuitant Member Profile

Number of Annuitants by Major Legislative Provision  
and  
Average Annual Pension<sup>1/</sup>

2014 Annuitants  
122,236



2013 Annuitants  
120,050



<sup>1/</sup> Does not include post Act 120

## GASB 67

- In 2014, SERS implemented the Government Accounting Standards Board (GASB) Statement No. 67
- GASB 67 significantly revised financial reporting for pension plans
- Standardized actuarial cost method to be used in calculating the total pension liability and net pension liability
- Standardized asset valuation methods and amortization periods.
- Developed stricter guidelines for formulating the discount rate

<u>GASB 67 - Accounting Method</u>		<u>Funding Method</u>	
Total Pension Liability (TPL)	\$ 42,195	Actuarial Accrued Liability (AAL)	\$ 44,751
Fiduciary Net Position	\$ 27,338	Actuarial Value of Assets	\$ 26,585
Net Pension Liability (NPL)	\$ 14,857	Unfunded Actuarial Accrued Liability (UAAL)	\$ 18,166
Fiduciary Net Position/TPL	64.8%	Funded Ratio	59.4%

## GASB 68

- GASB issued Statement No. 68, which is effective for fiscal years ending on or after June 30, 2015
- GASB 68 revised the required pension reporting of employers who are members of the pension system
- Required employers to report their proportionate share of net pension liability, pension expense, and deferred outflows/inflows related to pensions in the employers' financial statements
- Required the development of a proportionate share or allocation percent, using a methodology consistent with manner in which contributions are expected to be made to the plan

**Net Pension Liability and Expense  
as of December 31, 2014**  
(\$ millions)

<u>Agency</u>	<u>Net Pension Liability</u>	<u>Pension Expense</u>	<u>Proportionate Share</u>
Corrections	\$2,599	\$296	17%
Human Services	1,954	235	13%
State Police	1,564	195	11%
Transportation	1,457	174	10%
Penn State	810	95	5%
Sys. of Higher Education	728	85	5%
Labor and Industry	612	72	4%
PA Courts	578	72	4%
Liquor Control Board	391	47	3%
Environmental Protection	371	44	2%
Remaining Employers	3,793	453	26%
<b>Total Employer</b>	<b>\$14,857</b>	<b>\$1,768</b>	<b>100%</b>

## Changes in Net Position Available for Benefits (\$ millions)

	2014	2013	Change	
			\$	%
Net Position - Beginning	\$ 2,764	\$ 2,432		
Contributions	129	127	2	2%
Net Investment Income	188	315	(127)	-40%
Less:				
Benefits, Refunds & Transfers	118	107	11	10%
Third Party and Admin. Expenses	3	3	-	0%
Net Increase/(Decrease)	196	332		
Net Position - End of Year	<u>\$ 2,960</u>	<u>\$ 2,764</u>		

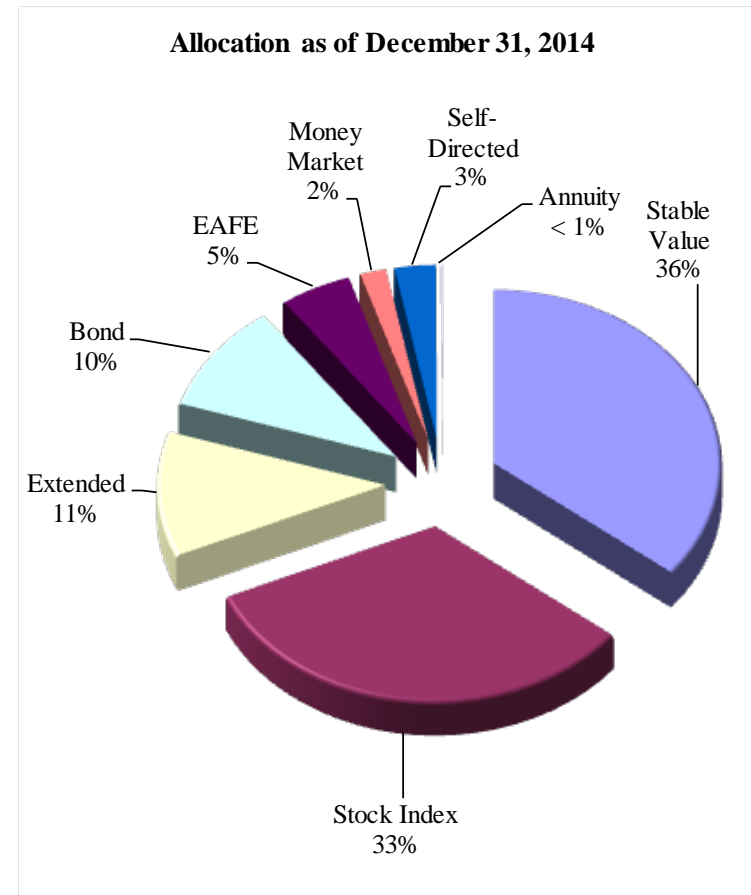
# Deferred Compensation Program



## Fund Balances

(\$ millions)

			<u>Allocation %</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Stable Value	\$1,054	\$1,031	36%	37%
Stock Index	965	859	33%	31%
Extended Market	340	316	11%	11%
Bond Index	299	266	10%	10%
EAFE Equity Index	150	153	5%	6%
S-T Money Market	59	52	2%	2%
Self-Directed Brokerage	87	80	3%	3%
Annuity Contract	2	2	0%	0%
<b>Total</b>	<u><u>\$2,956</u></u>	<u><u>\$2,759</u></u>	<u><u>100%</u></u>	<u><u>100%</u></u>

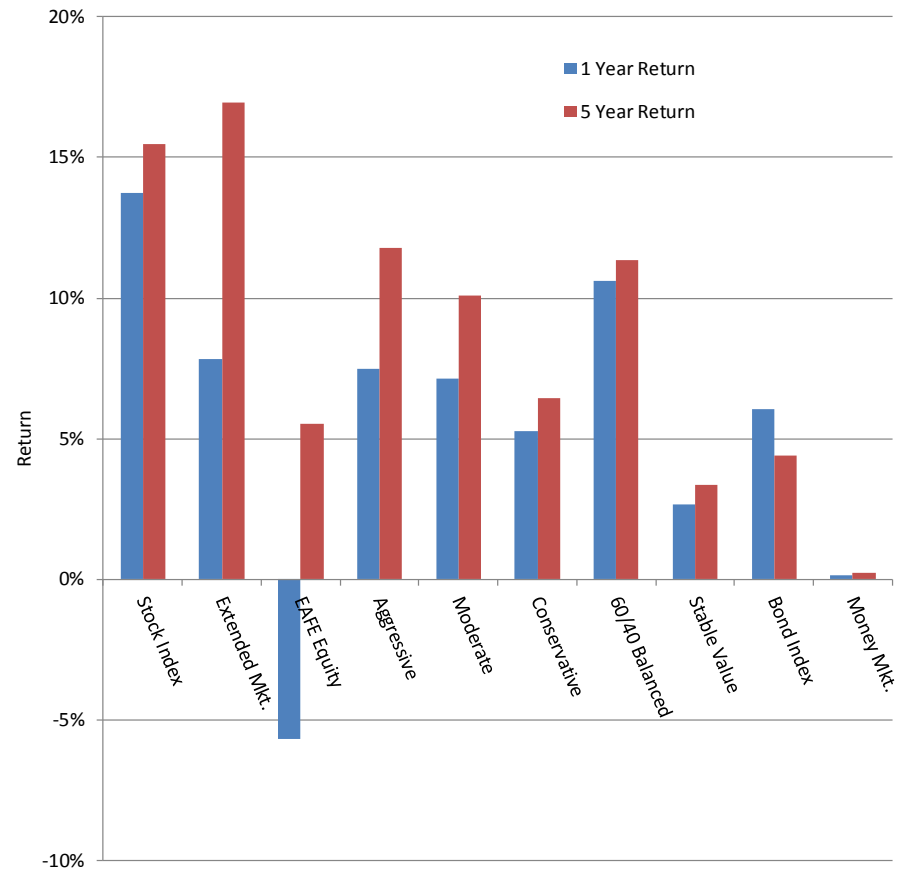


# Deferred Compensation Program



## Fund Returns As of December 31, 2014

FUND	1 Year Return	5 year Average Return	Since Inception Average Return
<b><u>EQUITY</u></b>			
Stock Index	13.72%	15.49%	9.91%
<i>Large Cap</i>			
Extended Market	7.82%	16.97%	9.11%
<i>Med/Small Cap</i>			
EAFE Equity Index	-5.66%	5.52%	4.34%
<i>International</i>			
<b><u>PROFILE SERIES</u></b>			
Aggressive	7.49%	11.77%	8.37%
Moderate	7.14%	10.09%	7.61%
Conservative	5.27%	6.43%	5.63%
<b><u>ASSET ALLOCATION</u></b>			
60/40 Balanced	10.61%	11.35%	7.49%
<b><u>FIXED INCOME</u></b>			
Stable Value	2.65%	3.36%	4.94%
Bond Index	6.03%	4.39%	6.10%
<i>Aggregate Bond</i>			
<b><u>CASH</u></b>			
Short Term Money Market	0.15%	0.22%	3.55%





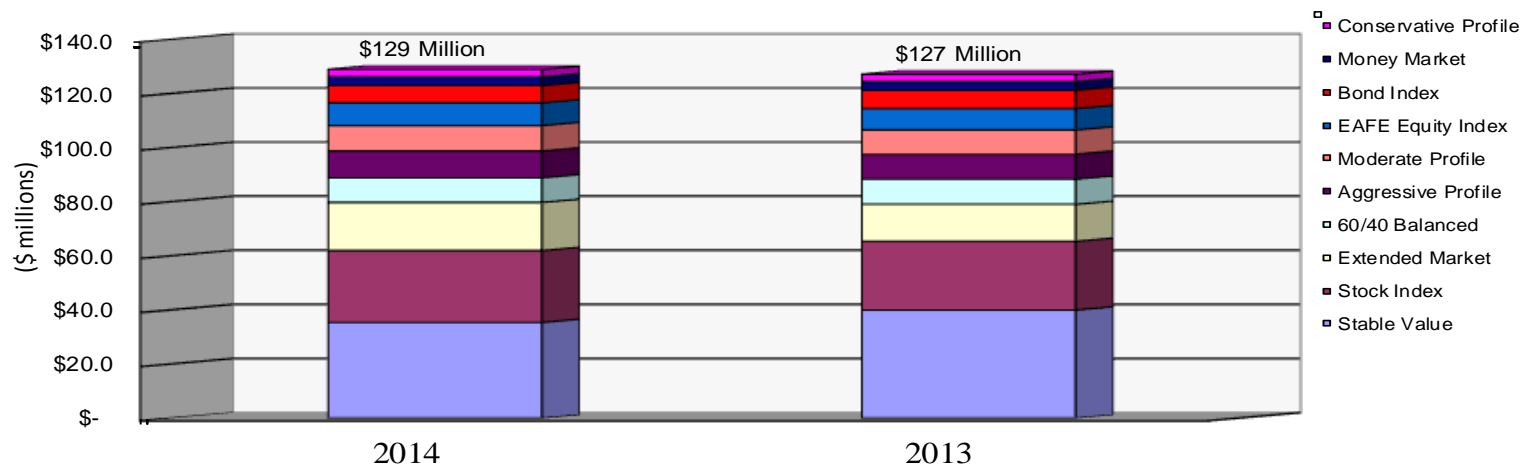
# Deferred Compensation Program



## Contributions by Fund for the years ended December 31, 2014 and 2013 (\$ millions)

<u>Fund</u>	<u>2014</u>	<u>2013</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Stable Value	\$ 35.4	\$ 40.0	\$ (4.6)	-12%
Stock Index	26.6	25.4	1.2	5%
Extended Market	17.8	13.6	4.2	31%
Aggressive Profile	9.9	9.0	0.9	10%
Moderate Profile	9.4	9.2	0.2	2%
60/40 Balanced	9.1	9.2	(0.1)	-1%
EAFE Equity Index	8.4	7.9	0.5	6%
Bond Index	6.4	6.8	(0.4)	-6%
Short Term Money Market	3.2	3.1	0.1	3%
Conservative Profile	2.8	2.8	-	0%
<b>Total Contributions</b>	<b>\$ 129.0</b>	<b>\$ 127.0</b>	<b>\$ 2.0</b>	<b>2%</b>

### Annual Contributions

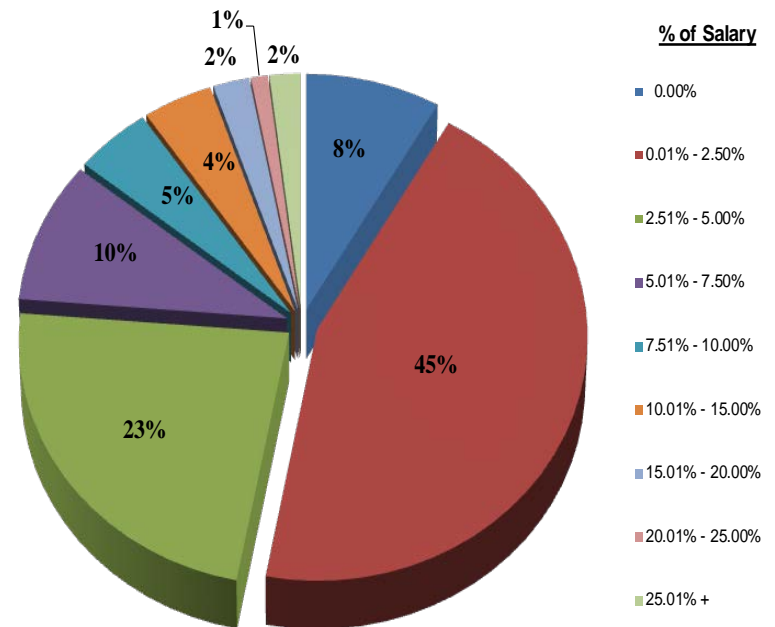


## Contribution Levels

**Contribution Levels**  
As of December 31, 2014

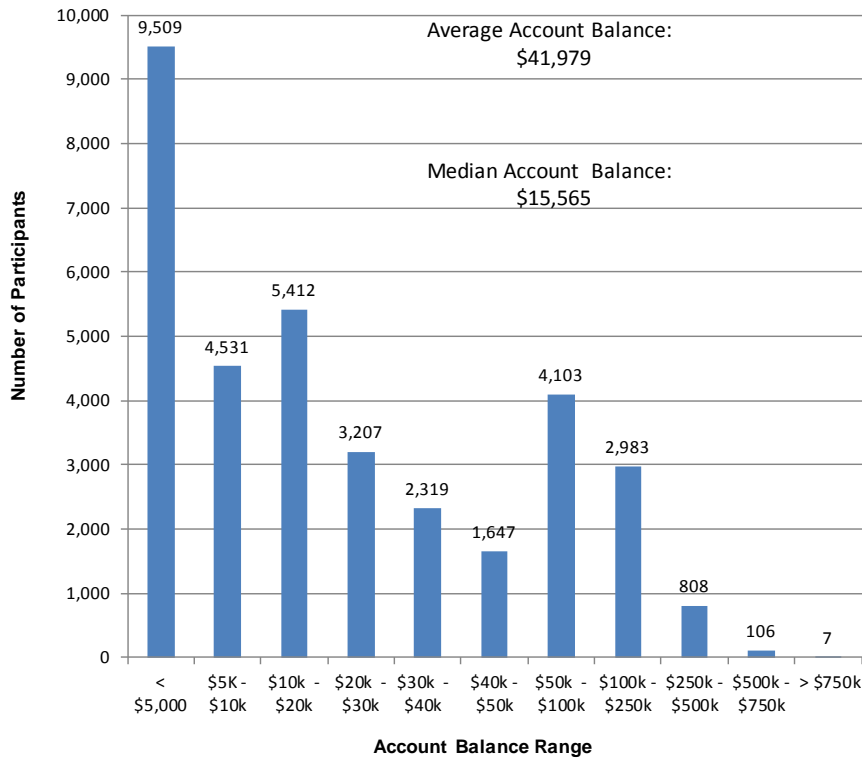
<u>% of Salary</u>	<u># of Participants</u>	<u>Percent</u>	<u>Average Annual Contribution</u>
0.00%	2,892	8%	\$ -
0.01% - 2.50%	15,463	45%	745
2.51% - 5.00%	8,058	23%	2,204
5.01% - 7.50%	3,273	10%	4,004
7.51% - 10.00%	1,635	5%	6,030
10.01% - 15.00%	1,495	4%	9,137
15.01% - 20.00%	780	2%	14,002
20.01% - 25.00%	363	1%	15,878
25.01% +	673	2%	19,803
<b>Total Active Participants</b>	<b>34,632</b>		
<b>Average Contribution Percentage and Amount</b>		<b>4.50%</b>	<b>\$ 3,022</b>

**% of Participants by Contribution Levels**

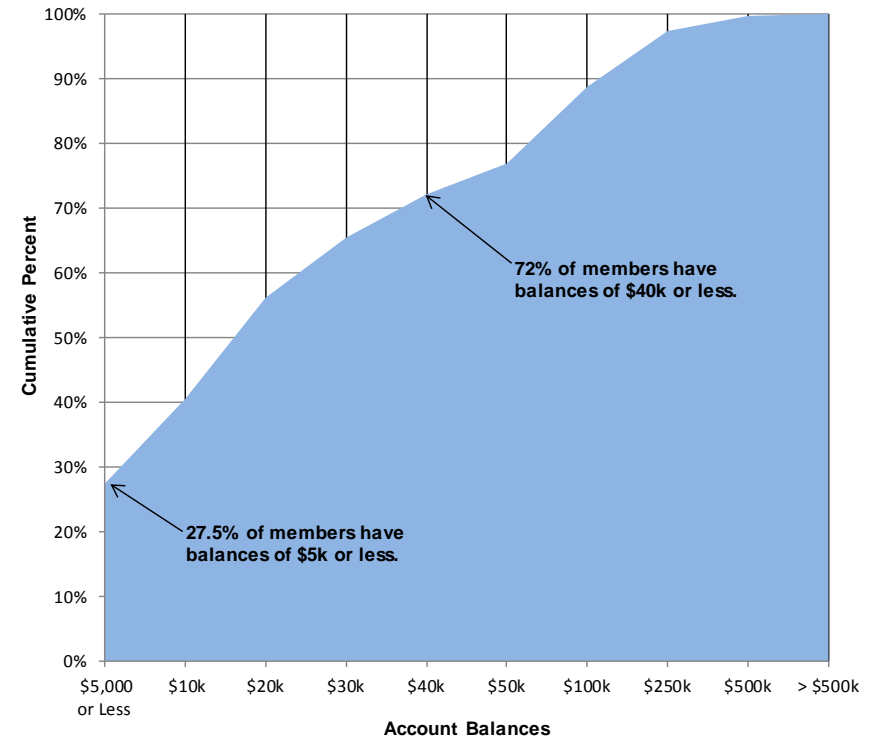


## Participant Account Balance Demographics as of December 31, 2014

**Number of Participants by Account Balance Ranges**



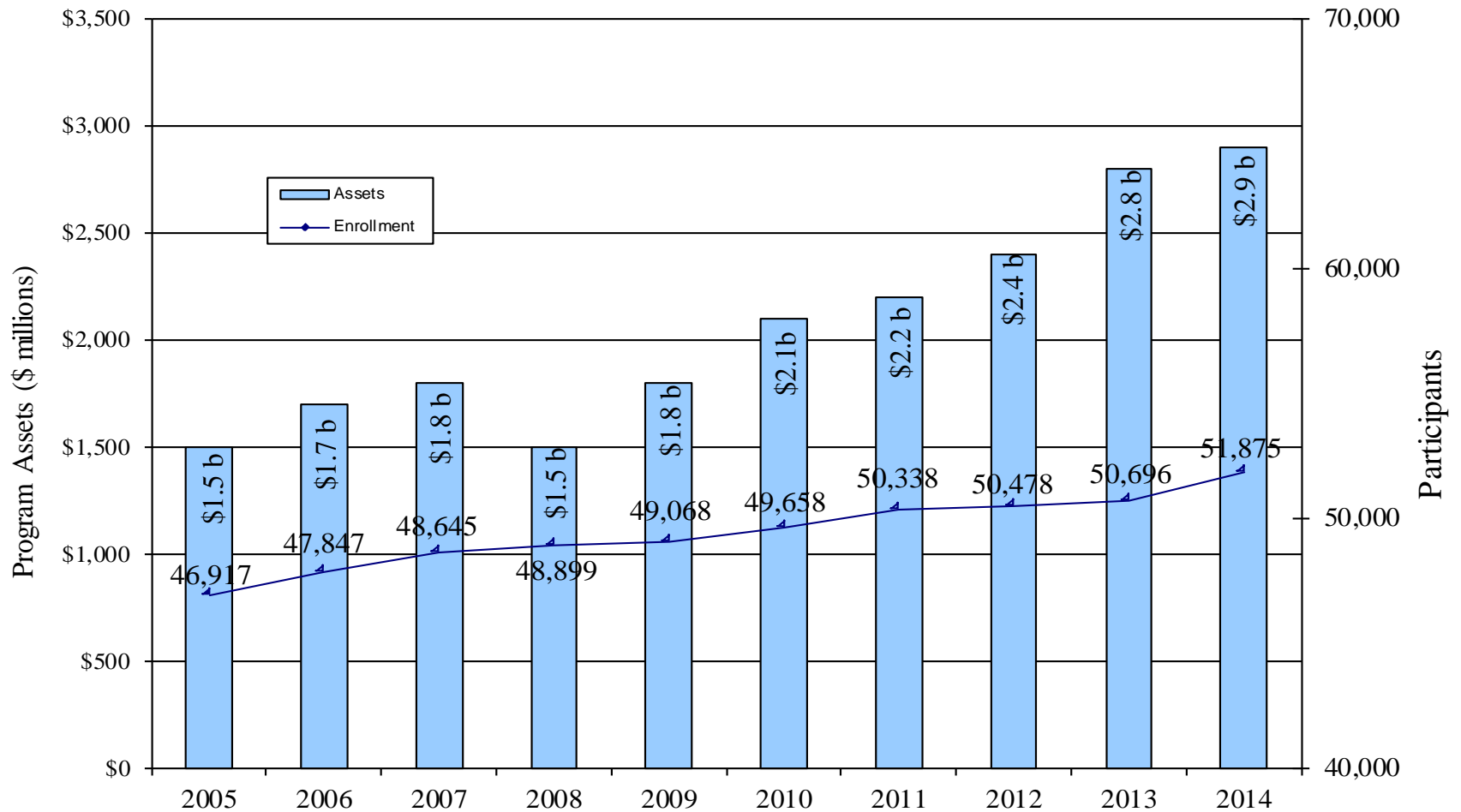
**Cumulative Participant Population by Balance Threshold**



# Deferred Compensation Program



## 10 Year Growth of the Fund



In August 2012, the DCP began offering a Roth option. This option allowed participants to make post tax contributions to a Roth account. In 2014 the program was amended again to allow members to make in-plan conversions of assets to Roth Assets. Roth participant data as of:

## December 31, 2014

- 2,583 Participants
- Average Participant age: 44
- Average Balance: \$3,838
- Total Roth Balance: \$9,913,601

## December 31, 2013

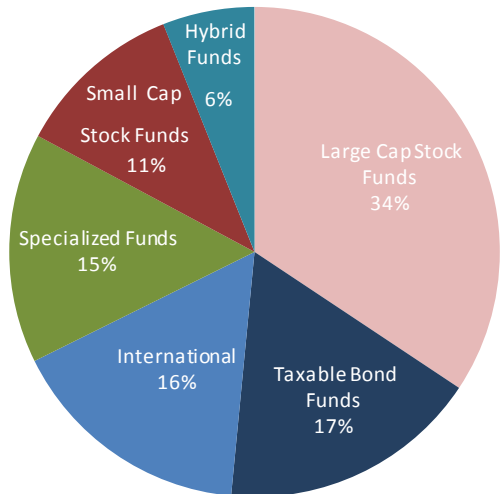
- 1,630 Participants
- Average Participant age: 45
- Average Balance: \$2,846
- Total Roth Balance: \$4,600,385

# Self-Directed Brokerage Account



In 2004 the DCP began offering the Self-Directed Brokerage Account (SDBA) through Charles Schwab. Participants have access to over 8,000 mutual funds through the SDBA. As of December 31, 2014, total asset value for the SDBA was \$87.5 million comprised of 1,089 different mutual funds. The average account balance was \$80,313.

**Market Value Allocation**



Numbers may not add due to rounding.

Source: Charles Schwab & Co., Inc.

Top 10 Mutual Fund (MF) Holdings	\$ MF Assets	% MF Assets
LAZARD INTL STRATEGIC	\$2,797,884	3.47
GUINNESS ATKINSON GLOBAL INNOV	\$2,725,100	3.38
GLENMEDE LARGE CAP CORE	\$2,713,099	3.37
EVENTIDE GILEAD CL N	\$2,498,953	3.10
PACIFIC FINANCIAL CORE	\$2,128,721	2.64
FEDERATED MDT STOCK	\$1,885,868	2.34
PIMCO FUNDAMENTAL INDEX PLUS A	\$1,872,422	2.33
TCW EMRG MKTS INCM FD CL N	\$1,663,209	2.07
HODGES SMALL CAP	\$1,649,668	2.05
NUVEEN SYMPHONY FLTNG	\$1,631,058	2.03

## Other Interesting Facts As of December 31, 2014

Defined Benefit Plan		Deferred Compensation Program	
Avg. Active Member Credited Service	11.8	Total Active Members	34,632
Avg. Active Member Annual Salary	\$ 54,769	Total Non-Active Members	17,243
Avg. Age at Retirement	59	Total Member Count	51,875
Avg. Annual Pension for New Retirees	\$ 25,235	Avg. SERS DCP member Account Balance	\$ 41,979
Avg. Ann. Pen. for Ret. Removed from Rolls	\$ 14,705	Avg Surveyed DCP Account Balance <sup>1/</sup>	\$ 59,000
Ten Yr. Active Member Growth (109,981 to 104,431)	-5.05%	Largest Account Balance	\$1,410,977
Ten Yr. Retired Member Growth (101,179 to 122,249)	20.82%	Avg. Ann. SERS DCP Member Contributions	\$ 3,022
Total Option 4 Withdrawal Payouts	\$ 315 Million	Avg. Surveyed DCP Contribution <sup>1/</sup>	\$ 5,701
Avg. Option 4 Payout	\$68,411	Avg. Number of Investment Options held	2.63

<sup>1/</sup>2015 National Association of Government Defined Contribution Administrators Public Sector Defined Contribution Plan survey of 129 government defined contribution plans.