

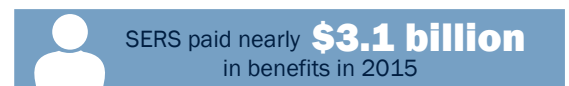
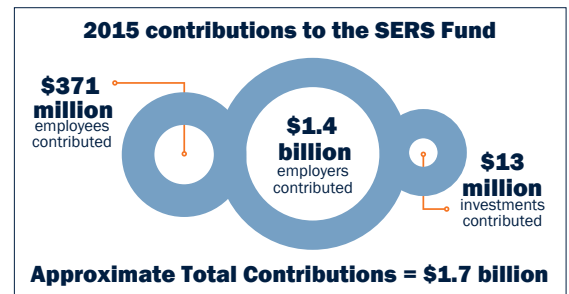
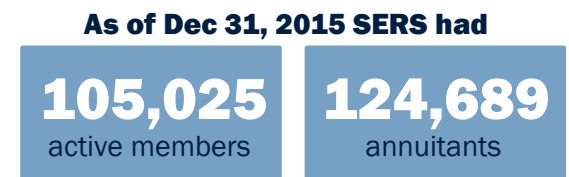
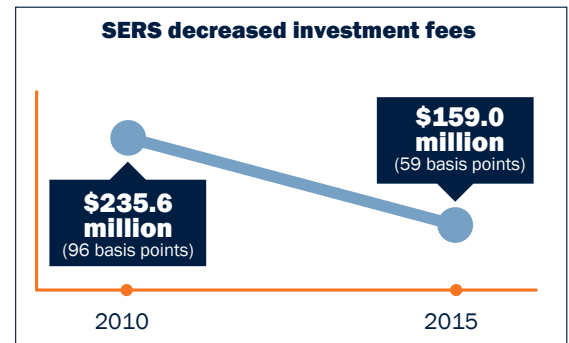
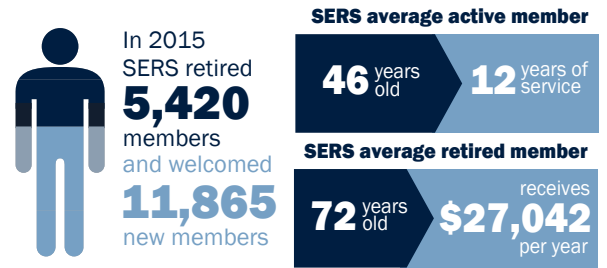
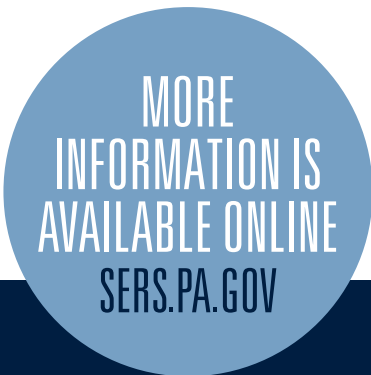
2016 SERS BUDGET HIGHLIGHTS

The State Employees' Retirement System currently serves approximately 235,000 active, vested and retired members. The system paid \$3.1 billion in benefits last year, of which \$2.8 billion were issued to SERS members who live in Pennsylvania. For 2015, the average pension paid to retirees who worked to normal retirement age was about \$27,000.

For FY 2016-17, SERS is seeking spending authority of roughly \$24.8 million. It is important to note that all the money used to fund SERS' appropriation are drawn from the SERS Fund and not from general government operating accounts.

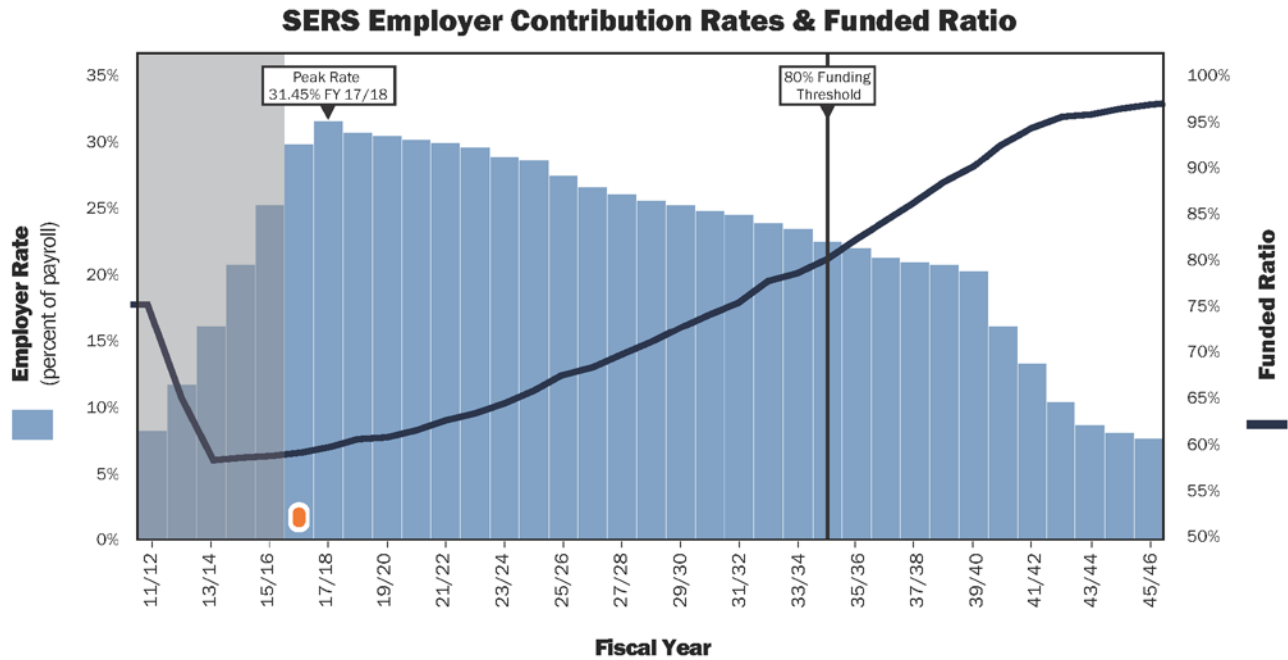
This fiscal year, SERS expects to receive approximately \$1.5 billion (25.0% of payroll) from commonwealth employers. Under the requirements of Act 2010-120, employer contributions are set to increase to just over \$1.8 billion (29.5% of payroll) in FY 2016-17. We continue to strive for the best value from our portfolio managers for our members. Since 2010, we have reduced our investment fees and expenses by more than \$76 million.

We continue positive growth and the system is moving toward a goal of restored financial health and reduced unfunded liability. Last year through investment income, we added nearly \$13 million to the bottom line net of fees in what turned out to be a very turbulent year. As of December 31, 2015, the value of the fund was \$25.8 billion.



Snapshot

<p>Members as of Dec 31, 2015, preliminary</p>	<p>236,632 124,689 retirees and beneficiaries receiving benefits 105,025 active members paying into the system 6,918 vested members not receiving benefits</p>				
<p>Average 2015 Annuity Paid for those who work to full retirement age</p>	<p>\$27,042 per year</p>				
<p>Total Benefits Paid as of Dec 31, 2015, unaudited</p>	<p>\$3.1 billion</p>				
<p>Employee Contribution Rate PA FY 2015/16</p>	<p>6.25% of salary, by payroll deduction (for most employees)</p>				
<p>Number of Employers as of Dec 31, 2015</p>	<p>104</p>				
<p>Employer Actual Cost PA FY 2015/16</p>	<p>31.51% of payroll, composite rate 4.95% of payroll for benefits earned this year + 26.56% of payroll for unfunded liability</p>				
<p>Employer Contribution Rate PA FY 2015/16</p>	<p>25.01% of payroll Projection for PA FY 2016/17 – 29.5% of payroll As suppressed by Act 2010-120.</p>				
<p>Employer Contribution Sources % provided by Budget Office for employers under the Governor's jurisdiction</p>	<p>general funds approx. 43% special funds approx. 22% federal funds approx. 17% other sources approx. 18%</p>				
<p>Investment Returns as of Dec 31, 2015 unaudited, annualized, net-of-fees</p>	<table border="0"> <tr> <td>0.5% 1-year</td> <td>7.6% 20-year</td> </tr> <tr> <td>5.2% 10-year</td> <td>8.9% 30-year</td> </tr> </table>	0.5% 1-year	7.6% 20-year	5.2% 10-year	8.9% 30-year
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<p>Total Fund Assets As of Dec 31, 2015, unaudited</p>	<p>\$25.8 billion</p>				
<p>Funding Sources as of Dec 31, 2015, 10-year totals, unaudited</p>	<p>\$ 3.5 billion (15.2%) employee contributions \$ 5.4 billion (23.5%) employer contributions \$14.0 billion (61.3%) investment earnings</p>				
<p>Cash Flow 2016 projected</p>	<p>\$171 million monthly contributions (employee/employer) \$267 million monthly payments (benefits/admin expense) difference in sum necessary to cover payments must come from investment earnings.</p>				
<p>Funded Status 2014 actuarial report adjusted with preliminary 2015 year-end performance data</p>	<p>58.9% with an unfunded liability of \$18.8 billion</p>				
<p>Key Assumptions 2014 Actuarial Report</p>	<p>7.50% investment return 6.10% average total salary/career growth 2.75% inflation rate</p>				



Projections based on 2014 valuation results and 7.5% assumed rate of return in 2016 forward.

Considerable Progress

In recent years, the commonwealth and employers have made considerable progress restoring funding to employee pensions, as shown in the first five bars of the graph. The steadily increased contributions, supplemented by positive investment returns despite of turbulent market conditions, are working to steadily strengthen the health of the SERS fund, as shown by the rising dark blue line, which represents funded ratio.

Reaching the Peak

From the current budget year, marked by the orange dot, only two budget cycles remain until the employer contribution rate is projected to peak at 31.45% of payroll in FY 2017/18. After that, the rate is projected to decline year after year.

Current projections show the funding ratio reaching the 80% threshold generally accepted by pension experts as “healthy” within two decades. To give you some context, Pennsylvania is among 37 states that are currently below the 80% funding threshold¹.

Plan Costs Drop Each Year

The annual cost of the plan continues to drop as the number of members in the newer A-3 and A-4 classes of service increases. Today, approximately 27% of the active membership is in the newer A-3 and A-4 classes of service.

¹ Braun, Martin Z., “State Pension Funding Levels in U.S. Improve for a Second Year,” Bloomberg Business, www.bloomberg.com, (Oct. 13, 2015)