

2017 SERS Budget Highlights

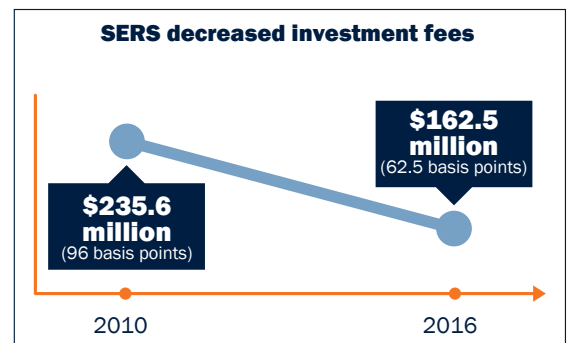
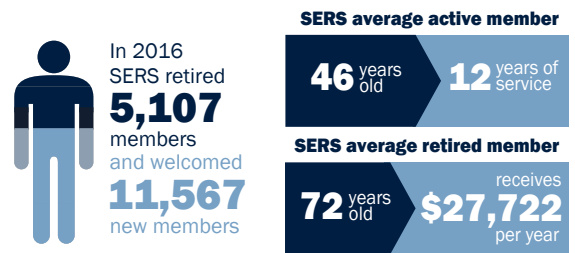
The Pennsylvania State Employees' Retirement System currently serves approximately 240,000 active, inactive, vested and retired members. Last year, the system paid nearly \$3.2 billion in benefits of which approximately \$2.9 billion (or 90%) was issued to SERS members who live in Pennsylvania. For 2016, the average pension paid to retirees was about \$27,700.

We are seeking spending authority of approximately \$26.2 million for FY 2017-18. All the money used to fund SERS appropriation are drawn from the SERS Fund, and not from general government operating accounts.

SERS' 6.5% return on investments added \$1.6 billion last year. Our investment horizon remains long and we are deliberate and prudent in our investment strategies. As of December 31, 2016, the value of the fund was \$26.3 billion.

We continue to strive for operational efficiencies and maximize results for our members, and since 2010, we have reduced investment fees by more than \$73 million.

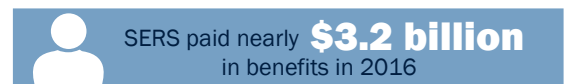
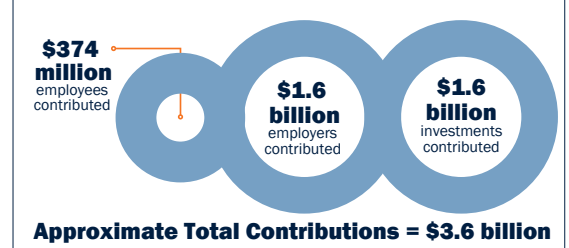
This fiscal year, SERS expects to receive approximately \$1.8 billion (29.5% of payroll) from commonwealth employers. For FY 2017-18, the employer contribution rate is estimated to be 31.8% of payroll, and will mark the first time since legislatively-mandated contribution rates were enacted that Pennsylvania will be paying uncollared contributions to the system.



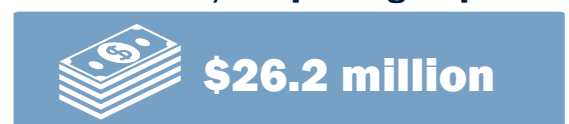
As of Dec 31, 2016 SERS had



2016 contributions to the SERS Fund



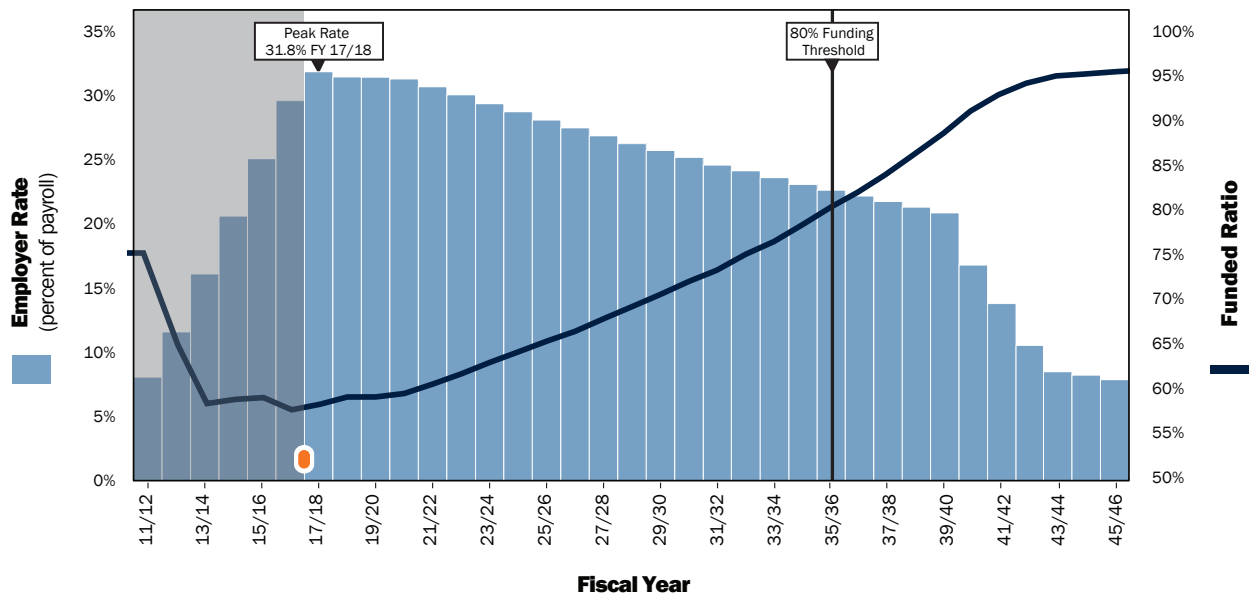
Total FY 17/18 Spending Request



Snapshot

Members as of Dec 31, 2016, preliminary	239,175 127,338 retirees and beneficiaries receiving benefits 105,220 active members paying into the system 6,617 vested members not receiving benefits
Average 2016 Annuity Paid for those who work to full retirement age	\$27,722 per year
Total Benefits Paid as of Dec 31, 2016, unaudited	\$3.2 billion
Employee Contribution Rate PA FY 2016/17	6.25% of salary, by payroll deduction (for most employees)
Number of Employers as of Dec 31, 2016	103
Employer Contribution Rate PA FY 2016/17	29.5% of payroll (as suppressed by Act 2010-120)
Projected Employer Contribution Rate PA FY 2017/18	31.8% of payroll
Employer Contribution Sources % provided by Budget Office for employers under the Governor's jurisdiction (FY 2014/15)	general funds approx. 43% special funds approx. 22% federal funds approx. 17% other sources approx. 18%
Investment Returns as of Dec 31, 2016 unaudited, annualized, net-of-fees	6.5% 1-year 4.3% 10-year 7.2% 20-year 8.6% 30-year
Total Fund Assets as of December 31, 2016, unaudited	\$26.3 billion
Funding Sources as of Dec 31, 2016, 10-year totals, unaudited	\$ 3.5 billion (16.6%) employee contributions \$ 6.8 billion (32.0%) employer contributions \$10.9 billion (51.4%) investment earnings
Cash Flow 2017 projected	\$195 million monthly contributions (employee/employer) \$282 million monthly payments (benefits/admin expense) difference in sum necessary to cover payments must come from investment income
Funded Status 2015 actuarial report adjusted with preliminary 2016 year-end performance data	58.7% with an unfunded liability of \$19.5 billion
Key Assumptions 2015 Actuarial Report	7.50% investment return 5.70% average total salary/career growth 2.75% inflation rate

SERS Employer Contribution Rates & Funded Ratio



Projections based on 2015 valuation results and 7.5% assumed rate of return in 2017 forward.

Considerable Progress

Thanks to the considerable progress commonwealth employers have made restoring funding to employee pensions since the passage of Act 2010-120, the steadily increased contributions, supplemented by positive investment returns despite of turbulent market conditions over the past several years, are working to strengthen the health of the SERS fund. This is shown by the rising dark blue line, which represents funded ratio.

Uncollared Contributions & Increasing Funded Ratio

This fiscal year, SERS expects to receive approximately \$1.8 billion (29.5% of payroll) from commonwealth employers. For FY 2017/18, the employer contribution rate is estimated to be 31.8% of payroll, and will mark the first time since legislatively-mandated contribution rates were enacted that Pennsylvania will be paying uncollared contributions to the system. 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 two-thirds of public pension plans 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 32% of the active membership is in the newer A-3 and A-4 classes of service.

¹ The Funding of State and Local Pensions: 2015-2020, Center for Retirement Research at Boston College, June 2016.