

## **CONSIDERING YOUR OPTIONS 2019 RETIREMENT BENEFIT DECISION**

The pension reform legislation that passed in June 2017 created three new retirement plan options for new employees hired on or after January 1, 2019, and opened those new options to existing employees. This does not impact current retirees in any way.

With a few exceptions, if you are working and contributing toward a SERS pension, you will have the choice to continue to earn your SERS pension as you do now or switch to one of the three new retirement benefit options between Jan. 1 and March 31, 2019.

The choice you make will be final and binding, including if you leave state employment and later return to work for a SERS-participating employer. As a result, it is important that you consider your options carefully.

see ***Considering Your Options***, inside

## **ENERGY AND EXCITEMENT – HALLMARKS OF NEW EXECUTIVE DIRECTOR**

With more than 26 years of public pension experience, Terrill “Terri” Sanchez arrived at SERS as the agency’s new Executive Director in May 2018.

“SERS is moving through a period of tremendous change as we work to implement the new retirement benefit structure established by Act 2017-5,” explained Sanchez. “I have a great respect for the fiduciary duty of the SERS board and staff to our members as we work through these changes – changes that present some exciting opportunities that we are working to capture for our membership.”

Ms. Sanchez comes to SERS from the Public School Employees’ Retirement System where she held several executive level positions, including most recently, Deputy Executive Director.



see ***Energy And Excitement***, inside

## DIVERSIFICATION PAYS DIVIDENDS

Over the past 15 years, SERS has outperformed a 60/40 index portfolio, adding an additional \$2 billion net of all fees and expenses to the fund.

<b>Returns</b> (as of 12/31/17, net of fees, annualized)			
	<b>15 Years</b>	<b>20 Years</b>	<b>25 Years</b>
<b>SERS Fund</b>	8.4%	7.1%	8.4%
<b>60/40 Index*</b>	7.4%	6.1%	7.3%

**Outperformance = \$2 billion**

Let's break that down a little. A 60/40 portfolio refers to a portfolio with an asset allocation of 60% stocks and 40% bonds, and serves as the benchmark in most basic low-cost portfolio discussions.

The SERS fund has a critical requirement to pay retirement benefits in perpetuity -- forever. As a long-term investor, the SERS fund is constructed to minimize loss of capital during potentially prolonged periods of market decline, while maintaining the appropriate liquidity profile for the total fund to pay benefits. As a result, the SERS portfolio is diversified with a mix of stocks, bonds, as well as private equity and real estate. That diversification serves as a foundation of risk management and has paid dividends for the fund.

\*The 60/40 Index consists of 60% MSCI ACWI (USD) (Net) and 40% Bloomberg Barclays US Aggregate TR Value Unhedged Index (USD). Prior to 12/31/1998, the 60/40 Index consisted of 60% MSCI World TR (Net) and 40% Bloomberg Barclays US Aggregate TR Value Unhedged Index (USD). The fee used for the 60/40 index is 6 basis points.

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## RETIREES: CONSIDER YOUR INCOME TAX WITHHOLDING

SERS pension payments are subject to federal income taxes. As a result, the changes to the Internal Revenue Code that occurred early this year could have a significant impact on your annual tax liability.

Many who receive monthly pension payments from SERS adjusted the amount of money they have withheld from those payments for federal income tax. If you have not already done so, you may wish to discuss your current federal income tax withholding with a qualified tax consultant.

If you would like to change the amount of money withheld from your pension payments for federal income tax, send us a completed Annuitant Federal Income Tax Withholding form, available on the Retired Members Forms page at [www.SERS.pa.gov](http://www.SERS.pa.gov) or by calling 1.800.633.5461.

## CONSIDERING YOUR OPTIONS (CONTINUED)

### Your Current Defined Benefit Pension Plan

The amount of your SERS pension is defined by a calculation that takes into consideration your years of service and salary. The amount grows each year based on an annual benefit accrual rate and, when you retire, is paid to you in equal **monthly payments for your lifetime**.

If you have five or more years of service, your SERS pension also includes a disability retirement benefit that would provide monthly pension payments if you become unable to perform your job because of injury or illness. For employees under the governor's jurisdiction and most independent employers, the benefit also includes majority state-paid retiree health insurance for the term of your disability retirement benefit.

### Your Other Options

The pension reform legislation created three new options: one straight defined contribution plan or investment plan option; and two "hybrid" plans, which are a blend of a defined benefit pension plan and a defined contribution investment plan.

#### A Straight Defined Contribution Plan Option

This type of plan is similar to a private sector 401(k) plan, in which the amount of money you have for retirement will be based on the amount you invest, your personal investment choices, and the investment markets. This option does not include a SERS disability retirement benefit. However, agencies under the governor's jurisdiction will offer majority state-paid health coverage to employees who become disabled and meet eligibility requirements.

#### Two Hybrid Plan Options

The pension portion of both of these options features a lower annual benefit accrual rate than you currently have and your final average salary will be based on a five-year average (by highest calendar year) rather than a three-year average (by highest calendar quarters). In addition, your benefit will be reduced for early retirement if you retire before age 67, which is older than the requirement of your current plan.

## This Decision Does NOT Apply to:

### Retirees

Your pension has already been calculated and your monthly pension payments will continue without interruption.

### Hazardous Duty Employees Including:

- Sworn Police Officers
- Enforcement Officers
- Wildlife Conservation Officers (Not Deputy Wildlife Conservation Officers)
- Delaware River Port Authority Policemen
- Park Rangers
- Capitol Police Officers
- SSHE Campus Police Officers
- Community College Campus Police Officers
- Penn State University Campus Police Officers
- Police Officers at Fort Indiantown Gap
- Corrections Officers
- All other positions currently with age 50 or 55 retirement except members of the General Assembly

While both hybrid plans include a disability retirement benefit, the amount will be smaller than that provided by your current plan. Both plans include majority state-paid health coverage for the term of your disability retirement benefit.

**Hybrid Class A-5** – You would contribute the same amount you currently do toward your retirement benefit; however, it would be split between the pension and defined contribution plans. The pension portion of your benefit would be guaranteed to grow by 1.25% of your pay for each year you work for a SERS-participating employer.

**Hybrid Class A-6** – You would contribute the same amount you currently do toward your retirement benefit, which would be split between the pension and defined contribution plans. The pension portion of your benefit would be guaranteed to grow by 1% of your pay for each year you work for a SERS-participating employer.

No matter which plan you choose, the percentage of your compensation withheld from your pay as your contribution toward your retirement benefit will not change.

As with your current plan, there are no provisions for emergency withdrawals – generally speaking, the only way to receive money from your retirement benefit is to retire.

Here are resources to help you consider your retirement plan options:



#### **Benefit Estimate Comparison Calculator**

We will mail you a letter this December listing key data about your personal pension benefit. You will then be able to compare your plan options by entering that personal data into a benefit estimate comparison calculator on our website.



#### **SERS Materials & Counseling**

More information about your options will be available on our website, including a plan comparison document, and plan features and highlights. In addition, SERS retirement counselors are available to answer questions you have about your plan options at 1.800.633.5461 or ra-SERSretc@pa.gov.



#### **Financial Planner/Tax Consultant**

Discuss your options and share SERS materials with a certified financial planner and or tax consultant.

### **How to Officially Make Your Choice**

- If you choose to continue earning your SERS pension as you do today, you have nothing more to do. **If you do nothing, you automatically will remain in your current plan.**
- If you choose to switch to one of the optional plans, you can request an official plan election form between Jan. 2 and March 29, 2019, by contacting a SERS counselor at 1.800.633.5461. The new plan will become effective on July 1, 2019.

## What do I need to do?

To continue earning your SERS pension as you do today, do nothing.  
Call 1.800.633.5461 between 1/2/19 and 3/29/19 to request an official plan election form.

## ENERGY AND EXCITEMENT (CONTINUED)

At PSERS, Ms. Sanchez developed and implemented key strategic operational initiatives that capitalized on major technology efficiencies that she also led. Ms. Sanchez has also served on the Pennsylvania Association of Public Employee Retirement Systems (PAPERS) Board of Directors since 2015.

"On a daily basis, I've worked to engage people and inspire a shared vision while leading others through many complex challenges and opportunities, including massive technological and cultural changes," added Sanchez. "My goal is to bring that same energy and excitement to SERS on behalf of our active and retired members -- those who are currently working to provide valuable services to the citizens of the commonwealth and those who have worked for years and are now in their retirement."

The SERS board voted to hire Ms. Sanchez in April to fill the vacancy created when prior Executive Director David Durbin retired in January 2018.

"I am dedicated to assisting the board and staff in continuing our strong commitment to honesty and transparency," explained Sanchez. "My goal is to be a strong and effective advocate for SERS and our members, a strong leader for our staff, and a strong supporter of our board."

Believed to be the first female Executive Director in the agency's 95-year history, and in the history of any statewide retirement system in the Commonwealth of Pennsylvania, Sanchez began in state government as an intern with the Department of Revenue in the summer of 1983. Originally from Shamokin, Pennsylvania, Sanchez has been living in the Harrisburg area since 1984. Sanchez also has worked for other commonwealth agencies, including the Public Utility Commission, Department of Health, and the Office of Administration.



### STAY CONNECTED WITH SERS

Go to [www.SERS.pa.gov](http://www.SERS.pa.gov) and provide your e-mail address to get member updates and other news sent to your inbox.

## Where do I learn more about my options?

[www.SERS.pa.gov](http://www.SERS.pa.gov)

1.800.633.5461

financial planner/tax consultant



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