



pennsylvania
State Employees' Retirement System

2019 Financial Highlights
June 9, 2020

Service and stewardship since 1923.

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Fiduciary Net Position

As of December 31, 2019 and 2018
(\$ millions)

	2019	Increase/ (Decrease)	2018
Total assets	\$ 31,756	\$ 4,162	\$ 27,594
Total deferred outflows - OPEB	3	3	-
Total assets and deferred outflows	31,759	4,165	27,594
Total liabilities	641	(1)	642
Total deferred inflows - OPEB	22	7	15
Total liabilities and deferred inflows	663	6	657
Net position restricted for pensions	<u>\$ 31,096</u>	<u>\$ 4,159</u>	<u>\$ 26,937</u>

Changes in Fiduciary Net Position

For Years Ended December 31, 2019 and 2018
(\$ millions)

			Increase/(Decrease)	
	2019	2018	\$	%
Net Position Restricted for Pensions - Beginning of Year	\$ 26,937	\$ 29,405		
Additions:				
Contributions	2,520	2,443	77	3%
Net Investment Income/(Loss)	5,175	(1,442)	6,617	459%
Total Additions	7,695	1,001		
Deductions:				
Benefit Payments and Refunds	3,513	3,395	118	3%
Administrative Expenses	23	26	(3)	(12%)
Total Deductions	3,536	3,421		
Cumulative Effect of Change in Accounting Principle ^{1/}	-	(48)	48	(100%)
Net Increase/(Decrease)	4,159	(2,468)	6,627	269%
Net Position Restricted for Pensions - End of Year	\$ 31,096	\$ 26,937	4,159	15%

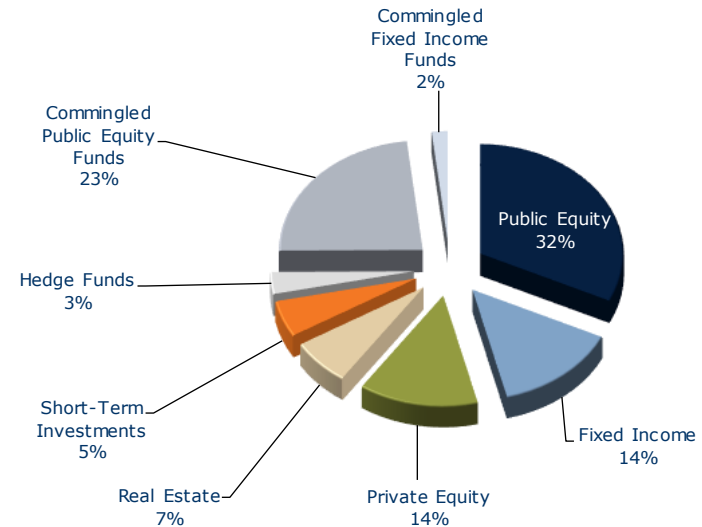
^{1/}Reflects changes due to adoption of GASB 75 - Other Post-Employment Benefit Obligations

Investment Balances

Investment Balances
As of December 31, 2019 and 2018
(\$ millions)

			<u>Allocation %</u>	
	2019	2018	2019	2018
Public Equity	\$10,004	\$9,381	32%	35%
Fixed Income	4,387	4,012	14%	15%
Private Equity	4,193	3,900	14%	14%
Real Estate	2,114	1,967	7%	7%
Short-Term Investments	1,662	1,146	5%	5%
Hedge Funds	1,005	922	3%	3%
Commingled Public Equity Funds	7,269	5,346	23%	19%
Commingled Fixed Income Funds	560	521	2%	2%
Other Investments	3	0	0%	0%
Total	<u>\$31,197</u>	<u>\$27,195</u>	<u>100%</u>	<u>100%</u>

Allocation as of December 31, 2019



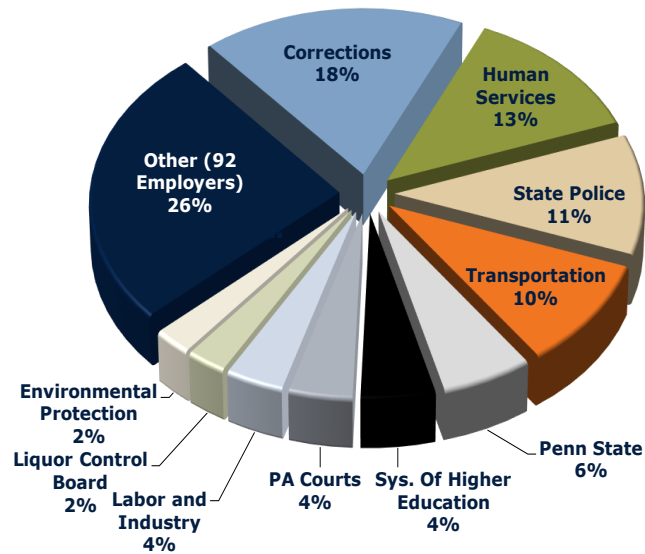
Contribution Highlights

For the Year Ended December 31, 2019

Employer	Employer Contributions (\$ millions)	Active Members^{1/}
Corrections	\$ 378	15,359
Human Services	269	16,404
State Police	234	6,432
Transportation	206	12,144
Penn State	120	6,868
Sys. Of Higher Education	98	4,765
PA Courts	84	1,916
Labor and Industry	77	4,221
Liquor Control Board	53	4,496
Environmental Protection	51	2,404
Other (92 Employers)	545	27,841
Total Employer	\$ 2,115	102,850

	Member Contributions (\$ millions)
All 102 Employers	\$ 405
Total Contributions	\$ 2,520

Top 10 Contributing Employers

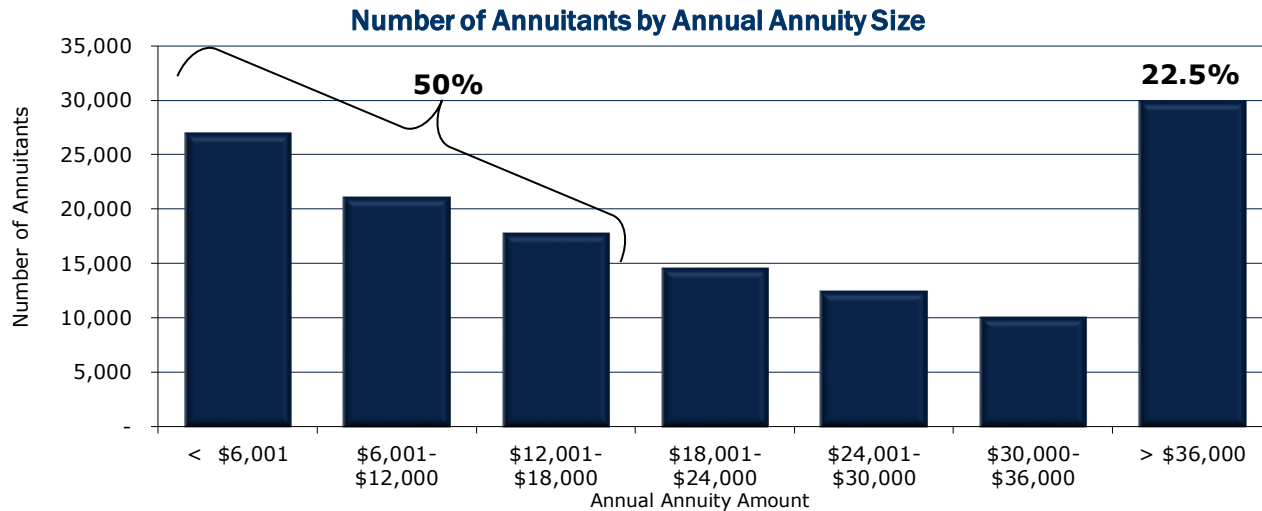
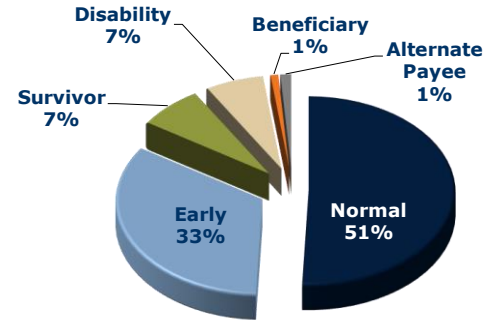


^{1/}Bolded figures represent a decrease from prior year.

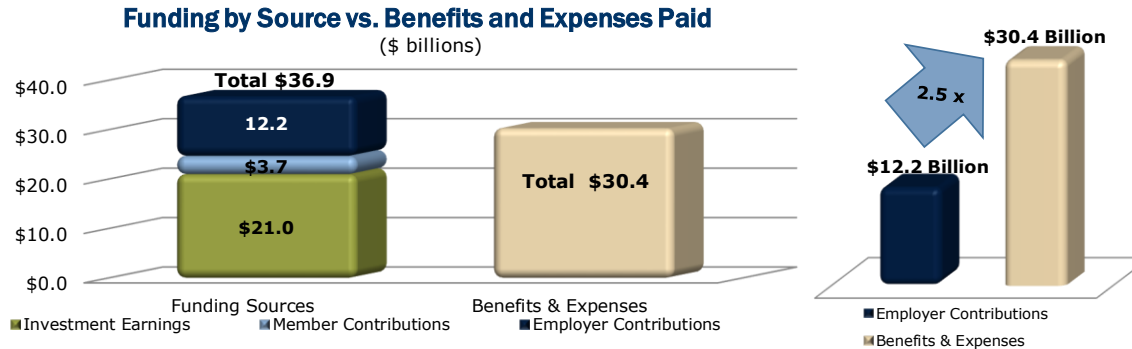
Annuity Payroll

As of December 31, 2019

Retirement Member Types	Number of Annuitants	Average Annual Annuity
Normal	67,308	\$ 29,440
Early	44,431	18,428
Survivor	9,644	14,534
Disability	8,628	15,980
Beneficiary	1,130	12,171
Alternate Payee	1,590	10,627
Total	132,731	23,423



10 Year Funding and Payment Activity



Statement of Change Activity By Year (\$ millions)

Calendar Year	Contributions			Investment Earnings	Benefits and Expenses	Net Position
	Employer	Member	Total			
2019	\$2,115	\$405	\$2,520	\$5,175	\$(3,536)	\$31,096
2018	2,049	394	2,443	(1,442)	(3,421)	26,937
2017	1,898	383	2,281	4,066	(3,330)	29,405
2016	1,622	375	1,997	1,587	(3,251)	26,388
2015	1,360	372	1,732	88	(3,103)	26,055
2014	1,084	366	1,450	1,462	(2,968)	27,338
2013	795	352	1,147	3,724	(2,866)	27,394
2012	566	348	914	2,794	(2,696)	25,389
2011	392	351	743	480	(2,732)	24,377
2010	273	349	622	3,076	(2,474)	25,886
10 Yr. Total	\$12,154	\$3,695	\$15,849	\$21,010	(\$30,377)	

Annotations: 11.4% increase from 2010 to 2019; 9.6% increase from 2010 to 2019; 42.9% increase in Benefits and Expenses from 2010 to 2019; 20.1% increase in Net Position from 2010 to 2019.

^{1/}Includes \$48 million adjustment for cumulative effect of change in accounting principle related to GASB 75 - Other Post-Employment Benefit Obligations

Projected Funding Levels & Contribution Rates^{1/}

(\$ millions)

Valuation Year Ended Dec 31	Funded Ratio	Fiscal Year	Funding Payroll	Employer Normal Cost Rate	Unfunded Liability Rate	Final Employer Contribution Rate	Employer Contribution Dollars
2019	56.5	20/21	6,658	1.67	31.78	33.45	2,227
2020 ^{2/}	58.3	21/22	6,851	1.67	30.59	32.26	2,210
2021 ^{3/}	64.6	22/23	7,049	8.91	24.42	33.33	2,349
2022	65.9	23/24	7,254	8.69	23.75	32.44	2,353
2023	68.5	24/25	7,464	8.48	22.34	30.82	2,300
2024	69.9	25/26	7,681	8.27	21.66	29.93	2,299
2025	71.3	26/27	7,903	8.07	21.01	29.08	2,298
2026	72.6	27/28	8,132	7.88	20.40	28.28	2,300
2027	74.0	28/29	8,368	7.70	19.81	27.51	2,302
2028	75.4	29/30	8,611	7.52	19.25	26.77	2,305
2029	76.8	30/31	8,861	7.36	18.70	26.06	2,309
2030	78.3	31/32	9,118	7.20	18.17	25.37	2,313

^{1/}Except as noted, the projection of contribution rates is based on the assumption that there are no changes in SERS statutory funding methodology, no changes in demographics or economic assumptions, no changes in benefit provisions, and no actuarial gains or losses on the actuarial value of assets that result from recognizing currently deferred gains or losses on the fair value of assets. All information on this page is based on statutory funding requirements.

^{2/}Numbers are projected from 2020 – 2030 based on 2019 actuarial funding valuation.

^{3/}Act 2017-5 amended the Retirement Code to change the funding method to traditional entry age.

GASB 67

In 2014, SERS implemented the Governmental Accounting Standards Board (GASB) Statement No. 67, which significantly revised financial reporting for pension plans through:

- Standardized actuarial cost method to be used in calculating the total pension liability and net pension liability
- Standardized asset valuation methods and amortization periods
- Stricter guidelines for formulating the discount rate

The reporting standards have no impact on the actual funding of the system, which is based on the actuarial methods and assumptions outlined in the Retirement Code. Below is a comparison of the key results of both valuations.

Valuation Comparison

As of December 31, 2019
(\$ millions)

GASB 67 - Accounting Valuation		Funding Valuation	
Total Pension Liability (TPL)	\$ 49,274	Actuarial Accrued Liability (AAL)	\$ 52,973
Fiduciary Net Position	\$ 31,096	Actuarial Value of Assets	\$ 29,934
Net Pension Liability (NPL)	<u>\$ 18,178</u>	Unfunded AAL	<u>\$ 23,039</u>
Fiduciary Net Position/TPL	63.1%	Funded Ratio	56.5%
Fiduciary Net Position/TPL (Prior Year)	56.4%	Funded Ratio (Prior Year)	56.0%

GASB 68

GASB 68 revised the required pension reporting of employers who are members of the pension system effective for fiscal years ending on or after June 30, 2015.

- Requires employers to report their proportionate share of net pension liability, pension expense, and deferred outflows/inflows related to pensions in the employers' financial statements
- Requires the development of a proportionate share or allocation percent, using a methodology consistent with the manner in which contributions are expected to be made to the plan

**Net Pension Liability
as of December 31, 2019**
(\$ millions)

Employer	Net Pension Liability (NPL)	Proportionate Share of NPL
Corrections	\$3,264	18%
Human Services	2,356	13%
State Police	1,906	10%
Transportation	1,803	10%
Penn State	1,077	6%
Sys. Of Higher Education	868	5%
PA Courts	707	4%
Labor and Industry	683	4%
Liquor Control Board	472	3%
Environmental Protection	446	2%
Remaining Employers	4,596	25%
Total Employer	\$18,178	100%

Fiduciary Net Position

As of December 31, 2019 and 2018
(\$ millions)

	2019	Increase/ (Decrease)	2018
Total assets	\$ 13	\$ 9	\$ 4
Total deferred outflows - OPEB	1	1	-
Total assets and deferred outflows	14	10	4
Total liabilities	1	1	-
Total deferred inflows - OPEB	1	1	-
Total liabilities and deferred inflows	2	2	-
Net position held in trust for defined contribution plan participants	<u>\$ 12</u>	<u>\$ 8</u>	<u>\$ 4</u>

Changes in Fiduciary Net Position

For Years Ended December 31, 2019 and 2018
(\$ millions)

			Increase/(Decrease)	
	2019	2018	\$	%
Net Position Held in Trust for Defined Contribution Plan Participants - Beginning of Year	\$ 4	\$ -		
Additions:				
Contributions	9	-	9	NA
Commonwealth funding	4	5	(1)	(20%)
Total Additions	13	5		
Deductions:				
Administrative Expenses	5	1	4	400%
Total Deductions	5	1		
Net Increase	8	4	4	100%
Net Position Held in Trust for Defined Contribution Plan Participants - End of Year	\$ 12	\$ 4	8	200%

Plan Highlights

- The Defined Contribution (DC) Plan was established as part of Act 2017-5.
- The DC Plan opened for enrollment on January 1, 2019.
- Approximately 8,000 defined contribution accounts were established in 2019.
- Participants can choose to invest in any of several investment options including a range of target date funds, equity funds, fixed income funds, a short-term investment fund, and a self-directed brokerage option.
- During 2019, participants rolled approximately \$1.7 million into the DC Plan from other qualified plans.
- If a participant terminates employment before earning three eligibility points any unvested employer contributions are returned to the employees' most recent employer to be used to offset future employer contributions to the plan. These monies are kept in employer-level forfeiture accounts with the third-party administrator (TPA). During the year ended Dec. 31, 2019, employer contributions were reduced by \$30,000. There were \$210,000 in forfeitures available for future use as of the end of the year.

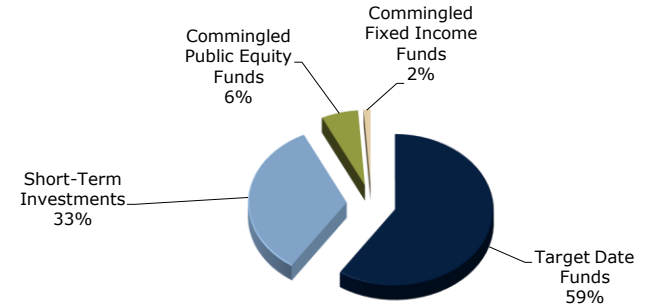
Fund Balances & Breakouts

Fund Balances

As of December 31, 2019 and 2018
(\$ thousands)

			Allocation %	
	2019	2018	2019	2018
Target Date Funds (default option)	\$7,898	\$0	59%	0%
Short-Term Investments	4,434	4,460	33%	100%
Commingled Public Equity Funds	808	0	6%	0%
Commingled Fixed Income Funds	150	0	2%	0%
Total	\$13,290	\$4,460	100%	100%

Allocation as of December 31, 2019

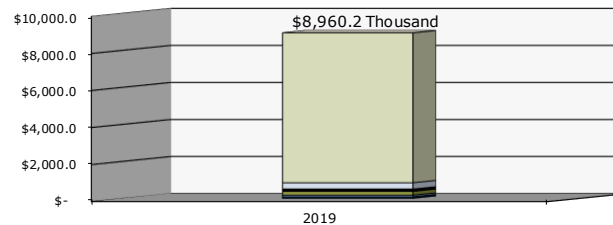


Contributions by Fund

For the Year Ended December 31, 2019
(\$ thousands)

Fund	2019
Global non-U.S. stock index fund	\$ 102.2
U.S. all company stock index fund	91.4
U.S. large company stock index fund	201.1
U.S. small/mid company stock index ft	39.8
U.S. TIPS fund	16.0
U.S. bond index fund	49.2
Short-term bond index fund	23.0
Short-term investment fund	339.5
Target date fund suite (default option)	8,098.0
Total Contributions	\$ 8,960.2

Annual Contributions

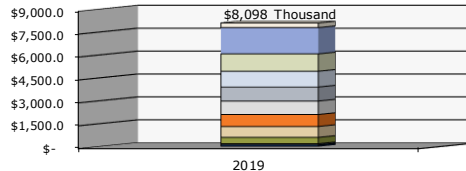


Contributions by Target Date Fund

For the Year Ended December 31, 2019
(\$ thousands)

Fund	2019
Post Retirement Date Fund	\$ 114.1
2020 Retirement Date Fund	74.8
2025 Retirement Date Fund	416.8
2030 Retirement Date Fund	711.2
2035 Retirement Date Fund	784.4
2040 Retirement Date Fund	880.8
2045 Retirement Date Fund	917.9
2050 Retirement Date Fund	1,031.2
2055 Retirement Date Fund	1,138.5
2060 Retirement Date Fund	1,721.3
2065 Retirement Date Fund	307.0
Total Contributions	\$ 8,098.0

Annual Contributions



Net Position Available for Benefits

As of December 31, 2019 and 2018
(\$ thousands)

	2019	Increase/ (Decrease)	2018
Assets:			
Total receivables	\$ 7,925	\$ 2,194	\$ 5,731
Total investments	3,889,432	566,245	3,323,187
Total assets	3,897,357	568,439	3,328,918
Liabilities:			
Total liabilities	2,070	215	1,855
Net position available for benefits	<u>\$3,895,287</u>	<u>\$ 568,224</u>	<u>\$ 3,327,063</u>

Changes in Net Position Available for Benefits

For Years Ended December 31, 2019 and 2018
(\$ thousands)

			Increase/(Decrease)	
			\$	%
	2019	2018		
Net Position Available for Benefits - Beginning of Year	\$ 3,327,063	\$ 3,495,330		
Additions:				
Contributions from Participants	155,626	145,662	9,964	7%
Plan Transfers in	62,141	62,034	107	0%
Net Investment Income/(Loss)	615,936	(114,191)	730,127	639%
Total Additions	833,703	93,505		
Deductions:				
Benefits, Refunds and Transfers to Participants	260,198	256,864	3,334	1%
Third Party and Administrative Expenses	5,281	4,908	373	8%
Total Deductions	265,479	261,772		1%
Increase/(Decrease) in Net Position	568,224	(168,267)	736,491	438%
Net Position Available for Benefits - End of Year	<u>\$ 3,895,287</u>	<u>\$ 3,327,063</u>	568,224	17%

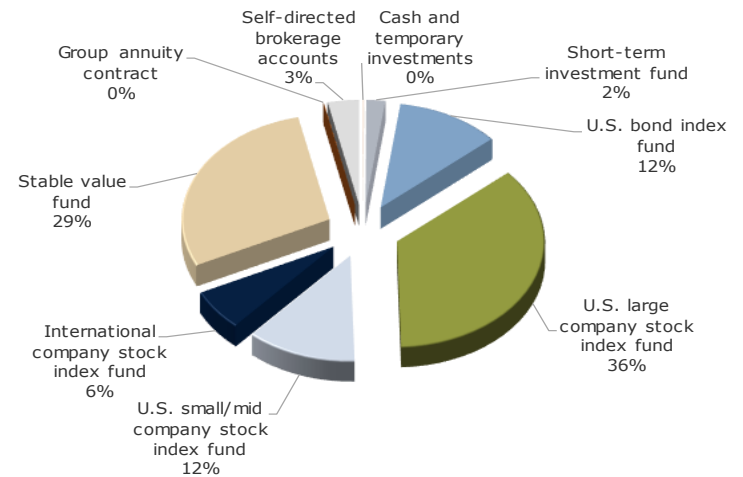
Fund Balances & Breakouts

Fund Balances^{1/}

As of December 31, 2019 and 2018
(\$ millions)

	2019 ^{2/}	2018	Allocation %	
			2019	2018
Cash and temporary investments	\$3	\$3	0%	0%
Short-term investment fund	81	71	2%	2%
U.S. bond index fund	445	403	12%	12%
U.S. large company stock index fund	1,398	1,109	36%	34%
U.S. small/mid company stock index fund	466	372	12%	11%
International company stock index fund	244	192	6%	6%
Stable value fund	1,118	1,063	29%	32%
Group annuity contract	1	1	0%	0%
Self-directed brokerage accounts	133	109	3%	3%
Total	\$3,889	\$3,323	100%	100%

Allocation as of December 31, 2019



^{1/}Includes total fund holdings. Participants could elect investment options that hold more than one of these funds, such as the 60/40 Balanced Stock & Bond Fund as well as the aggressive, moderate, and conservative risk profile funds.

^{2/}Investment option lineup as of December 31, 2019. Subsequent changes to simplify and streamline options were made in January 2020.

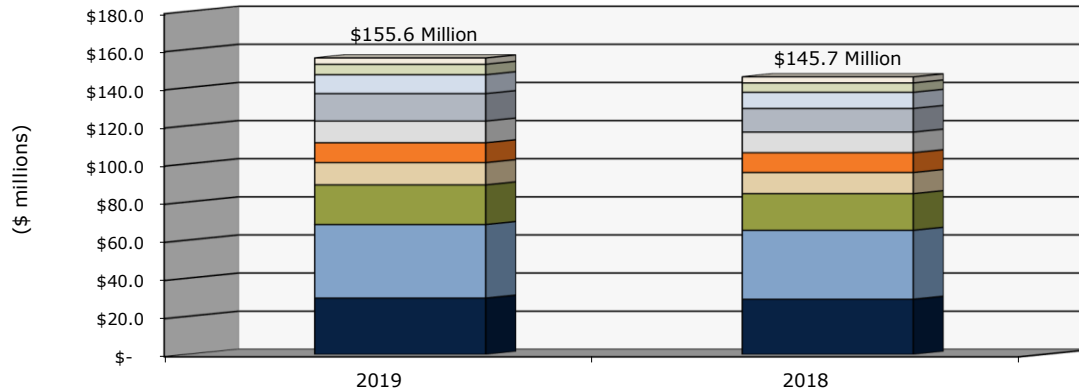
Contributions by Fund

For the Years Ended December 31, 2019 and 2018

(\$ millions)

Fund	2019	2018	Increase/ (Decrease)	% Change
Stable Value	\$ 29.6	\$ 29.0	\$ 0.6	2%
U.S. Large Company Stock Index	38.6	36.2	2.4	7%
U.S. Small/Mid Company Stock Index	20.8	19.2	1.6	8%
Aggressive Portfolio	11.7	11.1	0.6	5%
Moderate Portfolio	10.4	10.4	-	0%
60/40 Balanced Stock & Bond	11.4	10.8	0.6	6%
International Company Stock Index	14.4	12.4	2.0	16%
U.S. Bond Index	9.9	8.5	1.4	16%
Short-Term Investment	5.5	4.9	0.6	12%
Conservative Portfolio	3.3	3.2	0.1	3%
Total Contributions	\$ 155.6	\$ 145.7	\$ 9.9	7%

Annual Contributions



10 Year Growth Plan Assets & Participants

(\$ billions)

