

2020 SERS Budget Highlights

The Pennsylvania State Employees' Retirement System currently serves approximately 243,000 active, inactive, vested and retired members. Last year, the system paid nearly \$3.5 billion in benefits of which approximately \$3.2 billion was issued to SERS members who live in Pennsylvania. For 2019, the average pension paid to retirees who work to full retirement age was about \$29,440.

For FY 2020-21, SERS proposes a \$30.7 million spending authority, which is drawn from SERS funds, not general government operating accounts for administration of the Defined Benefit Plan and \$4.6 million, which will be appropriated from commonwealth funds for the Defined Contribution Plan.

Economic Rebound

The past year, 2019, saw a dramatic rebound across both equity and debt markets. As a result, SERS experienced investment gains of nearly 19% for our defined benefit plan, more than double the fund's assumed rate of return.

Thanks to these positive returns, along with our continued push toward greater efficiencies and transparency, as well as four consecutive years of full funding of the actuarially required contribution from the General Assembly, SERS continues to progress toward our long-term goal of eliminating our unfunded liability.

Now that SERS employers are paying the full "uncollared" contribution amount, plus making extra "plowback" contributions to return Act 2017-5 savings, the impact on paying down the unfunded liability is dramatic. This funding is crucial for the overall long-term health of the pension system. Enacting a dedicated funding source for future contributions could provide additional stability and assurance.

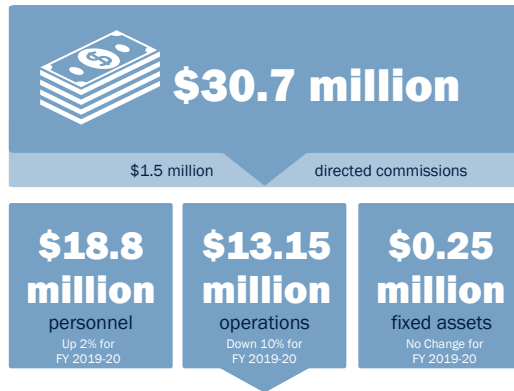
New Plans / New Options

As a result of Act 2017-5, several important fundamental changes to SERS retirement options took effect beginning January 1, 2019. The legislation established a hybrid defined benefit/defined contribution plan with two class of service options and a straight defined contribution plan. Most new state employees are automatically enrolled in one of the two Hybrid Plan options, with the right to opt out of that Hybrid Plan and elect the Defined Contribution Plan. The exceptions are hazardous-duty employees and those who contributed to the traditional defined benefit pension plan in the past. In those two cases, the employee is automatically enrolled in the traditional defined benefit pension plan.

Additionally, all SERS members as of January 1, 2019, were given a one-time, irrevocable option to switch to either the new hybrid or defined contribution-only plan. Sixty-eight members opted into one of the new plans. Each plan is described in greater detail, including participation, asset value, and contribution rates, in the SERS 2020 Supplemental Budget Book.

Defined Benefit Plan

Total FY 2020-21 Spending Request



Samples from operations =

IT consulting-system upgrade	\$2.5 million
hardware/software maintenance	\$2.1 million
real estate	\$1.8 million
treasury services	\$1.5 million
postage	\$0.6 million
legal services	\$0.5 million
office equipment	\$0.4 million

Defined Contribution Plan

Total FY 2020-21 Spending Request



Samples from operations =

IT consulting-system upgrade	\$280,000
postage	\$250,000
real estate	\$180,000
legal services	\$150,000
office equipment	\$26,000

Deferred Compensation Plan

Total FY 2020-21 Planned Budget



Samples from operations =

specialized services	\$3.6 million
consultants - non EDP	\$167,900
real estate	\$28,500
printing	\$11,940
postage	\$11,270
office equipment	\$6,600
legal services	\$5,000



Hybrid Plan Snapshot

as of Dec 31, 2019

Reflects early estimated data. For final data verified through the actuarial review process, see the updated [Hybrid Plan Snapshot](#).

Participants	6,690 total 6,427 A-5 Class of Service 263 A-6 Class of Service
Assets	see the Defined Contribution Plan and Defined Benefit Plan Snapshots for the assets in each plan.
Number of Employers	102

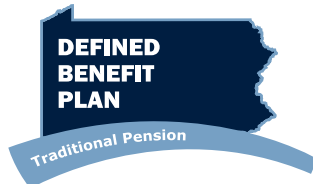


Defined Contribution Plan Snapshot

as of Dec 31, 2019

Reflects early estimated data. For final data verified through the actuarial review process, see the updated [Defined Contribution Plan Snapshot](#).

Participants	7,802 total accounts 6,938 participants contributing to the plan 6,690 Hybrid Plan participants 248 Defined Contribution Plan participants 864 inactive accounts
Assets	\$9.2 million
Number of Employers	102
Total Participant Mandatory Contributions	\$4.1 million
Total Employer Contributions	\$2.7 million
Total Rollovers into the Plan	61 totaling \$1.7 million
Total Rollovers Out of the Plan	15 totaling \$11,000
Total Distributions/Withdrawals	\$310,000
Total Voluntary After-Tax Contributions	\$117,000



Defined Benefit Plan Snapshot

Reflects early estimated data. For final data verified through the actuarial review process, see the updated [Defined Benefit Plan Snapshot](#).

Members
as of Dec 31, 2019

242,749 total
132,731 retirees and beneficiaries receiving benefits
103,266 active members paying into the system
6,752 vested members not receiving benefits

Average 2018 Annuity

\$21,282 per year
\$29,440 per year for those who work to full retirement age

Total Pension Benefits Paid
paid in 2019, unaudited

\$3.5 billion

Member Contribution Rate
PA FY 2019/20

6.25% of salary, by payroll deduction (for most members)
Varies between 5% and 9.3%

Number of Employers
as of Dec 31, 2019

102

Employer Contribution Rate
PA FY 2019/20

33.59% of payroll, composite rate
1.25% of payroll for benefits earned this year
32.34% of payroll for the unfunded liability

Projected Employer Contribution Rate
PA FY 2020/21

33.63% of payroll
1.41% of payroll for benefits earned this year
32.22% of payroll for the unfunded liability

Employer Contribution Sources
% provided by the Governor's Budget Office (FY 2017/18)

approx. 40% general funds
approx. 48% special and federal funds
approx. 12% independent employer funds

Funding Sources
as of year-end Dec 31, 2019, unaudited

\$409 million member contributions
\$2.1 billion employer contributions
\$4.97 billion investment earnings

Investment Returns
as of Dec 31, 2019
unaudited, annualized, net-of-fees

18.8% 1-year
8.1% 10-year
6.0% 20-year
8.4% 30-year

Total Fund Assets
as of Dec 31, 2019, unaudited

\$30.9 billion

Cash Flow
2020 projected

\$2.46 billion annual contributions (member/employer)
\$3.61 billion annual payments (benefits/administrative expenses)
difference in sum necessary to cover payments must come from investment income

Funded Status
2018 actuarial report adjusted with preliminary 2018 year-end performance data

56.5% with an unfunded liability of \$22.3 billion

Key Assumptions
2018 Actuarial Report

7.25% long-term investment return
7.125% long-term investment return effective with 2019 valuation
5.55% average total salary/career growth
2.60% inflation rate



Deferred Compensation Plan Snapshot

as of Dec 31, 2019

Reflects early estimated data. For final data verified through the actuarial review process, see the updated [Deferred Compensation Plan Snapshot](#).

Participants

57,432 total accounts
34,755 actively contributing participants

Assets

\$3.9 billion

Number of Employers

87

Total Participant Contributions

\$153 million

Total Rollovers Into the Plan

833 totaling \$63 million

Total Rollovers Out of the Plan

1,210 totaling \$214 million

Total Distributions/Withdrawals

29,968 totaling \$261 million

