



DECEMBER 31, 2024 ACTUARIAL VALUATION AND FISCAL YEAR 2025/2026 COSTS

Commonwealth of Pennsylvania
State Employees' Retirement System
(SERS)

APRIL 29, 2025



AGENDA

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ACTUARIAL VALUATION HIGHLIGHTS

PURPOSE

The SERS Actuary, Korn Ferry, produces an annual actuarial valuation of SERS. The December 31, 2024 actuarial valuation:

- Reviews the experience of SERS membership and investments during CY2024
- Provides information on the SERS funded status by comparing the SERS assets to the liabilities (expected value of benefits)
- Determines the employer contribution rates for Fiscal Year 2025/2026
- Documents the calculation of any applicable Shared-Risk or Shared-Gain adjustments to the Member Contributions
 - There will be a Shared-Risk adjustment applied July 1, 2025 through June 30, 2026 for Classes A-5 and A-6.

EMPLOYER CONTRIBUTION RATE DETERMINATION

The employer contribution rates reflect:

- Membership information as of December 31, 2024
- The Actuarial Value of SERS assets as of December 31, 2024
 - The Actuarial Value of assets utilizes an asset smoothing method to dampen the effect of investment market volatility
- Actuarial Assumptions on the future experience of SERS members and investments

CURRENT ASSUMPTIONS

Actuarial Assumptions Used in the December 31, 2024 Valuation

- Interest rate of 6.875%
- Inflation rate of 2.5%
- Mortality rates for retired, disabled, and beneficiary using Public Plan Mortality tables with Scale MP-2019 improvement in future years (with base tables adjusted for SERS experience)
- Mortality for actives based on SERS experience
- Retirement rates (full unreduced and early)
- Withdrawal rates (deferring benefit or receiving refund of contributions and interest if not vested)
- Spouse/beneficiary age difference
- Average years of purchased service that have not been added to member account
- Form of payment (expected optional forms, including elections to withdraw contributions and interest)
- Salary increase assumptions (general and step/merit/promotion)

Most assumptions are based on the July 29, 2020 Investigation of Actuarial Experience. No changes are recommended for the December 31, 2024 valuation.

SHARED-RISK OR SHARED-GAIN ADJUSTMENT

	<u>Calendar Year</u>	<u>Actual Return</u>	<u>Expected Return</u>	<u>Actual Minus Expected</u>
A-3 or A-4	2013-2022	6.7899%/year	7.2873%/year	-0.4974%
A-5 or A-6	2020-2022	4.5984%/year	7.0417%/year	-2.4433%

Since the difference during the Testing Period (CY2013-CY2022) of -0.4974% was between -1% to 1%, there is no Shared Risk/Gain triggered for A-3 or A-4 Members through June 30, 2026.

Since the difference during the Testing Period (CY2020-CY2022) of -2.4433% was less than -1%, the trigger was met for **potential Shared Risk** for A-5 and A-6 Members.

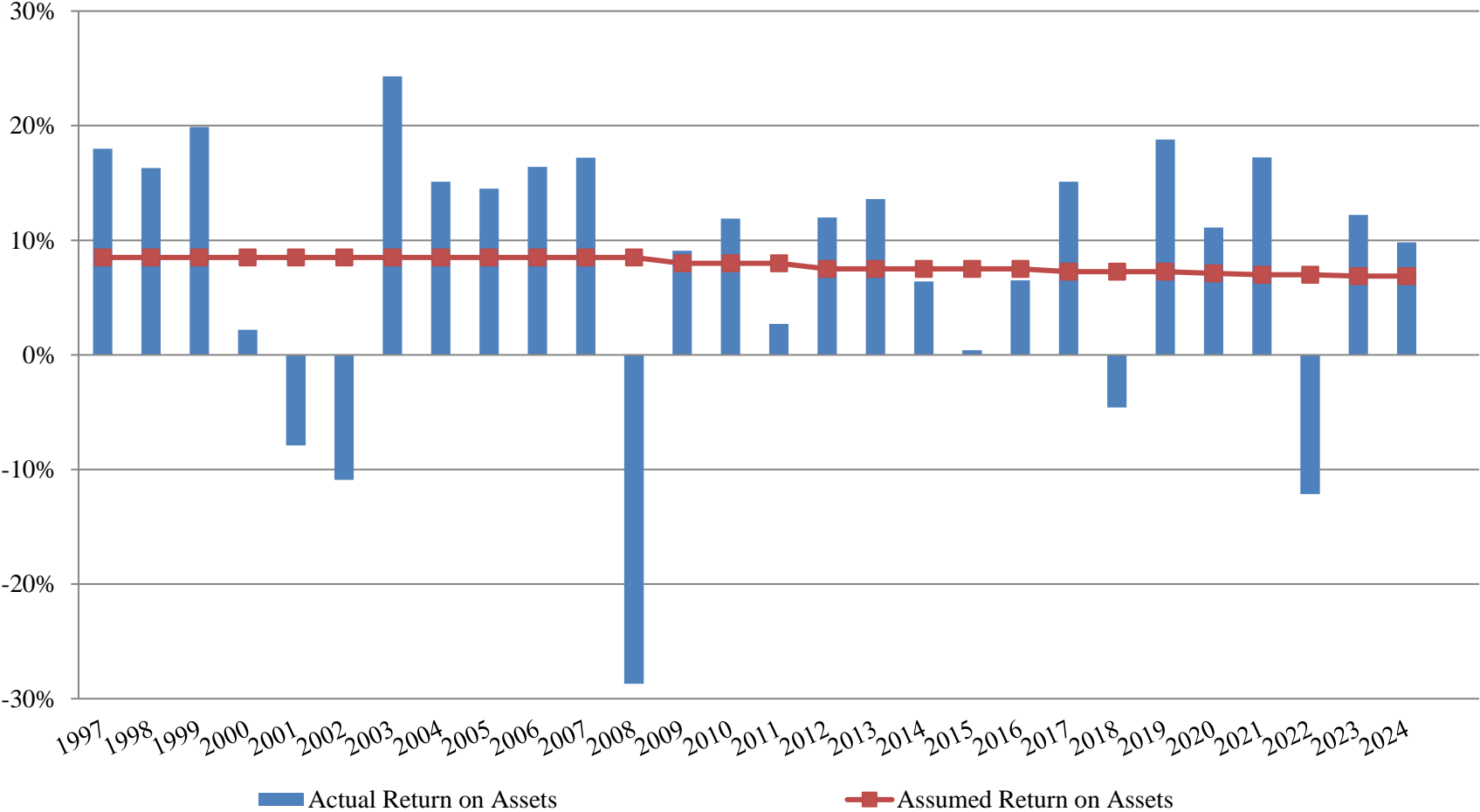
SHARED-RISK OR SHARED-GAIN ADJUSTMENT

The actual impact of the gains and losses during the 3-year period only increased the Employer Cost for FY 2025/2026, triggering the Shared-Risk provision starting in FY 2025/2026.

The Shared-Risk adjustment will be 0.09% for members in Classes A-5 or A-6.

SERS HISTORICAL ANNUAL INVESTMENT RETURNS

SERS Historical Annual Investment Returns



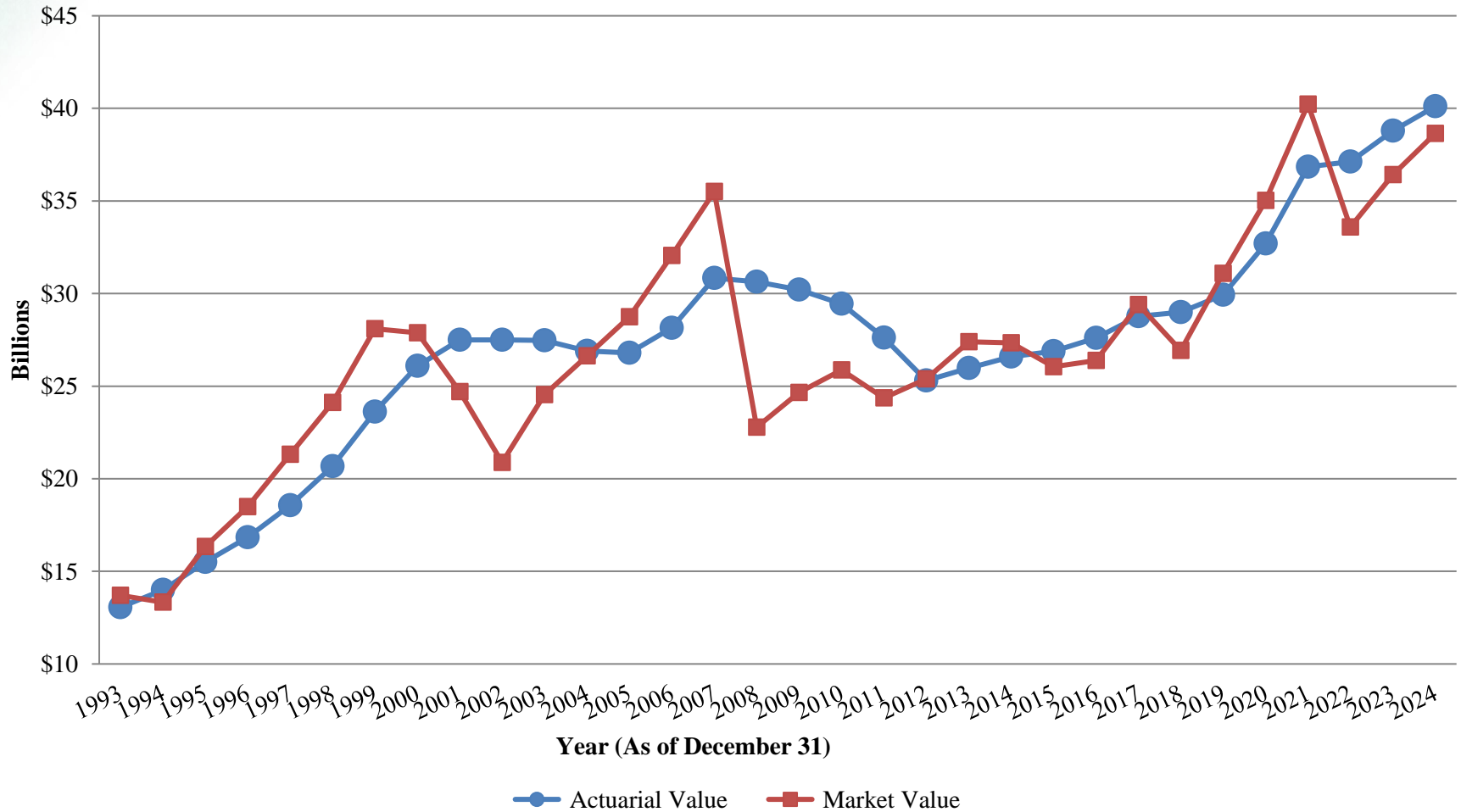
ASSET SMOOTHING

SERS utilizes an asset smoothing method to help dampen the effect of investment market volatility on the funding status and employer contribution rates.

- Each year, an investment gain/loss is calculated based on the difference between the actual investment returns and the expected investment returns
- The investment gain/loss is recognized over a 5-year period, with each valuation reflecting one-fifth (20%) of the gain/loss
- The smoothed asset value is referred to as the Actuarial Value

EFFECT OF ASSET SMOOTHING

SERS Actuarial (5-Year Smoothed) & Market Values of Assets



SUMMARY OF MEMBER INFORMATION

	December 31, 2024 Valuation	December 31, 2023 Valuation
Active Participants:		
Number	100,131	98,115
Average Age	46.1	46.3
Average Service	10.7	10.9
Average Annualized Compensation	\$ 72,622	\$ 69,870
Total Annualized Compensation	\$ 7,271,713,000	\$ 6,855,295,000
Funding Payroll	\$ 7,615,319,000	\$ 7,168,727,000
Annuitants and Beneficiaries:		
Number	137,620	136,972
Average Age	71.3	70.9
Total Annual Pension	\$ 3,594,598,056	\$ 3,498,837,015
Inactive and Vested Participants:		
Number	6,995	7,077

SUMMARY OF AGGREGATE EMPLOYER CONTRIBUTION RATE AND FUNDED STATUS

	December 31, 2024 Valuation	December 31, 2023 Valuation
SERS Plan Contribution Rate*		
Normal Cost	7.65%	7.94%
Amortization of Liabilities	24.69%	25.66%
Extra Contribution to Return Act 5 Savings	0.00%	0.00%
Total SERS Contribution Rate	32.34%	33.60%
Benefits Completion Plan Contribution Rate	0.04%	0.05%
Total Contribution Rate	32.38%	33.65%
Funded Status (Market Assets)	67.7%	65.3%
Funded Status (Actuarial Assets)	70.3%	69.6%
Unfunded Liability	\$16,974,283,563	\$16,984,274,717
Balance of Outstanding Setoff Amounts	\$1,728,753,494	\$1,780,581,051
Amortization Liability	\$18,703,037,057	\$18,764,855,768

The Unfunded Liability is adjusted by the Balance of Outstanding Setoff Amounts that are due to employers that made an advance payment. The adjusted value, referred to as the Amortization Liability, is used to determine the employer contribution rates that are applicable to all employers prior to any setoff amounts related to funding agreements.

*Contribution rates are expressed as a percentage of total expected funding payroll.

SUMMARY OF CHANGES

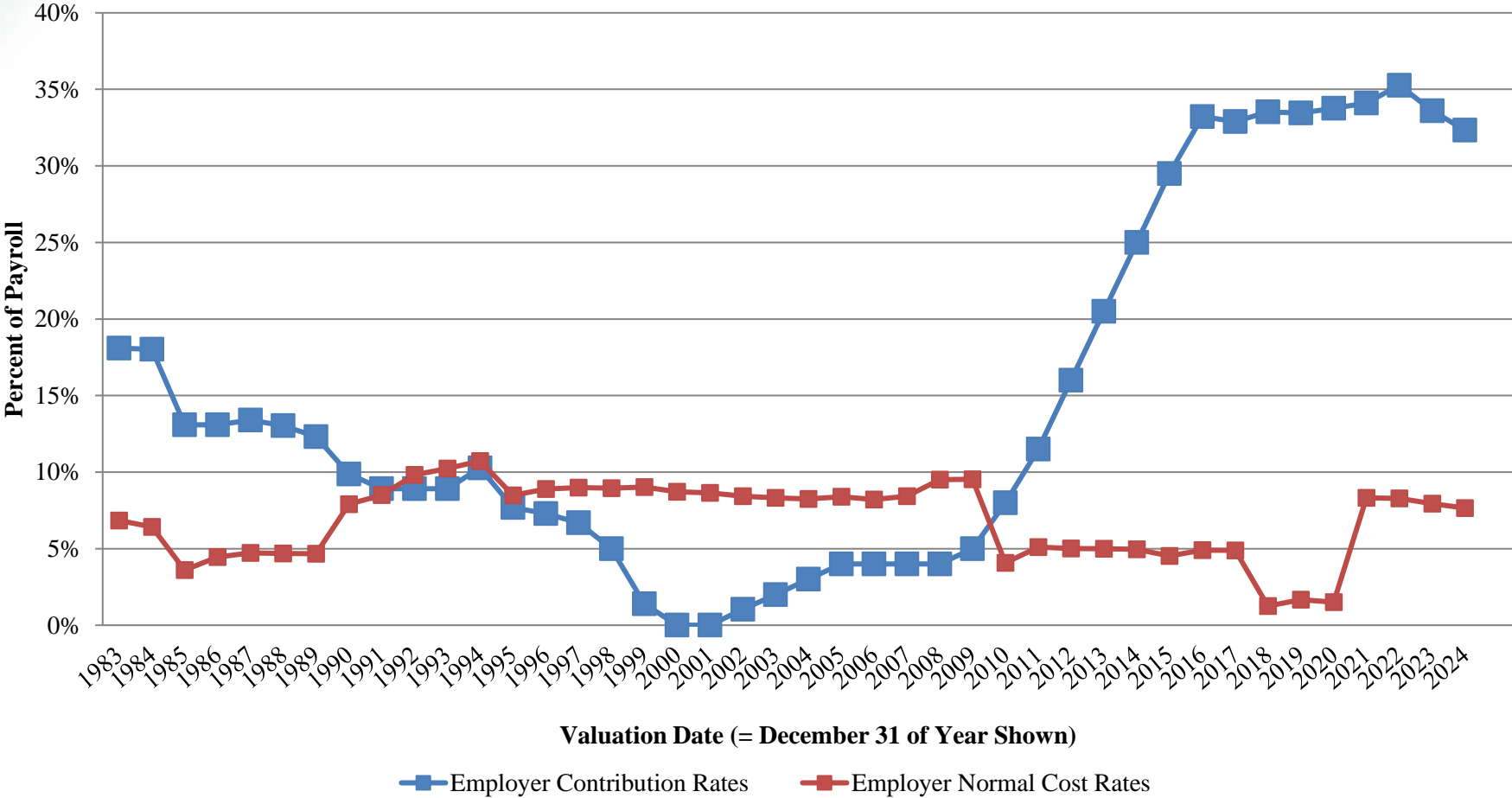
	Normal Cost	Amortization Liability	Total
I. December 31, 2023 Valuation	7.94%	25.66%	33.60%
II. Changes in the December 31, 2024 Valuation			
A) Pay Increases Different than Assumptions	0.00%	0.45%	0.45%
B) Other Differences Between Actual and Expected Experience	-0.43%	0.11%	-0.32%
C) Gain from Investment Earnings (net, during 2020-2024)	0.00%	-0.03%	-0.03%
D) Change in Amortization Due to Change in Payroll	0.00%	-1.50%	-1.50%
E) Change in Administrative Expense Load	<u>0.14%</u>	<u>0.00%</u>	<u>0.14%</u>
F) Total Change	-0.29%	-0.97%	-1.26%
III. December 31, 2024 Valuation [I. + II.(F)]	7.65%	24.69%	32.34%

Analysis of the Change in the Amortization Liability

I. December 31, 2023 Amortization Liability	\$18,764,855,768
II. Expected Amortization Payment	1,840,334,208
III. Expected Amortization Liability as of December 31, 2024 [(I. x 1.06875) – II.]	\$18,214,605,394
IV. Change in Amortization Liability Due to:	
A) Pay Increases Different than Assumptions	425,860,355
B) Other Differences Between Actual and Expected Experience	88,747,914
C) Gain from Investment Earnings (net, during 2020-2024)	<u>-26,176,606</u>
D) Total Change	488,431,663
V. December 31, 2024 Amortization Liability: [III. + IV. (D)]	\$18,703,037,057

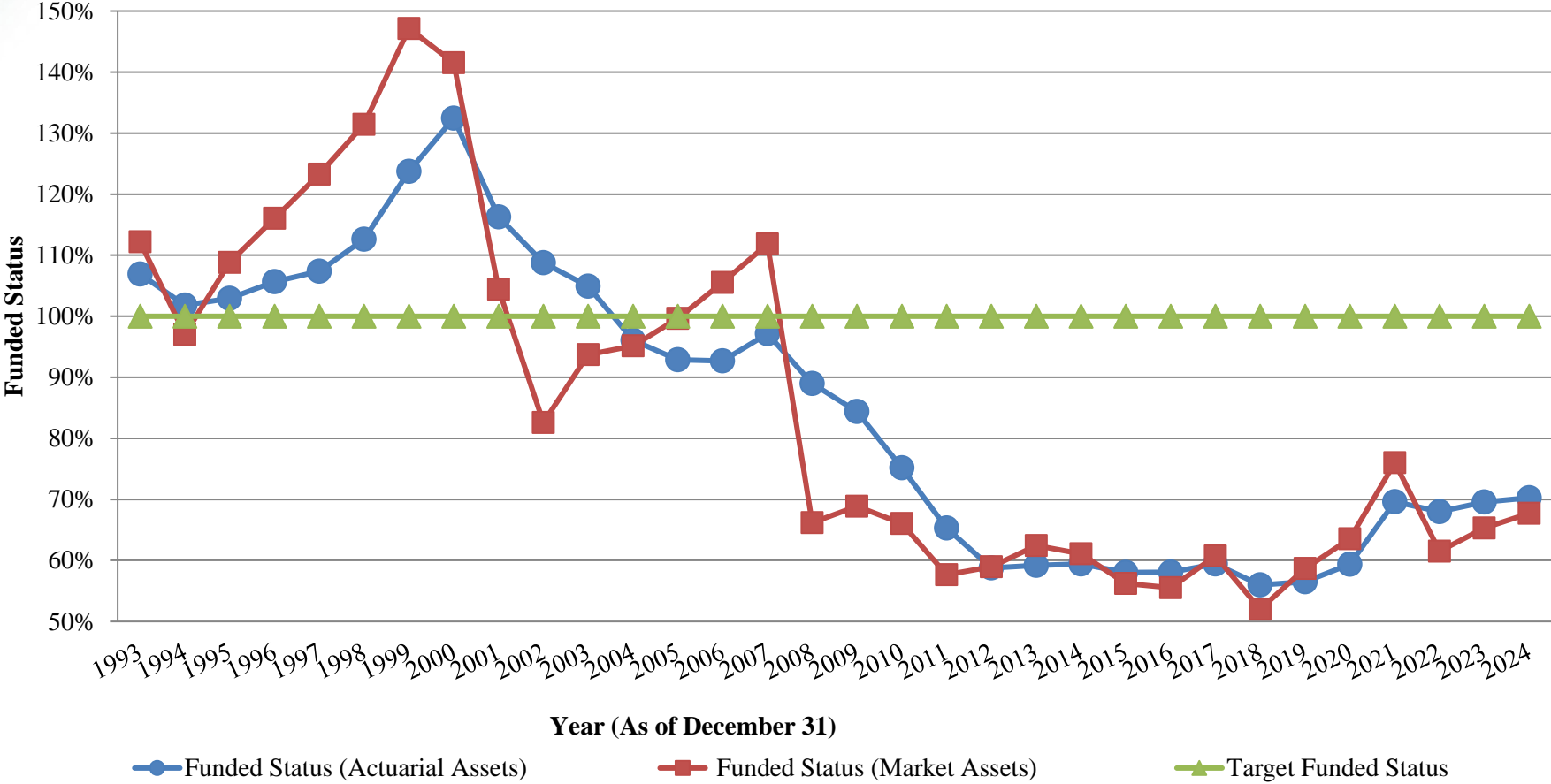
SERS HISTORICAL EMPLOYER CONTRIBUTION RATES


SERS Historical Employer Contribution Rates



SERS HISTORICAL FUNDED STATUS (ASSETS/LIABILITIES)

SERS Historical Funded Status =
Assets / Actuarial Accrued Liability





***EMPLOYER
CONTRIBUTION
RATE BY GROUP
FOR FY 2025/2026***

EMPLOYER CONTRIBUTION RATE BY GROUP FOR FISCAL YEAR 2025 – 2026

	Benefits			Defined Contribution Plan	Total
	SERS Plan*	Completion Plan	Legacy Subtotal		
Class A-5 Members	16.67%	0.04%	16.71%	2.25%	18.96%
Class A-6 Members	16.92%	0.04%	16.96%	2.00%	18.96%
DC Plan Only Members	15.42%	0.00%	15.42%	3.50%	18.92%
Class A-3 and A-4 Members:					
Age 65 Retirement	26.82%	0.04%	26.86%	0.00%	26.86%
Age 55 Retirement	30.46%	0.04%	30.50%	0.00%	30.50%
Park Rangers	27.99%	0.04%	28.03%	0.00%	28.03%
Capitol Police	27.99%	0.04%	28.03%	0.00%	28.03%
State Police	51.72%	0.04%	51.76%	0.00%	51.76%
Class AA Members:					
Age 60 Retirement	39.92%	0.04%	39.96%	0.00%	39.96%
Age 50 Retirement	44.74%	0.04%	44.78%	0.00%	44.78%
Park Rangers	40.91%	0.04%	40.95%	0.00%	40.95%
Capitol Police	40.91%	0.04%	40.95%	0.00%	40.95%
Enforcement Officers	44.74%	0.04%	44.78%	0.00%	44.78%
Class A Members:					
Age 60 Retirement	31.49%	0.04%	31.53%	0.00%	31.53%
Age 50 Retirement	35.48%	0.04%	35.52%	0.00%	35.52%
Park Rangers	33.67%	0.04%	33.71%	0.00%	33.71%
Capitol Police	33.67%	0.04%	33.71%	0.00%	33.71%
State Police	58.00%	0.04%	58.04%	0.00%	58.04%
Enforcement Officers	35.48%	0.04%	35.52%	0.00%	35.52%
Class D-4 Legislators	47.94%	0.04%	47.98%	0.00%	47.98%
Class E Members	51.96%	0.04%	52.00%	0.00%	52.00%

*Includes 0.00% extra contribution to return Act 5 savings for all groups.

The above group rates result in employer contribution rates (expressed as a percentage of total projected covered compensation for active members in fiscal year 2025-2026) of 32.34% for the SERS DB Plan, 0.04% for the Benefits Completion Plan and 32.38% in Total for the DB Plan.

The above group rates are applied to all employers prior to any setoff amounts related to an advance payment. The contributions due from PSU will reflect a setoff amount of \$93.3 million related to the 2020 advance payment. The contributions due from PASSHE will reflect a setoff amount of \$79.9 million related to the 2021 advance payment.

NEXT STEPS

NEXT STEPS

1. If approved by the Board, the employer contribution rates provided in Section 2 will be applied to all participating employers beginning July 1, 2025.
2. Employee contributions for Classes A-5/A-6 will increase 0.09% for the Shared-Risk adjustment effective July 1, 2025 through June 30, 2026.
3. The full valuation will be published in June.
4. The full set of actuarial assumptions will be reviewed, and new assumptions adopted, as a result of the 20th Investigation of Actuarial Experience (January 1, 2020 to December 31, 2024). Korn Ferry and Callan will present the annual overview of investment experience and economic expectations including the effects of any potential changes in the assumed investment return rate. The Board will review all assumption information and adopt new assumptions for the December 31, 2025 valuation.



QUESTIONS?



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