

## 2018 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 \$3.3 billion in benefits of which approximately \$3.0 billion (more than 90%) was issued to SERS members who live in Pennsylvania. For 2017, the average pension paid to retirees was about \$28,352.

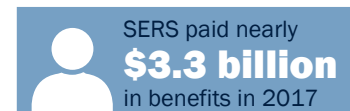
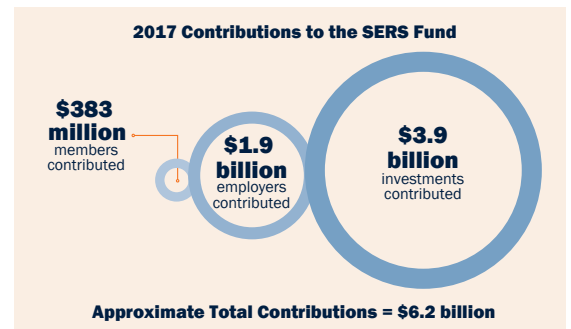
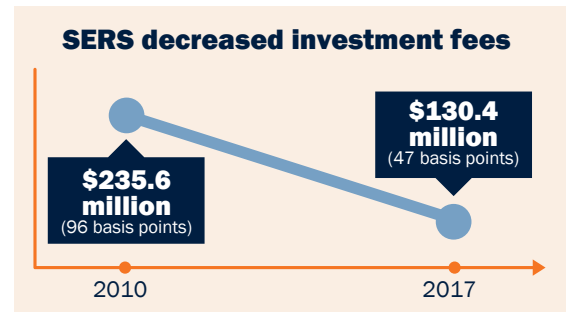
For FY 2018-19, we are seeking spending authority for \$30.8 million from SERS funds, not general government operating accounts, and \$4.9 million, which will be appropriated from non-SERS funds for the new 401(a) defined contribution plan.

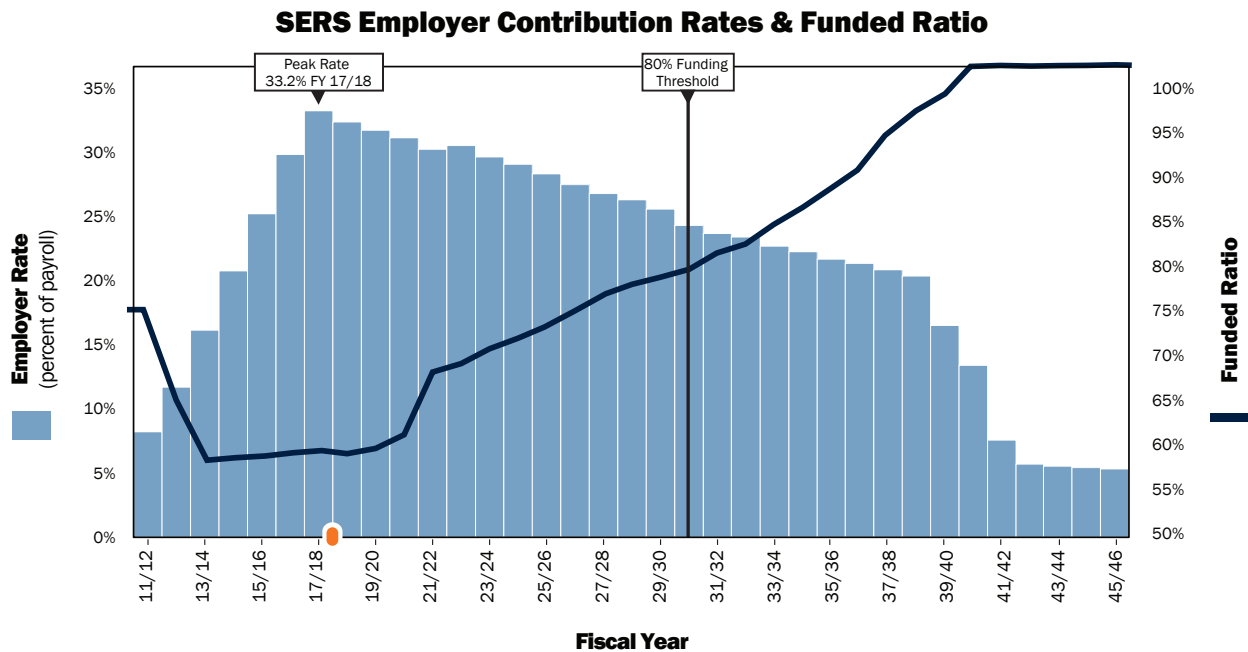
Our unaudited 2017 investment returns are estimated to be 15.1%, which is more than double the long-term actuarially assumed rate of return of 7.25%, and added nearly \$3.9 billion net of fees to the system's bottom line. Our investment horizon remains long and we are deliberate and prudent in our investment strategies. As of December 31, 2017, the value of the fund was \$29.1 billion.

We continue to strive for operational efficiencies and work to maximize results for our members. Since 2010, we have reduced investment fees by more than \$105 million.

This fiscal year, employers contributed 33.2% of payroll or approximately \$1.9 billion to the system. It was the peak rate expected of employers as they worked to restore funding to the system since passage of Act 2010-120.

For FY 2018-19, the employer contribution rate is estimated to drop to 32.3% of payroll, beginning the expected year-over-year decrease in the employer contribution rate.





*Projections based on 15.1% investment return in CY 2017 with 7.25% assumed rate of return thereafter.*

## Considerable Progress

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 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.

## Decreasing Employer Rates & Increasing Funded Ratio

This fiscal year, employers contributed 33.2% of payroll or approximately \$1.9 billion to the system. It was the peak rate expected of employers as they worked to restore funding to the system since passage of Act 2010-120. For FY 2018-19, the employer contribution rate is estimated to drop to 32.3% of payroll, beginning the expected year-over-year decrease in the employer contribution rate.

Current projections show the funding ratio reaching the 80% threshold generally accepted by pension experts as “healthy” in a little over a decade. To give you some context, Pennsylvania is among two-thirds of public pension plans currently below the 80% funding threshold<sup>1</sup>.

## Plan Costs Drop Each Year

The annual cost of the plan continues to drop as the number of members in the newer classes of service, including the current A-3 and A-4 classes and the future A-5 and A-6 classes to open in 2019, increases. Today, more than 36% of the active membership is in the newer A-3 and A-4 classes of service.

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

## Snapshot

<b>Members</b> as of Dec 31, 2017	239,266 129,473 retirees and beneficiaries receiving benefits 102,978 active members paying into the system 6,815 vested members not receiving benefits
<b>Average 2017 Annuity Paid</b> for those who work to full retirement age	\$28,352 per year
<b>Total Benefits Paid</b> as of Dec 31, 2017, unaudited	\$3.3 billion
<b>Member Contribution Rate</b> PA FY 2017/18	6.25% of salary, by payroll deduction (for most members)
<b>Number of Employers</b> as of Dec 31, 2017	102
<b>Employer Contribution Rate</b> PA FY 2017/18	4.91% of payroll for benefits earned this year (normal cost) <u>28.33%</u> of payroll for the unfunded liability 33.24% of payroll, composite rate
<b>Projected Employer Contribution Rate</b> PA FY 2018/19	32.33% of payroll
<b>Employer Contribution Sources</b> % provided by Budget Office for employers under the Governor's jurisdiction (FY 2015/16)	general funds approx. 45% special funds approx. 27% federal funds approx. 15% other sources approx. 13%
<b>Investment Returns</b> as of Dec 31, 2017 unaudited, annualized, net-of-fees	15.1% 1-year 4.1% 10-year 7.1% 20-year 9.0% 30-year
<b>Total Fund Assets</b> as of December 31, 2017, unaudited	\$29.1 billion
<b>Funding Sources</b> as of Dec 31, 2017, 10-year totals, unaudited	\$3.6 billion (16.6%) member contributions \$9.6 billion (44.4%) employer contributions \$8.4 billion (39.0%) investment earnings
<b>Cash Flow</b> 2018 projected	\$205 million monthly contributions (member/employer) \$295 million monthly payments (benefits/administrative expenses) difference in sum necessary to cover payments must come from investment income
<b>Funded Status</b> 2016 actuarial report adjusted with preliminary 2017 year-end performance data	59.6% with an unfunded liability of \$19.5 billion
<b>Key Assumptions</b> 2016 Actuarial Report	7.25% investment return 5.60% average total salary/career growth 2.60% inflation rate

