

# 2022 Key Financial Highlights

## SERS Office of Financial Management (OFM)



**pennsylvania** |

STATE EMPLOYEES' RETIREMENT SYSTEM



MAKING A DIFFERENCE - THEN. NOW. TOMORROW.

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# Plan Highlights

- **SERS' faced market challenges from inflation and financial market volatility that started during COVID-19 resulting in negative investment returns in 2022.**
  - Time-weighted rate of return on investments of -12.2% for 2022
- **In June 2022, the SERS Board approved a reduction in the investment return assumption from 7.0% to 6.875%.**
- **The plan's funded status declined slightly to:**
  - 61.5% for accounting purposes
  - 68.0% for funding purposes
- **Shared-risk and shared-gain**
  - Most members hired since 2011 are subject to adjustments to their contributions
  - As of the most recent testing period of December 31, 2022, there is no change in the member contribution rates effective for the fiscal year beginning July 1, 2023

# Summary of Fiduciary Net Position

As of December 31, 2022 and 2021  
(\$ millions)

	2022	2021	Increase/(Decrease)	
			\$	%
Total assets	\$ 34,376	\$ 40,990	\$ (6,614)	(16)%
Total deferred outflows - OPEB	5	6	(1)	(17)
Total assets and deferred outflows	34,381	40,996	(6,615)	(16)
Total liabilities	762	749	13	2
Total deferred inflows - OPEB	12	16	(4)	(25)
Total liabilities and deferred inflows	774	765	9	1
Net position restricted for pensions	<u>\$ 33,607</u>	<u>\$ 40,231</u>	<u>\$ (6,624)</u>	<u>(17)%</u>

See complete audited financial statements for more detail

# Summary of Changes in Fiduciary Net Position

For Years Ended December 31, 2022 and 2021  
(\$ millions)

	2022	2021	Increase/(Decrease)	
			\$	%
Net position restricted for pensions - beginning of year	\$ 40,231	\$ 35,028	\$ 5,203	15%
Additions:				
Member contributions	418	405	13	3
Employer contributions	2,075	2,871	(796)	(28)
Net investment (loss)/income	(5,213)	5,682	(10,895)	(192)
Total additions	(2,720)	8,958	(11,678)	(130)
Deductions:				
Benefit payments and refunds	3,885	3,731	154	4
Administrative expenses	19	24	(5)	(21)
Total deductions	3,904	3,755	149	4
Net (decrease)/increase	(6,624)	5,203	(11,827)	(227)
Net position restricted for pensions - end of year	\$ 33,607	\$ 40,231	\$ (6,624)	(17)%

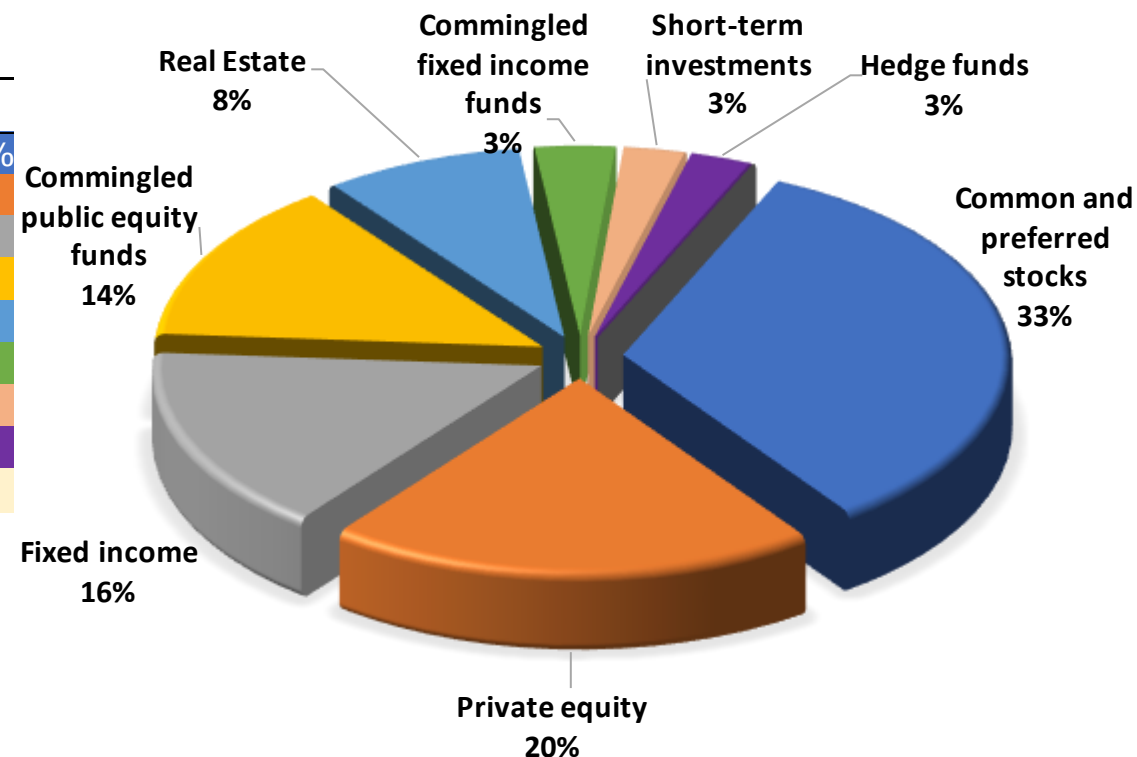
See complete audited financial statements for more detail

# Investment Balances

As of December 31, 2022 and 2021  
(\$ millions)

## Allocation as of December 31, 2022

			% of Total	
	2022	2021	2022	2021
Common and preferred stocks	\$ 11,339	\$ 13,583	33%	34%
Private equity	6,914	7,437	20	19
Fixed income	5,259	7,001	16	17
Commingled public equity funds	4,601	5,527	14	14
Real Estate	2,850	2,983	8	7
Commingled fixed income funds	1,155	1,657	3	4
Short-term investments	879	1,221	3	3
Hedge funds	872	934	3	2
Other investments	-	-	-	-
<b>Total</b>	<b>\$ 33,869</b>	<b>\$ 40,343</b>		



# Contribution Highlights

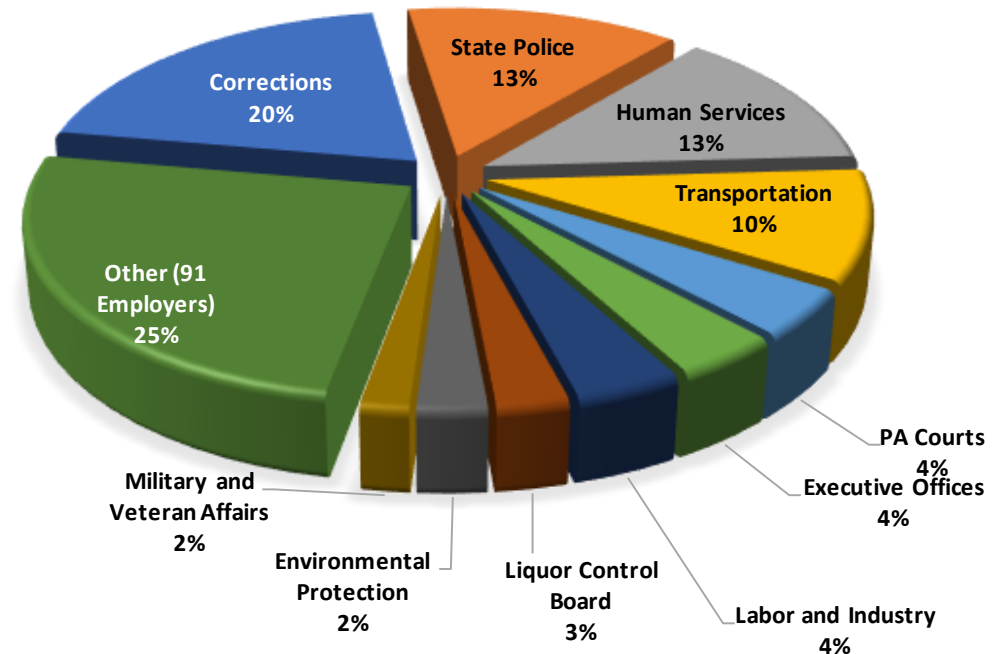
For the Year Ended December 31, 2022

Employer	Employer Contributions (\$ millions)
Corrections	\$ 412
State Police	280
Human Services	268
Transportation	204
PA Courts	87
Executive Offices	81
Labor and Industry	81
Liquor Control Board	55
Environmental Protection	53
Military and Veteran Affairs	37
Other (91 Employers)	517

**Total Employer** \$ 2,075

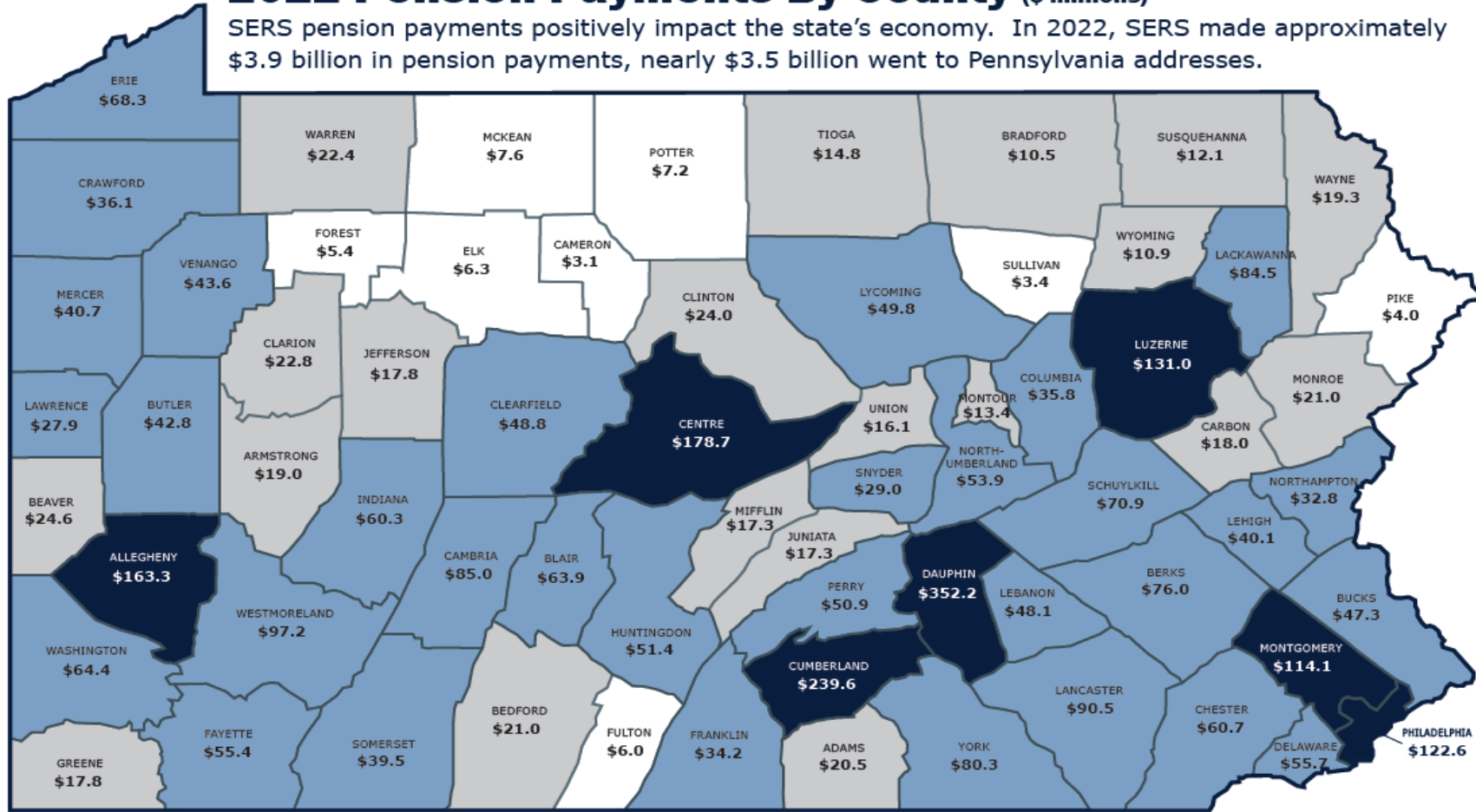
	Member Contributions (\$ millions)
All <b>101</b> Employers	\$ 419
Total Contributions	<u><u>\$ 2,494</u></u>

## Top 10 Contributing Employers



## 2022 Pension Payments By County (\$ millions)

SERS pension payments positively impact the state's economy. In 2022, SERS made approximately \$3.9 billion in pension payments, nearly \$3.5 billion went to Pennsylvania addresses.



☐ \$0 - \$9.9 million

■ \$10 - \$24.9 million

■ \$25 - \$99.9 million

■ \$100 million +

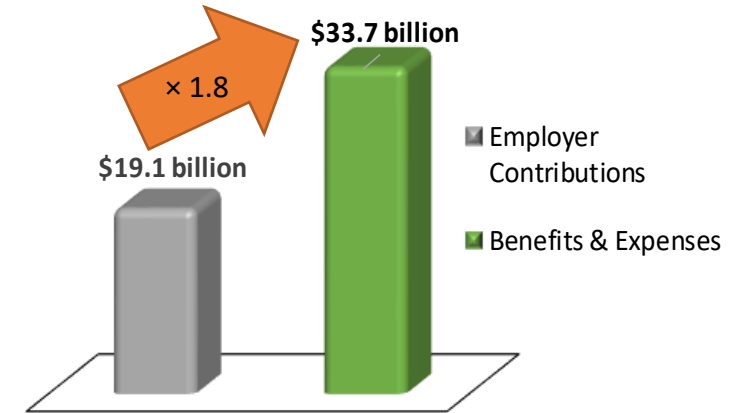
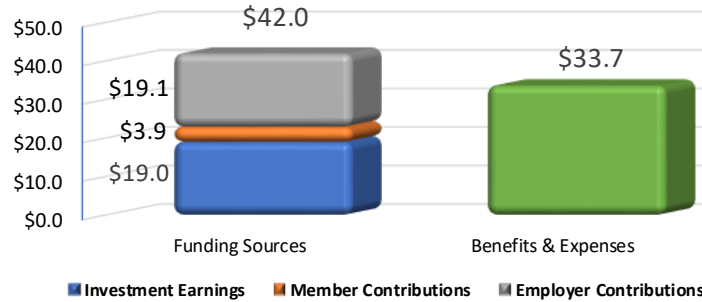
Domestic Out of State \$372.4 million

Out of Country \$1.4 million



# 10 Year Funding and Payment Activity

**Funding by Source vs. Benefits and Expenses Paid**  
(\$ billions)



**Statement of Change Activity By Year** (\$ millions)

Calendar Year	Contributions			Investment Earnings	Benefits and Expenses	Net Position
	Employer	Member	Total			
2022	\$ 2,075	\$ 418	\$ 2,493	\$ (5,213)	\$ (3,904)	\$33,607
2021	2,871	405	3,276	5,682	(3,755)	40,231
2020	3,186	410	3,596	3,920	(3,584)	35,028
2019	2,115	405	2,520	5,175	(3,536)	31,096
2018	2,049	394	2,443	(1,442)	(3,421)	26,937 <sup>1/</sup>
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
<b>10 Yr. Total</b>	<b>\$ 19,055</b>	<b>\$ 3,880</b>	<b>\$ 22,935</b>	<b>\$ 19,049</b>	<b>\$ (33,718)</b>	

Annotations: 11.6% change between 2022 and 2021; 10.5% change between 2022 and 2013; 36.2% increase in Benefits and Expenses from 2013 to 2022; 22.7% increase in Net Position from 2013 to 2022.

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

# Actuarial Valuations

- Annually, the SERS Defined Benefit Plan obtains two actuarial valuations, one for financial reporting purposes (GASB 67) and one that is statutorily required for funding purposes.
- The funding valuation is used to set the employer contribution rate for the plan.
- The December 31, 2022 valuations include assumptions from the most recent actuarial experience study. The assumptions from this study were effective with the December 31, 2020 valuation going forward unless changed by the SERS Board.

## Valuation Comparison

As of December 31, 2022  
(\$ millions)

GASB 67 - Accounting Valuation		Funding Valuation	
Total Pension Liability (TPL)	\$ 54,622	Actuarial Accrued Liability (AAL)	\$ 54,614
Fiduciary Net Position	\$ 33,607	Actuarial Value of Assets	\$ 37,125
Net Pension Liability (NPL)	<u>\$ 21,015</u>	Unfunded AAL	<u>\$ 17,489</u>
Fiduciary Net Position/TPL	61.5%	Funded Ratio	68.0%
Fiduciary Net Position/TPL (Prior Year)	76.0%	Funded Ratio (Prior Year)	69.6%

- Under GASB 68, employers are allocated a share of the NPL, pension expense, and deferred inflows/ outflows related to pensions, which are to be recorded on their financial statements.

# Plan Highlights

- **Continued to see plan growth**
  - 25,300 total defined contribution accounts in 2022, an increase of 6,600 accounts compared to 2021.
  - Employer contributions were approximately \$16.8 million in 2022 compared to \$11.4 million in 2021.
  - Employee contributions (including rollovers into the plan) were approximately \$31.4 million in 2022 compared to \$22.5 million in 2021.
- **Reduced the per-participant charge assessment to employers for FY 2022-23**

# Summary of Fiduciary Net Position

As of December 31, 2022 and 2021  
(\$ millions)

	2022	2021	Increase/(Decrease)	
			\$	%
Total assets	\$ 108	\$ 80	\$ 28	35%
Total deferred outflows - OPEB	3	2	1	50
Total assets and deferred outflows	111	82	29	35
Total liabilities	4	3	1	33
Total deferred inflows - OPEB	1	1	-	-
Total liabilities and deferred inflows	5	4	1	25
Net position held in trust for defined contribution plan participants	\$ 106	\$ 78	\$ 28	36%

See complete audited financial statements for more detail

# Summary of Changes in Fiduciary Net Position

For Years Ended December 31, 2022 and 2021  
(\$ millions)

	2022	2021	Increase/(Decrease)	
			\$	%
Net position held in trust for defined contribution plan participants - beginning of year	\$ 78	\$ 40	\$ 38	95%
Additions:				
Member contributions	31	23	8	35
Employer contributions	17	11	6	55
Annual employer charge	1	2	(1)	(50)
Net investment (loss)/income	(14)	7	(21)	(300)
Total additions	35	43	(8)	(19)
Deductions:				
Benefit payments and refunds	3	1	2	200
Administrative expenses	4	4	-	-
Total deductions	7	5	2	40
Net increase	28	38	(10)	(26)
Net position held in trust for defined contribution plan participants - end of year	\$ 106	\$ 78	\$ 28	36%

See complete audited financial statements for more detail

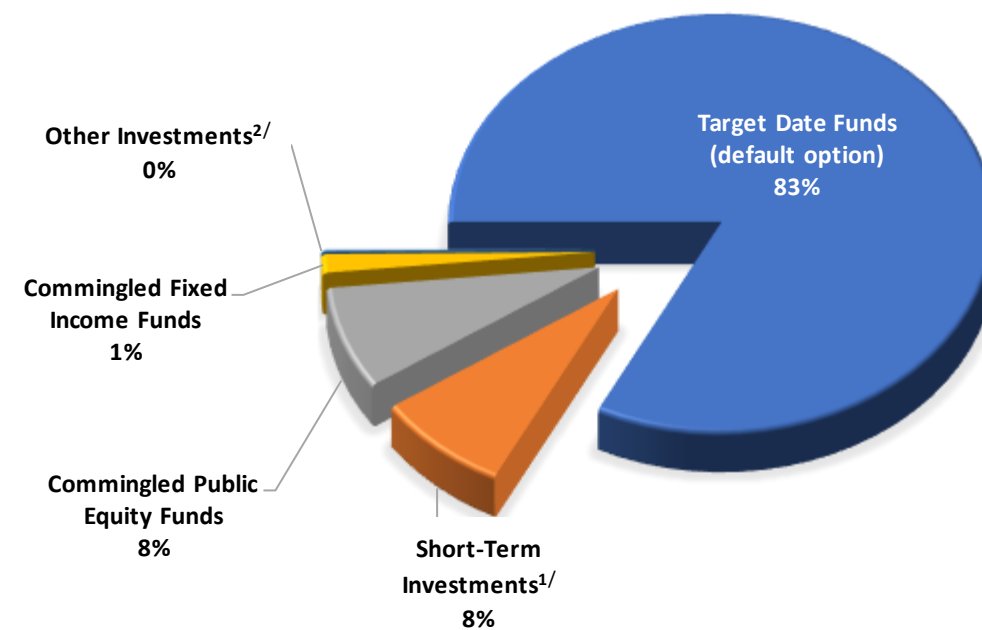
# Fund Balances & Breakouts

## Allocation as of December 31, 2022

### Fund Balances

As of December 31, 2022 and 2021  
(\$ thousands)

Fund	2022	2021	% of Total	
			2022	2021
Target Date Funds (default option)	\$88,490	\$63,914	83%	81%
Short-Term Investments <sup>1/</sup>	8,658	7,958	8	10
Commingled Public Equity Funds	8,480	6,383	8	8
Commingled Fixed Income Funds	1,536	1,000	1	1
Other Investments <sup>2/</sup>	157	88	0	0
<b>Total</b>	<b><u>\$107,321</u></b>	<b><u>\$79,343</u></b>		



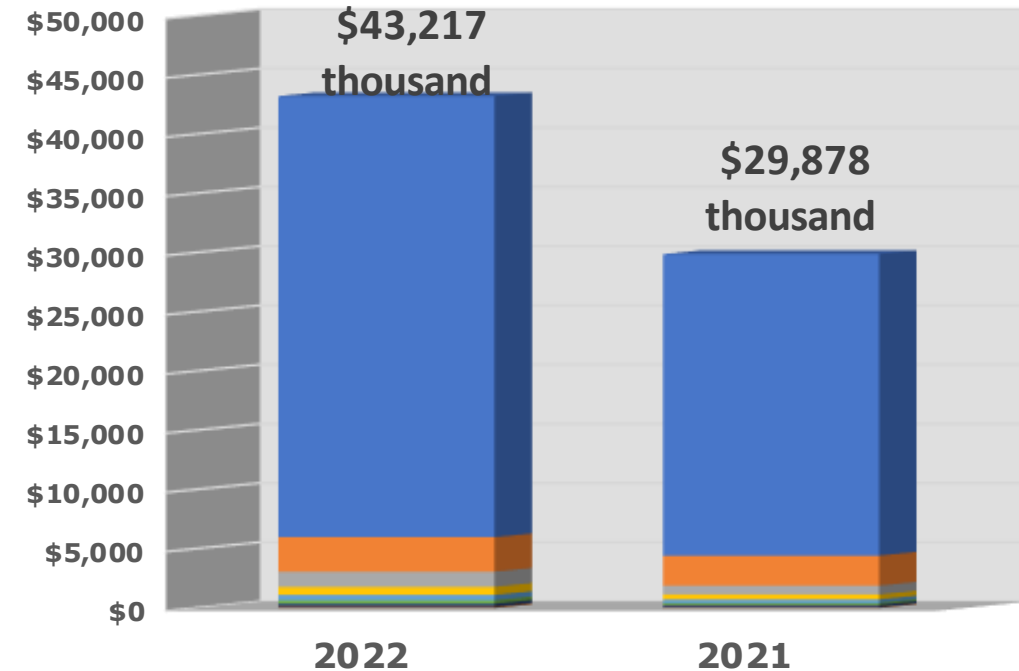
<sup>1/</sup>Includes both investments in participant directed accounts and plan level cash

<sup>2/</sup>Includes investments in Schwab-Self Directed Brokerage

# Contributions by Fund (excl. Rollovers)

For the Years Ended December 31, 2022 and 2021  
(\$ thousands)

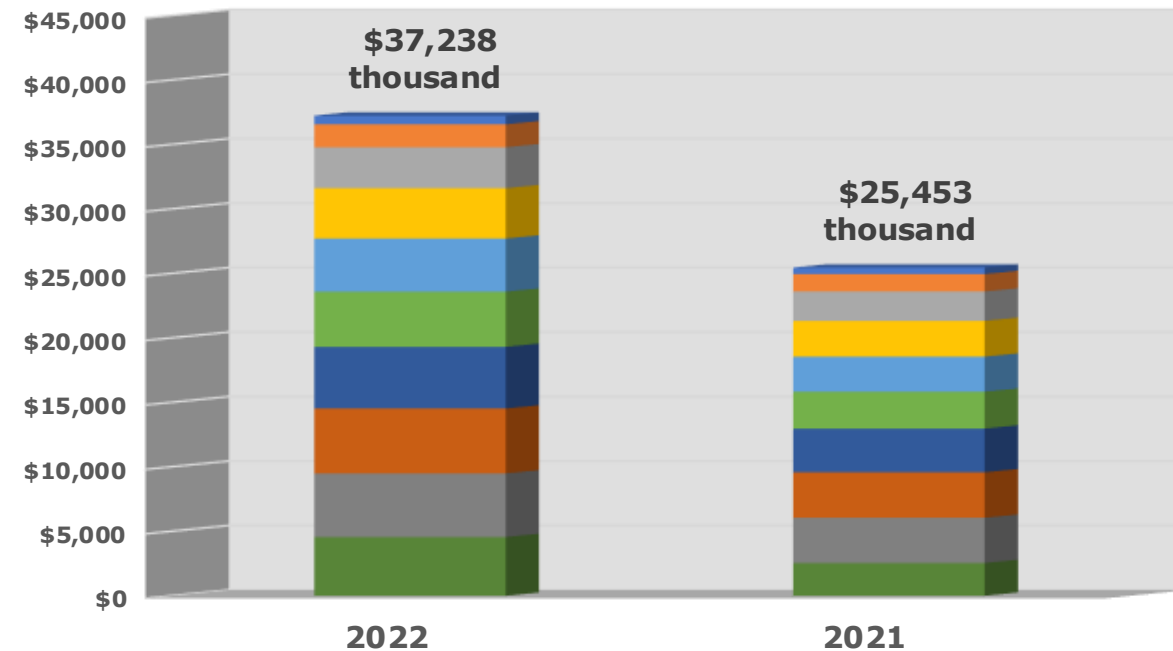
Fund	2022	2021	Increase/ (Decrease)	% Change
Target date fund suite (default option)	\$ 37,238	\$ 25,453	\$ 11,785	46%
Short-term investment fund	2,911	2,537	374	15
U.S. large company stock index fund	1,277	745	532	71
Global non-U.S. stock index fund	688	416	272	65
U.S. all company stock index fund	449	295	154	52
U.S. bond index fund	293	165	128	78
U.S. small/mid company stock index fund	243	181	62	34
U.S. TIPS fund	99	59	40	68
Short-term bond index fund	19	27	(8)	(30)
<b>Total Contributions</b>	<b>\$ 43,217</b>	<b>\$ 29,878</b>	<b>\$ 13,339</b>	<b>45%</b>



# Contributions by Target Date Fund (excl. Rollovers)

For the Years Ended December 31, 2022 and 2021  
(\$ thousands)

Target Date Fund	2022	2021	Increase/ (Decrease)	% Change
Post Retirement Date	\$ 678	\$ 507	\$ 171	34%
2025 Retirement Date Fund	1,773	1,346	427	32
2030 Retirement Date Fund	3,178	2,282	896	39
2035 Retirement Date Fund	3,902	2,774	1,128	41
2040 Retirement Date Fund	4,124	2,717	1,407	52
2045 Retirement Date Fund	4,279	2,856	1,423	50
2050 Retirement Date Fund	4,781	3,393	1,388	41
2055 Retirement Date Fund	5,030	3,527	1,503	43
2060 Retirement Date Fund	4,937	3,511	1,426	41
2065 Retirement Date Fund	4,556	2,540	2,016	79
<b>Total Contributions</b>	<b>\$ 37,238</b>	<b>\$ 25,453</b>	<b>\$ 11,785</b>	<b>46%</b>





# Plan Highlights

- **Implemented Board approved fee changes effective July 1, 2022**
  - Reduced the third-party administrator fee to participants from \$4.65 to \$4.55 per month
- **Participant contributions increased to approximately \$177.7 million in 2022 compared to \$174.3 million in 2021 despite actively contributing participants decreasing to 32,300 in 2022 from 33,600 in 2021**

# Summary of Net Position Available for Benefits

As of December 31, 2022 and 2021  
(\$ millions)

	2022	2021	Increase/(Decrease)	
			\$	%
<b>Assets</b>				
Total receivables	\$ 1	\$ 1	\$ -	-%
Total investments	3,999	4,819	(820)	(17)
Total other assets	2	-	2	-
<b>Total assets</b>	<b>4,002</b>	<b>4,820</b>	<b>(818)</b>	<b>(17)</b>
<b>Liabilities</b>				
Total liabilities	6	3	3	100
Net position held in trust for defined contribution plan participants	\$ 3,996	\$ 4,817	\$ (821)	(17)%

See complete audited financial statements for more detail

# Summary of Changes in Net Position Available for Benefits

For Years Ended December 31, 2022 and 2021  
(\$ millions)

	2022	2021	Increase/(Decrease)	
			\$	%
Net position available for benefits - beginning of year	\$ 4,817	\$ 4,377	\$ 440	10%
Additions:				
Participant contributions	178	174	4	2
Plan transfers in	54	64	(10)	(16)
Net investment (loss)/income	(729)	499	(1,228)	(246)
Total additions	(497)	737	(1,234)	(167)
Deductions:				
Benefit payments and refunds	122	117	5	4
Plan transfers out	196	174	22	13
Third party and administrative expenses	6	6	-	-
Total deductions	324	297	27	9
(Decrease)/increase in net position	(821)	440	(1,261)	(287)
Net position available for benefits - end of year	\$ 3,996	\$ 4,817	\$ (821)	(17)%

See complete audited financial statements for more detail

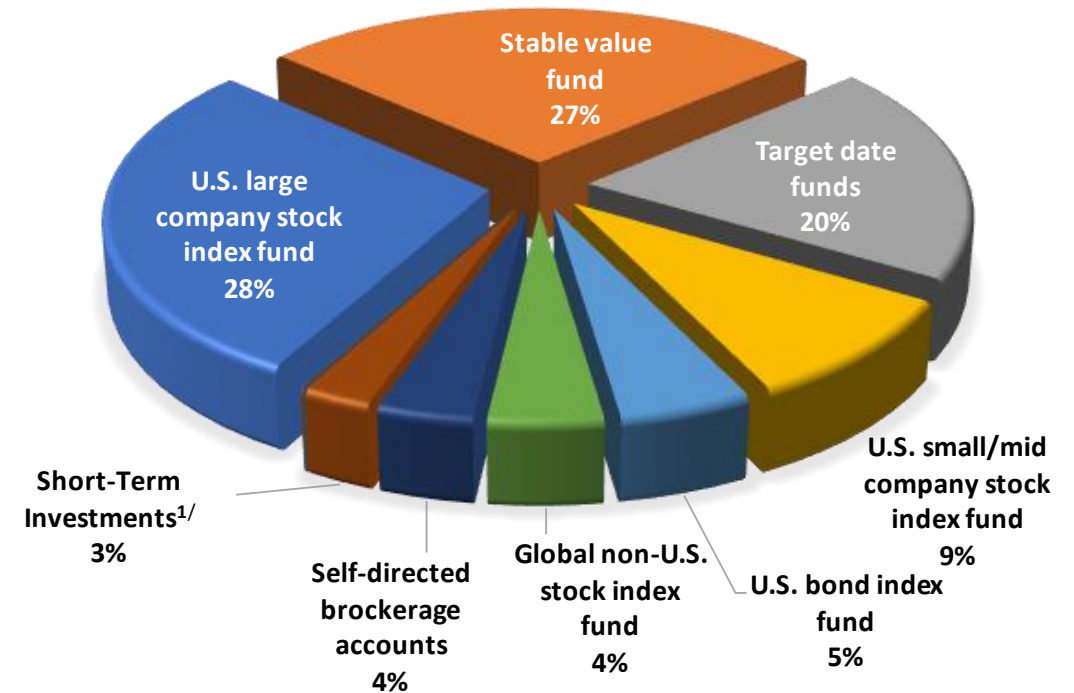
# Fund Balances & Breakouts

## Fund Balances

As of December 31, 2022 and 2021  
(\$ millions)

## Allocation as of December 31, 2022

Fund	2022	2021	% of Total	
			2022	2021
U.S. large company stock index fund	\$ 1,139	\$ 1,398	28%	29%
Stable value fund	1,090	1,204	27	25
Target date funds	783	963	20	20
U.S. small/mid company stock index fund	372	550	9	11
U.S. bond index fund	198	242	5	5
Global non-U.S. stock index fund	171	183	4	4
Self-directed brokerage accounts	143	188	4	4
Short-Term Investments <sup>1/</sup>	102	90	3	2
Group annuity contract	1	1	-	-
<b>Total</b>	<b><u>\$3,999</u></b>	<b><u>\$4,819</u></b>		

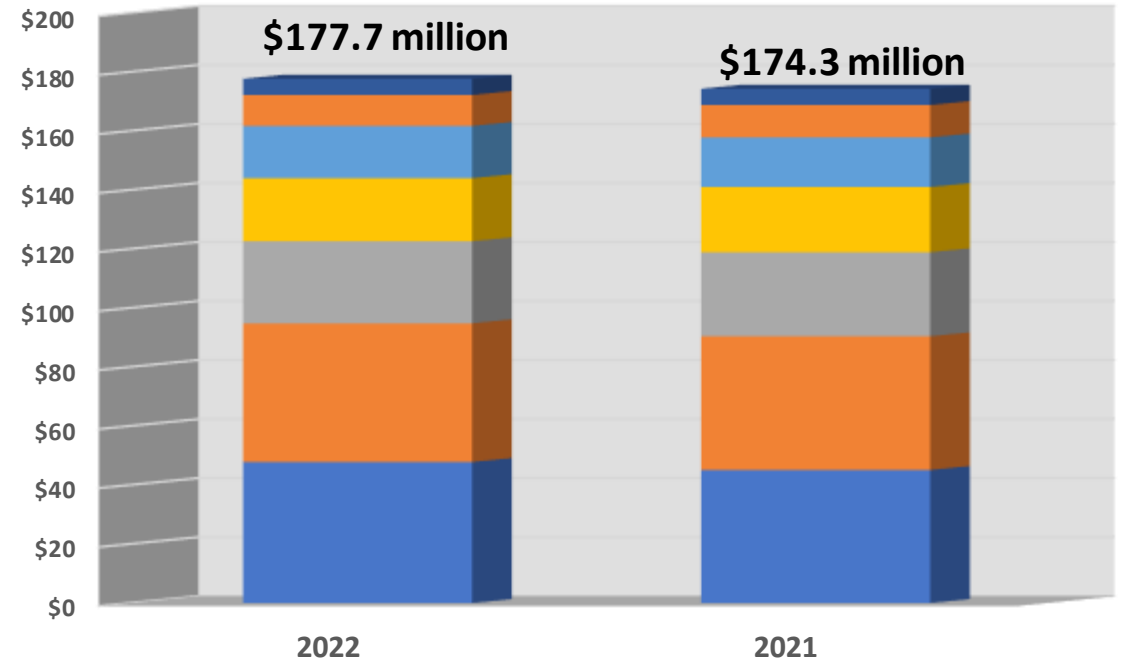


<sup>1/</sup>Includes both investments in participant directed accounts and plan level cash

# Contributions by Fund (excl. Rollovers)

For the Years Ended December 31, 2022 and 2021  
(\$ millions)

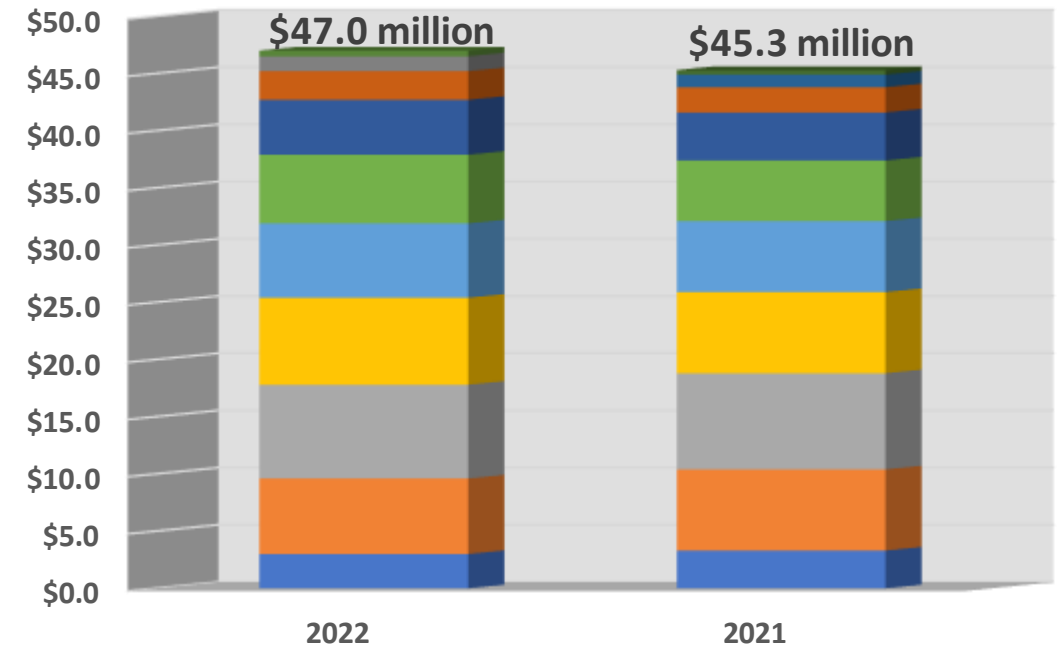
Fund	2022	2021	Increase/ (Decrease)	% Change
U.S. large company stock index fund	\$ 47.8	\$ 45.1	\$ 2.7	6%
Target date funds	47.0	45.3	1.7	4
Stable value fund	27.8	28.5	(0.7)	(2)
U.S. small/mid company stock index fund	21.4	22.1	(0.7)	(3)
Global non-U.S. stock index fund	17.7	16.8	0.9	5
U.S. bond index fund	10.5	11.0	(0.5)	(5)
Short-term investment fund	5.5	5.5	-	-
<b>Total</b>	<b><u>\$177.7</u></b>	<b><u>\$174.3</u></b>	<b><u>\$ 3.4</u></b>	<b><u>2%</u></b>



# Contributions by Target Date Fund (excl. Rollovers)

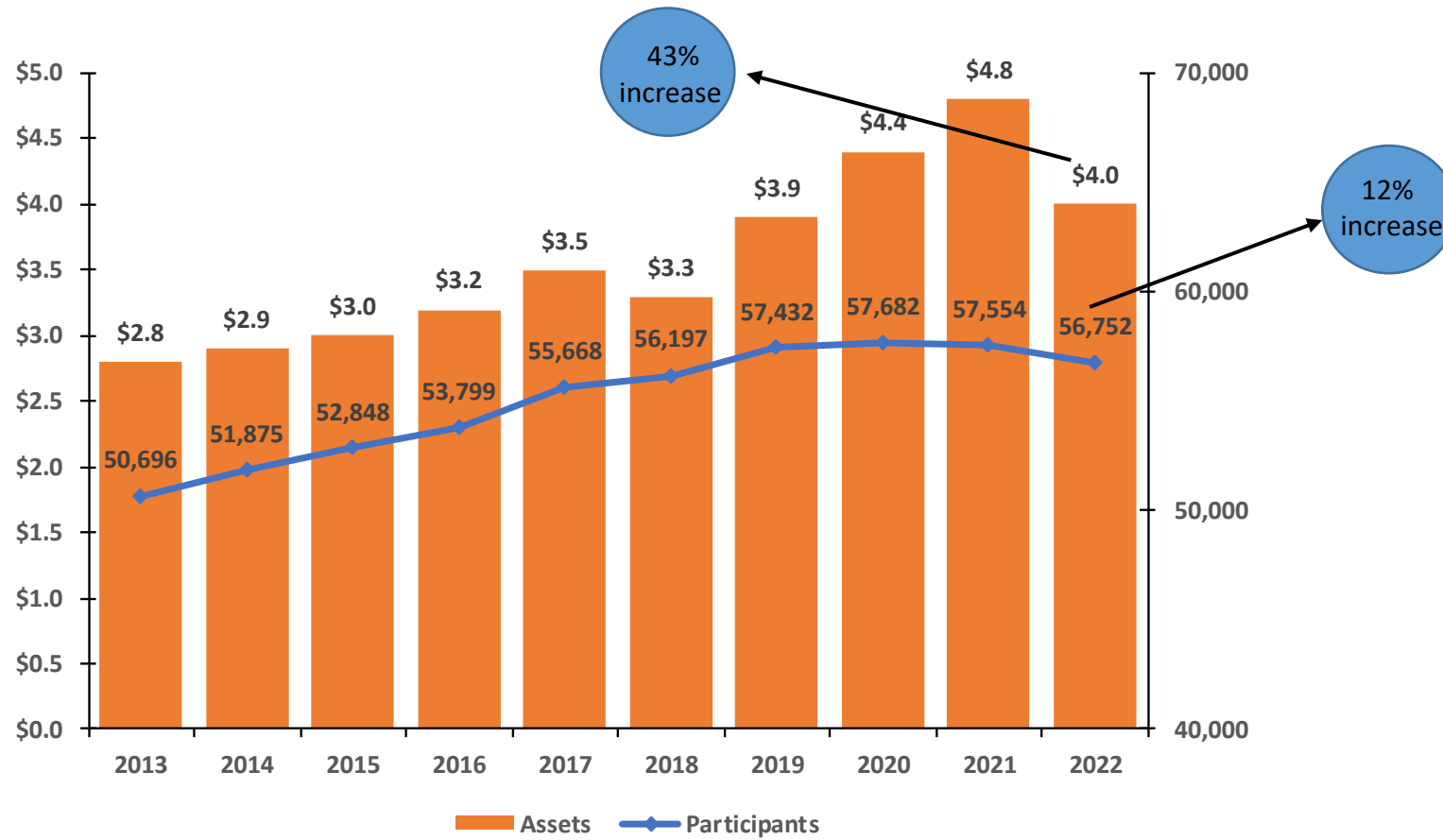
For the Years Ended December 31, 2022 and 2021  
(\$ millions)

Target Date Fund	2022	2021	Increase/ (Decrease)	% Change
Post Retirement Date	\$ 3.0	\$ 3.3	\$ (0.3)	(9)%
2025 Retirement Date Fund	6.6	7.1	(0.5)	(7)
2030 Retirement Date Fund	8.2	8.4	(0.2)	(2)
2035 Retirement Date Fund	7.6	7.1	0.5	7
2040 Retirement Date Fund	6.5	6.2	0.3	5
2045 Retirement Date Fund	6.0	5.3	0.7	13
2050 Retirement Date Fund	4.8	4.2	0.6	14
2055 Retirement Date Fund	2.5	2.2	0.3	14
2060 Retirement Date Fund	1.3	1.1	0.2	18
2065 Retirement Date Fund	0.5	0.4	0.1	25
<b>Total Contributions</b>	<b>\$ 47.0</b>	<b>\$ 45.3</b>	<b>\$ 1.7</b>	<b>4%</b>



# 10 Year Growth Plan Assets & Participants

(\$ billions)



# Thank you.

If you have questions, please contact me.

## **Sara E. McSurdy, CPA** Chief Financial Officer

Pennsylvania State Employees' Retirement System  
30 North 3<sup>rd</sup> Street, Suite 150  
Harrisburg, PA 17101  
P: 1.800.633.0353 | F: 717.237.0346  
[www.SERS.pa.gov](http://www.SERS.pa.gov)