

2021 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 \$3.6 billion in pension benefits of which approximately \$3.2 billion was issued to SERS members who live in Pennsylvania. For 2020, the average pension paid to retirees who work to full retirement age was about \$30,050.

For FY 2021-22, SERS proposes a \$33.6 million spending authority, which is drawn from SERS funds, not general government operating accounts, for administration of the Defined Benefit Plan and \$4.4 million for the Defined Contribution Plan.

COVID-19 Upheaval

The past year, 2020, brought an array of challenges, most of them a direct result of the COVID-19 pandemic. Early on in the year, financial markets experienced extreme volatility, but eventually recovered. Thanks in part to our investment strategy and the asset allocation adopted in December 2019, SERS finished 2020 on a positive note.

During 2020, SERS experienced investment gains of approximately 11.1% for our Defined Benefit Plan, which is several points higher than the fund's annual assumed rate of return. Thanks to these positive returns, five years of full funding from the General Assembly, the receipt of \$1.06 billion from Penn State University's prepayment of its unfunded liabilities (made possible by Act 2019-105), and our ongoing efforts to implement efficiencies across SERS, we continue to progress toward our long-term goal of eliminating our unfunded liability.

New Strategic Business Plan: FY 2020-21 Through FY 2022-23

Beginning in 2019 and throughout 2020, the board and senior staff worked together to assess the agency's current services, procedures, and processes, and considered what our mission is and how we can achieve it. That work resulted in a demanding strategic business plan that spells out our

mission, vision, strategic priorities, and guiding principles. It also lists specific goals for what we intend to achieve through FY 2022-23 and how we intend to do it. The plan, developed specifically to help prepare our members and participants to achieve financial success and security in retirement, is available on our public website.

Rebalanced Portfolio to Align with New Asset Allocation

In early 2020, SERS' investment staff rebalanced assets to align with the new target asset allocation approved by the board in December 2019. The initial work involved withdrawing approximately \$2.85 billion from public equity and \$750 million from cash and allocating those proceeds to fixed income. SERS' investment staff also executed several rebalancing transactions in 2020 to ensure that asset classes are near their target weights.

Penn State's \$1.06 Billion Payment Toward its Unfunded Liabilities

In April 2020, Penn State University submitted a payment of \$1.06 billion toward its unfunded liability. In return, the university will receive an annual credit against their contributions for 30 years. The credit totals nearly \$93.3 million for twenty years and then decreases over the final 10 years beginning at nearly \$72.6 million and ending at approximately \$2.3 million in 2049. The payment was made under the auspices

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of Act 2019-105, which allows eligible employers to enter into an agreement with the SERS Board to make a one-time, lump-sum payment of between 75% to 100% of their unfunded liability.

Investment Return and Inflation Assumptions Reduced

On July 29, 2020, the board reduced the investment return assumption from 7.125% to 7.0% and the assumed rate of inflation from 2.6% to 2.5%. The assumptions are used when valuing the pension plan and will become effective with the December 31, 2020 actuarial valuation. The changes, along with a number of demographic assumptions, were approved after the board's actuary completed a five-year study of actuarial experience.

Enhanced Funding Stability for DC Plan

The past year also saw several important legislative changes, made to improve the funding stability of our Defined Contribution Plan. These include establishing the ability for SERS to assess a per-participant charge to all employers to cover the fees, costs, and expenses associated with the plan, as well as allowing for SERS to utilize unvested employer contributions towards paying the administrative costs of the plan.

| Key Assumptions | | |
|--|----------------|----------------|
| Assumption | 2019 Valuation | 2020 Valuation |
| Investment Return | 7.125% | 7% |
| Average total salary/ career growth | 5.6% | 4.8% |
| Inflation rate | 2.6% | 2.5% |



Hybrid Plan Snapshot

as of Dec 31, 2020

Participants 9,927 total
 9,520 A-5 Class of Service
 407 A-6 Class of Service

Assets see the Defined Contribution Plan and Defined Benefit Plan Snapshots for the assets in each plan.

Eligible Employers 102



Defined Contribution Plan Snapshot

as of Dec 31, 2020

Participants 13,162 total accounts
 10,237 participants contributing to the plan
 9,927 Hybrid Plan participants
 310 Defined Contribution Plan participants
 2,925 inactive accounts

Assets \$35.7 million

Eligible Employers 102

Total Participant Mandatory Contributions \$11.7 million

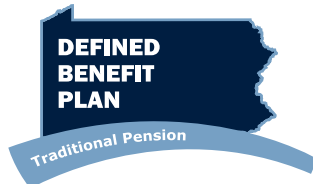
Total Employer Contributions \$7.8 million

Total Rollovers into the Plan 95 totaling \$2.4 million

Total Rollovers Out of the Plan 57 totaling \$120,000

Total Distributions/Withdrawals 364 totaling \$321,000

Total Voluntary After-Tax Contributions \$366,000



Defined Benefit Plan Snapshot

Members

as of Dec 31, 2020

239,370 total
 100,965 active members paying into the system
 Hybrid Plan members 9,927
 Defined Benefit Plan 91,038
 133,334 retirees and beneficiaries receiving benefits
 5,071 vested members not receiving benefits

Average 2020 Annuity

\$23,939 per year
 \$30,050 per year for those who work to full retirement age

Total Pension Benefits Paid

paid in 2020, unaudited

\$3.6 billion

Member Contribution Rate

PA FY 2020/21

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

Number of Employers

as of Dec 31, 2020

102

Employer Contribution Rate

PA FY 2020/21

33.48% of payroll, composite rate
 1.67% of payroll for benefits earned this year
 31.81% of payroll primarily for the unfunded liability

Projected Employer Contribution Rate

PA FY 2021/22

33.10% of payroll
 1.42% of payroll for benefits earned this year
 31.68% of payroll primarily for the unfunded liability

Employer Contribution Sources

% provided by the Governor's Budget Office (FY 2018/19)

approx. 40% general funds
 approx. 52% special and federal funds
 approx. 8% independent employer funds

Funding Sources

as of year-end Dec 31, 2020, unaudited

\$410 million member contributions
 \$3.2 billion employer contributions
 \$3.4 billion investment earnings

Investment Returns

as of Dec 31, 2020
 unaudited, annualized, net-of-fees

11.1% 1-year
 8.0% 10-year
 7.9% 25-year
 9.6% inception to date return

Total Fund Assets

as of Dec 31, 2020, unaudited

\$34.5 billion

Cash Flow

2021 projected

\$2.46 billion annual contributions (member/employer)
 \$3.80 billion annual payments (benefits/administrative expenses)
 difference in sum necessary to cover payments must come from investment income

Funded Status

2019 actuarial report adjusted with preliminary 2020 year-end performance data

59.4% with an unfunded liability of \$22.2 billion

Key Assumptions

2019 Actuarial Report

7.125% long-term investment return (7% in 2020 valuation)
 5.6% average total salary/career growth (4.8% in 2020 valuation)
 2.6% inflation rate (2.5% in 2020 valuation)



Deferred Compensation Plan Snapshot

as of Dec 31, 2020

Participants

57,682 total accounts
34,316 actively contributing participants

Assets

\$4.3 billion

Eligible Employers

76

Total Participant Contributions

\$166 million

Total Rollovers Into the Plan

766 totaling \$61 million

Total Rollovers Out of the Plan

1,633 totaling \$126 million

Total Distributions/Withdrawals

27,787 totaling \$252 million

