

# SERS News

The newsletter for members of the Pennsylvania State Employees' Retirement System

SUMMER 2002

## Focused on long term, SERS achieves 10.5% average annual return

### Pension benefits guaranteed by law

The Internet stock bubble burst. Then came Sept. 11. And seemingly overnight, Enron went from the world's largest energy trader to the largest bankruptcy in American history.

In short, it's a climate that has jolted markets and consumer confidence. Yet thanks to careful planning, SERS members and retirees can take comfort in knowing that their system remains fiscally strong, said Chairman Nick Maiale.



"SERS members are fortunate," said Maiale. "We have built a prudent and broadly diversified investment portfolio with a long-term focus. Ours is a fund that is built to withstand events such as Enron and Sept. 11. SERS members can take comfort that their fund is sound and their pension benefits are guaranteed by law," he said.

SERS has achieved a 10.5 percent average annual return on its investments over the past decade. SERS earned that return despite a 7.9 percent dip in 2001, a year that challenged many key stock indexes to an even greater degree, Maiale noted. The S&P 500, for instance, dropped 11.5 percent. The Nasdaq Composite index dropped 20.8 percent.

(LONG-TERM continued, page 3)

## General Assembly, Gov. Schweiker approve new COLA

Beginning July 31, thousands of SERS retirees soon will see increases in their monthly benefits – thanks to a new COLA law passed by the General Assembly. Gov. Mark Schweiker signed Act 38 on April 23.

As a result, eligible SERS members who retired before July 2, 1990 will see the COLA, or Cost of Living Adjustment, with their July 31 payment. Also, eligible SERS members who retired on or after July 2, 1990 but before July 2, 2002 will receive the COLA beginning July 31, 2003.

The new law gives the largest benefit increases to those members who have been retired the longest. Eligible SERS members who retired before July 2, 1980 will see a 25 percent benefit adjustment. By way of example - a July 1, 1980 retiree, currently receiving a \$10,000 annual pension, now will receive \$12,500 a year.

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# Field office realignments

SERS has realigned retirement counseling regions 1, 2, and 3 by changing the counties they serve. Clearfield County is now served by Region 3. Cambria County is now served by Region 2. Mercer County is also now served by Region 2. No other counties have been affected by the reorganization.

### Region 1/Seneca

Duawl Professional Building  
Suite 6  
Salina Road, Route 257  
Seneca, PA 16346  
(814) 677-0741

### Region 3/State College

2525 Green Tech Drive  
Suite AA  
State College, PA 16803  
(814) 863-6505

### Region 2/Pittsburgh

Foster Plaza 6, Suite 400  
681 Anderson Drive  
Pittsburgh, PA 15220  
(412) 565-5302



**Dialing 1-800-633-5461 will connect you with your counseling center automatically.**

## David Fillman joins Board

David Fillman is the newest member of the Pennsylvania State Employees' Retirement System Board of Trustees. He replaces Edward Keller who served on the Board for 10 years. The Board of Trustees is made up of 11 members who administer the SERS fund and are responsible for its fiduciary management.

Since 1993, he has been the director of District Council 88 (southeastern PA) of the American Federation of State, County and Municipal Employees (AFSCME), AFL-CIO. In 2000, Mr. Fillman was elected vice president of AFSCME's International Union. He is secretary-treasurer of the Montgomery County AFL-CIO Central Labor Council and has held other elected leadership positions in the organization since 1975, including president (1987-1993).

The duties of Board trustees are several and varied, but foremost is their obligation to invest and manage the Retirement Fund for the exclusive benefit of the members of SERS.

*SERSNews* is a publication of the Pennsylvania State Employees' Retirement System and is distributed for the information of SERS active members, annuitants, beneficiaries, and survivors.

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### Regional Retirement Counseling Centers

1-800-633-5461  
717-787-4734 (Text telephone)

- Bensalem
- Harrisburg
- Hazleton
- Montoursville
- Pittsburgh
- Seneca
- State College

Submit comments and suggestions regarding the newsletter to the editor.

Available on audio tape.

Printed on recycled paper using soy-based ink.

## Long-term (continued from page 1)

Even with last year's bumps, SERS maintains a funding ratio of 115 percent – meaning that its assets still significantly exceed its liabilities.

"SERS' strong performance across the decade underscores the value of a well-diversified investment portfolio," said Maiale, who has served on the SERS Board for 17 years and has been its chairman since 1992. "By not putting all of our eggs in one basket, we're able to absorb investment market fluctuations."

Of SERS' five investment classes, the top performer over the past 10 years was "alternative investments," which includes venture capital, or money invested in new enterprises. This class generated an average annual return of 19.3 percent over the decade, even though it did not perform well in 2001.

"SERS makes investments only after staff and expert external consultants have performed exhaustive research," Maiale said. "SERS' strong investment performance has resulted in significant reductions in the rate of state contributions. That has saved Pennsylvania taxpayers millions of dollars that instead have been available for tax cuts and education, infrastructure and other important programs."

## 200 monthly pension checks returned

Every month, SERS sends annuity checks to members' last known addresses. Unfortunately, about 200 members do not receive their monthly annuity checks because they have not kept their addresses of record updated with SERS. This forces the post office to return the checks to SERS. Members who do not inform SERS of changes to their addresses may experience delays in receiving their checks.

To update your address of record, you may call your retirement counseling center at 1-800-633-5461 to request the form or visit the SERS web site at [www.sers.state.pa.us](http://www.sers.state.pa.us) under Forms.

## SERS investment portfolio - December 31, 2001

Asset Classes	Market Value (in billions)	% of Total Fund	1-Year	10-Year
Stocks	\$14,813.8	60.2%	-11.4%	11.0%
Fixed Income	4,573.4	18.6%	5.0%	7.4%
Real Estate	2,560.4	10.4%	7.1%	7.9%
Alternative Investments	2,361.8	9.6%	-24.0%	19.3%
Cash and Other	314.6	1.3%	3.4%	5.6%
<b>Total Fund</b>	<b>\$24,624.1</b>	<b>100.0%</b>	<b>-7.9%</b>	<b>10.5%</b>

## Act 38 (continued from page 1)

(See chart below to determine your COLA.)

As a result of the COLA, SERS annuitants will receive an additional \$43 million in retirement benefits in the 2002-2003 fiscal year. In the 2003-2004 fiscal year, benefit levels will go up by another \$48 million. SERS has about 89,000 annuitants and beneficiaries.

The new COLA is the eighth enacted by the General Assembly since 1968. Through the 1970s and 1980s, COLAs were enacted every five or six years, covering half of the inflation rate since the prior COLA. This new COLA is the second consecutive COLA to be enacted after four years.

As participants in a public sector plan, SERS members are fortunate because they recently have received COLAs, every four to five years, whereas

only about 1/3 of private plans currently offer COLAs, according to a recent survey by the Hay Group.

To receive the COLA, eligible retirees also must meet one of the following requirements:

- 1) Retired after reaching normal retirement age (age 50 or 60, depending on their SERS membership class) or with 35 years of service.
- 2) Receiving a disability retirement.
- 3) Retired early, and have reached normal retirement age.

### COLAs awarded in new legislation

Date of Retirement	Increase	Effective date of COLA 2002
Before 7/2/1980	25.0%	July 1, 2002
7/2/1980 - 7/1/1983	15.0%	July 1, 2002
7/2/1983 - 7/1/1988	10.0%	July 1, 2002
7/2/1988 - 7/1/1990	8.0%	July 1, 2002
Date of Retirement	Increase	Effective date of COLA 2003
7/2/1990 - 7/1/1994	9.00%	July 1, 2003
7/2/1994 - 7/1/1998	7.50%	July 1, 2003
7/2/1998 - 7/1/1999	6.35%	July 1, 2003
7/2/1999 - 7/1/2000	4.87%	July 1, 2003
7/2/2000 - 7/1/2001	3.08%	July 1, 2003
7/2/2001 - 7/1/2002	2.27%	July 1, 2003

Beneficiaries and designated survivors of retired SERS members are not eligible for the COLA. (The Pennsylvania Constitution prohibits paying COLAs to death beneficiaries and survivor annuitants.) Class AA, T-D, and D-4 members also are excluded.

For members who retired early before July 2, 1990 for phase one or before July 2, 2002 for phase 2 and have not reached normal retirement age the COLA will become effective the July 1 following the date they would have

reached normal retirement age, or the date they would have attained 35 eligibility points if they had continued to work.

*SERS will send a letter to all members who are eligible in both phases providing more specific information on the COLA.*

## Frequently asked questions

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### **How does SERS fund cost of living adjustments?**

Just like a family needs more income to offset increased spending, when the General Assembly increases retirement benefits through a COLA or any other method, it also needs to instruct SERS on how to pay for it. COLAs historically have been funded after they have been granted because the Retirement Code does not provide for advanced funding or actuarial reserves for COLAs. For each COLA, a new liability is established and the System assesses the cost by increasing the employer contribution rate. (Employers are agencies, departments, etc.) The money to pay for COLAs ultimately comes from increased future employer contributions.

### **Can SERS meet current and future pension obligations?**

Absolutely! SERS is a very healthy pension plan. Even with the recent drop in the stock market, SERS is 115 percent funded - that is, our assets exceed our liabilities by 15 percent. SERS provides benefits determined by a fixed benefit formula that takes into account the employee's length of service and compensation.

### **Why hasn't SERS implemented an automatic COLA as have Social Security and some other public retirement plans?**

Pennsylvania retirement law does not provide for automatic COLAs. Instead, the General Assembly periodically passes a COLA law. Historically, it has done so every four to six years, passing a COLA that covers approximately one-half the rate of inflation since the last COLA.

As participants in a public sector plan, SERS members are fortunate because they recently have received COLAs every four to five years, whereas only about 1/3 of private plans currently offer COLAs, according to a recent survey by the Hay Group.

### **Who has the authority to enact a COLA?**

Only the Pennsylvania General Assembly has the authority to legislate a COLA bill, which must be signed into law by the governor.

The General Assembly has past COLAs every four years since 1994. Previously, COLAs were five or six years apart. (See chart on page 6.)

### **Did investment losses from the Enron collapse impact the stability of the SERS fund?**

Fortunately not. Our retirement system is well funded and diversified. The loss from Enron investments is less than one-tenth of 1 percent of the fund and will have no material long-term impact upon the fund.

### **Why are designated survivors and beneficiaries not given COLAs after the death of the member?**

The Pennsylvania Constitution and the Retirement Code do not allow designated survivors and beneficiaries to receive COLAs enacted after the death of the member.

### **Were any members permanently excluded from receiving the Act 38 COLA?**

Yes. Class AA, T-D and D-4 members are excluded, as are members whose date of retirement was July 2, 2002 or later.

### **Does SERS gamble on venture capital?**

Absolutely not! SERS invests a small portion of its funds in venture capital as a way of further diversifying its portfolio and spreading risk. This is an important principle of conservative financial management. The SERS investment portfolio is made up of five separate classes that provide diversity in fund allocation and optimize the ability to absorb market fluctuations. SERS makes investments only after staff and external consultants perform exhaustive research.

Despite recent losses, venture capital is part of the larger Alternative Investment class, which has generated a 19.3 percent return over the last 10 years, compared to 12.5 percent return for US stocks and 7.6 percent return for bonds.

## Other major Plan provisions from Act 38

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### Changes to funding methodology

Beginning on July 1, 2004, the employer contribution rate will not be less than 1 percent.

### Notice to members

Following the recent practices of the Commonwealth and amendments to the Retirement Code, SERS may now use electronic methods (including e-mail and web sites) to communicate with members, as well as traditional paper communications.

### Rights and duties of annuitants

The required earned income reporting frequency of disability annuitants will change from quarterly to annually. An annual filing requirement is consistent with most other income reports, such as state, local and federal income tax filings, and will ease the administrative burden of quarterly reporting.

### Termination of annuities

This change will permit actuarial debiting of a member's account for retirement benefits received after a member returns to service. This conforming amendment would treat this payment similarly to purchase of service payments. This type of actuarial debiting is not available to a member who is involuntarily terminated and then reinstated through an arbitration or grievance award.

### Payment of death benefits

If the total death benefit is \$10,000 or more, the member's beneficiary(ies) may receive the death benefit in either monthly payments or a lump sum. If the death benefit is less than \$10,000, a lump sum payment will be made to the member's beneficiary(ies). For members who died prior to the enactment of Act 38 on April 23, 2002, a lump sum payment was made if the present value was less than \$5,000. If a member dies in State service after becoming eligible for a retirement benefit, SERS will assume that the member retired under Option 1 the day before death. Under Option 1, the present value of the monthly annuity will be payable to the member's beneficiary(ies) upon the member's death.

## Cost of living adjustments since 1968

Year	Act #	Average Increase
1968	Act 230	6.76%
1974	Act 31	23.30%
1979	Act 130	25.00%
1984	Act 95	9.94%
1988	Act 112	9.50%
1994	Act 29	6.48%
1998	Act 88	9.60%
2002	Act 38	13.86%
2003	Act 38	6.99%

# *Check Out the New Interactive Custom Calculator!*

The new SERS Interactive Custom Calculator is the latest retirement and financial planning tool on the SERS web site. Click on the Benefits Calculator link on the home page to use it. It is designed to allow members to prepare a quick and easy calculation of their estimated benefits for current and future retirement dates. The calculator can provide estimated benefit amounts for most members under all basic options and a Special percentage survivor option. It will show estimated amounts for each option both with and without the withdrawal of your contributions and interest.

Currently this calculator is designed to produce estimates for most membership classes and benefit provisions. The SERS Interactive Custom Calculator will initially pull your current account information into the calculator. You may enter or change any of the unshaded boxed areas in the right column.

## **NOTE:**

- SERS does not guarantee the present or future accuracy of any of the data contained in this calculator's estimate of your benefit because the information and formulas used in this calculator must be general and basic in design to accommodate the many benefit variations possible for the 110,000 active members of SERS.
- **Members who are making final decisions about retirement should request an official estimate directly from their Regional Counseling Center.**

**[www.sers.state.pa.us](http://www.sers.state.pa.us)**

## **Instructions**

The calculator will automatically populate the right column with your current account information. To prepare an estimate you may make entries or changes to any of the unshaded boxed areas in the right column.

Please note that you can find detailed information and instructions on a particular item by clicking on the Details button located to the left of the item. Survivor Birth Date, Survivor Gender, and Special Percentage to Survivor entries may be completed if you want to receive estimates for survivor type options. Otherwise, you may leave them blank.

**Anticipated Retirement Date** – Enter any future date of retirement in the format shown.

**Final Average Salary (FAS) – Projected** – You may change this amount to the FAS you expect to have at the time of your Anticipated Retirement Date.

**Normal Weekly Work Hours** helps to project your future service credit. Only change this if your normal weekly hours are different from the amount shown.

Once you have completed your entries, click on the “Submit” button to obtain your estimate.



## SERS Member Retirement Calculator

	Member Name	JOHN DOE	
	Member Birth Date	01/01/1960	
	Member Gender	<input checked="" type="radio"/> Male <input type="radio"/> Female	
<a href="#">DETAILS</a>	Survivor Birth Date <small>(Optional)</small>	(MM/DD/YYYY)	<input type="text" value="01/01/1960"/>
	Survivor Gender <small>(Optional)</small>	<input checked="" type="radio"/> Male <input type="radio"/> Female	
<a href="#">DETAILS</a>	Special Percentage to Survivor <small>(Optional)</small>	(1-99)	<input type="text" value="30"/>
<a href="#">DETAILS</a>	Anticipated Retirement Date	(MM/DD/YYYY)	<input type="text" value="07/01/2004"/>
<a href="#">DETAILS</a>	Total Years Service	17.6272	
<a href="#">DETAILS</a>	Final Average Salary (FAS)	Current	\$63,932.61
		Projected	<input type="text" value="\$66,587.90"/>
<a href="#">DETAILS</a>	Normal Weekly Work Hours	(1-50)	<input type="text" value="40"/>
<a href="#">DETAILS</a>	Account Balance - Member's Money	\$56,672.59	
<a href="#">DETAILS</a>	Account Debts	\$0.00	

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