

# SERS News



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## Exceptional 2006 Investment Returns Shrink Future Employer Costs

SERS recorded a fourth straight year of exceptionally strong investment returns in 2006. As a result, the projected future spike in employer contribution rates – the pension “crisis”, which has received so much news coverage – is shrinking.

For the fiscal year ending Dec. 31, 2006, SERS' investments earned 16.4% - or more than \$4.7 billion. That made 2006 the fourth consecutive year in which actual returns far exceeded the 8.5% return that is the fund's earnings target. The system's returns in the three preceding years were: 2005, 14.9%; 2004, 15.1%; and 2003, 24.3%.

“This is extremely good news, not only for SERS and our members, but for all

Pennsylvanians,” said SERS Chairman Nicholas J. Maiale. “These earnings translate directly into lower projected employer contribution rates, which means a savings for taxpayers.”

Mr. Maiale noted that as recently as four years ago, actuaries were forecasting that by 2012, the employer rate would be approaching 30% of payroll. That was as a result of bear market investment losses and benefit enhancements.

But with four years of strong investment earnings, the 2012 rate spike is now projected at just over 10%. Chairman Maiale cautioned, though, that while the situation

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## SERS Veterans Assume Top Positions

*Recent unrelated developments have prompted personnel changes in SERS' three top management positions, but employees with a wealth of experience are stepping into those positions and leading the agency to continue fulfilling its mission of providing retirement benefits and services to you through sound administration and prudent investments.*

The SERS Board had a senior manager with more than 25 years experience with SERS to lead the agency as Acting Executive Director, when Executive Director Eric Henry announced that he had been recruited for and accepted the Executive Director position with the Texas Municipal Retirement System.

The Board named Leonard M. Knepp, C.P.A., Director of SERS' Audits, Reporting and Compliance Division, to direct the agency during the national search for a permanent Executive Director.



(L-R) Office of Member Services Director David E. Durbin, Acting CIO John C. Winchester and Acting Executive Director Leonard M. Knepp.

## Non-Retiree Annuitants: You Can Now Access Your Personal SERS Account Online

While retirees have been able to access their Personal SERS Account online to view and print their past and present 1099-R forms, and their annual annuitant statement, the information wasn't available for non-retiree annuitants. But that all changed this past May.

To access your Personal SERS Account online, you will need to register on the SERS Web site at [www.sers.state.pa.us](http://www.sers.state.pa.us): Click on the "Account Login" in the left-hand area of the homepage, and then click on the "First Time Users Register Here" link. Note that after you register, a registration letter containing your password will be mailed to you through the U.S. Postal Service.

Each Annuitant can access **ONLY** his or her account – if you are a Survivor Annuitant you will not be able to access the account of the deceased retiree whose retirement benefit SERS is paying to you.

Through your Personal SERS Account you will have access to the following items:

- **Account Information** – information about you – your address on record with SERS, the type of annuity payments you receive from SERS, etc.
- **1099-R Form** – view and print your 1099-R forms for the most recent tax year as well as past tax years going back to 1995. If you receive more than one type of payment from SERS, for instance you are a retiree as well as a Survivor Annuitant, you will see a 1099-R for each type of annuity payment you receive.
- **Annuitant Statements** – view and print your Annuitant Statement. While 2007 was the first year SERS produced this personalized statement, SERS plans to provide you with an updated statement early each year and you also will be able to access prior years' statements through your Personal SERS Account. ▼

### "Retiree" ... "Annuitant" What's the Difference?

In 2006, SERS issued nearly \$1.7 billion in monthly payments to more than 102,000 "annuitants," including nearly 93,000 "retirees." While all SERS retirees are annuitants; ***not all annuitants are retirees.***

Here is the difference:

SERS retirees were at one time "active" members, meaning they actively contributed to the system through regular payroll deductions. Retirees contributed to the system long enough to become "vested," or eligible for a retirement benefit, and they have applied for their retirement benefit and are receiving monthly benefit payments as a result.

While the SERS term "annuitants" includes retirees, it also includes Survivor Annuitants (and certain Beneficiaries, when the amount owed the Beneficiary qualifies for annuity payments) -- people who receive payments from the system because a member designated them to receive a portion of his or her retirement benefit.

You can find a glossary of SERS terms by visiting the SERS web site, [www.sers.state.pa.us](http://www.sers.state.pa.us), and clicking on "Glossary of Terms" in the "Quick Links" box in the right-hand area of the homepage.

## Could You Have Overpaid Your PA Taxes?

Benefits paid from SERS are subject to Federal income tax. However, under the Pennsylvania State Employees' Retirement Code, SERS benefits are ***totally exempt*** from Pennsylvania state and local income taxes.

During the recent tax season, SERS received several phone calls and e-mails

from annuitants telling us that their annuity payments were being taxed for Pennsylvania income tax.

In the majority of cases, the Annuitant's tax preparation software did not properly exclude the annuity payments from

see No PA Taxes - page 5

# Are you considering returning to work after retiring?

If so, the information in this article is important to you

As a SERS Annuitant, you may work for any non-public employer, for instance, a private school, without affecting your SERS retirement. However, if you return to work for *any* employer that offers the SERS plan, you will be reinstated into active SERS membership and ***SERS will stop your retirement annuity*** and freeze the remaining value of your retirement account. If that happens you must also reimburse SERS for any retirement payments you receive after the date you returned to service.

At present, there are more than 100 employers that offer SERS membership to their employees. A list of participating employers can be found on our Web site at [www.sers.state.pa.us](http://www.sers.state.pa.us)

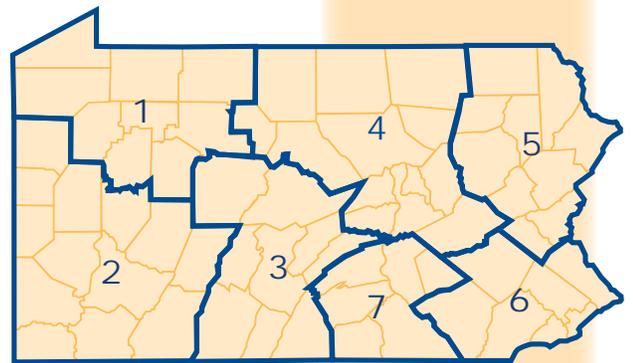
By law, Annuitants who become employed by the Pennsylvania Department of Education (PDE), the State System of Higher Education (SSHE) or its member universities, the Pennsylvania State University (PSU) or Pennsylvania community colleges, are not entitled to join one of the alternate retirement plans offered by those employers. Again, SERS annuitants will be reinstated into active membership with SERS.

If you did NOT elect “Multiple Service” while an active SERS member, you may accept employment with a public school district, become a member of the Public School Employees’ Retirement System

(PSERS), and continue to receive your SERS annuity while also receiving a salary from the public school and earning retirement credit in PSERS, so long as you do NOT elect Multiple Service. If you elected Multiple Service with PSERS, however, SERS will stop paying your annuity and freeze the remaining value of your retirement account, and you will be required to reimburse SERS for any retirement payments you received after you entered PSERS membership.

In certain circumstances, it is possible that an Annuitant who returns to SERS service could be eligible for a reduced annuity only at their next retirement. Factors such as length of return, the compensation received and the length of time on annuity all contribute toward this possibility.

***If you are considering returning to State service after retiring (for any length of service), please contact your Retirement Counselor before accepting employment in order to fully understand the impact this decision will have on your retirement and to obtain an estimate of your annuity at your next retirement.*** ▼



SERS has seven Regional Retirement Counseling Centers throughout the Commonwealth serving active members based on their work location, and retirees, Survivor Annuitants and Beneficiaries based on their residence location.

Retirement Counselors are available in each center to answer questions you may have about your retirement benefit. You can reach your Retirement Counselor by calling 1-800-633-5461.

## ***New Members:***

### ***Don't Miss Your Chance to Elect Multiple Service Credit***

If you are an active member of SERS and you have credited or creditable service with the Public School Employees’ Retirement System (PSERS) you might be eligible to elect Multiple Service credit. By electing Multiple Service you combine your SERS and PSERS credit so that at retirement you will receive one combined annuity payment which might be larger than the individual payments you would have received from each system individually.

***Electing Multiple Service is voluntary, but you must make that election within 365 days of your enrollment in SERS.*** If you do not make a timely election, you will not have another opportunity to become a Multiple Service member unless you terminate State service and then return later.

The types of employment that could qualify you for Multiple Service credit include service as a teacher or instructor at a Pennsylvania public school, community college or state

**SERS Veterans - from page 1**

His responsibilities and experience have “given Len an insight into virtually every aspect of SERS’ operations,” according to SERS Board Chairman Nicholas Maiale. “He knows the organization, the mission, the staff and the challenges we face.”

The Board also had a highly experienced staffer to turn to when Chief Investment Officer Peter Gilbert announced that he was retiring to accept the newly created position of Chief Investment Officer of the Lehigh University Endowment Fund.

The Board named SERS Deputy CIO John C. Winchester to serve as Acting CIO during the national search for a CIO.

Winchester has been with SERS for 10 years. “If Peter has been the architect of our investment portfolio, John has been the chief builder,” said Chairman Maiale. “He has an intimate knowledge of our assets, our investment strategy and our long-term goals.”

The Board accepted both Henry’s and Gilbert’s resignation during its June 6 meeting “with deep regret,” commended both for their service and launched national searches for successors. The Board’s goal is to fill both positions this fall.

In addition to Board-appointed staff changes, Office of Member Services Director Tom Wanich announced in February that he planned to retire on June 22.

To find a replacement, SERS conducted a search for applicants, including advertising the position, and then interviewed candidates.

The Office of Member Services, Bureau of Member Services’ David E. Durbin interviewed for the position and was selected. “Having worked with Dave over the past seven years I am extremely confident that he will do an outstanding job as the Office of Member Services Director, said Wanich who served on the interview panel. “His background in running the SERS retirement counseling program will ensure that our members will continue to receive the highest levels of customer service.”



**Deferred Comp. -- Great tax breaks, but do you know about the low fees?**

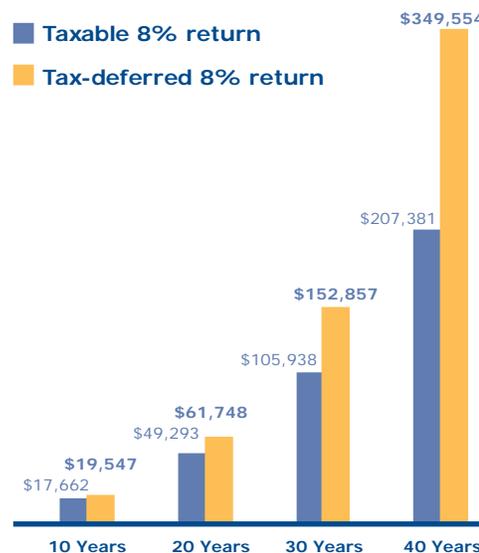
Nearly 48,000 State employees recognize that participating in the Commonwealth’s Deferred Compensation Program (DCP) offers valuable potential “tax breaks” and a great way to save extra money for retirement.

What is less appreciated are the low fees. SERS leverages the large size of our funds to negotiate lower fees and lower operating expenses. For example, here’s how the investment performance and fees of the DCP’s Stock Index Fund compare to one of the best known low-fee S&P 500 index funds.

	DCP Stock Index Fund	Leading Low-fee S&P 500 Index Fund
10-YR Investment Return	8.32%	8.12%
Annual Maintenance Fee	\$12.50	\$10.00 <sup>1</sup>
Total Operating Expense	.16%	.18%
Minimum Contribution	\$10 per month	\$3000 (initial)
Low Balance Fee	Never	\$10 <sup>2</sup>

And while both funds can boast low fees, only the DCP can provide the added benefit of tax-deferred savings. For a typical employee in the 25% tax bracket, a \$100 contribution to the DCP reduces your take-home pay by only \$75.

The following graph illustrates how much faster a \$50 per pay period contribution could grow in the DCP tax deferred program, compared to an equal contribution - *earning equal interest* - in a taxable investment (such as a taxable mutual fund).



To enroll in the Commonwealth Deferred Compensation Program, visit [www.sers457.com](http://www.sers457.com) or call (toll free) 866-SERS457, and select option 2.

<sup>1</sup> Fund charges an annual maintenance fee if the account balance is less than \$10,000.

<sup>2</sup> A low balance fee is charged if the account balance is less than \$2,500.

## Retirement Rush 2007

### Nearly a Year's Worth of Retirements in June; Members Counseled to Plan Ahead

The rush is on! While SERS processes, on average, approximately 4,500 retirements a year, nearly 4,000 applications have been prepared for a June retirement date alone this year.

“Processing those retirements takes time and requires information from each retiring member’s employer,” said SERS Director of Benefits Administration, Sue Hostetter. “While retirement applications are normally processed within eight weeks, during this rush we have been counseling retiring members to plan for eight to 10 weeks before receiving their first annuity payment.”

Processing an application for retirement begins when SERS receives final payroll information from your employer – generally two weeks *after* your termination/retirement date. If you have any agency debts – do not return all Commonwealth property, have an overdrawn leave balance or other financial obligations to your employer – those debts will delay this critical first step in the process.

Once SERS receives your final payroll information, a retirement technician will calculate your annuity. To be sure you receive the full amount to which you are entitled, each annuity is independently calculated and verified by two separate retirement technicians and then pre-audited by State Treasury auditors. Once the annuity calculation is approved, SERS can formally request that Treasury issue payment. More detailed information about this process is available on the SERS Web site, [www.sers.state.pa.us](http://www.sers.state.pa.us), homepage, in the right-hand area under “Learn More About ... Getting Your First Payment.”

“While members have 90 days from their date of termination to meet with a Retirement Counselor to sign their retirement papers and still receive a retirement benefit retroactive to their date of termination, SERS Retirement Counselors are booked through mid July,” said Hostetter. “Members planning to sign within that 90-day period need to schedule their appointments as soon as possible.”

In addition, members with general or non-immediate retirement counseling requests are asked to hold their requests until after July.

Watch the Web site for periodic retirement application processing updates, [www.sers.state.pa.us](http://www.sers.state.pa.us). ▼

## No PA Taxes - from page 3

Pennsylvania taxes. In other cases, the Annuitant’s income tax preparers or their software programmers misinterpreted the Pennsylvania tax laws, as did some Department of Revenue field offices. SERS has worked with the Department of Revenue to correct the issue.

To see if you overpaid your PA taxes, check your 2006 Personal Income Tax return (PA-40) or contact your tax preparer. You also may want to check your returns for prior years.

If you paid PA taxes on your annuity, you may be able to file an amended tax return to request a refund. According to Pennsylvania law, you must file an amended return within three years of the due date for the original tax return. You can find information on filing an amended tax return in the PA-40 instructions or by contacting the Department of Revenue at 1-888-PATAXES or 717-787-8201. ▼

## New Members - from page 3

university. Service as a Pennsylvania school administrator, staff member or bus driver also could qualify you for Multiple Service membership. Other types of school employment might make you eligible to elect Multiple Service credit, and if you are not sure whether your prior service is credited or creditable in PSERS, you should contact your SERS Retirement Counselor by calling 1-800-633-5461.

Similarly, if you are receiving a retirement benefit from PSERS, contact your Retirement Counselor before electing Multiple Service since your annuity will be affected.

After you submit a Multiple Service election form and PSERS certifies your prior service, PSERS will send you an invoice for the appropriate amount. You may repay that amount by lump sum, payroll deduction or actuarial reduction in accordance with the terms stated in the invoice. If you choose the actuarial reduction option, you will not make any out-of-pocket payments; instead, the repayment amount plus 4% annual interest will be deducted from the Present Value of your retirement benefit when you retire.

Remember, your election form *must* be filed within 365 days of your enrollment in SERS. ▼

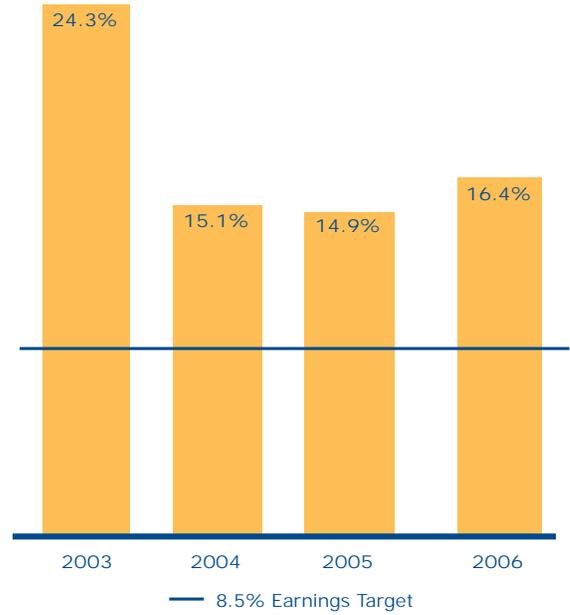
## Investment Returns - from page 1

has greatly improved, the projections assume the Fund earns no less than 8.5% in future years.

Even if the current projections hold true, he said, “a 10% employer rate is still a significant jump from the current 4% rate. “And despite the remarkable investment returns in recent years, SERS still is not yet fully funded.”

According to the latest actuarial report, SERS was 92.7% funded at the close of the year. “A funded ratio of more than 90% is very strong by any measure, and certainly above the national average of 80% for state pension systems. But the goal is to be 100% funded and it will be some time before we can achieve that, even if the investment markets remain healthy,” Mr. Maiale said. 📉

SERS Investment Returns



### SERS Board

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