

SERS News



How Safe Is My SERS Retirement Benefit? *And, What About the SERS Fund?*

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As investment markets struggle to stabilize, you may be wondering about the safety of your SERS retirement benefit.

Whether you are already retired, about to retire or still have many years to go before you reach retirement age, the problems in the financial markets will NOT have any effect on your SERS retirement benefit. Your retirement benefit is guaranteed by law. SERS is a "Defined Benefit" pension plan which means your retirement benefit is determined by a formula that takes into consideration your years of Service, Class of Service and Final Average Salary, NOT investment performance.



What about the SERS Fund?

In early September, SERS reported the Fund's investment performance through the first six months of the year was minus 2.9%. That is far better than most other large public pension plans, whose median return for the same period was minus 6.0%. SERS' performance placed us among the top 5% of all large public pension funds in the country. But as good as it may have been on a comparative basis, minus 2.9% is still a negative number. Markets have continued to struggle since June 30 and SERS is not immune to the recent declines in the stock market. As this newsletter is going to press in late September with just three months left in the year, it is becoming increasingly apparent that – for the first time in five years – SERS will not be able to achieve its assumed rate of return of 8.5% this year.

SERS – A Long-term Investor

SERS is a long-term investor. We are investing now to build up assets for today's Active Members, some of whom may not retire for another 30 years or more. As long-term investors, we expect that markets will go down from time to time, but are confident that in the long run, investments will grow in value.

The recent market downturn comes after a five-year period that was one of the most successful in the history of the SERS Fund. For the five years ended December 31, SERS has an annualized return of 17.5%. Last year alone, SERS' investments earned \$5.2 billion dollars!

That five-year period of strong investment earnings brought SERS to almost fully-funded status. As of the end of 2007, we were 97% funded. Many experts consider that any pension fund that is more than 80% funded is well-funded. So at 97% funded, SERS is in very good shape.

If SERS is unable to achieve its investment target this year, that shortfall will be factored in when calculating our 2008 year-end funded status and in determining the annual employer contribution rate. The formulas for making those calculations, which are established by law, serve

see How Safe? - back page

REHP Participants: Who To Contact When You Need Information

The Retired Employee Health Program (REHP) is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF).

While SERS staff can answer questions regarding your eligibility for REHP, add or remove a dependent from your coverage and process your voluntary choice to “opt-out” of coverage, you need to contact the PEBTF or your individual plan with questions about your coverage.

See the “REHP -- Who To Contact” table on page 3 for more detailed information. The table was adapted from information published in the summer PEBTF member newsletter.

Retirees receiving a SERS Disability Retirement Benefit: The “Distribution Code” listed on Your Form 1099-R May Change

Based on recent guidance from our tax consultant, we will be making a technical correction to the “distribution code” of some SERS Disability Retirement Benefit payments. If you have been receiving a SERS Disability Retirement Benefit, you may see a different distribution code listed on your 1099-R form for this tax year. You do NOT, however, need to file any different or additional forms when reporting your SERS Annuity income on your Federal Income Tax return.

SERS retirement benefits are payable on the last working day of each month. For Annuitants who receive their payments by direct deposit, the money is deposited into your bank account on the last working day of each month. For Annuitants who receive their payments by check through the mail, SERS mails all checks on the next-to-last working day of each month and your check should arrive in the mail within ten business days.

Each January, for Federal Income Tax purposes, SERS provides retired members with a form **1099-R** for each type of payment you receive from the Fund. Your form **1099-R** lists the total benefits paid to you for the previous year, and payments are identified by a distribution code in box 7 of the form. In addition, SERS must also report this information to the Internal Revenue Service (IRS).

In the past, all SERS Disability Retirement Benefit payments were identified as “**Dist. Code 3**” payments or “**Disability**” distributions for Federal Income Tax purposes. According to IRS guidance, “**Dist. Code 3**” applies only to those Disability Retirement Benefit payments made to members who do not qualify for a non-disability retirement benefit.

Therefore, beginning with the form **1099-R** for tax year 2008, Disability Retirement Benefit payments made to retirees who would have qualified for a

non-disability Retirement Benefit will be identified as either “Distribution Code 2” or “7” payments:

- “**Dist. Code 2 - Early distribution**” for those members who have not attained age 59 years and 6 months at the time payment was made
- “**Dist. Code 7 – Normal distribution**” for those members who have attained age 59 years and 6 months at the time payment was made

For more information concerning the distributions codes and their meanings, contact a tax consultant, the IRS, or IRS Publication 575. 📌

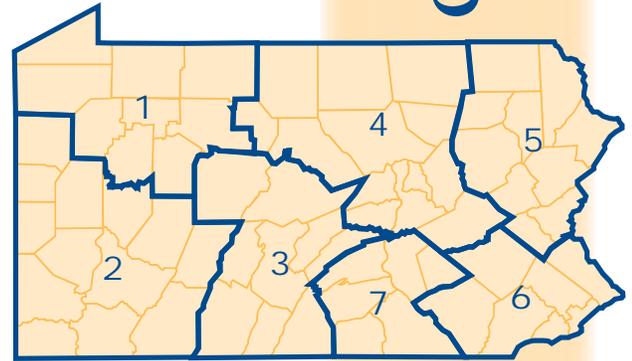
Can I Take A Loan From My SERS Retirement Benefit?

Among the questions members most frequently ask are: “Can I take a loan from my retirement benefit?” and the similar, “Can I borrow against my retirement benefit?” While the answer to both questions is, “No,” the same laws that prohibit loans, also protect your retirement benefit from creditors.

The State Employees’ Retirement Code provides the rules regarding when and to whom SERS pays retirement benefits. Under Pennsylvania law, your SERS retirement benefit cannot be accessed by you or any other party until you retire. The only exception is that the Commonwealth can collect any debt you owe as a result of your employment – such as excess leave usage – from your retirement benefit at the time you terminate State service. This means that no other creditor can reach your retirement benefit before you retire. It also means that you cannot borrow from your SERS retirement benefit or pledge your accrued benefit as security for a third-party loan.

What About After Retirement?

After you retire, SERS will only pay your retirement benefits to someone other than you or your representative in **very limited circumstances**. Those circumstances include cases in which SERS has approved a domestic relations order, there is a federal tax levy or you are convicted of a crime listed in the Public Employee Pension Forfeiture Act. 🍷



REHP -- Who To Contact			
	PEBTF	SERS	Health Plan
Health Benefit Questions	X		
Retirement Benefit Questions		X	
Change My Address	X	X	
Add or Remove a Dependent from Coverage		X	
Report My Divorce (member's ex-spouse must be removed from REHP coverage)		X	
Obtain Student Certification (for full-time students ages 19 - 23)	X		
Report a Member's Death		X	
Apply for Student Medical Leave	X		
Apply for Disabled Dependent Coverage	X		
Voluntarily "Opt-Out" of Medical and/or Perscription Drug Benefits		X	
Report Eligibility for Medicare (Part A and Part B)	X		
Enroll in a Medicare HMO or PPO (for those newly eligible for Medicare)			X
Order a New Medical ID Card			X
Appeal a Denied Claim or Service			X

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.

PEBTF: 1-800-522-7279

SERS: 1-800-633-5461

Health Plan: contact PEBTF for plan phone numbers or refer to your plan ID card

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to dampen the immediate effects of even sharp swings in investment performance. So even if SERS does end the year with a loss on its investments, we would not anticipate any large, immediate change in the amount the Commonwealth employers (taxpayers) would have to contribute to SERS.

Looking Ahead With A Tested Plan

Meanwhile, SERS' board, staff and investment consultants will remain focused on managing the Fund through the current turmoil and positioning it to benefit when markets begin to recover.

"I am pleased to be able to assure you that despite the significant challenges in the global financial markets,

SERS remains sound, with a diversified portfolio of assets and a long-term strategy designed to enable us to meet all our current and future obligations – including our obligation to you, the member" said SERS Executive Director Leonard M. Knepp. "That diversification has served us well in the current downturn.

"As we have seen time and again, long-term investors who remain calm and patient ultimately reap the rewards. SERS found itself in a similar situation during the 2000-2002 bear market: We suffered losses then, too. But by adhering to a well-designed, well-diversified, long-term strategy, the SERS Fund not only recovered but delivered results that consistently place SERS among the very best performing pension plans in the country." 📌

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