

SERS News



www.sers.state.pa.us

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Outstanding 2007 Returns Move SERS Closer to Fully Funded;

Declines in Global Markets Yield Flat Start to 2008

The SERS Fund achieved a fifth year of exceptionally strong investment returns in 2007, cementing SERS' standing as one of the top-performing pension funds in the country and moving it closer to fully funded status.

Fund investments earned 17.2%, or \$5.2 billion, bringing the fund total to more than \$35 billion at year's end. The performance placed SERS among the top 5% of all large public pension funds nationwide. SERS' investments have produced a net compounded annualized return of 17.5% over the last five years, 10.1% per year over the last 10 years and 11.5% over the last 20 years, Chief Investment Officer John C. Winchester reported.

"We are proud to measure up so well against our peers," said SERS Chairman Nicholas J. Maiale. "But more importantly, this sustained strong performance has helped to strengthen SERS' funded status.

"Our actuaries report that as of December 31, 2007, SERS was 97.1% funded," Mr. Maiale said. "That is a marked improvement from the end of 2006, when we were 92.7% funded. The Board and staff will continue to work toward achieving fully funded status."

SERS Executive Director Leonard M. Knepp noted that the strong investment returns also are helping to lessen the

see Funded Status - page 5

Facts About COLAs

Advocates both for and against a COLA for retired members have been voicing their positions, including some inaccuracies, in the media. Here are a couple facts about COLAs and additional resources for more information.

SERS' Involvement In The Discussions

As retirement benefit administrator, SERS has a fiduciary obligation to its members -- to you -- to administer the benefit and SERS Fund according to the Retirement Code and other laws.

The Legislature and the Governor are responsible for determining what benefits should be granted, and SERS is responsible for implementing the decisions made by the Legislature and the Governor. That is why SERS never takes positions for or against benefit enhancement bills, such as COLAs or early retirement legislation. Instead, SERS works with Legislators and the Governor in an effort to ensure that bills affecting SERS are technically sound and that any actuarial costs are accurately estimated and funded.

For Additional COLA Information Including:

- Summary of Past COLAs
- Links to COLA research reports dating back to 2000
- Important Facts about COLA Funding
- COLA FAQs

Go to: www.sers.state.pa.us
click on "Legislation"
and then "Cost of Living Adjustments (COLAs)"

see COLA Consideration - page 2

REHP Premium Reminder (Retired Employee Health Program)

If you retired on or after July 1, 2007, and met the eligibility requirements for Majority State-Paid health insurance coverage, you will see an increase in your REHP premium deducted from your annuity payments beginning in July.

As outlined in collective bargaining agreements reached last year, the REHP contribution rate for members who retired on or after July 1, 2007, will equal the rate paid by active employees for health coverage. The rates are scheduled to increase by ½% this year and in 2009, and then 1% in 2010, as indicated in the below table.

REHP Contribution Rate For post July 1, 2007 Retirees	
November 1, 2007 - June 30, 2008	1.0%
July 1, 2008 - June 30, 2009	1.5%
July 1, 2009 - September 30, 2010	2.0%
October 1, 2010 - June 30, 2011	3.0%

Your REHP contribution rate is a percentage of your final annual gross base salary **at the time you retired**

-- in other words, it is based on your

pay while an Active Member -- divided into 12 monthly payments deducted from your annuity payments. The retiree share remains in effect for as long as you are covered by the REHP. ▼

REHP is administered by the Pennsylvania Employees Benefit Trust Fund (PEBTF). REHP is not a SERS program. While your Retirement Counselor can answer questions regarding your eligibility for the REHP, questions about REHP plans should be directed to the PEBTF at 1-800-522-7279 (in State) or 1-800-628-0174 (out of State) or to your specific plan provider.

COLA Consideration - from page 1

Separate Legislation

By law, each new COLA requires new legislation. Numerous COLA bills have been introduced in this session of the General Assembly and some of the bills call for regular (annual or biennial) COLAs. Additional information regarding pending COLA bills is available through the General Assembly's Electronic Bill Room at www.legis.state.pa.us or through the "Legislation" link on the SERS Web site.

Separate Funding

By law, COLAs cannot be paid from the existing SERS Fund. All monies in the SERS Fund are needed to meet already-incurred obligations, in other words, to pay the retirement benefit as it currently is structured for all members.

SERS is in an enviable position, however, in that we are 97% funded thanks to our strong investment performance, as detailed in *Outstanding 2007 Returns Move SERS Closer to Fully Funded*, pg. 1. Even so, that 97% funded status leaves SERS with

an unfunded liability of almost \$1 billion. Each new COLA creates a *new* unfunded liability that must be paid, in addition to the already existing unfunded liability.

The cost of a COLA is amortized (financed) over a period of years and added to the employer contribution rate – that is, an additional charge is imposed on all SERS' participating employers in order to pay for the COLA. Amortization payments include a finance charge, and like a car loan, the total paid is much higher than the "sticker price." Most COLAs have been amortized over 10 years but one current proposal, HB 2084, would amortize the cost over 20 years.

So the bottom line is: COLAs always increase employer/taxpayer costs. Those costs can be substantial. For instance, the Public Employee Retirement Commission (PERC) recently analyzed HB 2084. PERC concluded that the COLA proposed in that bill for SERS and PSERS retirees would cost more than \$500 million a year each year for the next 20 years. ▼

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 the bank account you requested 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.

Don't Allow Yourself to Suffer From An Incomplete or Outdated Member Record

All SERS members, both Active and Retired, share in the responsibility of keeping their personal SERS member record as current and complete as possible to avoid unwanted consequences down the road. Below are a few tips -- some you may never have considered before -- to help you avoid a few unwanted consequences.

Active Members

Keep Your Beneficiary Nominations Current -

If you die as an active member (in state service), the Initial Present Value of your retirement benefit is paid to the Beneficiaries you designated on your most recently filed **Beneficiary Nomination** form. If no form is filed with SERS, the money is paid to your estate which could result in estate tax consequences. Forms are available from your HR office and on the SERS Web site.

Keep Your Address Current With Your Employer

– SERS mails your annual statements, newsletters and periodic retirement benefit notices to your address *on file with your employer*. If you have recently moved or are planning to move, you must notify your HR office so that your records can be updated and you continue to receive valuable information to help you plan for retirement.

File Your Domestic Relations Order With SERS

Before You Retire – If you have gone through a divorce and have reached a legal agreement with your ex-spouse that involves distribution of a portion of your retirement benefit to your ex-spouse after you retire, you must submit a Domestic Relations Order (DRO) for review by SERS. All DROs must be reviewed and approved by SERS *before* they become effective. Failure to secure a SERS-approved DRO until you retire could suspend or delay the processing of your retirement benefit.

File Your Power of Attorney With SERS – If you have appointed someone to act on your behalf as your agent under a Power of Attorney (POA), you should submit the POA for approval by SERS. A POA can be an invaluable document in the event that you become incapacitated and are unable to make decisions related to your retirement benefit. A POA form regarding SERS retirement benefits is available on the SERS Web site.

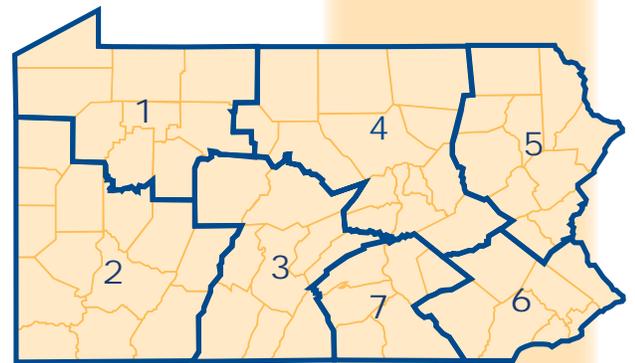
Enroll in Medicare Part B Before You

Retire – If you are retiring and either you or your spouse are Medicare eligible, you must contact the Social Security Administration to enroll in Medicare Part B effective on the first day of the month in which you retire. Failure to do so can result in a gap in medical coverage and/or monthly Medicare premium penalties.

Retired Members

Keep Your Address Current with SERS – SERS mails your annual statement, **1099-R** tax form, biannual newsletters and other timely informational materials to your address *on file with SERS*. If you have recently moved

see Member Record - page 4



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.

SERS Mourns Loss of Counseling Center Manager Bob Kercher

If you live or work in the northeastern area of the state, you no doubt spoke with Bob Kercher at least once -- Bob counseled thousands of members during his more than 20 years of SERS service. Retirement service assessment surveys completed by the retiring members Bob counseled consistently rated Bob's service as "outstanding."

Unfortunately, Bob died February 24, 2008 from injuries he sustained in a tragic car accident on icy roads earlier that month. Bob will be missed by SERS staff and members. 🍷

Member Record - from page 3

or are planning to, you must notify SERS, in writing, of your change of address.

Annuitant Change of Address (SERS-128) forms are available by calling 1-800-633-5461 and on the SERS Web site.

Sign Up For Direct Deposit – If you are currently receiving your monthly annuity in the form of a paper check you are strongly urged to sign up for direct deposit. Through direct deposit, your annuity payment is electronically deposited into your checking or savings account -- your choice -- on the last working day of every month. Direct deposit of your annuity is the safest way to ensure a timely receipt of your payment. Paper checks are mailed on the next-to-last working day of the month and are dated the last working day of the month. In the event of a lost or stolen check, a “stop payment” order can not be issued on that check until after 10 working days from the date on the check. It then takes an additional 10-14 days before you receive a replacement check.

File Your Power of Attorney With SERS – It is extremely important that if you have appointed someone to act on your behalf as your agent under a Power of Attorney (POA), you submit the POA for approval by SERS. This will ensure that your agent will be able to perform all transactions outlined in the POA on your behalf should you become incapacitated.

Disability Retirees

File Your Annual Earnings Statement - If you have NOT yet reached Normal Retirement Age, you are required to report to SERS the income you earned in the prior year on the ***Annual Earnings Statement for Disability Benefits (SERS-220)*** that SERS mails to you each January. This must be done even if you have no income other than your SERS annuity. Failure to do so will result in a reduction in your annuity payment until the form is received by SERS. 📄

“Forgot Password” Link Can Help If ... Your E-Mail Address Is Up-To-Date

Online access to your personal account information is handy for retirement planning, personal financial planning and federal tax preparation purposes. You can access your information whenever you need it, at any time of day or night. As long as you remember your account password, your information is a click away. But what happens if you forget your password?

As long as your e-mail address on file with SERS is current and valid, and you have successfully logged into the site at least once, you can click on the “Forgot Password” link to receive your password by e-mail.

If the e-mail address you have on file with SERS is no longer valid, if you did not provide an e-mail address when you first registered, if you are registering for the service, or you registered but never logged into the site, a password will be mailed through the U.S. Postal Service to your address on file with SERS, which will delay your access to your account information.

For security purposes, once you receive your password from SERS, be sure to change your password to your own unique password and protect that password – don’t share it with anyone.

SERS Online Member Services Area

Following is some of the information you can access in the Online Member Services Area.

Retired Members/

Annuitants: You can view and download your current and previous years’ IRS Form 1099-R and

see Forgot Password - next page

Tips to help you keep your online account information just a click away

- **Check your online account information once a year.** Once you have logged into your account, click on “Update user account” to be sure your e-mail address on file is current and valid.
- **If you change your e-mail service provider or e-mail address, be sure to update your account information.**
- **Remember that your State e-mail address no longer works once you leave active State employment.** If you registered for online account access as an active member you may have entered your state e-mail address. When you retire or leave state employment, be sure to update your e-mail address from your employer-provided account to a personal account as soon as possible.

Forgot Password - from page 4

Personal Statement of Retirement Benefits (Annuitant Statements). In addition, you can view and print a summary of your current retirement account including your current mailing address on file, effective date of your annuity, your gross and net annuity payment, Federal Income Tax withholding status and number of exemptions currently claimed, Medicare Status and other health insurance information.

Active Members: All members who are currently contributing to SERS, are Multiple Service members active with PSERS (Public School Employees' Retirement System) and members who have vested their SERS benefit: You can view your current account information including the amount of your member contributions, Credited Service, Final Average Salary and quarterly earnings. You can also view your most recent and prior years' Statement of Account (back to calendar year 2000). In addition, you can use SERS' Interactive Custom Calculator to prepare retirement benefit estimates for various retirement dates and scenarios. 📌

2007 CAFR Available Online

SERS just issued its 2007 Comprehensive Annual Financial Report which includes extensive financial, investment and actuarial reports, and presents statistical information about the system.

While the complete report is available on the SERS Web site, highlights from the report follow:

As a mature plan, SERS pays out far more in benefits and refunds each year than it receives in contributions: \$2.3 billion in payouts versus \$578 million in contributions in 2007.

It is projected that by 2010 the number of retired members will exceed the number of active members and by 2012 annual benefit payments will reach \$3 billion, 56% more than in 2006.

see 2007 CAFR Highlights - back page

Funded Status - from page 1

projected employer contribution rate "spike" in 2012.

The expected spike is the result of legislation (Act 40 of 2003), the purpose of which was to postpone the increases in rates that otherwise would have taken place as a result of a combination of benefit

enhancements (Act 9 of 2001 and the 2002/03 COLA) and the 2000-03 bear market.

At one point it was projected that in 2012, the employer contribution rate, which had

fallen to zero, would soar to about 30% of payroll. By the end of 2006, strong investment performance had brought the projected 2012 rate down to about 10%. With the addition of a fifth strong year in 2007, the rate is now projected to peak at 5.7%, Mr. Knepp said. The employer rate currently is 4%.

"These new rate projections are good news for all Pennsylvanians," Mr. Knepp said, "because employer contributions ultimately are paid by the taxpayers. We still expect that employers will have to pay more in 2012 and beyond to help overcome the current shortfall of just under \$1 billion and return the Fund to fully funded status. But the burden will be much less than had been expected."

Mr. Knepp cautioned, however, that the rate projections assume the fund will continue to meet its assumed rate of return of 8.5% each year and will not face any new unfunded liabilities. Lower returns or benefit enhancements would cause projected rates to rise, he explained.

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Leonard M. Knepp, SERS Executive Director

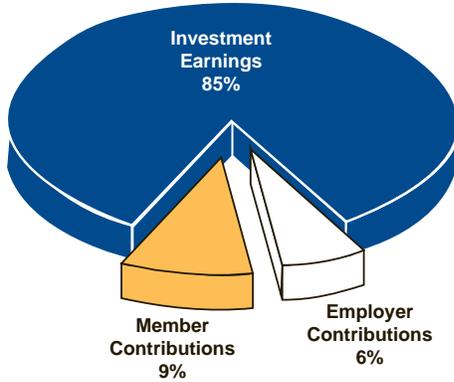
Thus far in 2008, the Fund is not keeping pace with the 8.5% earnings assumption for this calendar year. At its June 4 meeting, the SERS Board was informed that investment performance through May was essentially flat. Global declines in financial markets were reflected in first quarter performance but those losses were "almost entirely offset" as many markets recovered in April and May, leaving earnings essentially flat or slightly down as of then. 📌

To learn more about the funding of benefit enhancements, such as COLAs, see **COLA Consideration**, pg. 1.

Fund Statistics
as of Dec. 31, 2007

Fund Balance	\$35 billion
Funded Status	97.1%

SERS Funding
(10-Year History)



System Membership

	2007	2006
Retirees and Beneficiaries currently receiving benefits	107,130	102,060
Inactive members, entitled to benefits but not yet receiving them	5,692	5,843
Current Active Members	109,610	110,972
Total members	222,432	218,875
Participating employers	108	108

Growth in Annuity Payroll

	Dec. 2007	Dec. 2006	Dec. 2005
Monthly Annuity Payroll	\$154 million	\$138 million	\$133 million
Retirees	107,130	102,060	101,179

SERS Board

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