

# SERS News



www.sers.state.pa.us

## Employer Contribution Rate To Remain at 4%; But Climb Sharply In Near Future

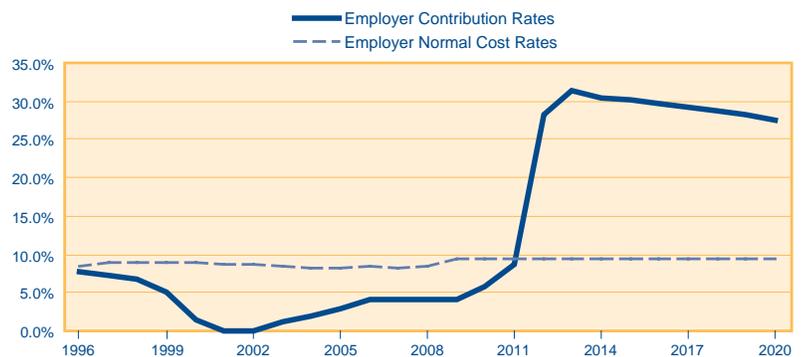
*While SERS' strong investment returns over the past five years had nearly eliminated the expected 2012-13 employer rate spike, the collapse of the global investment markets in 2008 caused the spike to return to near previously expected levels.*

During its April meeting, the SERS Board certified the current employer contribution rate of 4% of payroll as the rate for fiscal year 2009-10, based on the 2008 Actuarial Valuation. This will be the tenth year in a row that the employer rate has been 5% or lower, and the 15<sup>th</sup> year that employers have contributed well below the “employer normal cost” (amount employers would ordinarily be expected to pay if all other assumptions were met). This year also will be the end of this extended period of low and relatively stable employer contribution rates, as rates are expected to begin climbing in 2010-11, jump sharply in 2012-13, peak in 2013-14 and remain high for the foreseeable future. **Despite this expected increase in employer rates, as an existing member of SERS your retirement benefit is guaranteed and will be paid.**

For several years we have been anticipating that rates would have to rise significantly in order to pay the system's unfunded liability. The unfunded liability includes costs from a combination of items, including:

- legislative benefit enhancements previously granted such as the 2001 benefit enhancements for active employees and the 2002 COLA for retired members,
  - investment losses in the 2001-2002 bear market,
  - Act 2003-40 which changed the amortization schedule of gains and losses, temporarily and artificially suppressing employer contribution rates, and
- see Employer Rates, back page

**SERS Employer Contribution Rates as Percent of Payroll**



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## Annuitants: Are You Having Enough Money Withheld From Your Annuity For Federal Taxes?

*New IRS Withholding Tables Could Leave You Owing in April*

In February, the Internal Revenue Service issued new Federal Income Tax withholding tables as part of the “economic stimulus” outlined in the American Recovery and Reinvestment Act of 2009 to provide tax relief on “earned income.” The new tables, mandated by the IRS, required pension systems like SERS to change the amount of money withheld from monthly Annuity payments for Federal

see Taxes, next page

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.

## Taxes - from page 1

Income Tax beginning in April, even though pension income has not previously been considered “earned income” according to the IRS. In many cases, the change resulted in less money being withheld from monthly pension payments for tax purposes. In April, SERS mailed letters to the more than 58,000 Annuitants whose payments would be affected by the change.

If you have directed SERS to withhold a specified dollar amount, or if you have directed that no money be withheld, your payments will NOT be affected.

If, on the other hand, you have money withheld from your Annuity payments according to the IRS withholding tables, **the application of the new withholding tables may mean the amount of money withheld from your monthly payments is not enough to cover your annual tax liability.** SERS urges Annuitants to review your individual withholding and consider modifying the amount of your withholding if you have not done so already.

The SERS Web site features an interactive Monthly Federal Tax Withholding Calculator that estimates the amount of money that will be withheld from your gross monthly Annuity payments for Federal Income Tax, according to current IRS tax tables and various tax filing options. The withholding calculator is available by clicking on the “Calculators” link on the SERS homepage, [www.sers.state.pa.us](http://www.sers.state.pa.us).

If you choose to change the amount of money SERS withholds from your Annuity for Federal Income Tax or you choose NOT to have money withheld, submit your instructions on an Annuitant Federal Income Tax Withholding (SERS-W-4P) form available on the SERS Web site, through the “Forms” link, or through your Regional Retirement Counseling Center by calling 1-800-633-5461.

SERS’ Retirement Counselors are not tax advisors. **Please contact a tax professional for advice about the amount of money to have withheld from your monthly payments.** ▼

## 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 in 2007, 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 then 1% in 2010, as indicated in the below table.

REHP Contribution Rate For post July 1, 2007 Retirees	
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 or to your specific plan provider.*

## When Was the Last Time You Filed a Beneficiary Form?

The value of your SERS Death Benefit could be a large sum of money, and that amount increases as you continue working for a SERS employer. Your Death Benefit could be the source of financial security for your dependents or loved ones after you're gone. That's why it's so important that you have a current Beneficiary designation form on file with SERS.

SERS is required by law to pay your Death Benefit to the Beneficiaries named on the last form you filed with SERS. If there is no valid Beneficiary form on file when you die, then SERS **must** pay your Death Benefit to your estate. Assets of your estate could be used to satisfy your other obligations before anything is paid to the heirs of your estate. And, even if all of the money SERS pays to your estate is eventually paid to your heirs, additional taxes could reduce the amount that they keep.

Following are two scenarios drawn from real circumstances of actual SERS members.

**Scenario 1:** A SERS member worked for 20 years then died unexpectedly without ever completing a Beneficiary form. Her husband of 25 years assumed that her Death Benefit would be paid to him automatically. However, because SERS had no Beneficiary form on file when the member died, SERS was required by law to pay the Death Benefit to her estate. That money became subject to taxes that would not have applied if it had been paid directly to her husband, and it also became available to satisfy the member's debts. If the member had filed a Beneficiary form naming her husband, SERS would have paid her husband directly. In that case, her husband would have received the full Death Benefit instead of just a fraction of its value, and he would have had the option of rolling over the money to a tax qualified plan or taking a lifetime monthly benefit.

**Scenario 2:** A young man filed a Beneficiary form naming his parents as his Beneficiaries shortly after becoming a SERS member.

Over the years, the young man married, had three children and consistently earned salary increases. Despite the changes in his life, the man never filed another Beneficiary form. When the member died shortly before retiring, SERS was required by law to pay his Death Benefit according to the most recently filed Beneficiary form. In this case, the named Beneficiaries were his parents, and because only his mother was still living, all of the benefit was payable to her. Despite the fact that the member's mother wanted the Death Benefit to be paid to his widow, SERS was required by law to pay the benefit to the member's elderly mother and could pay nothing to his spouse or children.

Members are encouraged to file an updated Beneficiary form with SERS periodically, especially after you have a major life event such as a change in marital status, birth or death of a family member or a change of a Beneficiary's name or address. The only way to guarantee that your Death Benefit will be paid to the ones you choose is to have a current Beneficiary form on file with SERS.

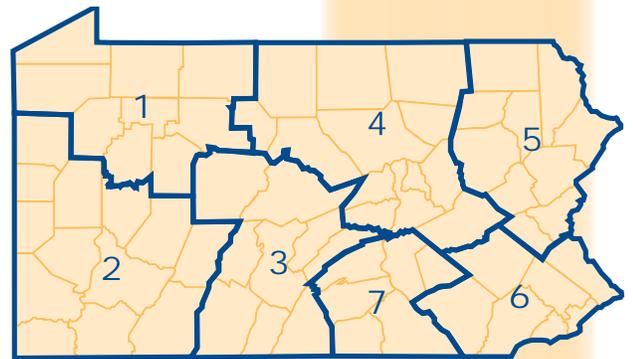
### Active Members:

You can update your Beneficiary form at any time by downloading a form from our Web site ([www.sers.state.pa.us](http://www.sers.state.pa.us), click on the "Forms" link) or by requesting a form from your Retirement Counselor or the automated form request line by calling 1-800-633-5461.

### Retired Members:

You can update your Beneficiary form at any time **if you chose a retirement benefit option that provides a Death Benefit**. If you are unsure whether your retirement benefit option provides a Death Benefit, please contact your Retirement Counselor at 1-800-633-5461. 📌

## Counseling Corner



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.



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### Employer Rates - from page 1

- the global economic collapse of 2008, which resulted in severe investment losses by most institutional investors, including SERS. As we discussed at our budget hearings and on other recent occasions, and as you may have seen reported in the news, the 2008 losses have greatly added to SERS' unfunded liability and, therefore, the need for future rate increases.

Precisely what the future rates will be depends, of course, on SERS' actual experience, particularly the SERS Fund investment experience, in this and future years.

The negative performance of the investment markets in the first quarter of this year indicate that it will be unlikely that the Fund will be able to earn the recently lowered 8.0% investment return assumption this year. Lower investment returns will increase future employer contribution rates, but current projections show the rate

climbing to 5.9% in fiscal year 2010-11, jumping sharply in 2012-13 to 28.3%, peaking in 2013-14 at 31.4% and remaining above 20% through 2032-33.

While SERS, the Legislature and the Rendell Administration have been discussing options to address the unfunded liability over the past few years, the global economic collapse of 2008 and resulting return of the rate spike at previously projected levels have made this issue a vital part of the state's fiscal deliberations. SERS recognizes that employer contribution rate increases of the magnitude now being projected would impose a great and perhaps unsustainable budgetary burden on our member employers. Unfortunately, any realistic scenario ultimately results in a projected sustained period of much higher rates because the unfunded liability must be addressed. 📉