

# SERS News



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

## Pension Funding Debate Continues

*Monitor Developments on SERS' new Pension Funding "Rate Spike and Plateau" Information Web page*

Each June, SERS publishes its *Comprehensive Annual Financial Report* that provides a comprehensive picture of the System's financial condition. In addition, SERS' actuary conducts an annual actuarial valuation to determine the amount of money the System needs to pay all its obligations including lifetime pensions to all eligible members, and publishes its findings in an *Actuarial Report* each June. While the 2009 reports show positive investment performance, they also show that the impending employer contribution rate spike still looms.

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### Positive Investment Performance

Investment performance in 2009 showed marked improvement over the losses suffered by SERS and virtually all other institutional investors during the global economic collapse in 2008. The SERS Fund gained 9.1% in 2009, a full percentage point better than the long-term assumed rate of return. This marked the 11<sup>th</sup> time in the last 15 years that SERS has out-performed its assumed rate of return.

### Rate Spike Looms

While last year's investment returns are definitely good news, SERS continues to face the employer contribution rate spike in 2012, to be followed by a projected decades-long period of higher rates as discussed in prior editions.

The composite employer rate, which has been at the 4% floor for four years, has been certified at 5.6% for the Commonwealth's 2010/11 fiscal year. But it is projected to climb much higher: to 8% for 2011/12, then spike upward to 26.7% for 2012/13, peak at 29.2% the following year and remain above 20% through 2031/32.

The projections assume that the System will continue to achieve its long-term assumed rate of return, that employers will pay in full each year's rate as currently projected and that no new supplemental annuities or COLAs are granted. If earnings fall short of the assumption, if actuarially required rates are not paid in any given year or if COLAs are granted, rates in future years could be higher than currently projected. Should earnings exceed the assumption, rate projections could decline.

### Pension Funding Resources

Several proposals have been issued to address pension funding; however, as this newsletter goes see Rate Spike - back page



Visit [www.sers.state.pa.us](http://www.sers.state.pa.us) and click on the graphic shown above to stay informed of developments in the pension funding issue.

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.

## Considering a Full-Time or Part-Time Job? Ask Your Potential Employer One Important Question First!

If you're a SERS retiree receiving monthly retirement payments and you're considering returning to work for an employer that offers the SERS plan, please be aware of the impact returning to work will have on your retirement benefit. When you return to work for an employer in SERS, your monthly SERS retirement payments will be stopped – even if you only work a few hours a week or a few days a month. Also, when you retire again, your entire retirement benefit – including both periods of service – will be recalculated to determine your new benefit amount.

Under the Retirement Code, if you retired under Normal or Early Retirement then return to work for an employer that offers the SERS plan, (or you return to work as a Multiple Service member for an employer that offers the Public School Employees' Retirement plan), **your monthly pension payments from SERS will stop**, except under very limited circumstances. Your benefit calculation and payments when you retire for the second time will depend largely on how long you work after returning to service. In rare circumstances, the benefit you will receive when you retire again **could be less than** the benefit you received during your earlier retirement.

### Employers Offering SERS

You probably know that most employers who offer the SERS plan are State agencies; but you might be surprised to know about other employers offering the SERS plan, for instance: Pennsylvania's community colleges and 14 universities in the State System of Higher Education, The Pennsylvania State University, Port Authority Transit Corporation, Pennsylvania College of Technology, Delaware River Toll Bridge Commission, Delaware River Joint Toll Bridge, Delaware Valley Regional Planning Commission, Delaware River Port Authority, Philadelphia Regional Port Authority, Pennsylvania Turnpike Commission, and Pennsylvania Convention Center Authority.

There are other SERS-participating employers as well, so **ask your potential employer if they offer the SERS plan before you accept new employment.**

If you have any questions regarding returning to work either on a full-time or part-time basis, please contact your Retirement Counselor at 1-800-633-5461. 📌

### Correction

December Annuity payment checks will be mailed out of Harrisburg on December 29, 2010. The date was inaccurate in prior publications including the retirement payment calendar in your annual statement.

Annuity checks are mailed on the next-to-last working day of each month. Annuity payments by direct deposit are deposited into member accounts on the last working day of each month. 📌

### REHP Premium Reminder

If you retired on or after July 1, 2007, and met the eligibility requirements for Majority State-Paid health insurance coverage, you will see the REHP premium deducted from your Annuity payments increase to 3% beginning October 1, 2010.

As outlined in collective bargaining agreements, 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.

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. 📌

## Divorce and Your SERS Retirement Benefit

Divorce can affect your SERS retirement benefit tremendously, even if you have already retired. If you have divorced since you became a member of SERS or you are planning to divorce, SERS urges you to contact your Retirement Counselor about the consequences of divorce on your retirement benefit, if you have not done so already. **Your SERS retirement benefit could be affected by your divorce, even if your marital settlement agreement does not mention your retirement benefits.**



*Sample Domestic Relations Order* and instructions for obtaining an approved order.

After your divorce is completed, you should submit a new Beneficiary form that is consistent with the terms of your marital settlement agreement and any related court orders.

### Divorce After Retirement

Divorce can impact the payment of your retirement benefit, even if you retired before divorcing. If you designated your spouse as your Survivor Annuitant or your Beneficiary before you divorced, that designation might not remain effective after your divorce, depending on the date of divorce and the terms of your marital settlement agreement. If you divorced after retiring, and you have not already contacted SERS about the effect on your retirement benefit, you should contact your Retirement Counselor.

If you chose a retirement benefit option that provides a survivor Annuity, you may choose a different retirement benefit option, subject to an actuarial adjustment, after your divorce. This is available even if you did not designate your former spouse as your survivor.

Please contact your Retirement Counselor at 1-800-633-5461 for more information. ▼

### Divorce Before Retirement

If you divorce before you retire, some or all of your SERS benefit could be subject to equitable distribution. In other words, a portion of your retirement benefit could become payable to your former spouse. If you are divorcing, you should contact your Retirement Counselor for benefit estimates and to obtain a copy of SERS' *Sample Domestic Relations Order*. You should know that SERS will not discuss your individual retirement benefit or provide estimates on your benefit to your spouse or your spouse's representative without your authorization; however, upon request we will provide your spouse or his/her representative with SERS'

## Rollovers into Roth IRAs Now an Option

As of January 2010, the Internal Revenue Service (IRS) permits the rollover of SERS lump-sum payments into Roth IRAs, in addition to traditional IRAs and other qualified plans. This means Members, Beneficiaries and Alternate Payees have another option for rolling over their Accumulated Deductions, interest and Death Benefit payments. However, if you are 70½, there may be limitations on the amount you may roll over.

Roth IRAs allow tax-free withdrawals of earnings at any age, if you meet the qualifications established by the IRS.

In addition, Roth IRAs don't require minimum distributions after age 70½ and they can be passed to heirs without tax consequences.

However, taxes must be paid when the money is rolled into the Roth IRA, not when it is withdrawn. Depending on your circumstances, this could put you in a higher tax bracket in the year you roll over your money. In addition, there could be a penalty for withdrawing funds before the qualifying period.

**"... obtain professional tax advice regarding all retirement decisions, including your lump sum withdrawal ..."**

see Roth IRAs - back page

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.



Commonwealth of Pennsylvania  
State Employees' Retirement System  
30 North Third Street, Suite 150  
Harrisburg, PA 17101-1716

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### Roth IRAs - from page 3

Also as of January 2010, non-spouse Beneficiaries are permitted to roll over lump sum payments to Roth or Traditional IRAs; however, they must be treated as Inherited IRAs.

**SERS does not provide tax advice. Therefore, you should obtain professional tax advice regarding all retirement decisions, including your lump sum withdrawal from SERS prior to completing your rollover forms.**

For more information on taxes and rollovers, see the Taxability of Benefits and Rollovers section in the SERS Member Handbook, available in the Publications area of the SERS Web site, [www.sers.state.pa.us](http://www.sers.state.pa.us). 📄

### Rate Spike - from front page

to press, only one bill has been formally introduced to deal directly with the rate spike. That bill is HB 2497, sponsored by Rep. Dwight Evans.

HB 2497 aims to address the rate spike by temporarily “collaring” employer rates so that rates rise gradually over time rather than spike dramatically in any one year. The tradeoff for having a more gradual increase in the near term is that the overall long-term cost increases.

As debate on this issue continues, you can stay informed of developments on the new **Pension Funding** page on the SERS Web site. Visit [www.sers.state.pa.us](http://www.sers.state.pa.us) and click on the *Pension Funding “Rate Spike and Plateau” Information* graphic. 📄