

# Report from the SERS Investment Office

An Overview of Fixed Income Investments

By Joseph A. Braccia, Director of Public Markets

The Pennsylvania State Employes' Retirement System is the 40th largest public or private pension system in the United States, and the 61st largest in the world. Sometime this year we expect to reach a milestone of \$14 billion in assets.

A key SERS responsibility to our members is to manage and invest the fund's assets wisely. We carefully walk a fine line between the level of investment risk we assume and the solid investment returns needed to ensure the soundness of the retirement system for SERS retirees and beneficiaries.

In the interest of keeping you, our members, informed about what's being done to meet these obligations, I want to describe here one of the important parts of the SERS Investment Office's investment strategy.

#### Fixed Income Securities

The investment area I want to focus on is called fixed income securities, where we currently have about \$5 billion, or over a third of our investments.

What are fixed income securities? And why does SERS own them?

Basically, fixed income securities, which also are referred to as "bonds," are issued by a "borrower" such as a government body or a corporation. In exchange for the money invested, the borrower pays SERS and other investors fixed interest payments periodically. The borrower also promises to redeem the security at maturity, which is the security's final expiration date, or when it "comes due." The borrower then gives back the original amount of money that was borrowed from the investor.

Virtually all fixed income securities can be bought and sold between the time they are issued and the time they mature. Once issued, the value of a fixed income security is affected by economic and political events, which can make the security rise or decline in value. This is known as "market risk."

Regardless of whether or not you own fixed income securities, changes in the fixed income markets affect you and all other consumers because these changes are reflected in many ways, from the rate you earn on a savings account to the rate you pay to finance a house or car.

### The U.S. as Borrower

The federal government offers fixed income securities as one option to raise cash to repay its debt.

U.S. government obligations, such as Treasury bonds, are the largest part of the fixed income securities market. Other major parts of the market include corporate bonds and mortgage-backed securities. Corporate bonds are issued by companies needing cash to purchase machinery and equipment. Mortgage-backed securities represent investments in underlying "pools" (or combinations) of residential mortgages.

It may seem ironic, but SERS and other fixed income securities investors benefit the most from fixed income securities when the economy weakens and interest rates fall. This is because the value of fixed income securities usually *rises* when interest rates decline.

The SERS Investment Office continually monitors our fixed income securities investments to ensure that they achieve as high a rate of return as possible while limiting our risk to a prudent level.

## Investing in Pennsylvania

"SERS investment portfolios have always had substantial investments in Pennsylvania firms."

That's how SERS Board Chairman Nicholas J. Maiale introduced the system's most recently published 1992 Annual Financial Report. At that time, SERS had \$1 billion, or over 8 percent of total assets, committed to in-state investments. By the end of 1993, SERS in-state investments were up to almost \$1.2 billion, or about 8.5 percent of the total fund.

By conservative estimates, over 5,000 Pennsylvania jobs are linked to SERS commercial mortgage investments alone.

## **SERS Board Briefs**

The State Employes' Retirement System Board is an independent administrative body responsible for ensuring the stability and growth of SERS retirement funds through sound investments.

The board meets eight times a year at the SERS central office in Harrisburg. The public portion of a board meeting is open to active and retired SERS members, the general public and the media.

During these sessions, the board reviews and acts on a variety of questions and issues dealing with SERS administration and investments. Administrative topics include financial reports and staffing issues. Financial actions include decisions on which investments to make.

The board also reviews investment proposals from staff in the SERS Investment Office and conducts interviews of investment candidates in such

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SERS Board: Hon. Nicholas J. Maiale: Chairman: Sen. Anthony B. Andrezeski, Sen. Gibson E. Armstrong, Robert A. Bittenbender, James W. Brown, Edward J. Keller, Hon. Catherine Baker Knoll (Ex Officio), Charles J. Lieberth, Rep. Edward J. Lucyk, K. Paul Muench, Rep. Joseph R. Pitts; SERS Executive Director: John Brosius; Editor: Geoffrey S. Yuda; Contributing writer: Joseph A. Braccia

SERS: 30 North Third St., P.O. Box 1147, Harrisburg, Pa., 17108-1147, with regional Counseling Centers in Harrisburg, Montoursville, Philadelphia, Pittsburgh, Seneca, State College and Wilkes-Barre that may be contacted toll-free at 1-800-633-5461.

Submit comments and suggestions regarding the newsletter to: SERS, Attn. Advantage Editor. Available on audio tape for the sight impaired. Printed on recycled paper.

areas as venture capital and real estate.

#### **Board Facts**

Members of the SERS Board include the state treasurer, two current or former state senators, two current or former state representatives, and six members appointed by the governor. The governor's appointees serve fouryear terms and must be confirmed by the state Senate.

SERS members are well represented on the board. Of the governor's six appointees, one must be a retiree of the system.

At least five of the total of 11 board members must be active members of the system, and at least two board members must have 10 or more years of state service.

The board chairman is named by the governor from among the board members. Our current chairman is lawyer and former state representative Nicholas J. Maiale of Philadelphia.

### Lucyk Named to Board

Rep. Edward J. Lucyk (D, Barnesville) has been appointed to serve on the SERS Board for the 1993-94 session of the General Assembly. Lucyk's appointment brings the board total to a full complement of 11 members.



Rep. Edward J. Lucyk

### SERS 'Fully Funded'

SERS assets, currently approaching \$14 billion, now will cover the system's retirement obligation to the entire SERS membership.

The program's "fully funded" status means that:

✓ If all state employes currently covered by the SERS plan were to leave the system today, all their pension costs and all current retirees' pension costs would be covered:

✓ SERS has been able to reduce the current basic contribution rate for regular active members from 6.25 percent to 5 percent of salary.

The program's fully-funded status was certified by the SERS Board in July 1993 and is the direct result of a prudent investment strategy that has produced strong investment returns averaging over 12 percent annually since 1983.

### By the Numbers

Currently, there are about 81,000 SERS system annuitants receiving benefits. This includes some 74,000 retired former employes and about 7,000 beneficiaries.

There are now about 109,600 active employes paying into the system.

In 1992, the most recent year for which the SERS financial report is complete, the system took in \$187 million in employe contributions and \$318 million in employer contributions for a total pay-in of \$505 million.

That year the system paid out \$851 million in annuitant benefits and program expenses, with the difference between income from contributions and payout for benefits and expenses made up by the profits from SERS investments.

In 1992, SERS had a total return of 7.4 percent on investments. For the 10-year period 1983 through 1992, the total return on investments averaged 12.5 percent annually.

## **QUESTIONS & ANSWERS**

The State Employes' Retirement System is committed to keeping active and retired SERS members informed about how the system works. Following are some of the questions frequently asked of our retirement counselors. We hope you find the answers informative.

If you have questions about your SERS benefits, please contact your local SERS Counseling Center by calling toll-free, 1-800-633-5461.

Q. When are retirement checks mailed?

A. Retirement checks are mailed the next to the last business day of each month.

Remaining mail dates in 1994 are May 27, June 29, July 28, Aug. 30, Sept. 29, Oct. 28, Nov. 29 and Dec. 29.

If you have direct deposit, remaining 1994 checks will be electronically transferred to your designated financial astitution on the following schedule: May 31, June 30, July 29, Aug. 31, Sept. 30, Oct. 31, Nov. 30 and Dec. 30.

Q. When should I receive my annual 1099R tax form showing the taxable part of my retirement pension for 1993?

A. The 1099R form was mailed out earlier this year. If you have not yet received your 1099R, you should contact the SERS Disbursements Section at (717) 787-4508.

Keep this form in a safe place; there is a \$5.00 charge for each replacement copy.

To request a replacement 1099R, write to SERS, providing your name, social security number, daytime telephone number, and the year(s) for which you are requesting a copy.

Include a check for the proper amount made payable to the State Employes' Retirement Fund.

Q.I want verification of my SERS monthly income. How can I get it?

A. You can request a verification of your monthly benefit by writing to the

SERS Benefit Determination Division, P.O. Box 1147, Harrisburg, Pa. 17108-1147.

Verifications are mailed to the retiree's address that is currently on file with SERS. If you want your verification mailed to another address, please indicate this change in your correspondence.

Include your name, address and social security number on all correspondence with SERS.

Q. What should I do if I don't receive my retirement check on time or if it's stolen or destroyed?

A. If your retirement check has not arrived by the 10th of the month, you should contact the SERS Disbursements Section at (717) 787-4508.

If you *know* that a check has been stolen or destroyed, you should notify the SERS Disbursements Section immediately.

Q. May I make changes to the amount of federal withholding that is taken from my monthly check?

A. Yes. You may start, stop or change the amount of federal withholding on your monthly benefit at any time.

Write or telephone SERS or the Internal Revenue Service for a W4-P, Annuitant's Withholding Form. Send the completed W4-P form to SERS.

Include your name, address and social security number on all correspondence with SERS.

**Q.** My named beneficiary on my SERS retirement account recently passed away; what should I do?

**A.** You should contact the regional Retirement Counseling Center in your area by calling 1-800-633-5461.

The Counseling Center will review your retirement account to determine the retirement option you selected. They then will advise you of the appropriate form(s) to complete.



## State Legislative Bulletin

COLA bill pending

Senate Bill 974, which contains numerous changes to the SERS Code, was under consideration in the Legislature as the SERS Advantage went to press. The Legislature was considering an amendment to the bill's provision for certain cost of living adjustments (COLAs) for SERS and Public School Employes' Retirement System (PSERS) retirees. Watch for news on SB 974 in future SERS newsletters and mailings.

Purchase of military time

Two similar bills, Senate Bill 1566 and House Bill 2106, have been introduced that would amend the SERS and PSERS codes and allow annuitants who retired between Oct. 1, 1975, and Jan. 19, 1984, to purchase National Guard and Reserves military service for which they are receiving or will receive retirement pay under 10 U.S.C. Ch. 67.

SB 1566 was referred to the Senate Finance Committee on Feb. 9.

HB 2106 was amended to allow eligible annuitants two years from the effective date of the legislation to request the service purchase. It was voted out of the House Education Committee, as amended, on Feb. 8.

Purchase of municipal police service

As introduced, House Bill 2158 would amend the SERS Code and permit members of the Pennsylvania State Police to purchase up to five years of municipal police officer service. The House State Government Committee voted for passage of HB 2158, with amendment, on Feb. 17.

## Benefit Administration

The SERS Bureau of Benefit Administration works to make sure your applications for benefits are processed promptly and properly. Here is some benefits-related news from a recent issue of the bureau's in-house "FYI" newsletter.

#### **Domestic Relations Orders**

Who is responsible for answering correspondence concerning account inquiries for a member who is in the process of getting a divorce?

For retired members, the bureau's Technical Services Section answers these concerns. However, if questions are complex or hypothetical, the section will check with the SERS Legal Office for guidance.

**Temporary Disability Annuitants** Annuitants, or retirees, receiving temporary disability payments from SERS are required to submit additional medical information during their re-examination period. If this information is not received by the date specified, the annuitant's monthly check could be de-

Medical information submitted by doctors must be detailed and current; that is, current within the past 60 days. Annuitants are urged to make sure the doctor completes all sections of all medical forms being submitted. Incomplete forms may cause a delay in the re-evaluation process.

To contact the Bureau of Benefit Administration, call (717) 783-7306 or write to the bureau at SERS, P.O. Box 1147, Harrisburg, Pa. 17108-1147.

#### SERS Numbers to Remember

Counseling Centers
Toll-Free1-800-633-5461
General Information (717) 787-6293
Change of Option
Information(717) 783-3744
Disability Retirement Re-exam
Information (717) 783-7306
General Tax Questions,
Tax Forms, Lost or
Stolen Checks(717) 787-4508

## Missing Persons

SERS has been unable to locate the following individuals who may be eligible for a refund or benefit. If you have an address for any of these persons, please contact your local SERS Counseling Center by calling toll-free, 1-800-633-5461.

NAME	LAST ADDRESS
Richard Broyles	Tunkhannock, Pa.
Alan Bruzel	Harrisburg, Pa.
Patricia Bush	Pottstown, Pa.
Joan Carlin	Philadelphia, Pa.
Jeffrey Chiston	Fort Matilda, Pa.
Marjorie Foley	St. Thomas, Virgin Islands
Curtis Hendricks	Royersford, Pa.
Joanne Jackowski	Bloomsburg, Pa.
Richard Jordan	Philadelphia, Pa.
Barb Michalowski	Old Forge, Pa.
Nancy Spear	State College, Pa.
Marcia Tarburton	Bear, Del.
Dorothy Veon	Philadelphia, Pa.
George S. Waldo	Slippery Rock, Pa.
Dawnn Wilson	Chester, Pa.
Henry Young	Harrisburg, Pa.

### Where Are You?

The importance of keeping your mailing address up-to-date

Many pieces of correspondence that we mail to retirees are returned to SERS by the Postal Service due to bad addresses. Even if you have direct deposit and your monthly benefit is sent to your financial institution, SERS will mail other important information such as this newsletter and tax form 1099R direct to your "home" or mailing address.

You should report any change of address by writing to SERS, Bureau of Retirement Counseling, P.O. Box 1147, Harrisburg, PA 17108-1147. Please include your name and social security number when notifying us of an address change or at any time when corresponding with SERS.

### Take Care in Financial Planning What sounds too good may be too bad

SERS members are sometimes contacted by persons offering retirement financial planning and supplemental health-care coverage. Some of our members have told us that at times these services have been misrepresented, and that the members were told or allowed to believe that an association existed between SERS and the individual or organization offering the service.

For the record, SERS does not employ individuals who sell insurance policies or investment programs of any type, nor do we endorse or sanction organizations that offer these services. You may request various services directly from SERS, without the help of a financial planner. These services include change of option counseling; annuitant death-benefit counseling; assistance in completing SERS forms; and assistance in completing federal withholding, direct deposit, healticoverage and beneficiary forms.

In any case, if you are concerned about a group, company or individual offering to assist you with financial planning, you should contact your local office of the Better Business Bureau.