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PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ANNUAL REPORT

FOR THE PERIOD ENDING JUNE 30, 1977

The Pennsylvania Public School Employees' Retirement System
is administered by an eleven member board:

The Secretary of Education, ex officio — Caryl M. Kline

The State Treasurer, ex officio — Robert E. Casey

The Executive Secretary of the Pennsylvania School Boards Association,
ex officio — Fred M. Heddinger

Two members appointed by the Governor, at least one who is not a school or state employe —
John D. Killian, Esq.
William F. Jacobs, Jr., Esq.

Three elected by the active professional members of the system from among their number —
Joseph F. D'Andrea
Joseph D. Angle
Francis J. Moran

One elected by the assistants from among their number —
Margaret Boor

Mr. Killian serves as board chairman

Pa. Public School Employees' Retirement Board

Annual Report

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**COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM**

BOX 125
HARRISBURG, PENNSYLVANIA 17108
Area Code 717-787-8546

Dear Member:

During the year ending June 30, 1977, total assets of your Retirement System continued to grow, rising \$346 million to a record level of \$3.7 billion. The largest single increase was in the investment category of these assets, which accounted for \$269 million of the total increase.

Common stock investments in domestic corporations increased from 9.6% of the total Fund to 13.6% as of June 30, 1977. Investment income reached a record level, \$208.9 million, a 12.4% increase over the fiscal year ending June 30, 1976. Revenues from all sources increased substantially, 18.1%.

Payments from the System increased by 15.4% after eliminating the one-time payments of \$45 million for the annuitants' cost-of-living adjustment paid in the year ending June 30, 1976 and the transfer of \$12 million to the State Employees' Retirement System for retired State employees with former public school service.

A new retirement option was introduced in Act 96, the Act of October 2, 1975, which provided for a lump sum withdrawal of all or any portion of the member's contributions and interest. This type of payment, commonly referred to as Option 4, is increasing at a greater rate than any of the other options. As a direct reduction of

the resources of the System, this option is thereby decreasing the funds available for investment. The effect of this new option is being closely monitored by your Board for any adverse impact on the Fund.

Making the investment portfolio as productive as possible has always been one of the principal functions of the Board of the System. To discharge this responsibility prudently and efficiently, two investment advisors are employed for guidance and advice in the selection of suitable securities and for the overall management of the Fund. They are the Mellon Bank, N.A., Pittsburgh, Pennsylvania and The Fidelity Bank, Philadelphia, Pennsylvania. Mellon Bank counsels the Board on all investments other than the residential and project mortgages. These mortgages are handled by The Fidelity Bank. However, final action on any investment transaction involving the acquisition or sale of securities rests with the Board.

A reduction of \$51.6 million in the unfunded accrued liability was recorded as more definitive and concise data of the membership was compiled by the actuary. This reduction will be reflected in the next actuarial valuation of the Fund's assets and liabilities prepared annually by George B. Buck Consulting Actuaries, Inc.

Sincerely,

John D. Killian, Esquire
Chairman

INVESTMENTS AND ASSETS

The total assets of your system continued to grow and reached a point \$351.6 million above the June 30, 1976 position at June 30, 1977. The total investments increased \$269.3 million to \$3.4 billion of which the largest portion was the increase in the Industrial and Commercial fixed obligation investment. The second largest increase was in Common Stocks.

STATEMENT OF INVESTMENTS

FOR THE YEARS ENDING JUNE 30, 1976 AND 1977

At Par	1977	1976	Inc/(Dec)
State and Municipals	\$ 173,000.00	\$ 194,000.00	\$ (21,000.00)
P. H. E. A. A.	36,656.00	36,656.00	0.00
Int'l & Inter-Am. Banks	75,275,000.00	79,062,000.00	(3,787,000.00)
Post Office Department	5,348,185.53	5,576,696.60	(228,511.07)
University of Pittsburgh	936,000.00	1,023,000.00	(87,000.00)
Industrial and Commercial	1,252,312,236.21	1,023,872,144.61	228,440,091.60
Public Utilities	839,977,751.79	933,787,037.17	(93,809,285.38)
Finance Companies	217,599,000.00	201,702,000.00	15,897,000.00
Railroads - Corporate	8,958,000.00	14,893,000.00	(5,935,000.00)
Railroad - Equip. Trusts	22,073,007.20	29,702,473.86	(7,629,466.66)
Short Term Notes	40,371,235.00	59,475,000.00	(19,103,765.00)
U.S. Treasury Bills	63,122,375.39	67,942,969.15	(4,820,593.76)
Repur. Agreements	2,775,000.00	7,500,000.00	(4,725,000.00)
Phila. National Bank Bldg.	16,079,097.68	16,210,514.47	(131,416.79)
FHA Project Mortgages	114,793,751.21	106,230,336.78	8,563,414.43
Capehart Mortgages	22,675,482.39	24,708,501.42	(2,033,019.03)
Project Mortgage Debentures	1,279,400.00	1,667,000.00	(387,600.00)
FHA and VA Mortgages	323,716,247.44	329,378,296.64	(5,662,049.20)
Common Stock (cost)	472,977,792.16	307,400,932.85	165,576,859.31
Preferred Stock (cost)	1,800,000.00	1,800,000.00	0.00
TOTAL PAR VALUE	\$3,482,279,218.00	\$3,212,162,559.55	\$270,116,658.45

CONTRIBUTIONS

The contributions received from school districts — \$156 million; members — \$132 million; state — \$112 million; and from the State Retirement System — \$2 million. The total contributions received were \$402 million, an increase of \$21 million over June 30, 1976.

STATEMENT OF CONTRIBUTIONS

FOR THE YEARS ENDING JUNE 30, 1976 AND 1977

	1977	1976	Inc/(Dec)
Contributions from School Districts and Others	\$156,101,346.94	\$142,902,971.43	\$13,198,375.51
Contributions from Employes	132,531,874.87	128,586,486.27	3,945,388.60
Contributions from Commonwealth ...	<u>111,712,142.51</u>	<u>107,301,689.85</u>	<u>4,410,452.66</u>
SUB TOTAL	\$400,345,364.32	\$378,791,147.55	\$21,554,216.77
Contributions from State Employes' Retirement System - Employes' Share	129,465.03	155,409.17	(25,944.14)
Contributions from State Employes' Retirement System - Employer's Share	<u>1,802,575.65</u>	<u>2,496,814.01</u>	<u>(694,238.36)</u>
TOTAL	<u>\$402,277,405.00</u>	<u>\$381,443,370.73</u>	<u>\$20,834,034.27</u>

INCOME

The net income consisted of interest in the amount of \$194.5 million received on fixed obligations and \$14.5 million of dividends on common stocks. The balance of income \$4.4 million, represents the net of sales gains and losses, investment expenses, amortization of discount on bonds and administrative expense. The total net income was \$213.4 million, an increase over June 30, 1976 of \$23.6 million.

STATEMENT OF INCOME

FOR THE YEARS ENDING JUNE 30, 1976 AND 1977

	1977	1976	Inc/(Dec)
Investment Income	\$208,978,068.78	\$189,101,930.09	\$19,876,138.69
Plus: Disc., Gains & Misc. Rev. (Note 1)	9,426,286.29	5,641,150.58	3,785,135.71
Less: Deductions (Note 2)	(2,139,529.90)	(2,233,478.31)	93,948.41
SUB TOTAL	\$216,264,825.17	\$192,509,602.36	\$23,755,222.81
Less: Administrative Expenses	(2,886,103.50)	(2,708,192.93)	(177,910.57)
TOTAL NET INCOME	\$213,378,721.67	\$189,801,409.43	\$23,577,312.24
Distribution of Net Income:			
State Accumulation Account	\$ 65,857,461.66	\$ 44,786,651.16	\$21,070,810.50
Members' Savings	44,570,132.74	39,234,066.25	5,336,066.49
State Annuity Reserve	102,951,127.27	105,780,692.02	(2,829,564.75)
TOTAL DISTRIBUTION	\$213,378,721.67	\$189,801,409.43	\$23,577,312.24
Note 1:			
Amortization of Discount	\$ 3,937,346.72	\$ 3,829,203.19	\$ 108,143.53
Gain on Sale	5,487,777.82	1,695,442.98	3,792,334.84
Miscellaneous Revenue	1,161.75	116,504.41	(115,342.66)
TOTAL	\$ 9,426,286.29	\$ 5,641,150.58	\$ 3,785,135.71
Note 2:			
Amortization of Premium	\$ 96,523.18	\$ 358,384.85	(\$ 261,861.67)
Loss on Sale	277,521.72	103,864.99	173,656.73
Service Fees	1,425,175.36	1,432,166.06	(6,990.70)
Investment Expense	334,991.79	326,346.91	8,644.88
Miscellaneous Expense	5,317.85	12,715.50	(7,397.65)
TOTAL	\$ 2,139,529.90	\$ 2,233,478.31	(\$ 93,948.41)

COMPARATIVE BALANCE SHEETS

FOR THE YEARS ENDING JUNE 30, 1976 AND 1977 (Note 4)

ASSETS	1977	1976	Inc/(Dec)
Cash on Deposit in Treasury	\$ 49,568.29	\$ 8,126.42	\$ 41,441.87
Investments @ cost (Notes 1 & 2)	3,430,418,476.24	3,161,099,137.87	269,319,338.37
Investment Income Receivable	49,524,620.11	42,672,742.45	6,851,877.66
Investment Proceeds Receivable	1,421,118.67	721,435.43	699,683.24
Refunds Receivable	161,138.96	0.00	161,138.96
Contributions Receivable:			
School Districts & Others	79,075,056.07	65,421,381.91	13,653,674.16
Employes'	18,172,907.00	13,249,834.78	4,923,072.22
Installments - Pur. Prior Srvc.	11,466,989.24	1,392,243.28	10,074,745.96
Commonwealth of Pa. - Current	76,000,000.00	35,773,314.23	40,226,685.77
- Deficit	71,600,000.00	66,000,000.00	5,600,000.00
Permanent Purchasing Fund Deposit	3,100.00	3,100.00	0.00
Permanent Travel Advance Account	5,000.00	0.00	5,000.00
TOTAL ASSETS	\$3,737,897,974.58	\$3,386,341,316.37	\$351,556,658.21
LIABILITIES AND RESERVES			
Accounts Payable	\$ 3,123,709.86	\$ 344,487.98	\$ 2,779,221.88
Investments Payable - Bonds	0.00	100,854.17	(100,854.17)
- Mtgs.	42,810.00	0.00	42,810.00
- Common St.	14,007.50	431,200.00	(417,192.50)
Members' Savings	1,190,832,835.02	1,075,760,295.72	115,072,539.30
State Accumulation Account	593,725,149.72	495,153,921.71	98,571,228.01
Annuity Reserve Account	2,084,343,435.04	1,919,627,231.52	164,716,203.52
Annuity Reserve Supp. Account	(134,183,972.56)	(105,076,674.73)	(29,107,297.83)
TOTAL LIABILITIES AND RESERVES	\$3,737,897,974.58	\$3,386,341,316.37	\$351,556,658.21

	June 30, 1977	June 30, 1976	Increase/ (Decrease)
Note 1: Investments at cost:			
Par Value	\$3,482,279,218.00	\$3,212,162,559.55	\$270,116,658.45
Net Discount	(51,860,741.76)	(51,063,421.68)	(797,320.08)
Total Cost	<u>\$3,430,418,476.24</u>	<u>\$3,161,099,137.87</u>	<u>\$269,319,338.37</u>

The Board makes provision for systematically amortizing net discounts throughout the life of the bonds by a direct charge and credit to net discounts and interest income respectively.

Note 2: Investments include FHA and VA Insured Mortgages in default for the fiscal years:

	\$ 3,468,707.00	\$ 3,314,103.00	\$ 154,604.00
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Note 3: The sytem's unfunded accrued liability is \$2,331,662,102 as of June 30, 1974 and \$2,280,016,562 as of June 30, 1975.

Note 4: Reports subject to Auditor General's review.

PAYMENTS

The payments are comprised of retirements — \$269 million, disabilities — \$7.8 million, withdrawals — \$13.2 million, death benefits — \$17.3 million, lump sum-option 4 — \$10.7 million, refunds of principal and interest to members leaving the system — \$15.3 million. Transfers to the State Employees' Retirement System were \$8.5 million. The total payments amounted to \$341.9 million, a decrease of \$11.6 million under last year.

STATEMENT OF PAYMENTS

FOR THE YEARS ENDING JUNE 30, 1976 AND 1977

	<u>1977</u>	<u>1976</u>	<u>Inc/(Dec)</u>
Annuities:			
Retirement	\$269,038,762.14	\$242,416,078.17	\$26,622,683.97
Disability	7,832,053.53	6,394,874.24	1,437,179.29
Early Retirement.....	13,169,010.63	10,261,240.22	2,907,770.41
Refund Annuity	894.24	894.24	0.00
Death Benefits	17,290,416.81	18,655,561.66	(1,365,144.85)
Cost-of-living Supplement.....	0.00	45,128,021.12	(45,128,021.12)
Lump Sum Option 4	10,712,708.14	189,672.48	10,523,035.66
Refunded Principal & Interest	15,322,066.23	12,211,714.84	3,110,351.39
Transferred to State Employees' Retirement System	8,519,336.79	18,272,577.28	(9,753,240.49)
TOTAL	<u><u>\$341,885,248.51</u></u>	<u><u>\$353,530,634.25</u></u>	<u><u>(\$11,645,385.74)</u></u>

1976/77 CHANGES TO MEMBERS' SAVINGS ACCOUNT

June 30, 1976 Balance		\$1,075,760,295.72
Plus:		
Contributions of Members including net receivable change	135,319,087.25	
Transfer from State Retirement System	129,225.12	
Installment Purchases of Prior Service	12,311,914.19	
Interest Credit @ 4%	44,570,132.74	
Retired Members' Share of Annuities for annuitants who returned to service	73,977.87	
Less:		
Transfers of Accumulated Deductions (contributions plus interest) to State Annuity Reserve Account for retirement of members:		
Retirements	\$39,959,066.41	
Disabilities	2,761,562.38	
Early Retirements	5,576,733.37	
Beneficiaries Allowances	235,727.25	48,533,089.41
Death Benefits	2,386,051.70	
Refunds to Members	15,322,066.23	
Lump Sum Option 4	10,712,708.14	
Transfers to State Retirement System	377,882.39	
June 30, 1977 Balance		<u>\$1,190,832,835.02</u>

1976/77 CHANGES TO STATE ACCUMULATION ACCOUNT

June 30, 1976 Balance		\$495,153,921.71
74/75 Actuarial Transfer with Interest	46,035,333.29	
June 30, 1976 Adjusted Balance		<u>\$541,189,255.00</u>
Plus:		
Contributions of School Districts and Others including net receivable change	169,755,021.10	
Contributions of Commonwealth including net receivable change	157,538,828.28	
Transfer from State Retirement System	1,690,297.26	
Outstanding Checks Returned to Cash	87,966.27	
Interest Credit	65,857,461.66	
State Share of Annuities for Members who returned to service	514,758.27	
Transfer Annuity Payments from Supplement with interest	55,384,536.48	
Miscellaneous Account Increases	5,817.87	
Returned Allocation - Administrative Expenses (75/76)	35,957.03	
Less:		
Annuity Transfers to Annuity Reserve Account for retirement of members:		
Retirements	\$279,044,777.93	
Disabilities	15,168,808.07	
Early Retirements	37,718,631.16	
Beneficiary Allowances	1,054,452.34	332,986,669.50
Death Benefits	10,358,165.01	
Transfer Contributions from Commonwealth, School Districts & Others to Supplement with Interest	46,314,152.08	
Refund to School District	431,412.02	
Transfer to State Retirement System	8,141,454.40	
Replacement Checks Issued	22,156.24	
Writeoff of Project Mortgage Debentures	80,740.25	
June 30, 1977 Balance		<u>\$593,725,149.72</u>

1976/77 CHANGES TO ANNUITY RESERVE ACCOUNT

June 30, 1976 Balance		\$1,919,627,231.52
74/75 Actuarial Transfer with Interest		<u>(25,998,419.86)</u>
June 30, 1976 Adjusted Balance		\$1,893,628,811.66
Plus:		
Annuity Checks Returned to Cash		1,306,875.68
Interest		102,951,127.27
Transfer from State Employees' Retirement		112,518.30
Transfers from Members' Savings and State Accumulation		
Accounts for Retirement Annuities for members:		
Retirements	\$319,003,844.34	
Disabilities	17,930,370.45	
Early Retirements	43,295,364.53	
Beneficiary Allowances	1,290,179.59	381,519,758.91
Less:		
Retired Members' Shares of Annuities for annuitants who returned to service		588,736.14
Death Benefits Paid to Deceased Members' Estates and Beneficiaries		4,546,200.10
Annuities Paid:		
Retirements	\$269,038,762.14	
Disabilities	7,832,053.53	
Early Retirements	13,169,010.63	
Refund of Annuity	894.24	290,040,720.54
June 30, 1977 Balance		<u><u>\$2,084,343,435.04</u></u>

1976/77 CHANGES TO SUPPLEMENTAL RESERVE*

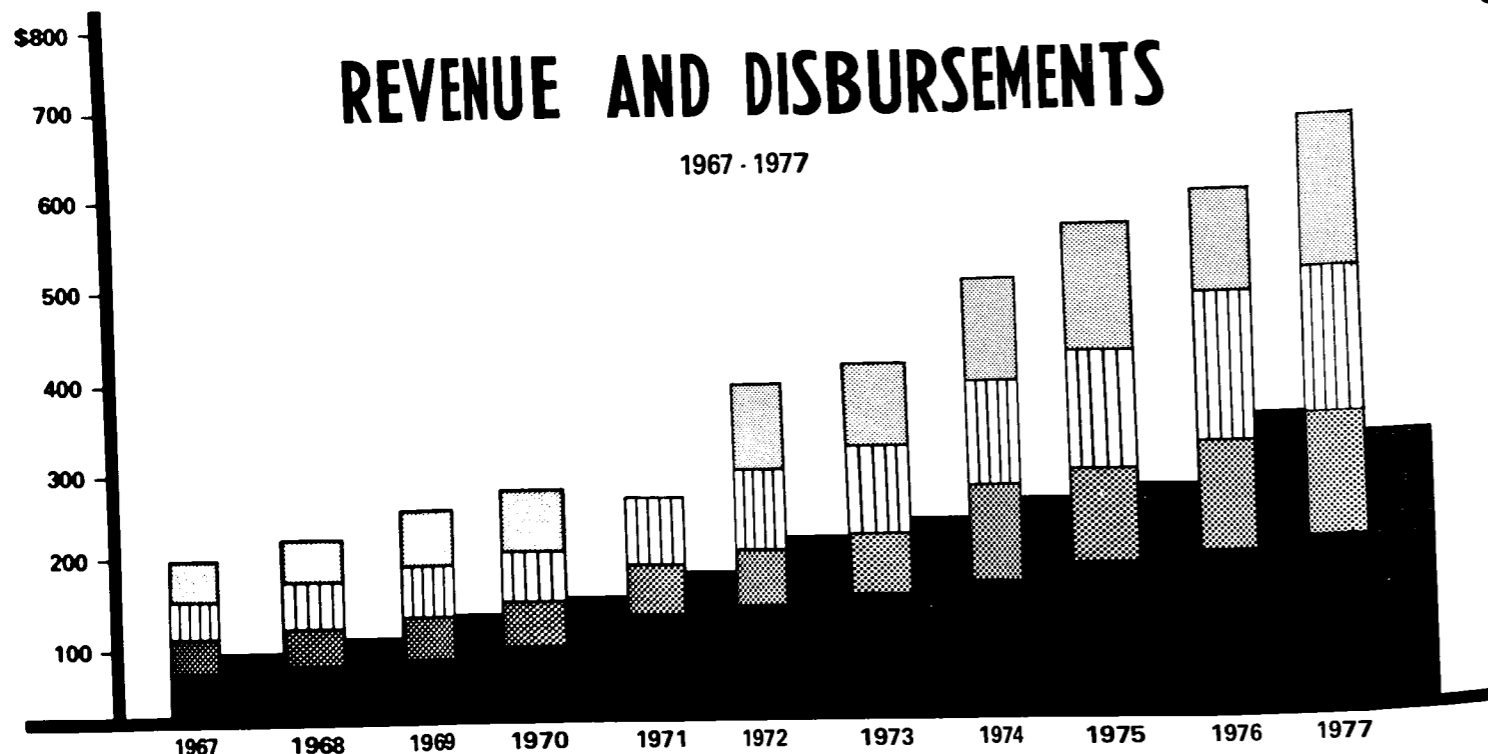
June 30, 1976 Balance	(\$105,076,674.73)
74/75 Actuarial Transfer with Interest	<u>(20,036,913.43)</u>
June 30, 1976 Adjusted Balance	(\$125,113,588.16)
Plus:	
Transfer In from Commonwealth, School Districts and Others with Interest	46,314,152.08
Less:	
Transfer Out to State Accumulation Account with Interest	<u>55,384,536.48</u>
June 30, 1977 Balance	<u><u>(\$134,183,972.56)</u></u>

* Supplemental includes the guarantee of \$100.00 per year of credited service at retirement for certain retirees and prior cost-of-living adjustments.

MILLION

REVENUE AND DISBURSEMENTS

1967 - 1977



STATE
 EMPLOYERS
 DISBURSEMENT
 INTEREST

PAR VALUE

1,300,000,000

100,000,000

900,000,000

700,000,000

500,000,000

400,000,000

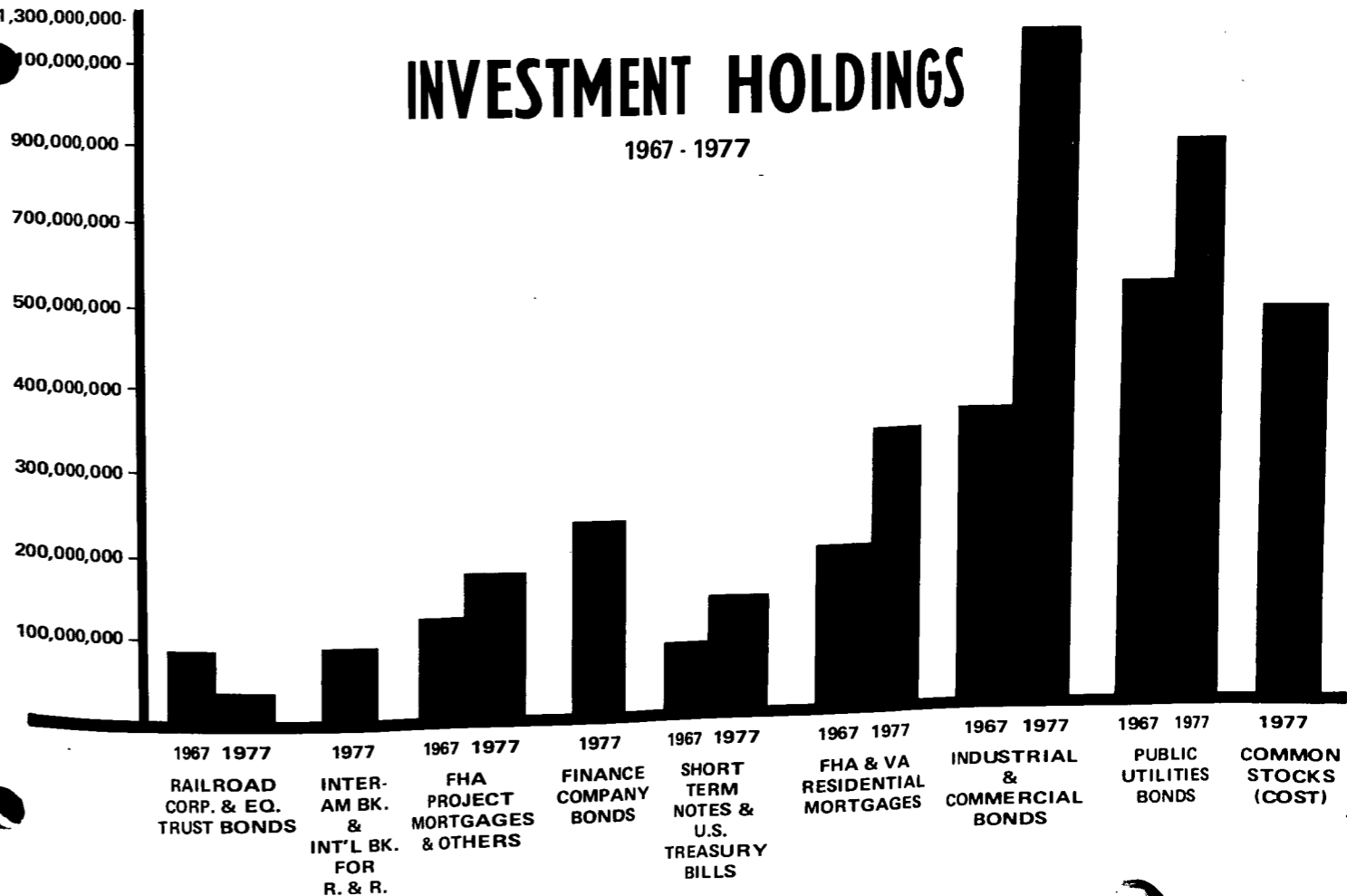
300,000,000

200,000,000

100,000,000

INVESTMENT HOLDINGS

1967 - 1977



STAFF

M. Andrew Sheffler, acting secretary;
Richard J. McElroy, director, fiscal control;
Terry L. Moser, director, information systems;
Charlene R. House, director, record services;
John C. Sandroock, director, contributor services;
Thomas E. Yagel, director, administrative services.

LEGAL COUNSEL

Raymond Kleiman, deputy state attorney general

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