

PENNSYLVANIA
STATE
EMPLOYEES'
RETIREMENT
SYSTEM



50TH ANNIVERSARY - 1974



COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYES' RETIREMENT SYSTEM
204 LABOR & INDUSTRY BUILDING
HARRISBURG, PENNSYLVANIA
17120

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To His Excellency Milton J. Shapp,
Governor of the Commonwealth of Pennsylvania,
Members of the General Assembly, and
Members and Retirees

The State Employes' Retirement Board is pleased to present
its annual report to the membership for the year ending
December 31, 1973.

This presentation is particularly satisfying since it marks
the occasion of having completed fifty (50) years of service
to Commonwealth employes.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Frank N. Happ".

Frank N. Happ
Acting Chairman

A handwritten signature in black ink, appearing to read "J. Warren Bullen, Jr.".

J. Warren Bullen, Jr.

SERS—50 Years

State Employees' Retirement System

Board

Frank N. Happ
(representing Hon. Grace M. Sloan)
J. Warren Bullen, Jr.

Staff

Richard L. Witmer, Secretary
Robert L. Cusma, Assistant Secretary
Aldo Mastrine, Director Retirement Counseling
Frances Fantini, Staff Statistician
Paul Millard, Chief Office Services
Larry Barbour, Chief Accounting
Joseph Fuller, Chief Annuity Division
Ruth Granoff, Chief Membership Division
John Corrigan, Chief Withdrawal Division
Robert Bowers, Chief Data Processing

Legal Counsel
Raymond Kleiman, Esq., Deputy Attorney General

Medical Counsel
Mark Berger, M.D.
Stanley R. Goldman, M.D.

Advisors

Investment Counsel
Mellon Bank N.A.
Pittsburgh, Pa.

Mortgage Supervisor
The Fidelity Bank
Philadelphia, Pa.

Consulting Actuaries
Huggins & Company, Inc.
Philadelphia, Pa.

Secretary's Report

1974 is indeed a historic year for your Retirement System. Not only are we celebrating our 50th Anniversary, but we have seen the enactment of milestone pension legislation.

Back in 1923 the General Assembly created the Pennsylvania State Employees' Retirement System (P.L. 858). Our genesis followed by 25 years the first public retirement system—New Jersey Teachers in 1896. The Federal Plan was adopted in 1920.

The next major legislation was Act No. 78, known as the "State Employees' Retirement Code of 1959," which included all of the amendments up to date. Since that time, the Code was amended in 1959, 1961, 1963, and 1965.

Act No. 230, 1968, heralded sweeping changes to Pennsylvania Public Employees' Retirement Law. One of the major revisions provided Social Security Integration as an optional feature. A cost of living increase was also included. Generally this legislation expanded benefits and extended the costs over a thirty year period.

Act No. 87, 1972, for the first time permitted the purchase of stocks for the Fund. Under this legislation no more than 10% of the total value of the Fund could be invested in equities.

Act No. 31, 1974, became law on March 1 and brings many new features to our System. The Board of Trustees has been expanded from 5 to 7 members. Another cost of living increase has been provided for retirees based on the Consumer Price Index. Regular payments into the Fund at actu-



Mrs. Wini Murray and Asst. Sec'y Robert L. Cusma (standing) confer with Sec'y Richard L. Witmer



Staff meets to review ways of improving service to membership (center foreground clockwise) Jack Corrigan, Chief, Withdrawal Div.; George Kissinger, Adm. Services; Larry Barbour, Chief, Accounting; Joe Fuller, Chief, Annuity Div.; Bob Cusma, Ass't Sec'y; Bob Bowers, Chief, Data Processing; Al Mastrine, Director, Retirement Counseling; Mrs. Ruth Granoff, Chief, Membership Div.; R. L. Witmer, Secretary

arially determined rates is mandatory and will improve cash flow into the System. The basis for computing final average salary was changed from 5 to 3 years and death benefits after 10 years of service are also included. Interestingly, the original act establishing the Retirement System was eighteen pages in comparison to the fifty-four pages containing the new law.

During the past five years, many changes have occurred at the offices of your Retirement System. New systems and controls were designed and implemented. Old equipment was replaced with modern electronic units. Much of the data has been computerized to provide rapid access in producing statistical records, member's statements, and securities control, among the many other elements required for daily operation.

There is much to be done. While the staff takes some measure of pride in accomplishment, we are aware of our responsibility to both active membership and retirees. We will continue our efforts to serve to the best of our ability.

We hope our 50th Anniversary report meets with your approval. It is a departure from past reports and we believe represents a long overdue improvement. Future reports will be forthcoming and hopefully will be informative and to your liking.

Retirement Counseling

You have served the Commonwealth for many years and now you're thinking about retiring.

"What benefits am I eligible for?"

"What options do I have?"

"Can I provide security for my dependents?"

"What medical coverage am I entitled to?"

These are only a few of the questions you might have when trying to make very important decisions for your retirement. In order to better service the membership, your Retirement System has been the pioneer of the concept of agency retirement counselors. In 1969, at the request of the Retirement Board, counselors were appointed in most agencies and retirement counseling within agencies was developed. New handbooks and informational literature were distributed to all employees of the Commonwealth and regular training sessions were begun for agency counselors.

Under current State law, all State agencies are required to designate a retirement counselor. There are presently 119 agency counselors providing a liaison between the employee, employing agency, and Retirement Board staff. A staff director of retirement counseling has been appointed to provide guidance and assistance to coun-

selors, and counseling to retirees at the office of the Retirement System. As a result, better systems in retirement procedures were developed and better services are provided.

Revised regulations have been prepared with the assistance of our actuary and legal counsel. Subsequent approval by the Board and the Department of Justice have officially further clarified Act 31, 1974.

New handbooks have been prepared covering total membership under both the old and new retirement codes. These should be ready for distribution in the near future.



Annuity Division. Joe Fuller, Chief of Annuity Division



Our Lobby and Counseling Area is always busy. Aldo Mastrine, Director of Retirement Counseling; Shirley Baker, Receptionist; Pat Pari, Ass't Dir. Retirement Counseling; and Mary Hawkins, Stenographer, sort newly received applications for processing



Ruth Granoff, Chief of Membership Division, checks one of our mini-computer's results with Betsy Mitchell. Robot writers prepare billings for purchase of service.

Advice and Control

Consulting Actuary

Huggins & Company, Inc. of Philadelphia has been retained as actuary since the inception of the retirement plan in 1924.

Actuaries are a very vital component of a retirement system. They are the professionals who provide the necessary experience tables and establish approved calculations for determining annuities, disability claims, death benefits, etc. within the intent and specifications of the law. Through statistical analysis, the actuary each year determines the financial condition of the fund and establishes future requirements for meeting the monetary obligations both present and future.

Financial Advisors

In the early days of the fund, most of the portfolio was invested in United States Treasury obligations. As time progressed, some monies were placed in fixed income securities such as Railroad, Public Utility, and Industrial bonds. Some additional investments were held in State Public School Building Authority, Pennsylvania Municipal, County, and Turnpike bonds.

In 1956, the Retirement Board contracted Mellon Bank, Pittsburgh, Pennsylvania, to serve as financial advisor. Since that time the composition of the portfolio has changed considerably.

1958 was the year that The Fidelity Bank of Philadelphia became our mortgage supervisor. The fund currently has thirteen



Jack Corrigan, Chief of Withdrawal Division, and Helen Miller use data terminal to inspect a member's account

correspondents, located at various geographical points within the Commonwealth, generating and servicing V.A. and F.H.A. insured mortgages.

Over the years, legislative changes have permitted the use of broader investment perimeters with resulting yield increases.

Early in 1971, accounting procedures were established to accommodate the exchange of bonds and in 1972, Act No. 87 granted permission to invest in stocks. Purchases have been deliberate, being oriented to high quality growth stocks. Our most recent legislation permits investment in equities up to 25% of the total value of the fund, with no more than 5% annually.

A Performance Evaluation by the A. G. Becker Company was made during latter 1973. The study covered the last five years and compared this fund with thousands of other pension funds — public and private — large and small. Your fund was among the top performers.

Custodian

Since the beginning of the Retirement System the State Treasurer has been an ex-officio member of the Board. The Treasurer has been charged with the responsibility of maintaining all securities held in the title of the State Employees' Retirement System. The Treasury Department prepares all checks required by the Board and keeps a strict accounting of all receipts and disbursements by the fund.

In addition, the Bureau of Securities, Receipts and Deposits of the Treasury keeps all cash invested in various short term instruments to maximize interest earnings.

Audits

Each year the system is audited by the Auditor General. The annual audit includes a review and scrutiny of the various accounts as well as a physical check of the securities held by the fund.

The Board also had an independent examination of the financial statements by Ernst and Ernst, who provided us with a certified audit.

Composition of Fund

(Calendar Year Ending December 31, 1973)*

DOLLAR COMPOSITION BY SECURITY CLASSIFICATION AT PAR VALUE

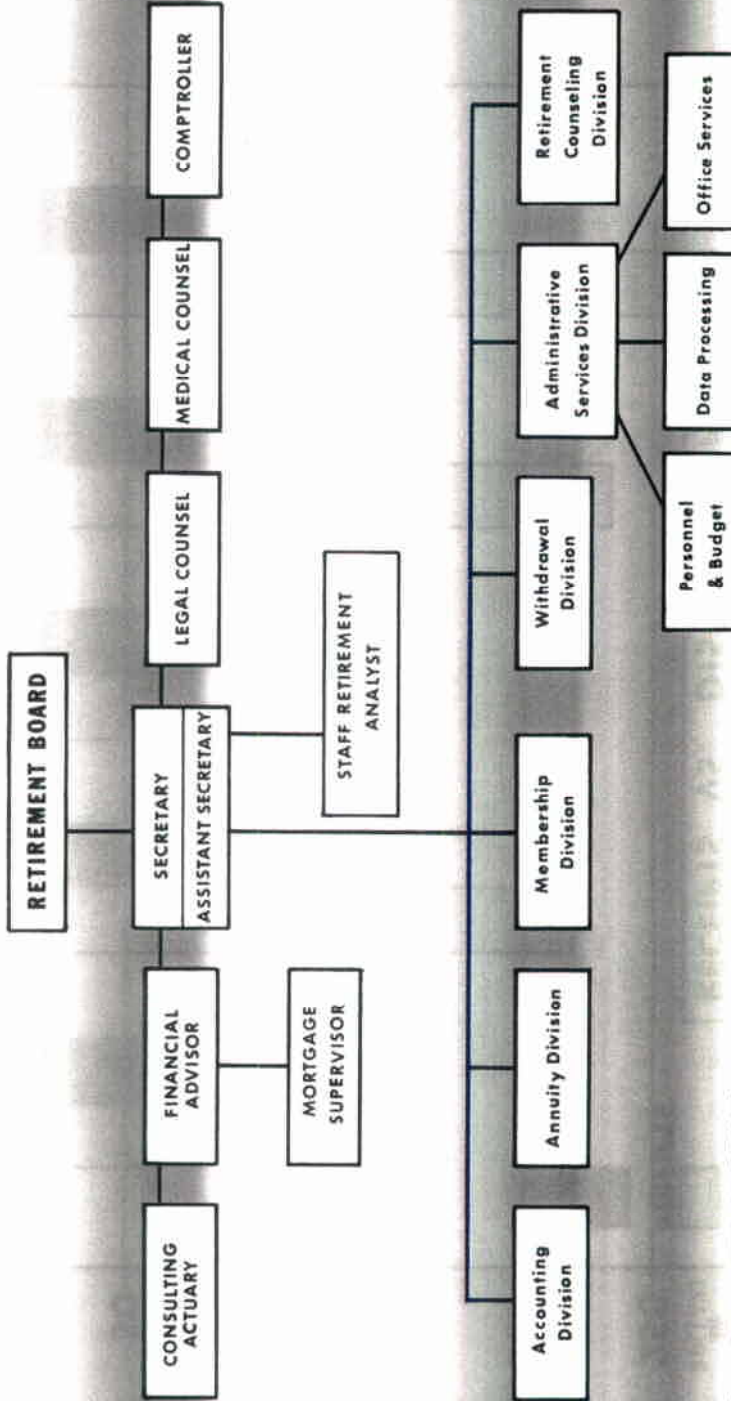
DESCRIPTION	Dec. 31, 1973		June 30, 1973	
	Par Value	Percent	Par Value	Percent
U. S. Post Office Mortgages	\$ 8,386,251	0.7%	\$ 8,548,779	0.7%
VA and FHA Home Mortgages	86,435,117	7.3	81,759,660	7.3
FHA Project Mortgages	14,960,112	1.3	13,700,564	1.3
FHA Mortgage Debentures	1,719,400	0.1	1,719,400	0.1
Pennsylvania Higher Education Assistance Agency and Local Municipals	416,700	---	441,700	---
Common Stock	29,868,148	2.5	18,920,856	1.7
Corporate Issues				
Industrials	542,108,428	45.9	573,843,860	51.3
Railroads	56,965,681	4.8	59,727,180	5.4
Public Utilities	427,492,705	36.2	349,802,205	31.3
Deposits for Payment of Investments in Transit	14,064,493	1.2	10,337,537	0.9
	<u>\$1,182,417,035</u>	<u>100.0%</u>	<u>\$1,118,801,741</u>	<u>100.0%</u>

CASH RECEIPTS AND DISBURSEMENTS

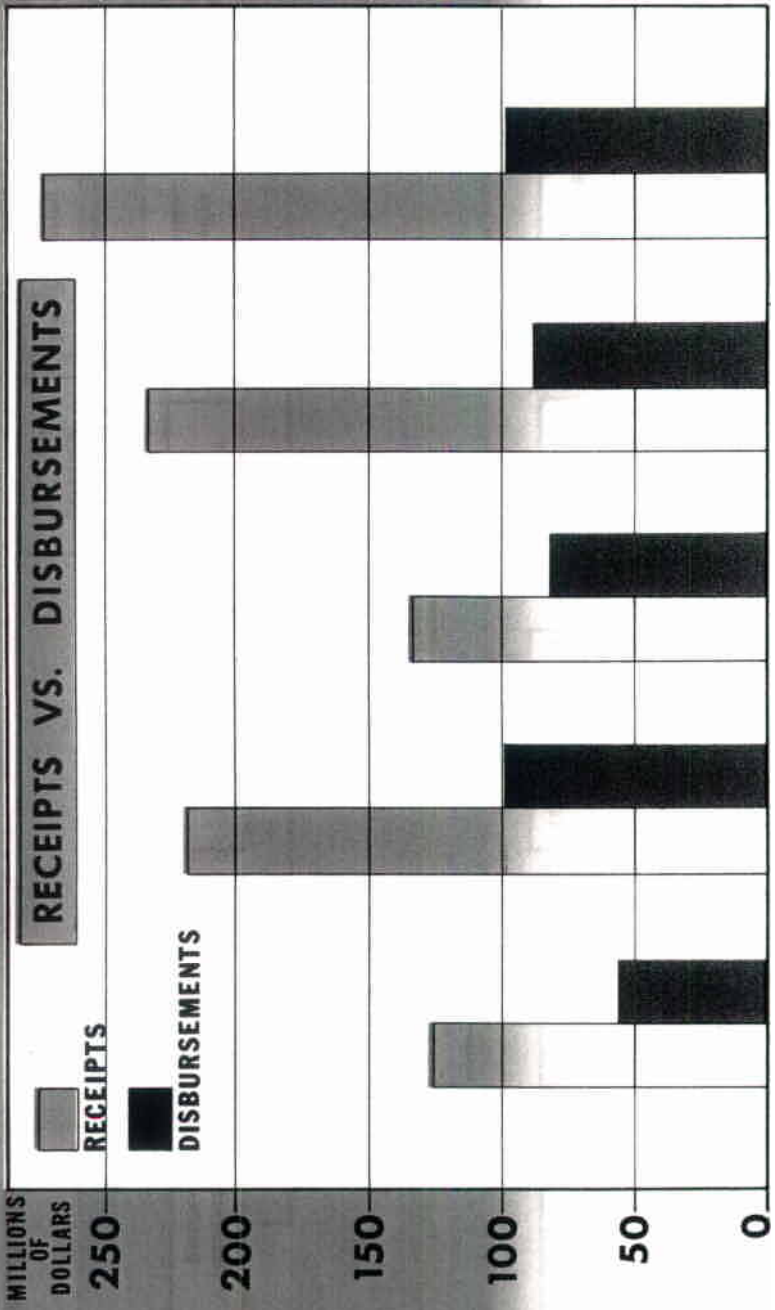
Cash Balance June 30, 1973	\$ 495,270.36	
Investments June 30, 1973	<u>1,118,306,470.70</u>	
Total June 30, 1973		\$1,118,801,741.06
<u>Receipts July 1, 1973 to December 31, 1973</u>		
Members' Contributions	41,521,075.16	
Interest on Bonds and Mortgages	37,484,953.80	
State and State Agencies Contributions		
(A) State Annuity Accumulation Account	26,782,614.65	
(B) Pennsylvania State Police Benefit Account	1,030,000.00	
(C) Casualty Premium Tax— Police Benefit Account	3,237,478.92	
(D) Enforcement Officers Benefit Account	618,000.00	
Discount on Securities Purchased	<u>3,190,883.82</u>	
Total Receipts	\$ 113,865,006.35	
<u>Disbursements July 1, 1973 to December 31, 1973</u>		
Members' Withdrawal Refunds	6,540,701.41	
Superannuation Allowance	32,290,755.23	
Disability Allowance	1,617,898.55	
Voluntary and Involuntary Withdrawal Allowance	5,036,565.84	
Pennsylvania State Police Allowance	2,184,470.13	
Enforcement Officers Allowance	239,241.28	
Judges Additional Allowance	136,246.40	
Annuitants Medical Hospitalization	214,977.71	
Accrued Interest on Bonds Purchased	1,508,176.35	
Administration Expense	<u>460,679.43</u>	
Total Disbursements	\$ 50,249,712.33	
Total Receipts over Total Disbursements		<u>63,615,294.02</u>
Balance June 30, 1973 plus 1973 Receipts over Disbursements		<u>\$1,182,417,035.08</u>
Cash Balance December 31, 1973	\$ 319,356.68	
Investments December 31, 1973	<u>1,182,097,678.40</u>	
Total December 31, 1973		<u>\$1,182,417,035.08</u>

* Note: The above report covers a six month period. In the future, all reports will reflect calendar year endings to conform with internal accounting and reporting.

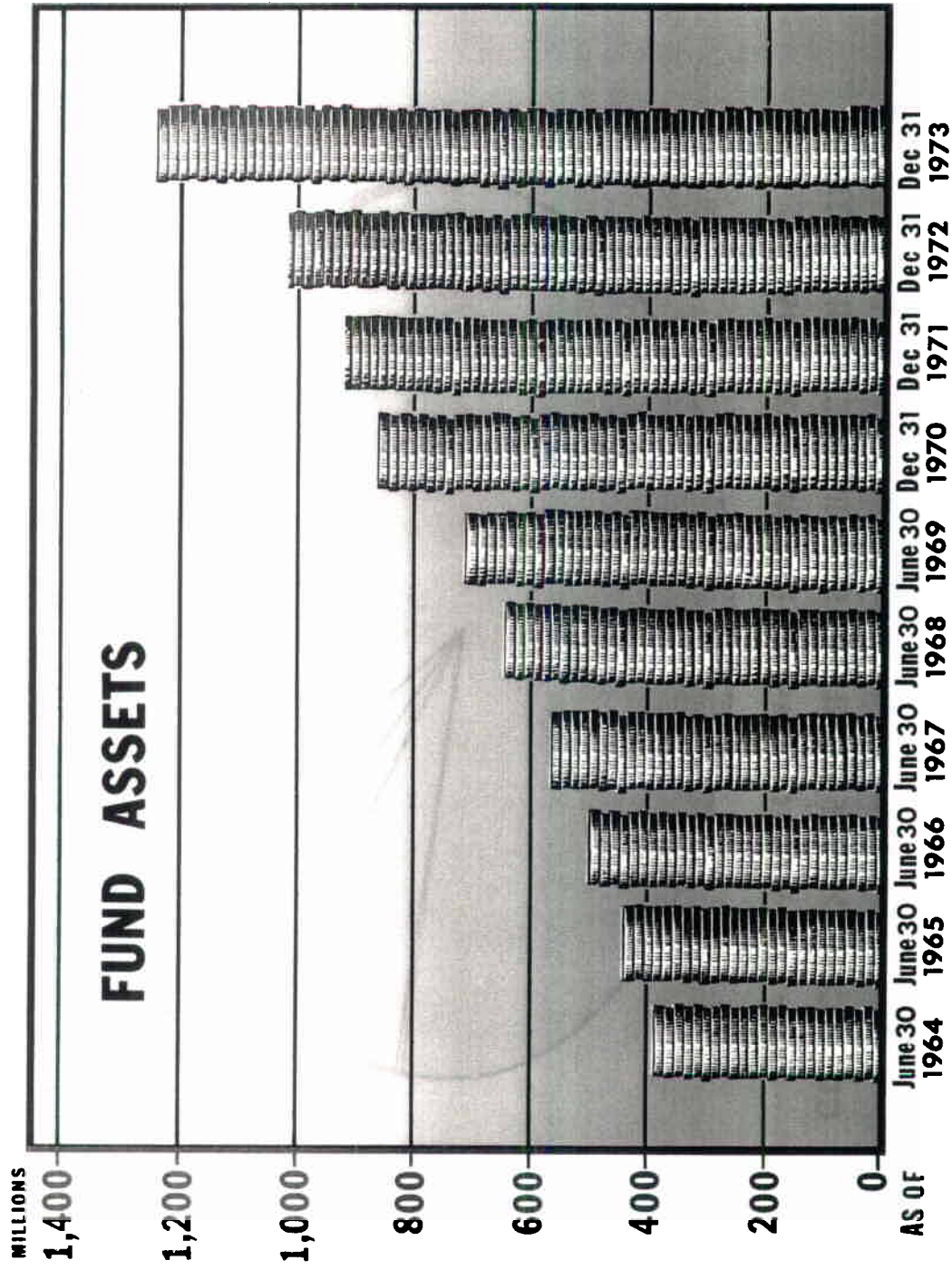
ORGANIZATION CHART



COMMONWEALTH OF PENNSYLVANIA
 STATE EMPLOYEES' RETIREMENT BOARD
 ORGANIZATION CHART

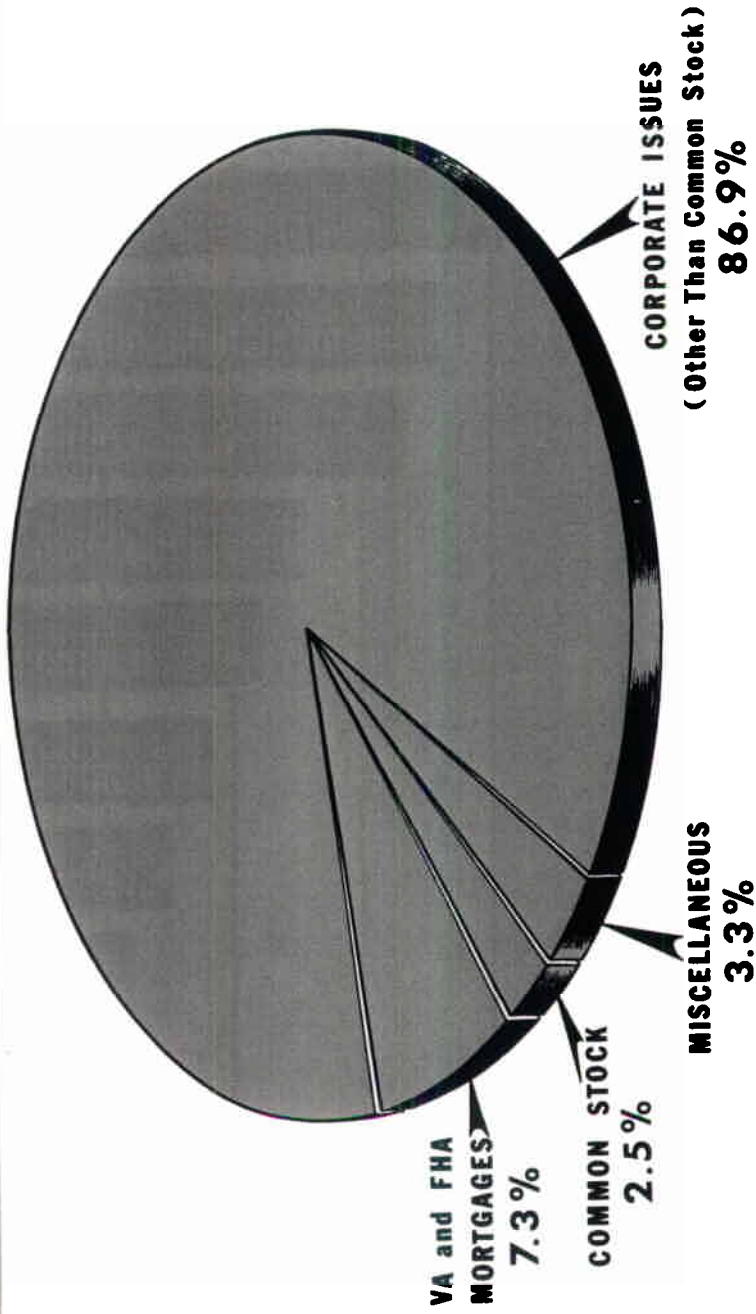


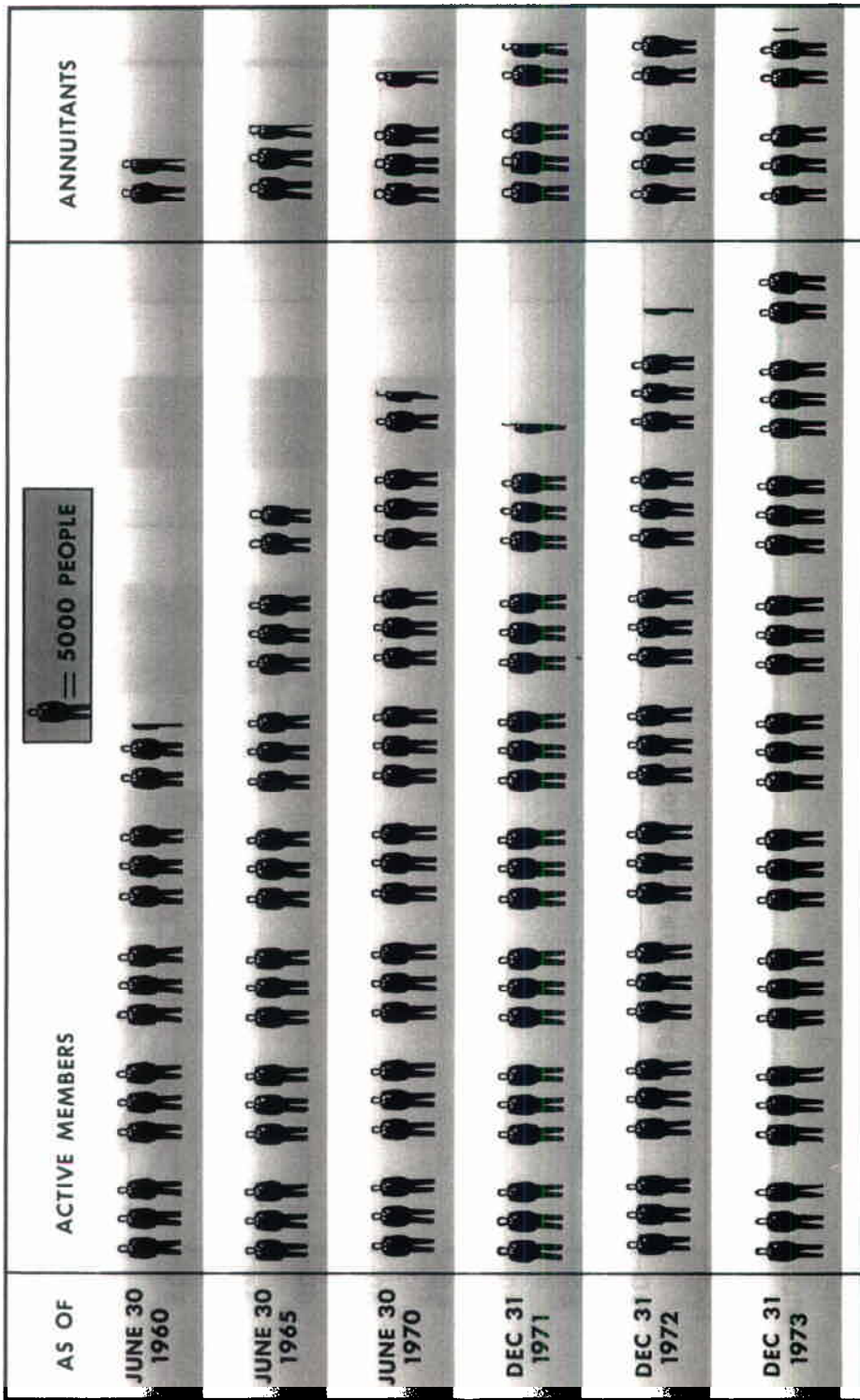
JULY 1, 1968 TO JAN. 1, 1973
 JUNE 30, 1969 TO DEC. 31, 1970*
 * TIME OF CONVERSION FROM FISCAL TO CALENDAR YEAR



COMPOSITION OF FUND BY SECURITY CLASSIFICATION

AT PAR VALUE AS OF DECEMBER 31st, 1973.





 = 5000 PEOPLE

MILLIONS

MEMBER'S CONTRIBUTIONS VS. BENEFITS PAID

MEMBER'S CONTRIBUTIONS

BENEFITS PAID

