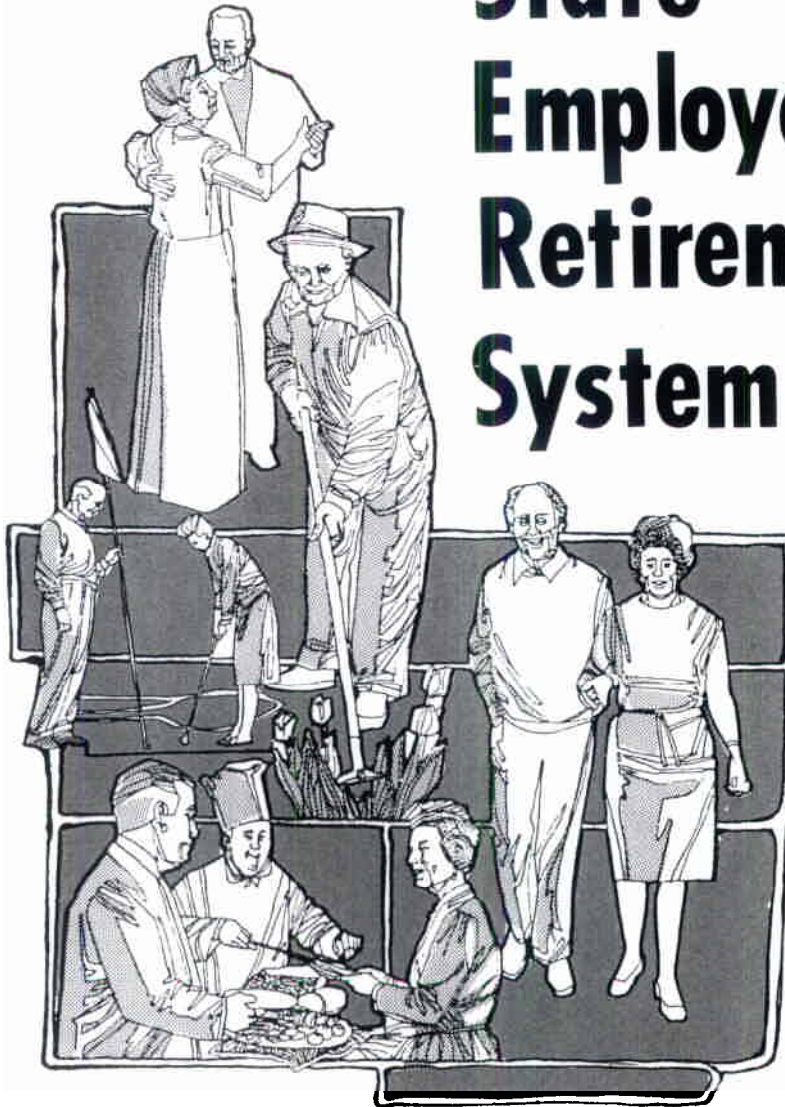


Pennsylvania



State Employees' Retirement System



Milton J. Shapp,
Governor

1977 Annual Report

COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYES' RETIREMENT BOARD
204 LABOR & INDUSTRY BUILDING
HARRISBURG, PENNSYLVANIA 17120
TELEPHONE: (717) 787-6293



Sol E. Zubrow, Chairman
1616 Walnut Street
Philadelphia, Pennsylvania 19103
Telephone: (215) 732-3323

To His Excellency, Milton J. Shapp
Governor of the Commonwealth of Pennsylvania,
Members of the General Assembly, and
Members and Retirees of the
Pennsylvania State Employees' Retirement System:

The Annual Report of the State Employees' Retirement System for the year ending December 31, 1977 is submitted herewith.

As the State Employees' Retirement System enters its 54th year of continuous service to the Commonwealth and members, the Retirement Board is pleased to report that your system is actuarially sound and financially stable.

During 1977 pension, disability, and death benefit payments totalling \$175,390,813 were made to retired members and beneficiaries of members. As of December, 1977, 37,811 people were receiving regular monthly benefits, a net increase of 3,622 during the year. At year end there were 127,183 active members in the Retirement System, down from 129,059 in 1976.

The net assets of the fund increased 12.1% during 1977, reflecting both the Commonwealth's strong commitment to adequately fund its employees' pension benefits and the Board's diligent interest in assuring the maximum investment return to the Fund, consistent with prudent investment practice.

The administrative staff of the System maintains a strong commitment to ever improved service to our members. This year's report has been designed to give our members more information and a better understanding of their Retirement System.

Sincerely,

A handwritten signature in cursive script that reads "Sol E. Zubrow".

Sol E. Zubrow
Chairman

Board of Trustees:

Sol E. Zubrow, Chairman
Honorable Robert E. Casey, ex officio
Mr. William J. Moran
Honorable Paul J. Smith

Staff:

Richard L. Witmer, Secretary
Robert L. Cusma, Assistant Secretary
Division Chiefs:
Larry Barbour, Accounting
Robert Bowers, Data Processing and Office Services
John Corrigan, Refund and Retirement Benefits
Frances Crimbly, Analysis and Planning
Joseph Fuller, Death and Disability Benefits
Ruth Granoff, Membership Services
Aldo Mastrine, Retirement Counseling

Advisors:

Legal Counsel
Raymond Kleiman, Esq., Deputy Attorney General

Medical Counsel
Mark Berger, M.D.
Stanley R. Goldman, M.D.
Michael Gluck, M.D.
Peter Brier, M.D.

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

The year 1977 was one of ever-increasing activity at the Retirement System's offices. Over 10,800 new members were enrolled in the Retirement System. However, the total active membership decreased, since over 4,700 members retired and began receiving monthly benefits, while another 7,400 members terminated employment and withdrew their contributions from the Retirement Fund. To our members — old and new alike — we extend our invitation to you to become interested and involved participants in your retirement program.

Over the past several years the staff of the Retirement System has worked hard to improve the level of services provided to members, both active and retired. This program of deliberate, but continuous, upgrading of services continues to be of prime importance. However, we cannot go the whole mile without your help.

Your retirement program is not something to think about only at the end of your career. The program offers disability benefits after only five years of service and important death benefits after ten years of service (3 years of service if you have reached normal retirement age). There are also a variety of options available to members to tailor their protection to suit their own circumstances.

Your retirement program is one of the most valuable employment-related benefits you have. We urge you to acquaint yourself with both your rights and your responsibilities. The information is available; it's up to you to be sure you understand your entitlements. If you are an active employe and you have questions about your benefits, contact your local personnel office for assistance. There are trained counselors available in every agency. Retired members should direct their questions directly to the Retirement System's offices. There is a list of phone numbers on the last page of this report for your convenience.

Recent improvements in the services offered to members include the publication of a completely revised handbook to assist active members in assessing their benefits; an expansion of the member's annual statement of account to include more detailed information about each member's individual record; and the implementation of a formal, ongoing program of training for Retirement Counselors in each member agency.

We welcome your comments and suggestions as to how we might better serve your needs.

Composition of Portfolio

Description	December 31, 1977		December 31, 1976	
	Value	Percent	Value	Percent
Corporate Bonds at Par:				
Industrials	\$1,048,353,405	49.1	\$ 859,661,388	45.3
Railroads	14,171,069	0.7	16,694,186	0.9
Public Utilities	453,836,000	21.2	492,391,550	26.0
Gov't. Secured Mortgages at Par	170,188,241	8.0	149,013,817	7.9
Equities at Cost:	340,036,407	15.8	254,021,517	13.3
Temporary Investments:				
Commercial Paper	42,287,090	2.0	32,025,050	1.7
U.S. Treasury Bills	68,236,789	3.2	93,799,359	4.9
Cash	39,477	-	35,000	-
Total	\$2,137,148,478	100	\$1,897,843,767	100

As in past years the figures above show the changes in asset mix from one year to the next. The money which flows into the Retirement Fund from members, employers, and investment earnings does not sit idle. As soon as funds are received they are invested in short-term securities by the State Treasurer's office. After determining how much money will be needed to cover benefit payments and administrative expenses, the investment advisors are notified of the amount of excess funds which are free for long-range investment. Depending on yields in the market and the needs of the fund in terms of balancing risk and income, funds are invested in corporate bonds, stocks, or mortgages.

All investments are made under the direction of the Retirement Board, whose members are appointed by the Governor and confirmed by the state Senate. The Retirement Board meets in Harrisburg on the third Wednesday of each month. All meetings are open to the public. You are welcome to attend the meetings. Please notify the Retirement System offices in advance if you plan to attend a meeting so that adequate seating arrangements can be provided.

Representative Common Stocks

40 Largest Common Stock Holdings by Number of Shares as of December 31, 1977

Deere & Company	316,200
Ralston Purina Company	315,500
Georgia Pacific Corporation	267,386
Air Products & Chemicals, Incorporated	265,516
American Telephone & Telegraph Company	222,800
AMP, Incorporated	217,200
Continental Oil Company	209,800
General Telephone & Electronics Corporation	209,500
International Flavors & Fragrances, Incorporated	200,144
Exxon Corporation	192,000
Phillips Petroleum Company	191,200
Weyerhaeuser Company	185,200
Caterpillar Tractor Company	180,900
Emerson Electric Company	158,400
Citicorp	153,600
Capital Holding Corporation	151,900
Atlantic Richfield Company	148,800
American Home Products Corporation	145,700
Square D Company	145,000
General Electric Company	142,500
Black & Decker Manufacturing Company	141,300
Chesebrough Ponds Incorporated	139,800
Gannett Company	132,500
Coca-Cola Company	130,400
Bankamerica Corporation	129,200
Union Camp Corporation	128,800
General Motors Corporation	125,000
Dresser Industries, Incorporated	121,400
Colgate Palmolive Company	118,000
Carnation Company	110,000
Kimberly Clark	105,000
Dow Chemical Company	104,300
Ingersoll Rand Company	103,900
Union Pacific Corporation	103,500
Ford Motor Company	102,375
Hewlett Packard Company	101,800
Beatrice Foods Company	100,800
Merck & Company	99,900
3M Company	96,900
US Steel Corporation	93,150

Receipts and Disbursements

January 1, 1977 through December 31, 1977

Receipts

Member Contributions	\$ 98,289,531.69	
Employer Contributions	191,036,140.32	
Dividends and Interest on Investments	128,604,418.47	
Net Cash Take-in on Bond Swaps	2,323,810.50	
Reimbursement for Medical/Hospital Insurance payments for Retirees	623,337.12	
Transfers From Public School Employes' Retirement System:		
Member Share	304,791.76	
Employer Share	6,153,607.94	
Supplemental Retirement Benefits	444,868.77	
Credit Union Processing Fee Income	25,247.84	
Re-crediting of Funds for Outstanding Stale-dated Checks	25,924.52	
		<u>\$427,831,678.93</u>
Total Receipts		

Disbursements

Normal Retirement Benefits	\$110,311,549.63	
Early Retirement Benefits	16,209,466.04	
Disability Retirement Benefits	7,862,139.47	
Beneficiary Payments*	2,124,160.36	
PA State Police Benefits	7,882,820.32	
PA LCB Enforcement Officer benefits	856,924.65	
Lump Sum Withdrawals at Retirement	27,687,136.12	
Withdrawals Due to Termination	12,401,405.87	
Transfers to Public School Employes' Retirement System:		
Member Share	167,903.85	
Employer Share	2,264,291.89	
Supplemental Retirement Benefits	48,085.21	
Re-issue of Stale-dated Checks	2,259.75	
Accrued interest on investments purchased	2,569,435.24	
Administrative Expense	1,619,555.04	
		<u>\$192,007,133.44</u>
Total Disbursements		

Excess of Receipts Over Disbursements

\$235,824,545.49

* Represents payments made to beneficiaries after October 1, 1977; Payments made from January 1 through September 30 are included with retirement benefits.

Where the money comes from...

More than 427.8 million dollars flowed into your Retirement Fund during 1977. The major sources of funds are member and employer contributions and investment earnings.

Each time a member receives a paycheck, a percentage of his or her gross wages (usually 5%) is deducted for retirement contributions. This money is transferred to the Retirement Fund on a regular schedule and each contribution is posted to the members' accounts. Over 5 million such transactions were posted to accounts in 1977.

Employer contributions are the largest source of retirement funds. At the end of each calendar quarter each agency transfers to the Fund a percentage of the gross salaries and wages paid to members. The employer contribution rate is currently 13.7%. The contribution rate is reviewed by the actuary each year and adjusted as necessary to assure that the Retirement Fund remains actuarially sound.

With more than two billion dollars in assets, investment earnings are now the second largest source of income for the Fund. Earnings consist primarily of interest from bonds and mortgages and dividends from stocks. As of December 31, 1977, the Retirement Fund portfolio was earning an overall rate of return of 6.78% on book value. New money was being invested at average rates of 7.71%.

Another significant source of income consists of transfers from the Public School Employees' Retirement System to fund the school portion of benefits for retirees from SERS who had service in both the School and State Retirement Systems.

And where it goes...

The largest category of disbursements represents monthly benefits paid to retirees and beneficiaries. In December, 1977, SERS mailed almost 38,000 monthly benefit checks.

An increasingly significant item is the amount paid to retiring members who elect to withdraw their own contributions at retirement and receive reduced monthly benefits. In 1977, 62% of the members who retired withdrew all or a part of their contributions for a total in excess of 27 million dollars.

Members who terminated service before becoming eligible for retirement benefits withdrew another 12.4 million. Transfers to the Public School Employees' Retirement System are made to fund the state portion of benefits for retirees of that system who also had service in SERS.

The administrative expense item represents all expenses of operating the Retirement System including salaries and benefits for employees of SERS; fees for investment advisors, actuarial services, computer services, and medical examiners; and equipment and operating expenses such as postage and telephone service. Once again, the expense of operating your Retirement System was held well below one-half of one percent of receipts.

Balance Sheet

Account Balances as of December 31, 1977

Assets

Cash	\$	39,477
Amortized Book Value of Fixed Income Investments ¹		1,770,203,140
Cost Value of Equity Investments		340,036,407
Investment Income Due and Accrued		32,355,646
Members' Contributions in Transit		5,455,960
Employer Contributions Receivable ²		117,498,836
		<u>\$2,265,589,466</u>

Liabilities and Reserves

Members' Annuity Savings Account	\$	752,896,941
Annuity Reserve Account		1,177,574,439
State Annuity Accumulation Account		298,479,805
Supplemental Annuity Reserve Account ³		(95,012,861)
PA State Police Benefit Account		119,578,234
PA Enforcement Officers Account		10,665,049
Miscellaneous Accounts Payable		1,407,859
Total Liabilities and Reserves		<u>\$2,265,589,466</u>

1. Total fixed income investments at par	\$1,797,072,593
Less net unallocated discounts	26,869,453
Amortized Book Value of fixed income investments	<u>\$1,770,203,140</u>

Discounts on fixed income investments purchased are allocated to book value on a straight-line basis over the life of the investment.

2. Employer contributions are current through June, 1977.

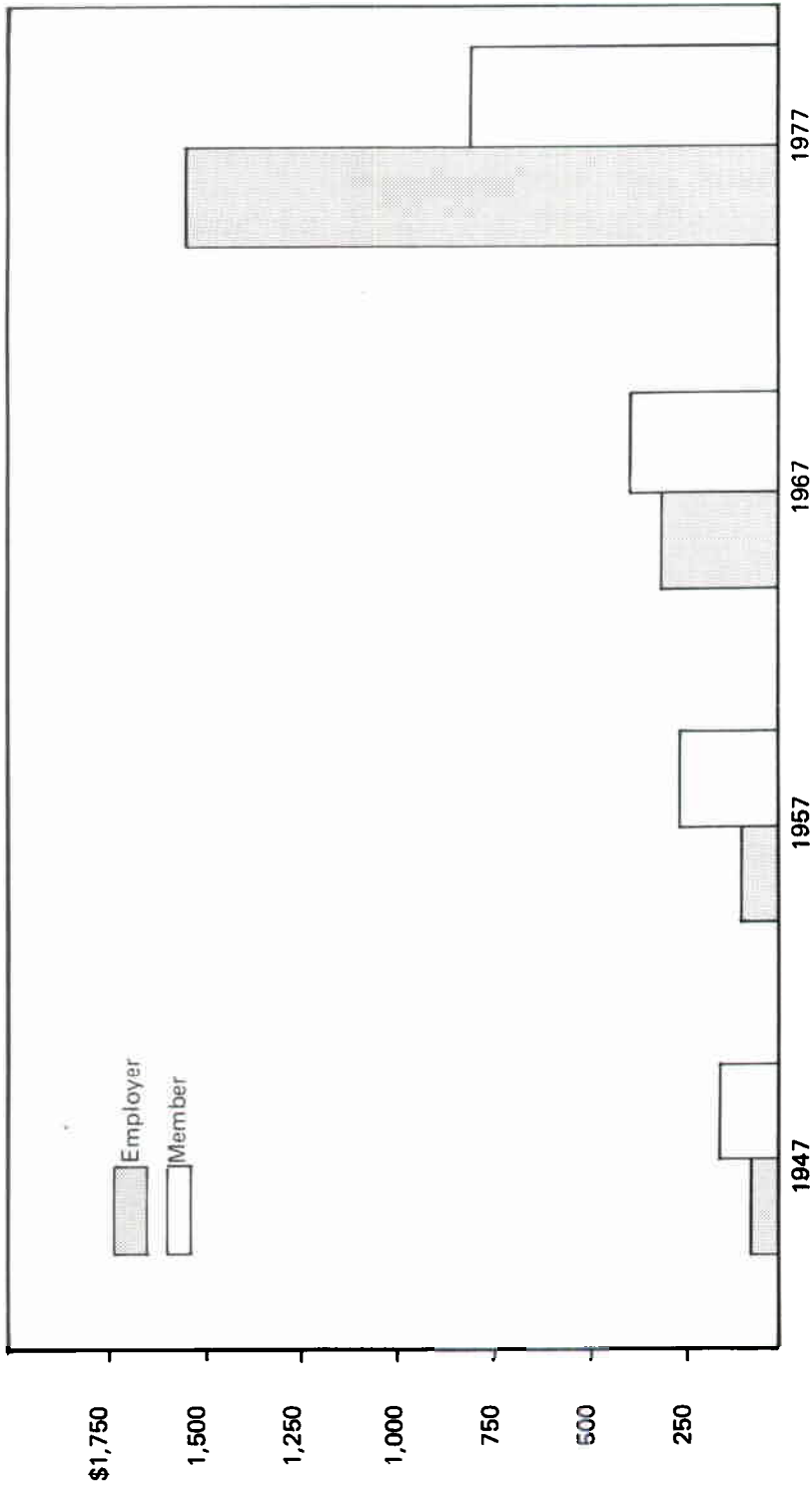
3. The Supplemental Annuity Reserve Account was created by statute to be credited with the Commonwealth's contributions to fund the cost-of-living increases granted to retirees in 1968 and 1974. These annual contributions will liquidate the liability by July, 1994. Payment of cost-of-living supplements are charged against the Annuity Reserve Account.

1977 Retirement Statistics

During 1977 more than 4,400 members began receiving regular retirement benefits from the SERS. More than 47,400 active members are eligible for benefits this year. The table below shows the average monthly benefits being paid to members who retired in 1977 with different amounts of credited service. The benefits shown are after reduction for lump-sum amounts withdrawn and options selected.

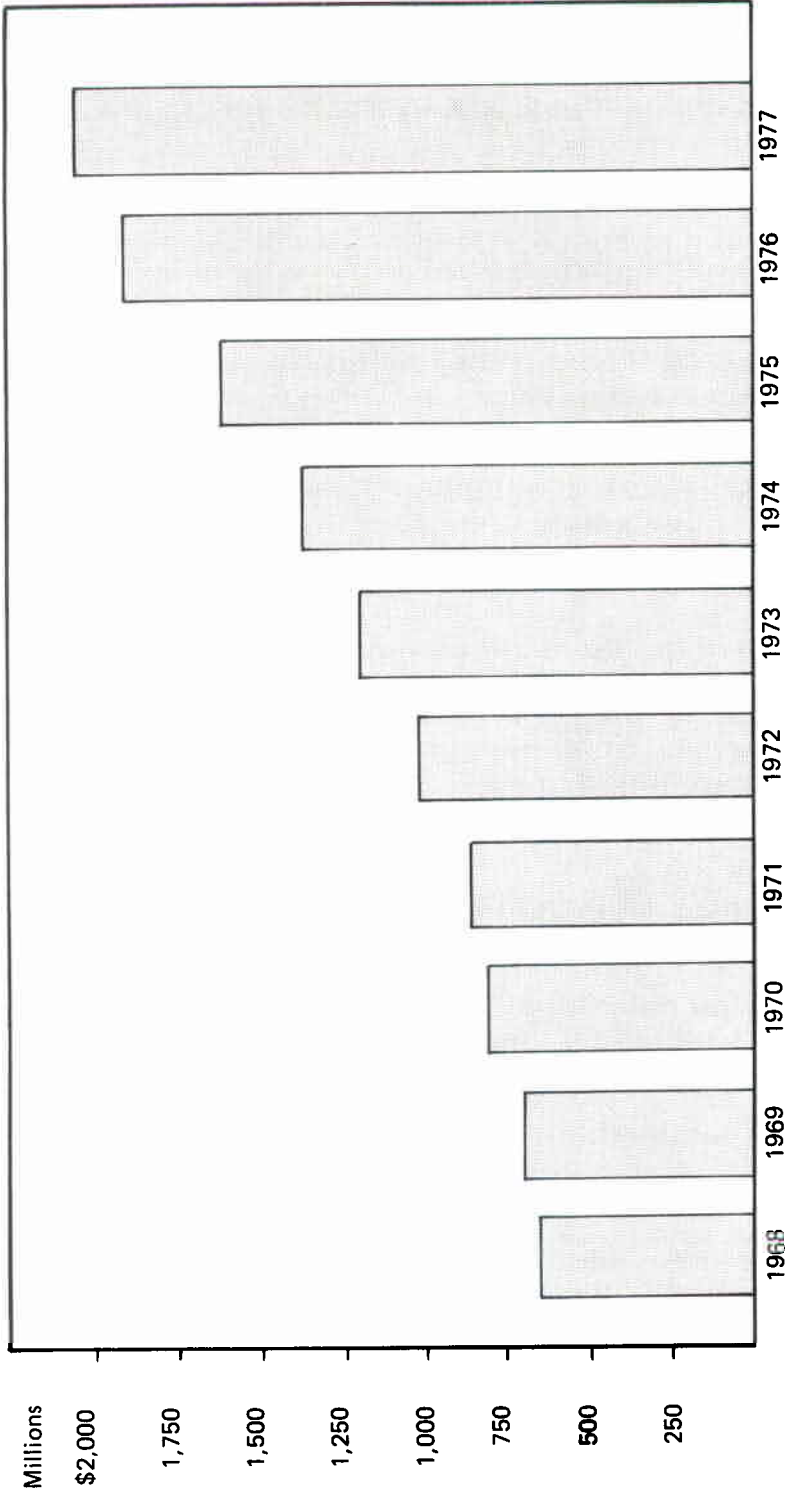
Length of Service	Number of Retirees	Percent of Total Retirees	Average Monthly Benefit
Less than 10 years	1,064	24	\$ 104.33
10-15 years	1,575	35	222.20
16-20 years	648	15	359.40
21-25 years	458	10	483.22
26-30 years	277	6	667.17
31-35 years	263	6	936.12
36-40 years	122	3	1,090.13
More than 40 years	27	1	1,223.79
Total:	<u>4,434</u>	<u>100.0</u>	

**PER CAPITA EMPLOYER AND MEMBER CONTRIBUTIONS
FOR SELECTED YEARS**



As illustrated by the graph above, there has been a tremendous growth in contributions over the last ten years, both from members and employers. The growth in employer contributions has been much larger due to changes in the Retirement Code which strengthened the Commonwealth's commitment to adequately fund the SERS. On a per capita basis, employer contributions have increased by 419% over the last ten years. Total employer contributions have increased by 593%. In fiscal year 1977-78 employers will contribute in excess of \$246 million to the SERS.

ASSET GROWTH -- A TEN-YEAR PERSPECTIVE



In 1977, the State Employees' Retirement Fund's assets passed two billion dollars. The graph above shows that assets have more than tripled in the past ten years, reflecting both improved benefits and increasing numbers of members.

In your retirement system, careful attention is given to the matter of adequate funding for both present and future retirees. Benefits for all retired members are fully funded. In addition, the assets of the fund include over \$300 million as a reserve for the state share of benefits to future retirees. This process of funding future benefits assists greatly in providing you with a financially sound Retirement Fund.

Do You Know?...

Active Members:

A retirement handbook was issued during 1976. If you have not received one, ask your Retirement Counselor.

Your retirement benefits are guaranteed after 10 years of service (3 years of service if you have attained normal retirement age). This feature provides valuable insurance protection. If you are going to leave state service, make sure you explore all options available before making any decisions about your retirement account.

You may be able to "purchase" active military service or out-of-state teaching credit if you meet certain requirements – but your request must be made *before* you leave state service. See your Retirement Counselor for details.

In the event of your death, the Retirement System will pay your named beneficiary. If there has been a change in your family situation, you may want to file a new beneficiary designation. Nomination of beneficiary forms are available from your Retirement Counselor.

If you are enrolled in the SSI program, you may elect to terminate membership in that program and withdraw your accumulated SSI contributions plus interest. You may also elect to "freeze" your participation in this program. Once you cancel or "freeze" your SSI membership, you may not reenter the program. See your Retirement Counselor for details.

Retirees:

You can arrange to have your check sent directly to any financial institution of your choice.

You can have Federal Income Tax withheld from your monthly checks upon your request. Use form W-4P, which is available from the Retirement System or your local IRS office.

If your named beneficiary has died, you should file a new beneficiary designation.

You should notify the Retirement Board of any change in address.

For more information, write:

State Employees' Retirement System
Room 204, Labor and Industry Building
Harrisburg, PA 17120

For a prompt reply, please remember to include your Social Security number and phone number on all correspondence with the Retirement System. If you are a beneficiary annuitant, include the original member's Social Security number as well as your own.

If You Need Help...

Active Members:

Contact your retirement counselor. If you don't know who your retirement counselor is, contact your personnel officer.

Retired members:

Any questions dealing with your monthly annuity checks, please call (717)787-6293.

Any problems concerning taxes either on monthly annuities or on death benefits, please call (717)787-6973.

Questions concerning Blue Cross or Blue Shield eligibility should be directed to (717)787-6293.

How You Can Help...

Please include your social security number and telephone number on all correspondence to the Retirement System.

Please retain *all* information sent to you from the Retirement System.