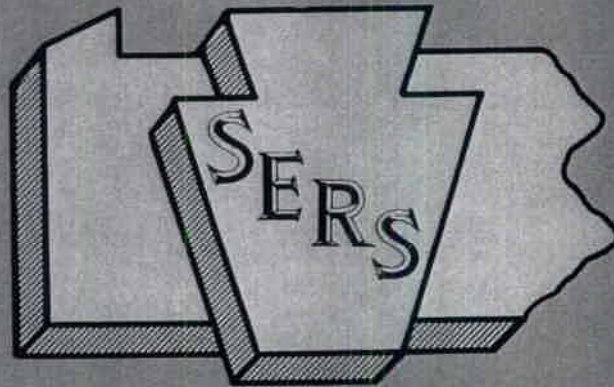




PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM



COMMONWEALTH OF PENNSYLVANIA
STATE EMPLOYEES' RETIREMENT SYSTEM

1978 ANNUAL REPORT

DICK THORNBURGH
Governor



Commonwealth of Pennsylvania
State Employees' Retirement System
204 Labor and Industry Building
Harrisburg, Pennsylvania 17120

BOARD OF TRUSTEES

William J. Moran
Acting Chairman

Honorable Robert E. Casey, ex officio
State Treasurer

Milton Melman
Board Member



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

Telephone
717-787-6293

To His Excellency, Dick Thornburgh
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, 1978 is submitted herewith.

In December, 1978, monthly benefit checks were sent to 41,142 former state employes and beneficiaries. This was a net increase of 3,331 since December, 1977. The Retirement System paid a total of \$197,924,306 during the year in early and normal retirement, disability, and death benefit payments. Active membership in the Retirement System declined in the past year from 127,183 to 124,592.

Increases in member contributions, employer contributions, and interest and dividends on investments caused total assets of the fund to rise to \$2.497 billion at year's end.

Both the Retirement Board and the administrative staff of the Retirement System continue in their efforts to improve services to the membership and to safeguard the assets of the Retirement Fund.

Sincerely

A handwritten signature in cursive script, reading 'Richard L. Witmer'.

Richard L. Witmer,
Secretary

ADMINISTRATION

Richard L. Witmer, Secretary
Robert L. Cusma, Assistant Secretary

DIVISION DIRECTORS

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

Consulting Actuaries
Huggins & Company, Inc.
Philadelphia, PA

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

Legal Counsel
Raymond Kleiman, Esq., Deputy Attorney General

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

Mortgage Supervisor
The Fidelity Bank
Philadelphia, PA

SECRETARY'S REPORT

1978 showed continued growth of the annuitant population. At year's end, more than 41,000 former state employes and beneficiaries were receiving monthly benefits, 4,775 members retiring in 1978. At the same time, the active membership has continued the slow decline from a 1975 high of over 132,000, to the present 124,592. Total active and retired membership served by the Retirement System exceeds 168,000.

Act 140 of the state legislature was the most significant change to the Retirement System this year from a legal standpoint. Receiving much public attention, this law prohibits payment of retirement benefits to former employes convicted of certain crimes committed while employed by the Commonwealth. The overall impact of Act 140 is still undergoing the process of review and interpretation. The Attorney General is reviewing, on an individual basis, those pensions which may be affected by Act 140.

Improved services to the membership include newly instituted Disability Appeal Hearings. These administrative hearings provide those members filing for disability retirement benefits an additional mechanism in proving their medical eligibility for disability benefits. For some employes, these appeal hearings have eliminated the costly expense of appealing eligibility for disability benefits directly to the Commonwealth Court. Previously, this was the only recourse for members who had been denied benefits for insufficient cause or lack of medical evidence.

In addition to further refinement of past improvements to the operations of your Retirement System, we are currently in the process of enhancing our ability to serve you by expanding various computer systems to provide more timely estimates and benefit payments. As new services are completed and available, you will be informed of their benefits to you. At a time when the amount of work as well as the types of services offered are increasing, we have been able to maintain a constant number of administrative personnel, and at the same time improve the quality of service.

The Pennsylvania State Employes' Retirement System ranks among the best of all state systems in terms of benefits paid to retirees. Providing an excellent benefits package is an extremely expensive proposition which can easily be seen by the growth in employer contributions over the last ten years — from 50.04 million dollars in 1968 to over 242 million dollars in fiscal year 1978.

We strongly recommend that you familiarize yourself with all benefits and services which you are due as a member of the Retirement System and that you take the time to read through this report so that you will have a better understanding and appreciation of your retirement plan.

ACTUARY'S REPORT

HUGGINS & COMPANY INC

CONSULTING ACTUARIES • EMPLOYEE BENEFIT PLAN CONSULTANTS

1401 WALNUT STREET • PHILADELPHIA PA 19102 • (215) 665-1401

March 6, 1979

Board
State Employees Retirement System
204 Labor and Industry Building
Harrisburg, Pennsylvania 17120

Dear Board Members:

We last performed a valuation on December 31, 1977 to determine actuarial liabilities under the State Employees Retirement System. The contribution to be made by the Commonwealth based on the results of that valuation was determined in accordance with sound actuarial principles in a manner which, in my opinion, reflects the applicable provisions of the State Employees Retirement Code.

Valuations are made annually based on data supplied by the staff of the Retirement Board. Evaluations of experience under the Retirement System are made quinquennially and the results are used to develop the assumptions underlying the actuarial valuations. Thus, required contributions are determined on an actuarial basis reflecting actual experience under the System.

Sincerely yours,



ROBERT H. SMITH, F.S.A.
Member, American Academy of Actuaries

RHS:oc

COMPOSITION OF PORTFOLIO

Description	December 31, 1978		December 31, 1977	
	Value	Percent	Value	Percent
Corporate Bonds at Par				
Industrial	\$1,191,350,379	47.7	\$1,048,353,405	49.1
Railroads	10,598,047	0.4	14,171,069	0.7
Public Utilities	388,097,500	15.5	453,838,000	21.2
Gov't. Secured Mortgages at Par	212,574,757	8.5	170,188,241	8.0
Equities at Cost	433,064,407	17.4	340,036,407	15.8
Temporary Investments:				
Commercial Paper	84,216,841	3.4	42,287,090	2.0
U.S. Treasury Bills	176,781,346	7.1	68,236,789	3.2
Cash	89,908		39,477	—
Total	\$2,488,773,181	100.0	\$2,137,148,478	100.0

The above table details the changes during the past year in the size and composition of the investment portfolio. In following the change in the composition of the portfolio during the last decade, a dramatic shift has occurred in the types of investments made.

An Act of the Pennsylvania Legislature in 1972 granted the Retirement Board permission to invest retirement funds in equities (i.e. common stock and preferred stock). Shortly thereafter, with the advice of our investment counsel, the Retirement Board began investing large sums of money in the equity market. By the end of 1978, more than 400 million dollars of retirement funds were in the form of common stock. Our investment counsel has recommended this large scale commitment based on the fact that historically, equities have out-performed other forms of investment.

Corporate bonds remain the major component of the portfolio. Almost 50 percent of the money in the retirement fund is invested in corporate industrial bonds. Recent investment in these bonds has yielded a rate of return in excess of 8.8%. Yields from the long-term corporate bonds provide the Retirement Board with predictable amounts of income, which are needed to assure adequate funding of pension benefits.

Temporary investments account for more than 10% of the portfolio. These investments are made to prevent new or recently freed cash from laying idle and earning no interest. This cash is invested in short-term commercial paper and U.S. Treasury Bills until more attractive long-term investments are available. The money is then converted from temporary investments to the long-term investments.

More than \$200 million of retirement funds are invested in mortgages. These mortgages are both residential and commercial, backed by the VA and FHA. Mortgages provide steady, long-term income with a high yield in interest being paid to the fund. All residential mortgages in the portfolio are on properties located within Pennsylvania.

As in the past, the Retirement Board continues to select those types of investments which are minimal in risk yet high in terms of growth potential and rate of return (i.e. interests and dividends).

RECEIPTS

January 1, 1978 through December 31, 1978

Receipts:

Member Contributions	\$106,894,833.64	
Employer Contributions	297,988,983.19	
Dividends and Interest on Investments	155,820,335.57	
Net Cash Take-in on Bond Swaps	9,348,769.03	
Transfers From Public School Employees' Retirement System:		
Member Share	334,035.03	
Employer Share	6,349,138.57	
Supplemental Retirement Benefits	3,505,067.37	
Duplicate Processing Income	14,884.11	
Re-crediting of Funds for Outstanding Stale-dated Checks	18,762.52	
Total Receipts		\$580,274,809.03

For the first time in the Retirement System's history, income exceeded ½ billion dollars in a calendar year. As in past years, member contributions, employer contributions, and interest and dividends on investments are the three largest sources of income. Since previous annual reports have explained these three sources, this year's report describes other lesser receipt items.

The item labelled **Net Cash Take-in on Bond Swaps** increased to more than 9 million dollars in 1978. Bond swapping involves the Retirement Board trading lower yielding bonds in the portfolio for those which provide a greater return. When the market value of the bond that is being sold is greater than the market value of the bond the Board is obtaining, the difference between the two is income to the fund. This income is known as Net Cash Take-in on Bond Swaps. Bond swapping has helped to increase the overall yield of the Retirement Fund.

The account entitled **Transfers From Public School Employees' Retirement System** represents funds received from the School Retirement System. When members with credited service in the School Retirement System retire from the State Retirement System, combined benefit payments are made to those members. At the time these members retire, the School Retirement System forwards to the State Retirement System the funds necessary to pay for that portion of the total benefits attributable to School service.

Duplicate Processing Income is collected from those active and retired members requesting additional copies of retirement statements already provided to them.

The final receipt item, **Re-crediting of Funds for Outstanding Stale-dated Checks**, represents that amount of money returned to the Retirement Fund due to retirement benefit checks becoming stale-dated.

DISBURSEMENTS

January 1, 1978 through December 31, 1978

Disbursements:

Normal Retirement Benefits	\$116,872,611.79	
Early Retirement Benefits	16,468,044.85	
Disability Retirement Benefits	9,338,139.95	
Beneficiary Payments	10,026,841.85	
PA State Police Benefits	9,632,890.14	
PA LCB Enforcement Officers Benefits	903,681.67	
Lump sum Withdrawals at Retirement	34,682,096.23	
Withdrawals Due to Termination	14,932,397.31	
Transfers to Public School Employees' Retirement System:		
Member Share	133,036.60	
Employer Share	1,902,894.09	
Supplemental Retirement Benefits	18,641.37	
Re-issue of State-dated checks	9,725.69	
Accrued Interest on Investments Purchased	14,094,974.85	
Administrative Expense	1,634,125.63	
Total Disbursements		\$220,650,102.02
Excess of Receipts Over Disbursements		\$359,624,707.01

Total benefit payments to retirees and beneficiaries amounted to almost 198 million dollars in 1978.

The largest disbursement item is **Normal Retirement Benefits**. Normal Retirement Benefits are those monthly payments made to members who retired on or after reaching normal retirement age (for most employes, age 60 or any age upon attaining 35 years of credited service).

By law, two groups of employes have their retirement benefits accounted for separately. Historically, PA State Police and PA LCB Enforcement Officers have their retirement benefits funded not only with funds from general tax revenues, but also with money supplied from additional sources. This additional funding is needed since their benefit structure is different than that for regular state employes. For example, due to the hazardous nature of their duties, their normal retirement age is 50 years of age, rather than age 60, as is the case for most state employes.

Most retiring members continue to take advantage of the option allowing them to withdraw in a lump sum all or part of their contributions and accumulated interest. More than 34 million dollars were disbursed in this way during 1978.

Administrative Expense, representing the cost of conducting Retirement System business, decreased last year as a percentage of total receipts.

The more than 359 million dollars of receipts in excess of disbursements is the amount of new money available for long-term investment. This money is set aside for current retirees, as well as those active members who will leave state service during the coming years.

BALANCE SHEET

Account Balances as of December 31, 1978

Assets

Cash	\$ 89,908
Amortized Book Value of Fixed Income Investments ¹	2,033,458,117
Cost Value of Equity Investments	431,864,407
Investment Income Due and Accrued	35,573,836
Members' Contributions in Transit	2,975,019
Employer Contributions Receivable ²	63,452,377
Total Assets	<u>\$2,567,413,664</u>

Liabilities and Reserves

Members' Annuity Savings Account	\$ 816,928,043
Annuity Reserve Account ³	1,352,941,417
State Annuity Accumulation Account ³	330,488,831
Supplemental Annuity Reserve Account ⁴	(85,172,284)
PA State Police Benefit Account	139,803,045
PA Enforcement Officers Account	11,159,776
Miscellaneous Accounts Payable	1,264,836
Total Liabilities and Reserves	<u>\$2,567,413,664</u>

1. Total fixed income investments at par	\$2,064,818,870
Less net unallocated discounts	31,360,753
Amortized Book Value of fixed income investments	<u>\$2,033,458,117</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 September, 1978.
3. These account balances are reviewed annually by the actuary to assure adequate money is allocated to the Annuity Reserve Account to fund benefits for current retirees and beneficiaries. Upon completion of the 1978 Actuarial Valuation, the two accounts will be adjusted accordingly.
4. 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.

1978 RETIREMENT STATISTICS

Following are facts and figures which apply to those persons who retired during 1978.

Retirement By Type:

Early Retirements	931
Normal Retirements	3,491
Disability Retirements	353
Total Retirements	4,775

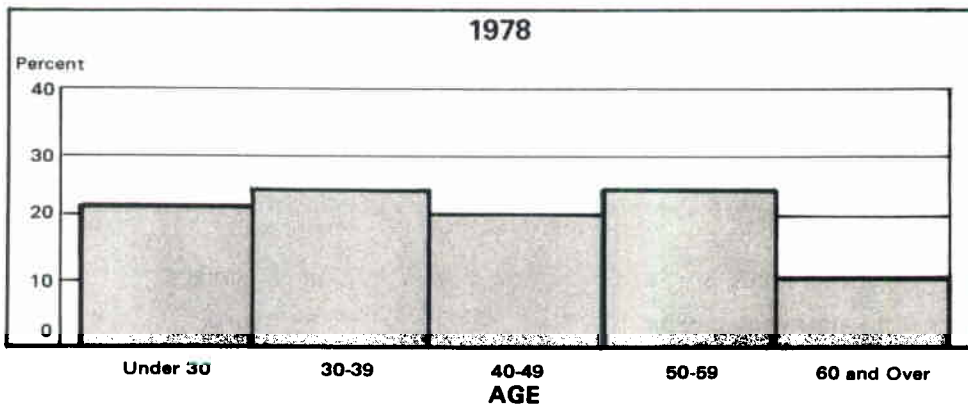
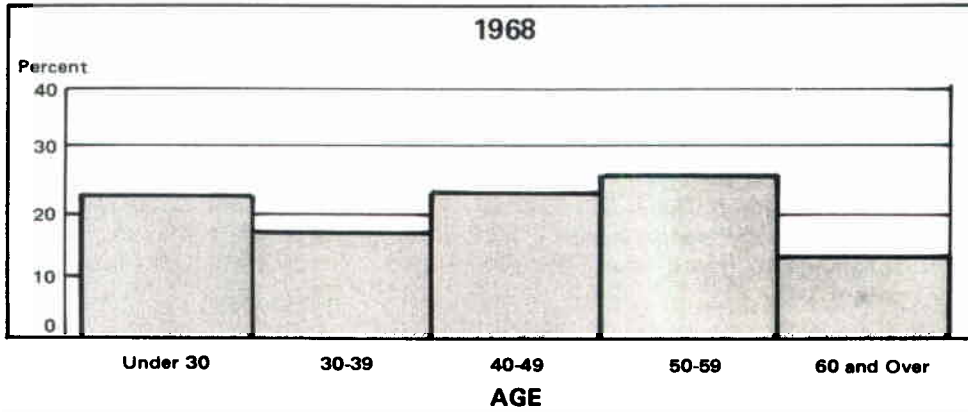
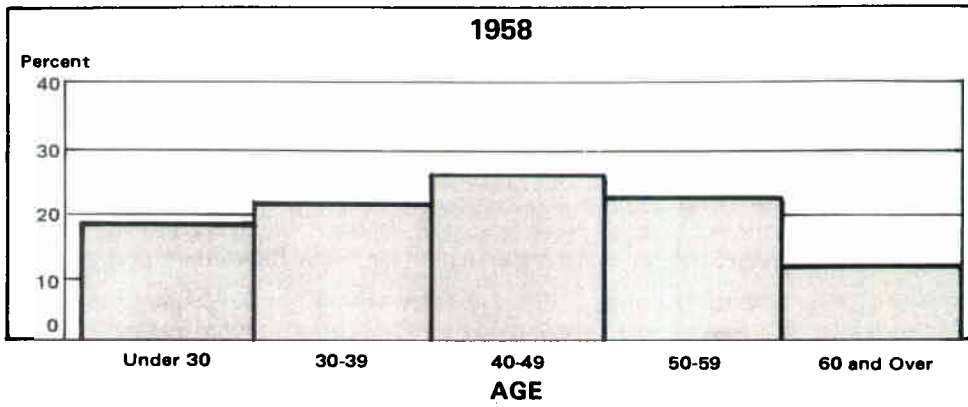
Average Monthly Benefit for those retiring under the provisions of early retirement or normal retirement.

Length of Service	Number of Retirees	Average Monthly Benefit
10 years or less	1,265	\$ 138.26
11 - 15 years	1,267	222.86
16 - 20 years	678	367.53
21 - 25 years	451	514.08
26 - 30 years	312	737.40
31 - 35 years	272	983.97
36 - 40 years	136	1,245.46
more than 40 years	41	1,752.11

A TEN-YEAR PERSPECTIVE

	1968	1978
Active Members	101,634	124,592
Retirees and Beneficiaries	15,347	41,142
Average Monthly Retirement Benefit	\$185.76	\$295.21
Assets	\$633,612,468	\$2,567,413,664
Members' Contributions	\$42,649,844	\$106,894,834
Employer Contributions	\$51,645,000	\$297,988,983
Investment Earnings	\$26,211,070	\$155,820,336
Receipts	\$123,879,890	\$580,274,809
Disbursements	\$44,333,056	\$220,650,102
Administrative Expense	\$445,504	\$1,634,126
Number of Staff Members	41	66

ACTIVE MEMBER AGE DISTRIBUTION



The age distribution of active members of the Retirement System has changed considerably over the years as shown in the above graphs. For example, active member age 30-39 dropped from 21% of total membership in 1958 to 16% in 1968. However, in the following ten years, the percentage of members 30-39 increased by 50% to a total of 24% of active membership. It is interesting to note that the age group with the highest percentage of members is different for each of the three years illustrated. In 1958, the largest group was age 40-49, in 1968, age 50-59, and in 1978, age 30-39.

DO YOU KNOW? . . .

Active Members:

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. Make sure you explore all available options before you leave state service.

You have disability benefit protection after five years of service, providing you have not attained normal retirement age. Should you have any questions concerning eligibility for these benefits, contact your Retirement Counselor.

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 the 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. Since the social security base increased sharply in 1979, it may be to your advantage to freeze your SSI account. 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.

If you are receiving normal or early retirement payments due to your service as a state employe, these monthly benefits are guaranteed to you for the rest of your life.

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

For more information, write:

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

For a prompt reply, please remember to include your Social Security number and telephone 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.

1979 MAILING SCHEDULE OF MONTHLY ANNUITY CHECKS

Following is a list of the dates that monthly annuity checks will be mailed from the Retirement System's office. Checks are mailed the day before the last working day of each month, and are payable on the last day of each month.

Tuesday	January	30
Tuesday	February	27
Thursday	March	29
Friday	April	27
Wednesday	May	30
Thursday	June	28
Monday	July	30
Thursday	August	30
Thursday	September	27
Tuesday	October	30
Thursday	November	29
Friday	December	28