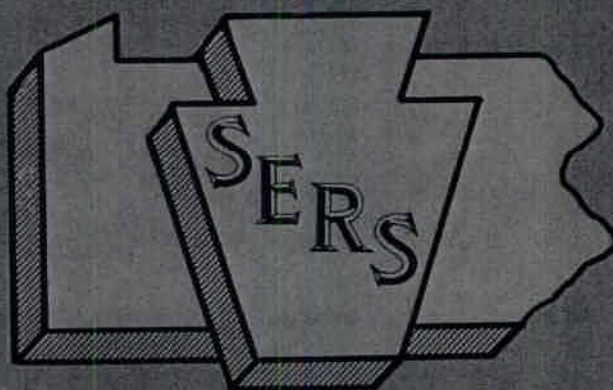




# **PENNSYLVANIA STATE EMPLOYEES' RETIREMENT SYSTEM**



**COMMONWEALTH OF PENNSYLVANIA  
STATE EMPLOYEES' RETIREMENT SYSTEM**

## **1979 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**

**K. Paul Muench  
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 Pennsylvania State Employees' Retirement System for the year ending December 31, 1979, is submitted herewith.

As of December 31, 1979, a total of 45,216 former state employees and beneficiaries were receiving monthly benefits of \$13,737,643. This is a net increase of 4,074 benefit recipients over December 31, 1978. Total payments on account of normal, early, and disability retirements, death benefits, and refunds to terminating members amounted to \$261,143,820 during 1979. Active membership continued to decline during the year from 124,592 at year-end 1978 to 122,066 at the end of 1979.

Assets of the trust fund held in reserve for the payment of future benefits increased by \$375 million to \$2.942 billion at book value. Net earnings on the investments of the State Employees' Retirement Fund reached an historical high of \$201 million, reflecting both a larger asset base and a higher rate of return on investments. Employer contributions to the Fund are current and are being made at the rate certified by the plan's actuary as sufficient to provide sound funding for all liabilities under the plan.

The State Employees' Retirement Board and the staff of your Retirement System are pleased to provide this Annual Report for your information.

Sincerely,

A handwritten signature in cursive script that reads "Robert L. Cusma".

Robert L. Cusma  
Secretary

## CHAIRMAN'S REPORT

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This past year marked the 55th anniversary of the creation of the Pennsylvania State Employees' Retirement System. It also marked the culmination of a long and distinguished career of public service with the retirement in September, 1979 of Secretary Richard L. Witmer. As Secretary of your Retirement System from 1969 to 1979, Dick Witmer presided over a period of significant growth and change in the public pension industry generally and in the Pennsylvania system in particular.

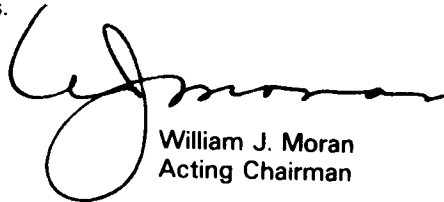
The total membership grew from 124,904 to 167,282 during the period while the number of retired members served more than doubled. The invested assets increased from \$703 million to just under \$3 billion at the end of the decade. Major legislative changes were enacted in 1974, changes which required totally new approaches in the calculation and processing of retirement benefits. In an era of growing public awareness and concern for the future of public pension plans, many new demands for information and services were made on your Retirement System.

Those of us who have been members of the system for a number of years have tangible proof of Secretary Witmer's leadership and foresight in the form of much improved services. A system-wide network of trained retirement counselors, significant reductions in the time required to process benefit payments, expanded and greatly improved annual statements, and efficient, responsive service to members — these are just a part of the legacy Dick left the System.

Members of the State Employees' Retirement System may be assured that these, and other improvements will continue. Mr. Witmer's successor as Secretary, former Assistant Secretary Robert L. Cusma, is well-acquainted with the complexities of operating your retirement system. His six years as Assistant Secretary provided an excellent preparation for his new duties.

The Board has every confidence that the new Secretary brings to his position a strong personal commitment to honest and efficient service to you, the members and beneficiaries of the system. Secretary Cusma has already demonstrated that the Board's confidence is well placed by directing the processing and payment of cost-of-living increases in December to over 36,000 retired members of the System within eight days of the passage of the enabling legislation.

Both the Board and the staff look forward to meeting the challenges of the coming decade to insure that the Pennsylvania State Employees' Retirement System remains financially sound and responsive to the changing needs of its members.



William J. Moran  
Acting Chairman

## SECRETARY'S REPORT

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The year covered by this Annual Report has been one of significant change and improvement in your Retirement System in many areas. Late in 1979, the legislature passed a bill granting cost-of-living adjustments in the pensions of all state retirees over normal retirement age and those on disability retirement. The increases, the first since 1974, ranged from 5% to 31%, with the larger increases going to those who retired prior to 1974. The same bill also provided for a bi-ennial review by the legislature of the adequacy of pension benefits.

The composition of the membership continued to change as the number of active members continued to decline and the number of retired members increased. Twenty years ago there were 9 active members for each retiree. That ratio has declined to 3 active members for each retiree in 1979. This trend reflects declining state employment and the longer life spans of today's retired members. 4,987 members retired in 1979 and 8,893 members who left employment before becoming eligible for retirement benefits received a refund of their own contributions and interest.

New initiatives were launched in the area of investments with the addition of a second fixed income and equity advisor for the Fund and a significant expansion of the mortgage investments of the Fund, including the acquisition of over \$100 million in government-insured mortgage certificates representing pools of residential mortgages throughout Pennsylvania and the rest of the country.

The accounting firm of Ernst and Whinney began an internal controls study in 1979. By June, 1980, they will provide the Board with a comprehensive set of recommendations for improvements in both accounting and administrative controls. Sometime later this year the Board will seek bids from several accounting firms for the conduct of a full financial audit of the records of the Retirement System for the three year period ending December 31, 1980.

Other improvements this year included the implementation of an automated retirement benefit processing system which has resulted in an average reduction of two weeks in the processing of retirement benefits. The 1979 Annual Statements which active members received in March were expanded and for the first time included retirement benefit estimates for more than 20,000 members age 55 and older.

Plans for 1980 include an expansion in the System's Accounting Division to provide greater internal auditing capabilities, the automation of disability and death benefit processing, the development of a new manual for use by Retirement Counselors, and the printing and distribution of a new handbook for active members.

The statistics contained in this report confirm that the sixty-eight employees of your Retirement System have had a busy and productive year. 1980 will be no exception. Our planning for the future depends in large measure on knowing what your needs are. Please take a few minutes to familiarize yourself with the information in this report and then let us know if you have any comments or suggestions for the expansion or improvement of our operations.

# ADMINISTRATIVE & ADVISORY STAFF



Robert L. Cusma, Secretary  
Frances M. Crimbly, Assistant Secretary

## DIVISION DIRECTORS

Robert Bowers — Administrative Services  
Dale Everhart — Refund and Retirement Benefits  
Joseph Fuller — Disability and Death Benefits  
Ruth Granoff — Membership Services  
J. Terry Kostoff — Accounting  
Aldo Mastrine — Retirement Counseling

## ADVISORS

Consulting Actuaries  
Huggins and Co., Inc.  
Philadelphia, PA

Investment Advisors  
Fixed Income and Equities:  
Alliance Capital Management, Inc.  
New York, NY

Mellon Bank, N.A.  
Pittsburgh, PA

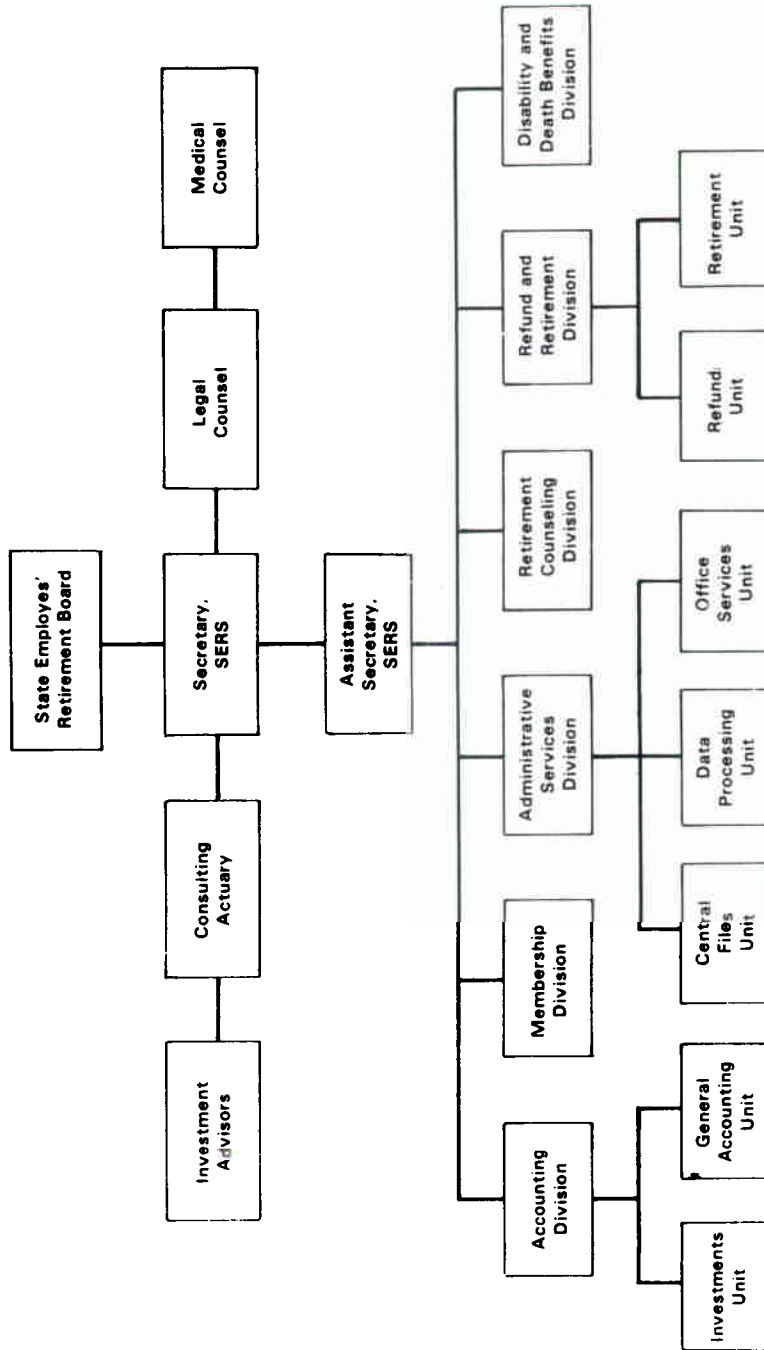
Mortgages:  
The Fidelity Bank  
Philadelphia, PA

Portfolio Evaluation:  
A. G. Becker Co., Inc.  
Chicago, IL

Legal Counsel  
Thomas Mangan, Esq.

Medical Counsel  
Professional Corp.  
Mark Berger, M.D., Pres.  
Harrisburg, PA.

# ORGANIZATION OF SERS



# RECEIPTS

January 1, 1979 through December 31, 1979

## Receipts:

Member Contributions	\$105,332,186.05
Employer Contributions	252,180,634.27
Investment Income	204,862,753.55
Transfers from Public School	
Employes' Retirement System	11,069,501.18
Miscellaneous Receipts	<u>7,912.22</u>
<b>Total Receipts</b>	<b>\$573,452,987.27</b>

Employer contributions and investment income comprise the two areas of greatest income to the Fund. The larger of these, employer contributions, provided over \$250 million in revenue. Currently, each agency transfers an amount equal to 13.75% of the gross salaries and wages paid to members. These monies are transferred to the Fund on a quarterly basis. The contribution rate is reviewed by the System's actuary each year and adjusted if necessary to assure that the Retirement System is financially sound.

Income from investments increased comparatively from last year's figure of \$165 million to \$204 million in 1979. These earnings primarily represent interest from bonds and mortgages and dividends from stock holdings.

According to Retirement Law, every member must contribute to the Fund. A percentage (usually 5%) of his or her gross wages is deducted from each member's pay check. When the money is transferred to the Retirement Fund, each contribution is posted to the individual member's account.

Transfers from the Public School Employes' Retirement System are necessary to fund combined benefit payments of multiple service members. Multiple service members are those members with credited service in both the School and State Retirement Systems. When a multiple service member retires from the State System, the School Retirement System transfers funds to pay that portion of the combined benefit attributable to School service.



# DISBURSEMENTS

January 1, 1979 through December 31, 1979

## Disbursements:

Normal Retirement Benefits	\$163,595,145.97
Early Retirement Benefits	30,864,509.23
Disability Retirement Benefits	11,065,028.86
Beneficiary Payments	12,036,544.84
PA State Police Benefits	11,881,320.84
PA LCB Enforcement Officers Benefits	1,060,599.81
Withdrawals Due to Termination	28,473,497.23
Transfers to Public School Employes' Retirement System:	
Member Share	200,499.95
Employer Share	1,966,673.91
Re-issue of Stale-dated Checks	4,061.71
Accrued Interest on Investments Purchased	3,677,834.38
Administrative Expense	<u>2,321,015.55</u>
<b>Total Disbursements</b>	<b><u>\$267,146,732.28</u></b>
<b>Excess of Receipts Over Disbursements</b>	<b><u>\$306,306,254.99</u></b>

The largest item of disbursements is Normal Retirement Benefits. These are monthly retirement payments 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).

Benefits paid to retirees and beneficiaries totalled \$232 million in 1979. This amount included the lump sum withdrawals under Option 4 that 83% of the members elected to take at retirement. This special option allows members to withdraw all or part of their accumulated deductions (their contributions and interest) and thereafter, receive reduced monthly benefits.

Continuing the trend of past years, administrative expense was held well below one-half of one percent of total receipts. This item includes all expenses of operating the retirement system.

The excess of receipts over disbursements is more than \$306 million. This new money is added to the trust fund to guarantee benefit payments to currently active members who will leave state service in the future.

# BALANCE SHEET

Account Balances as of December 31, 1979

## Assets

Cash	\$ 35,474
Amortized Book Value of Fixed Income Investments <sup>1</sup>	2,227,111,674
Cost Value of Equity Investments	533,256,827
Investment Income Due and Accrued	40,024,707
Members' Contributions in Transit	2,411,278
Employer Contributions Receivable <sup>2</sup>	139,026,056
<b>Total Assets</b>	<b><u>\$2,941,866,016</u></b>

## Liabilities and Reserves

Members' Annuity Savings Account	\$ 871,222,435
Annuity Reserve Account <sup>3</sup>	1,517,948,945
State Annuity Accumulation Account <sup>3</sup>	458,660,860
Supplemental Annuity Reserve Account <sup>4</sup>	(79,451,733)
PA State Police Benefit Account	161,008,678
PA Enforcement Officers Account	11,285,641
Miscellaneous Accounts Payable	1,191,190
<b>Total Liabilities and Reserves</b>	<b><u>\$2,941,866,016</u></b>

1. Total fixed income investments at par	\$2,269,787,139
Less net unallocated discounts	42,675,465
Amortized Book Value of Fixed Income Investments	<u>\$2,227,111,674</u>

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

- Employer contributions are current through December, 1979.
- 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 1979 Actuarial Valuation, the two accounts will be adjusted accordingly.
- 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.

# COMPOSITON OF PORTFOLIO

Description	December 31, 1979		December 31, 1978	
	Value	Percent	Value	Percent
<b>Corporate Bonds at Par:</b>				
Industrials	\$1,400,366,219	50.0	\$1,191,350,379	47.7
Railroads	9,210,527	0.3	10,598,047	0.4
Utilities	324,025,000	11.6	388,097,500	15.5
<b>Gov't Secured Mortgages at Par:</b>				
Residential	161,693,120	5.8	141,134,403	5.7
Commercial	112,547,463	4.0	71,440,354	2.8
GNMA Certificates	100,960,319	3.6	—0—	0.0
Equities at Cost	533,256,827	19.0	433,064,407	17.4
<b>Temporary Investments:</b>				
Commercial Paper	33,923,794	1.2	84,216,841	3.4
US Treasury Bills	127,060,697	4.5	176,781,346	7.1
Cash	35,474	0.0	89,908	0.0
<b>Total</b>	<b>\$2,803,079,440</b>	<b>100.0</b>	<b>\$2,496,773,185</b>	<b>100.0</b>

The investment portfolio of your State Employees' Retirement Fund is a mix of diversified, high-quality investments selected to provide both a steady stream of income and growth in value as a partial hedge against inflation. The changes in the percentages committed to different types of investments reflect changes both in the investment environment and in expectations about the future of the American economy. Individual investments for the portfolio are selected to maximize total return within legislated guidelines and the Board's Investment Policy Statement to control risk and insure diversification.

Major changes during 1979 include a decrease in both the dollar amount and percentage committed to public utilities, a significant increase in mortgage investments of all types, and a continued increased commitment to common stocks.

Mortgage investments, which now account for over 13% of the total portfolio, are made up of three distinct types of investments. Residential mortgage loans are all guaranteed under the Federal government's FHA and VA mortgage programs. These loans are restricted to Pennsylvania properties and are purchased from a variety of mortgage banking institutions throughout Pennsylvania. The Board does not make any direct loans to individuals, as a matter of policy.

Commercial mortgage loans are also government guaranteed. These loans represent first mortgages on thirty apartment complexes, many being subsidized housing for the elderly, throughout the United States. Government National Mortgage Association (GNMA) certificates were a new investment for the Fund in 1979. These are certificates representing the Fund's participation in pools of government secured residential mortgages throughout the United States. The certificates provide the same high-income of direct mortgage loans, but have the added advantage of being very liquid investments which can be bought and sold in the secondary market much like stocks and bonds.

Temporary investments are used in the portfolio to minimize idle cash. All receipts are immediately invested by the State Treasurer's office in short-term investments until such time as the money is required either to meet disbursements or to acquire permanent investments.

# ACTUARY'S REPORT

HUGGINS & COMPANY, INC.  
MEMBER - THE HAY GROUP

*Consulting Actuaries*

229 S. 18 ST. • RITTENHOUSE SQUARE • PHILADELPHIA, PA 19103 • (215) 893-0270

March 21, 1980

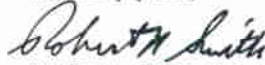
Board  
State Employees Retirement System  
204 Labor and Industry Building  
Harrisburg, Pennsylvania 17120

Dear Board Members:

We last performed a valuation on December 31, 1978 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:wat

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HAY ASSOCIATES, INC. • HUGGINS & COMPANY, INC. • MSL GROUP INTERNATIONAL LTD. • GROUPE GAMMA

# 1979 RETIREMENT STATISTICS

Following are facts and figures which apply to those persons who retired during 1979.

## Retirement by Type:

Early Retirements	1,158
Normal Retirements	3,466
Disability Retirements	363
<b>Total Retirements</b>	<b>4,987</b>

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

Length of Service	Number of Retirees	Average Monthly Benefit
10 years or less	1,196	\$ 142.58
11-15 years	1,398	235.33
16-20 years	794	375.29
21-25 years	505	542.51
26-30 years	308	742.30
31-35 years	247	1,006.04
36-40 years	127	1,317.12
more than 40 years	49	1,727.00

## A TEN-YEAR PERSPECTIVE

	1969	1979
Active Members	108,196	122,066
Retirees and Beneficiaries	16,708	45,216
Average Monthly Retirement Benefit	\$191.08	\$303.82
Assets	\$688,370,435	\$2,941,866,016
Members' Contributions	\$ 44,881,157	\$ 105,332,186
Employer Contributions	\$ 44,262,299	\$ 252,180,634
Investment Earnings	\$ 30,701,919	\$ 201,184,919
Receipts	\$123,786,830	\$ 573,452,987
Disbursements	\$ 55,174,284	\$ 267,146,732
Administrative Expense	\$ 413,835	\$ 2,321,015
Number of Staff Members	55	68

# DO YOU KNOW? . . .

## Active Members:

Monthly retirement benefits are guaranteed after 10 years of service (3 years of service if you have attained normal retirement age). This also 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 — but your request must be made while you are an active contributing member. *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 has again increased sharply in 1980, it may be to your advantage to freeze your SSI account. *See your Retirement Counselor for details.*

## Retirees:

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

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

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

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

Federal Income Tax can be withheld from your monthly check only upon your request. Use Form W-4P, which is available from the Retirement System or your local IRS office.

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 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 office.

### Retired Members:

Please call the State Employees' Retirement System at (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.

## 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	April	29, 1980
Thursday	May	29, 1980
Friday	June	27, 1980
Thursday	July	30, 1980
Wednesday	August	27, 1980
Monday	September	29, 1980
Thursday	October	30, 1980
Wednesday	November	26, 1980
Monday	December	29, 1980
Thursday	January	29, 1981
Thursday	February	26, 1981
Monday	March	30, 1981
Wednesday	April	29, 1981