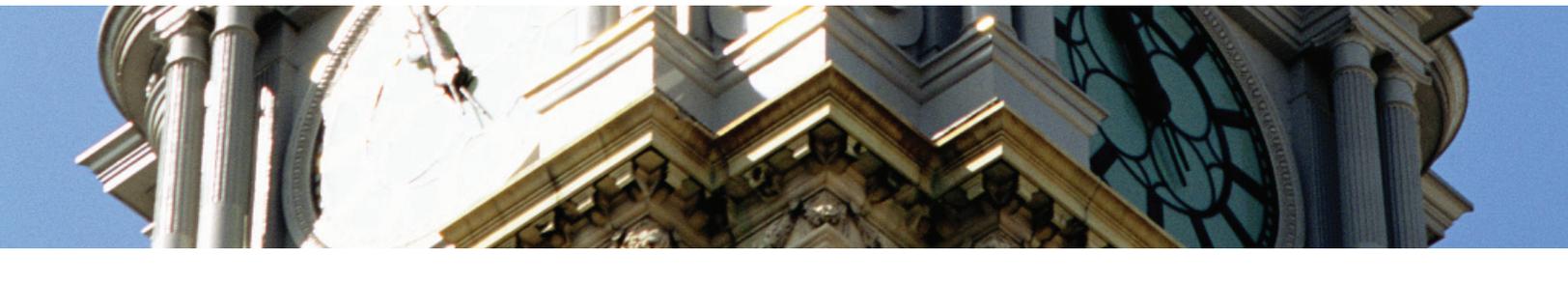




HayGroup®

Commonwealth of Pennsylvania State Employees' Retirement System

2012 Actuarial Report



COMMONWEALTH OF PENNSYLVANIA

STATE EMPLOYEES' RETIREMENT SYSTEM

2012 ACTUARIAL REPORT

DEFINED BENEFIT PLAN

HAY GROUP, INC.

JUNE 5, 2013

June 5, 2013

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Executive Director
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Dear Mr. Durbin:

The purpose of this letter is to certify the actuarial adequacy of the contributions being made by the Commonwealth of Pennsylvania and other participating agencies to the Pennsylvania State Employees' Retirement System (SERS), and to discuss the approach currently being taken toward meeting the financing objectives of the plan. The results provided herein are based upon the December 31, 2012 annual actuarial valuation.

The funding objective of the plan is set forth in the State Employees' Retirement Code (SERC). The annual employer contribution is equal to the sum of the following for the fiscal year beginning July 1, 2013:

- (1) The employer share of the normal cost.
- (2) The fresh start amortization of the December 31, 2009 unfunded liability over a 30-year period beginning July 1, 2010 and ending on June 30, 2040.
- (3) The amortization of the change in liability due to Act 2010-120 over a 30-year period beginning July 1, 2011 and ending on June 30, 2041.
- (4) The amortization of changes in liability due to actual experience differing from assumed experience after December 31, 2009 over 30-year periods beginning with the July first following the actuarial valuation determining such changes.
- (5) The amortization of benefit improvements, including cost-of-living increases, over 10-year periods beginning with the July first following the actuarial valuation determining such changes.

The amortization payments are level amounts over the remaining applicable amortization periods. The employer cost is determined as a percent of retirement covered compensation. The total employer cost is the average contribution amount that needs to be received from the employer groups participating in the system. Some employer groups contribute a higher percent of compensation, and some employer groups contribute a lower percent of compensation depending on the benefits payable to their employees.

All costs and liabilities have been determined in conformance with generally accepted actuarial principles and procedures in accordance with the principles of practice prescribed by the American Academy of Actuaries. The calculations were performed on the basis of actuarial assumptions and methods, which are internally consistent, and reasonable (taking into account the past experience of SERS and reasonable expectations) and which in combination represent the best estimate of anticipated experience under the plan.

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The actuarial valuation is based on financial and participant data, which is prepared by SERS staff. The data are reviewed for internal and year-to-year consistency as well as general reasonableness prior to their use in the actuarial valuation.

The actuarial valuation uses assumptions regarding future rates of investment return and rates of retirement, withdrawal, death, and disability among SERS members and their beneficiaries. The current set of assumptions used in the December 31, 2012 actuarial valuation, with the exception of the investment return assumption, was adopted by the State Employees' Retirement Board (the Board) based upon actual experience of SERS during the years 2006 through 2010. Based upon subsequent review of SERS investment data and results, the Board approved a reduction in the assumed annual investment return from 8.0% to 7.5% effective as of the December 31, 2011 actuarial valuation. The 7.5% assumption remains in effect for the December 31, 2012 actuarial valuation. We will continue to closely monitor this assumption and will recommend changing it if conditions warrant such change. The actuarial value of assets is developed by recognizing the difference between the expected actuarial value of assets and the market value of assets over a five-year period.

Apart from the statutory funding requirements set forth in the SERC, there are also separate accounting standards that SERS uses for financial reporting purposes. Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* establishes a range of actuarial cost and amortization methods for the Unfunded Actuarial Accrued Liability. The scheduled payments since July 1, 2005 have been below the amount required to meet the GASB minimum. Previously this was a result of financing changes implemented by Act 2003-40 in December 2003. Currently this is a result of the contribution collars required under Act 2010-120.

Based upon the valuation results, it is our opinion that, provided future employer contributions are made in accordance with current law, the Pennsylvania State Employees' Retirement System is in sound condition in accordance with generally accepted actuarial principles and procedures. The employer contribution has been below the GASB Statement No. 25 minimum since July 1, 2005 and will likely remain below the minimum through June 30, 2015. Thereafter, provided that employer contributions are made in accordance with current law, we expect employer contributions to exceed the GASB minimum.

It should be noted that, with the passage of Act 2010-120 (Act 120), significant changes to many key benefit provisions of SERS have been legislated. This was in response to the significant funding challenges SERS has been facing in recent years, and will continue to face in coming years. By reducing pensions for future Commonwealth employees and providing funding relief to SERS employers through the use of contribution collars, Act 120 addressed both SERS' long-term and short-term funding challenges.

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As actuaries for SERS, Hay Group considers it important to note that the establishment of contribution collars results in employer funding for FY2013 and FY2014 (and likely for the next few years) at levels below the otherwise applicable actuarially required funding levels. This is not to say that required employer contributions will never be made; rather, Act 120 provides that they will be deferred and paid in future years. It is therefore essential to the long-term funding of the system that the Commonwealth adhere not only to the short-term collars provided by Act 120 but also to the long-term funding obligations that the statute established. We expect that the contribution collars will govern employer contribution levels for at least the next few years, and this will continue to be the case until such time as the actuarially determined annual employer funding requirement is below the collared contribution level. While Hay Group would prefer that SERS funding be based upon our actuarially determined funding level, we recognize, given the extraordinary funding challenges the Commonwealth of Pennsylvania is facing over coming years, that the contribution collars represent an important and necessary funding deferral mechanism for a temporary period, after which funding on an actuarial basis will resume.

The results shown in this report are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results. The reason for this is that actuarial standards of practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The actuaries certifying to this valuation are members of the Society of Actuaries or other professional actuarial organizations, and meet the General Qualification Standards of the American Academy of Actuaries for purposes of issuing Statements of Actuarial Opinion.

Respectfully submitted,
Hay Group, Inc.

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State Employees' Retirement System

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State Employees' Retirement System
Valuation Highlights

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	<u>Valuation</u>	<u>Valuation</u>
Summary of Employer Contributions as a Percent of Total Compensation		
SERS Plan Contribution		
Normal Cost	5.01%	5.10%
Amortization of Liabilities	26.21%	21.29%
Contribution Before Change Prescribed by Law	31.22%	26.39%
Total SERS Plan Contribution*	16.00%	11.50%
Benefits Completion Plan Contribution	0.05%	0.09%
Total Contribution	16.05%	11.59%

* Reflects Rates Prescribed by Act 2010-120

Demographic Characteristics of the Population

Active Participants:

Number	106,048		107,021
Average age	46.8		46.6
Average service	12.0		12.0
Average annualized compensation	\$ 52,230	\$	52,159
Total annualized compensation	\$ 5,538,887,000	\$	5,582,108,000
Funding payroll	\$ 5,836,402,000	\$	5,890,704,000

Annuitants and Beneficiaries:

Number	117,061		115,342
Average age	68.7		68.6
Total annual pension	\$ 2,329,837,422	\$	2,242,168,791

Inactive and Vested Participants:

Number	6,725		6,189
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Assets

Market Value of Assets	\$ 25,386,411,524	\$	24,371,432,161
Actuarial Value of Assets	\$ 25,302,688,240	\$	27,618,460,988
Funded Status (Market Assets)	59.0%		57.6%
Funded Status (Actuarial Assets)	58.8%		65.3%

State Employees' Retirement System

Employer Contribution Rate by Group Fiscal Year 2013 - 2014

	<u>SERS Plan</u>	<u>Benefits Completion Plan</u>	<u>Total</u>
Class A-3 and A-4 Members:			
Age 65 Retirement	10.41%	0.05%	10.46%
Age 55 Retirement	13.10%	0.05%	13.15%
Park Rangers	13.05%	0.05%	13.10%
Capitol Police	13.05%	0.05%	13.10%
State Police	23.69%	0.05%	23.74%
Class AA Members:			
Age 60 Retirement	15.07%	0.05%	15.12%
Age 50 Retirement	18.97%	0.05%	19.02%
Park Rangers	18.61%	0.05%	18.66%
Capitol Police	18.61%	0.05%	18.66%
Enforcement Officers	18.97%	0.05%	19.02%
Class A Members:			
Age 60 Retirement	12.05%	0.05%	12.10%
Age 50 Retirement	15.17%	0.05%	15.22%
Park Rangers	15.01%	0.05%	15.06%
Capitol Police	15.01%	0.05%	15.06%
State Police	26.00%	0.05%	26.05%
Enforcement Officers	15.17%	0.05%	15.22%
Class D-4 Legislators	22.75%	0.05%	22.80%
Class E Members	19.10%	0.05%	19.15%

The above group rates result in employer contribution rates (expressed as a percentage of total projected covered compensation for active members in fiscal year 2013-2014) of 16.00% for the SERS Plan, 0.05% for the Benefits Completion Plan and 16.05% in Total.

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General Discussion

The liabilities and costs in this report were based upon actuarial assumptions adopted by the State Employees' Retirement Board (the Board) and funding procedures specified in the SERC. The SERC requires that the Board conduct a study of the actuarial experience of SERS every five years as a basis for setting the actuarial assumptions used in the valuation. A five-year study was conducted and delivered to the Board in January 2011. The Board approved the recommendations of the actuary and the new assumptions were first used in the December 31, 2010 valuation.

The most important actuarial assumptions are the investment return, which is used as the basis for the valuation interest rate, and salary growth. The investment return experience is reviewed annually and as a part of the normal five-year experience study cycle. Based upon the most recent annual review (in early 2013) of the SERS investment data and results, the annual investment return assumption remained at 7.5 percent for the December 31, 2012 valuation. Salary growth is the total of assumed increases in salary rates and career salary growth. It is generally assumed that the salary rates will increase at 3.05 percent per year due to general salary schedule increases and that career salary growth (promotion and longevity growth) will average an additional 3.15 percent per year. Thus, the total average salary increase for an individual will generally be 6.20 percent per year. The investment return and the salary rate increase assumptions are based on an underlying inflation rate of 2.75 percent per year.

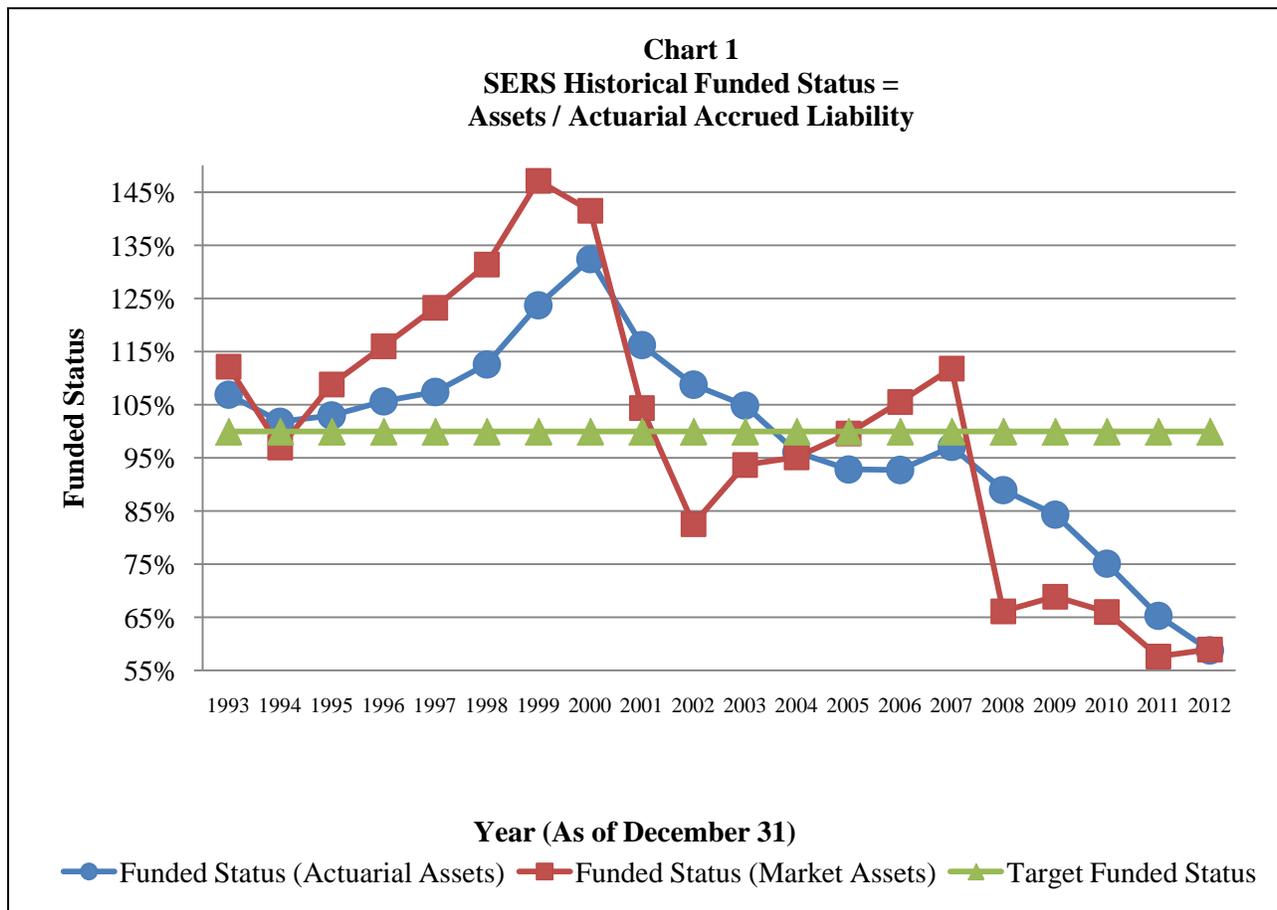
The SERS plan employer contribution is determined as a percent of covered compensation that is the total of (1) the employer normal cost percent and (2) the net amortization of the unfunded liability, but not less than any applicable minimum contribution prescribed by the SERC and not more than the total contribution amount that results from applying the collars established by Act 2010-120 to limit the extent of annual increase in the employer contribution rate. The final actuarially determined total employer contribution as of December 31, 2012 is 31.22 percent of covered compensation, which is the sum of (1) the employer normal cost of 5.01 percent of compensation plus (2) the net amortization of the unfunded liability of 26.21 percent of compensation. To determine the maximum 2013-2014 employer contribution rate under Act 2010-120, we add the fiscal 2013-2014 contribution collar of 4.5 percent of payroll to the final 2012-2013 employer contribution requirement of 11.50 percent of payroll, to produce a result of 16.00 percent of compensation. Although Act 2012-181 became law effective December 31, 2012, it did not result in any costs added by legislated benefit improvements. Therefore, the 2013-2014 employer contribution rate is limited to 16.00 percent of covered compensation, well below the actuarially determined rate that would otherwise be required. See Schedule O for further discussion of the Act 2010-120 employer contribution collars.

The funded ratio is the ratio of assets to the actuarial accrued liability. As a consequence of the global economic downturn, SERS experienced very unfavorable investment results during calendar 2008. Thus, SERS' funded status, as measured by the funded ratio, declined significantly during 2008, to a level of 66.2 percent based on market value and 89.0 percent based on actuarial value of plan assets as of December 31, 2008. As a result of somewhat more favorable investment results during calendar years 2009 and 2010, the funded ratio based on the market value of assets as of December 31, 2010 was 66.1 percent; however, the funded ratio based on the actuarial value of assets (which recognizes investment losses over a five-year period) decreased to 75.2 percent as of

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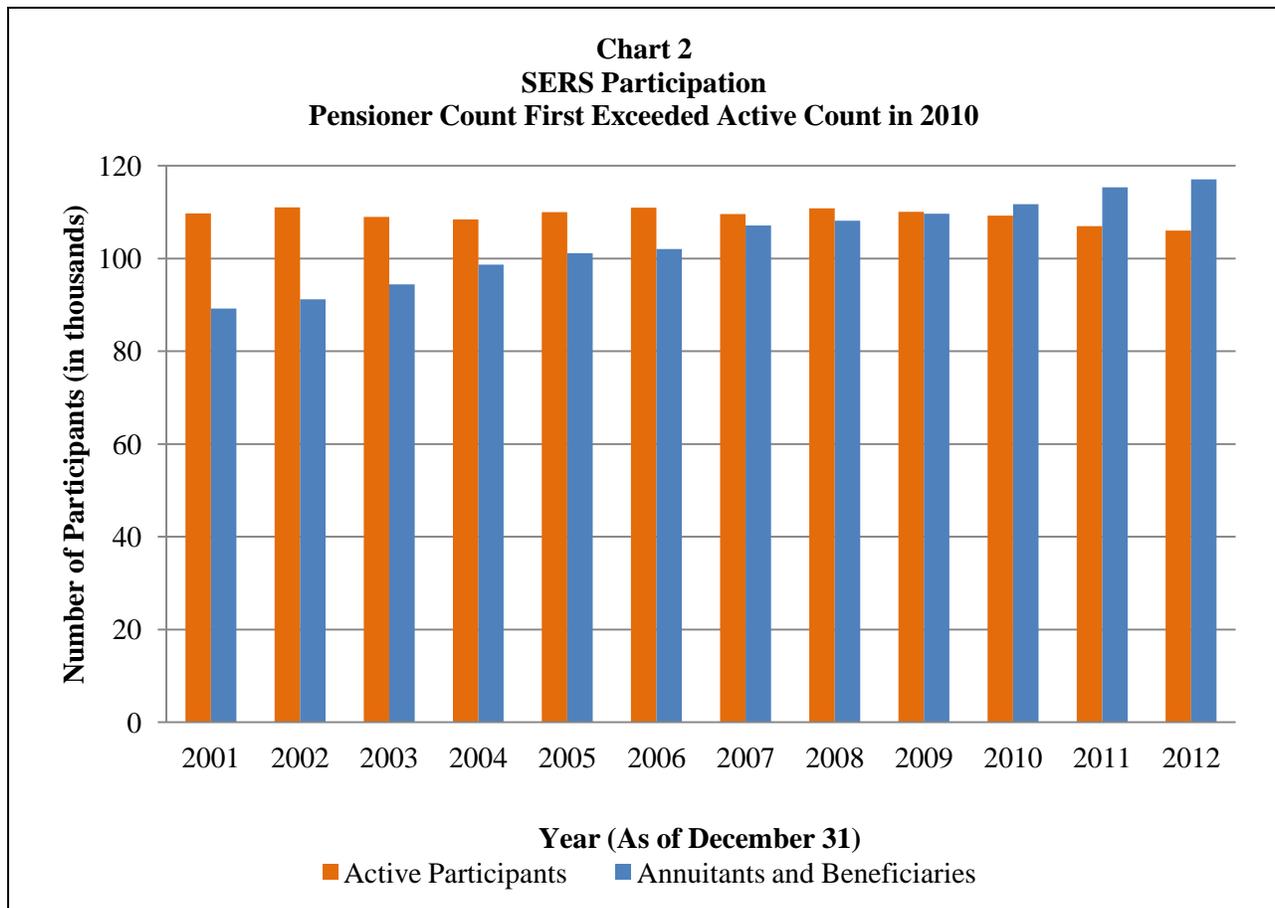
December 31, 2010. With investment results well below expectations during calendar 2011, combined with an increase in the actuarial accrued liability due to the December 31, 2011 interest assumption decrease, the funded ratio based on market value of assets decreased from 66.1 percent to 57.6 percent, and the funded ratio based on actuarial value of assets decreased from 75.2 percent to 65.3 percent. Investment results above expectations in 2012 resulted in an increase in the funded ratio based on market value from 57.6 percent to 59.0 percent. However, with the final 20 percent of the 2008 investment loss being recognized in 2012, there was a decrease in the funded ratio based on actuarial value from 65.3 percent to 58.8 percent.

Chart 1 below presents a history of SERS funded ratios, relative to the 100% target funded status.



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During 2010, the count of pensioners exceeded the count of active participants for the first time in the history of SERS. As of December 31, 2012, the count of pensioners (117,061) further exceeds the count of active participants (106,048), a clear sign of a mature retirement system. Chart 2 below illustrates the maturing of the SERS population since 2001.



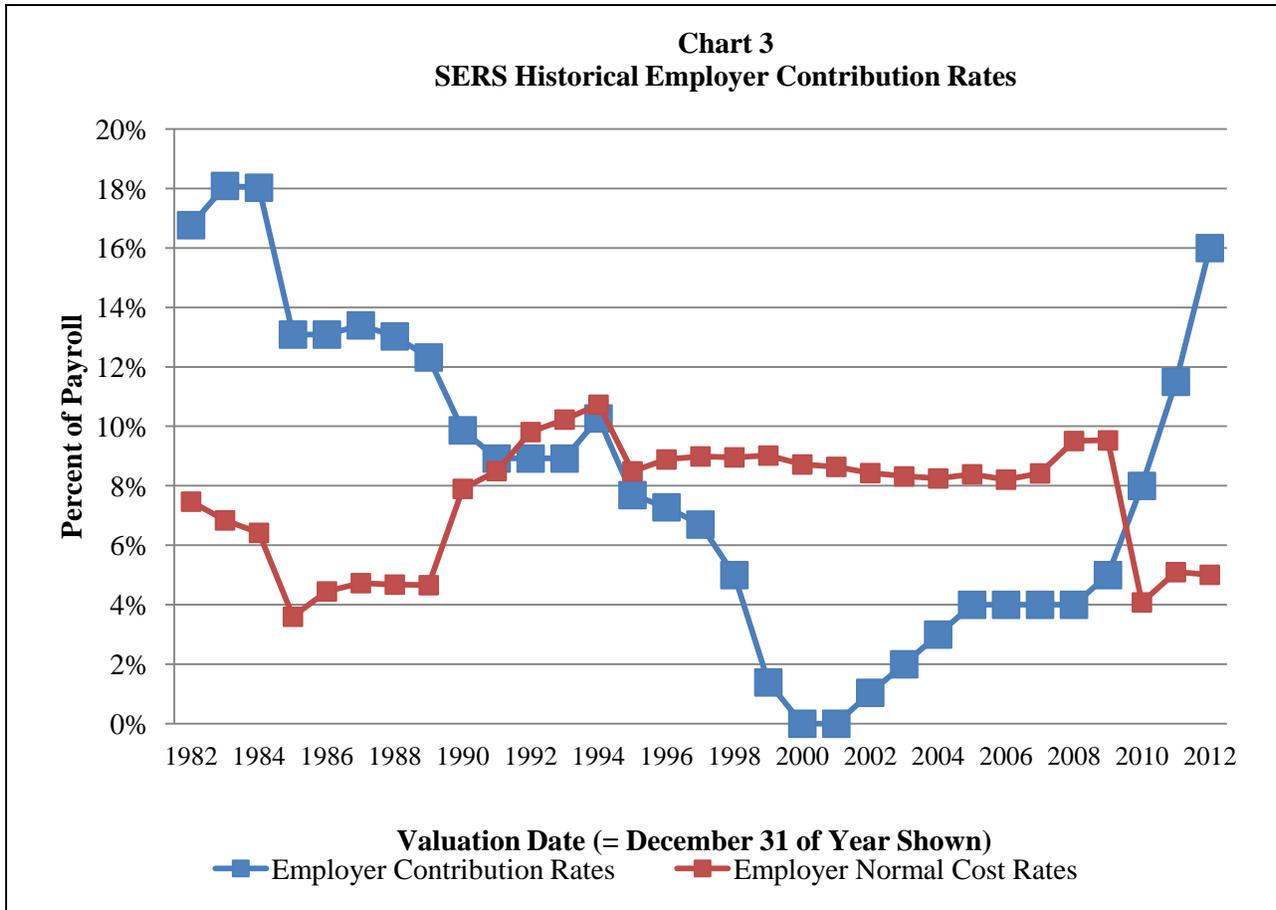
A separate and distinct Benefits Completion Plan provides benefits to certain members whose SERS benefits are limited by IRC Section 415(b) maximum benefit limitations. The Benefits Completion Plan employer contribution requirements for fiscal year 2013-2014, which were determined by a separate December 31, 2012 actuarial valuation, are presented in the Valuation Highlights herein. Otherwise, Benefits Completion Plan costs and liabilities are not included in the schedules of this report.

History of the Employer Contribution Rate

Chart 3 below shows the history of the employer contribution rate from 1981 through 2012. With some fluctuations, the general trend from 1981 through 2001 had been downward, with the rate declining from the 18 percent range in the years 1981 to 1984 to zero in 2000 and 2001. The investment returns were below the actuarial assumption (then 8.5 percent) in 2000 through 2002. The changes to the amortizations under Act 2003-40 and subsequent investment gains would have kept the contributions from increasing if it had not been for legislated floors that caused the

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employer contributions to increase between 2002 and 2005. From 2006 through 2012, actual employer contribution rates have been at levels prescribed by law, increasing each year since 2009.



The total employer cost is the actual contribution rate during the succeeding fiscal year. For instance, the rate of 16.00 percent of covered compensation for the December 31, 2012 valuation date will be the employer contribution for the fiscal year beginning July 1, 2013.

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History of Inflation, Investment Return and Salary Growth

Table 1 below shows the rate of inflation, the nominal and real investment return based on the market value of assets, and the nominal and real salary growth for the past twenty years. The nominal rates are the actual investment rate and salary growth. The real rates are the nominal rates adjusted by removing inflation. The inflation rates shown are based on the Consumer Price Index for All Urban Consumers (CPI-U) data. The nominal rate of salary growth is the percentage increase in general pay levels specified by the predominant collective bargaining agreement.

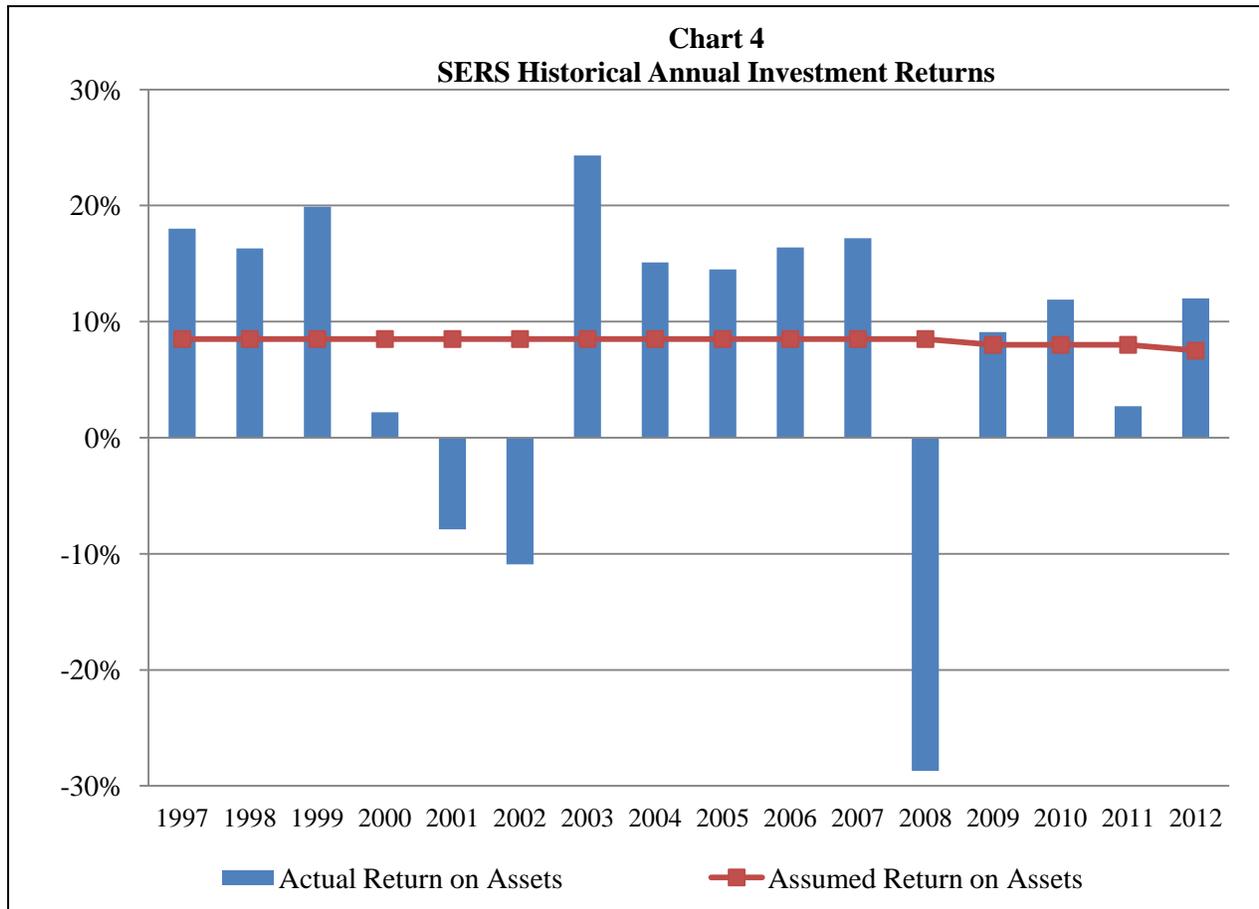
Table 1: Comparison of Annual Rates of Growth					
Year	Inflation	Investment Return		Salary Growth	
		Nominal	Real	Nominal	Real
1993	2.7	13.2	10.2	5.1	2.3
1994	2.7	(1.1)	(3.7)	3.9	1.2
1995	2.5	25.5	22.4	3.8	1.2
1996	3.3	15.9	12.2	2.0	(1.3)
1997	1.7	18.0	16.0	3.0	1.3
1998	1.6	16.3	14.5	3.0	1.4
1999	2.7	19.9	16.8	3.0	0.3
2000	3.4	2.2	(1.1)	3.0	(0.4)
2001	1.6	(7.9)	(9.3)	3.3	1.7
2002	2.4	(10.9)	(13.0)	3.5	1.1
2003	1.9	24.3	22.0	2.0	0.1
2004	3.3	15.1	11.4	1.9	(1.4)
2005	3.4	14.5	10.7	3.0	(0.4)
2006	2.5	16.4	13.6	3.5	1.0
2007	4.1	17.2	12.6	2.8	(1.2)
2008	0.1	(28.7)	(28.8)	3.0	2.9
2009	2.7	9.1	6.2	3.0	0.3
2010	1.5	11.9	10.2	3.0	1.5
2011	3.0	2.7	(0.3)	3.0	0.0
2012	1.7	12.0	10.1	1.0	(0.7)
Average 1993-2012	2.4%	8.4%	5.8%	3.0%	0.5%

The averages represent the geometric averages of all of the rates over the 20-year period, not the arithmetic averages.

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Chart 4 below presents a 16-year history of SERS annual investment returns relative to the actuarially assumed returns of:

- 8.5% for 1997 through 2008,
- 8.0% for 2009 through 2011 and
- 7.5% for 2012.



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Comments on Schedules

Employer Contribution Rate

Schedules A and B summarize the development of the employer contribution rate before allocation by group. The employer contribution is equal to the sum of (1) the employer share of the normal cost and (2) amortization of the unfunded liability.

The normal cost is the level percentage of compensation needed to fund the liability for any prospective benefits earned by new active members over the period of their actual service. The normal cost calculation uses data for all active members in Class A-3 (65) who had not yet completed one year of credited service. The employer share of the normal cost decreased from 5.10 percent in 2011 to 5.01 percent in 2012. The normal cost decreased due to the change in the demographics of the new entrant population.

Portions of the unfunded liability are amortized over either 10 years or 30 years as required by the SERC. Under Act 120, the total December 31, 2009 unfunded liability was amortized over 30 years as part of a fresh start that combined all of the unfunded liability amortizations into one amortization. Net losses in 2010 and after were amortized over 30 years. The total unfunded liability as of December 31, 2012 was \$17.75 billion. As of December 31, 2011, the total unfunded liability was \$14.66 billion.

Schedule B shows the allocation of the total unfunded liability by year into those liabilities being amortized over 30 years. All amortization payments are level dollar amounts over the applicable amortization period. There are currently no 10-year amortizations. The total net charge for the amortization of the unfunded liability is 26.21 percent of compensation in 2012.

The employer contribution rate is equal to the total of the normal cost and the amortization of the unfunded liabilities, but not less than the normal cost and not more than the rate based on the collar (which limits the contribution increases during the next several years) applicable to the 2013/2014 employer contribution rate. Because there were no costs added by legislated benefit improvements since the prior valuation, the employer contribution rate calculated as a result, 16.00 percent of covered compensation, will be applied for the fiscal year beginning July 1, 2013.

Employer Contribution Rates by Group

Schedule C summarizes the development of the employer contribution rate for each group of members with different benefits. The Class A-3 (65) rate is used to determine the base contribution rate because the majority of new members enter that class. The base employer contribution rate for Class A-3 benefits is 10.41 percent of compensation.

The employer contribution rate for each class is a function of the Class A-3 (65) rate. Three adjustments are made to develop the Class rates. The first is to add the cost of earlier full retirement conditions if applicable. The second is to multiply by the applicable adjustment factor relative to the Class A-3 benefit value. Third, the Park Rangers, Capitol Police and State Police Officers are also charged the amount necessary to fund the past service cost of benefit

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improvements that were effective in prior years. These charges are further explained in Schedule O. The complete schedule of contributions by group is shown in Table 2.

Table 2 Employer Contribution Rate by Group Fiscal Year 2013/2014 (Excluding Benefits Completion Plan Contribution)	
Class A3/A4	
Age 65 benefit	10.41%
Age 55 benefit	13.10
Park Rangers	13.05
Capitol Police	13.05
State Police	23.69
Class AA	
Age 60 benefit	15.07
Age 50 benefit	18.97
Park Rangers	18.61
Capitol Police	18.61
Enforcement Officers	18.97
Class A	
Age 60 benefit	12.05
Age 50 benefit	15.17
Park Rangers	15.01
Capitol Police	15.01
State Police	26.00
Enforcement Officers	15.17
Class D-4 Legislators	22.75
Class E Members	19.10

Schedule D shows the development of the shared risk member contributions, in accordance with Act 2010-120. No shared risk contribution applies for the 2013-2014 fiscal year.

Change in Employer Contribution Rate

Schedule E contains an analysis of the change in the employer contribution rate and unfunded liability from the 2011 to the 2012 valuation.

The largest increase in the unfunded liability, \$2.54 billion, resulted primarily from recognition (under the five-year asset smoothing method) of the final 20 percent of the large investment loss from 2008, which more than offset the net investment gain from the other four years of the five-year smoothing period. This net loss of \$2.54 billion resulted in an increase in the employer cost of 3.69 percent of compensation.

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Another increase in the unfunded liability, \$941 million, resulted from underfunding due to the Act 2010-120 employer contribution collars. This loss of \$941 million resulted in an increase in the employer cost of 1.37 percent of compensation.

Another increase in the unfunded liability was the result of demographic experience. Differences between actual and expected demographic experience of the covered population resulted in a liability increase of \$90.6 million. This additional liability resulted in an increase in the employer cost of 0.15 percent of compensation.

The smallest increase in the unfunded liability was due to changes in the demographics of the new entrant population, which resulted in a loss of \$54.2 million. The increase in unfunded liability cost of 0.08 percent was offset by a 0.09 percent decrease in the normal cost, for a net reduction in cost of 0.01 percent of compensation.

The only decrease in the unfunded liability, \$383.0 million, resulted from pay increases being lower than expected. This gain resulted in a decrease in the employer cost of 0.56 percent of compensation.

Actuarial Balance Sheet and Account Balance Transfers

Schedule F contains the actuarial balance sheet that compares the total assets and liabilities of \$49.6 billion. The assets include current assets and the present value of future contributions. The liabilities include the present value of all benefits to current active and retired members.

Each year the account balances in the three benefit payment accounts are compared to the actuarial liabilities developed in the valuation. If needed, transfers are made to bring the accounts into balance with the liabilities. The accounts go out of balance during the year as a result of differences between actual experience and the reserves set for retirees. In 2012, a transfer of \$308.0 million was made from the State Accumulation Account to the Annuity Reserve Account to keep the latter account in balance. There were also transfers of \$1.6 million and \$9.0 million from the State Accumulation Account to the Enforcement Officers' Benefit Account and the State Police Benefit Account, respectively, to keep these accounts in balance. No other transfers were necessary.

The details of these transfers are shown in Schedule G.

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Accounting Disclosure Statements

Schedule H is a statement of disclosure to report the information required by the Governmental Accounting Standards Board (GASB) Statement No. 25. Page 1 of Schedule H shows the funding progress from December 31, 1993 through December 31, 2012.

Page 2 of Schedule H shows a comparison of the actual contributions to the system over recent years to the Annual Required Contribution (ARC) as defined by GASB Statement No. 25.

GASB Statement No. 25 defines the ARC to be equal to the employer normal cost plus an amount to amortize the unfunded actuarial accrued liability over an acceptable amortization period. The 2013-2014 employer contribution is lower than the ARC. GASB requires that the net unfunded liability be funded over a period of no more than 30 years. Because the employer contribution collars under Act 120 will result in employer contribution rates for a number of years that will be lower than the actuarially determined rates, we anticipate that the actual employer contributions to SERS will be lower than the ARC through June 30, 2015. Thereafter, provided that employer contributions are made in accordance with current law, we expect employer contributions to exceed the GASB minimum. Overall, the amortization schedules are reasonable and if met will assure the long-term financial soundness of SERS.

Schedule I shows the results of the solvency test. A short-term solvency test is one means of checking a pension system's progress under its funding program. In this solvency test, the SERS assets are compared with the actuarial accrued liabilities. The liabilities are classified into the following categories:

- Liability for active participant contributions in the Fund,
- Liability for future benefits to present annuitants and beneficiaries, and
- Liability for service already rendered by the active participants.

The schedule shows that from 1992 through 2003 the total actuarial accrued liability was fully covered by the assets. In 2004 the funded ratio dropped below 100 percent and it is currently at 58.8 percent. Absent unusual circumstances, the funded status of defined benefit plans will be below 100 percent and gradually approach 100 percent funding as liabilities become fully amortized. The State Employees' Retirement Fund had exceeded 100 percent of liabilities as a result of the high level of investment returns between 1985 and 1999. The funded ratio dropped below 100 percent largely as a result of the low investment returns of 2000 to 2002 and 2008, the Act 2001-9 benefit increases, the 2002-2003 COLAs, and the amortization schedule. Also, the implementation of Act 2010-120 for the December 31, 2010 valuation led to a lower normal cost and a higher accrued liability (and unfunded accrued liability). The reduction in the assumed annual investment return from 8.0 percent to 7.5 percent on December 31, 2011 resulted in a higher accrued liability (and unfunded accrued liability).

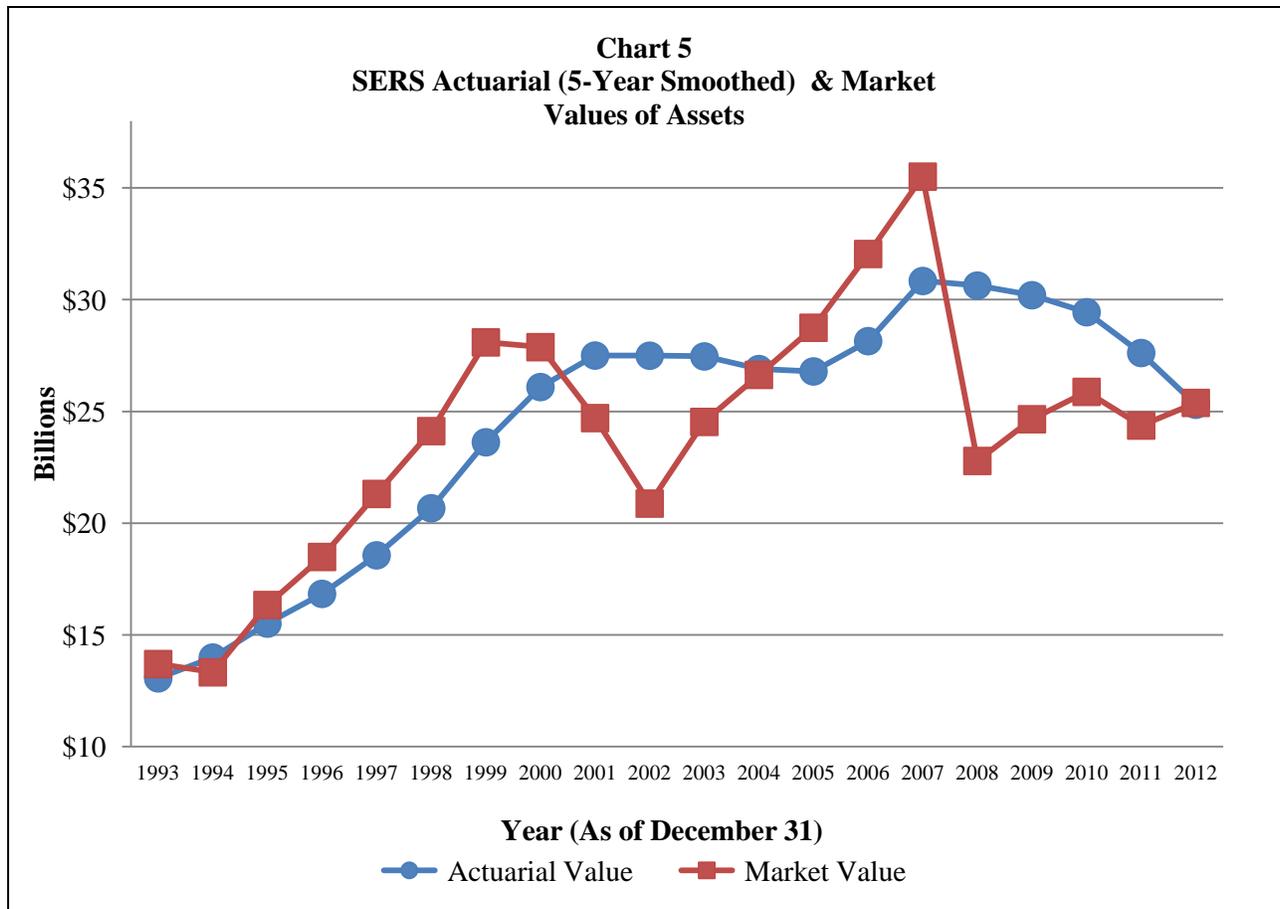
The current funding policy will eventually restore the funded ratio to 100 percent provided that contributions are made as provided in current law. SERS is being funded in accordance with generally accepted actuarial principles and procedures even though the accrued liabilities are temporarily greater than the assets.

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Plan Assets

Schedule J summarizes the development of the actuarial value of assets as of December 31, 2012. The assets are based on the financial statements prepared by SERS. The asset valuation method smoothes out year-to-year fluctuations in the market value. The approach gradually recognizes, over a 5-year period, the differences between total investment return and the actuarial assumed annual rate of return (8.5 percent prior to 2009; 8.0 percent for 2009 through 2011; and 7.5 percent for 2012 and later). This smoothing method recognizes 20 percent of the 2012 asset gain of \$789.7 million this year, with the remainder to be recognized over the next four years.

Chart 5 below presents a history since 1993 of SERS asset values, including both the actuarial value and the market value.



Projection

Schedule K shows the number of participants, contributions, and benefits from 1994 through 2012 with a projection through 2023. The first page of Schedule K shows new annuitants, annuitant deaths, new beneficiaries, and beneficiary deaths during the year. The second and third pages of Schedule K show the projection of employer and employee contributions and a

State Employees' Retirement System

projection of the benefits and expenses. The projected employee and employer contributions are shown in dollars and as a percentage of compensation.

The second page of the Schedule K projection shows projected contributions under Act 120, fully reflecting the employer contribution collars under Act 120. The third page of the Schedule K projection also projects contributions under Act 120; however, this projection presents future employer contribution rates without applying future (after June 30, 2013) Act 120 contribution collars; thus, these projected employer contributions reflect the actuarially determined employer contribution rates.

Participant Data

Sections I and II of Schedule L provide a distribution of the total of the active, inactive, and terminated vested participants as of December 31, 2012 by benefit class, sex, age, and length of service. Inactive participants include employees on furlough as well as employees with prior SERS service currently participating in the Pennsylvania Public School Employees' Retirement System (PSERS). The table also shows the average annualized salary in 2012 by age group and sex. Section III of the schedule shows retired annuitants, disabled annuitants, survivors and beneficiaries receiving benefits by age, sex, and benefit amounts.

Although we have made tests to check for reasonableness and consistency, we have not independently audited the data, which were submitted by SERS. As appropriate, we have made certain adjustments to the SERS data, including the use of a minimum annual salary assumption of \$20,000.

Section III of Schedule L shows the monthly annuities that were being paid as of December 31, 2012. Total benefits from the fund include lump sum payments and death benefits so these are much higher than the sum of annuities shown in Schedule L and in the highlights.

Plan Provisions

Schedule M contains a summary of the principal provisions of the plan. As a consequence of Act 2010-120 being signed into law in November 2010 and becoming effective (for most purposes) January 1, 2011, there were significant changes in plan provisions in 2010.

Actuarial Assumptions

Schedule N summarizes the actuarial assumptions used for the valuation. The two types of assumptions are economic assumptions, such as the investment return and salary growth assumptions, and demographic assumptions, such as the assumed rates of retirement and mortality.

For the December 31, 2010 valuation, as a result of the 2006-2010 actuarial experience study and the large number of actuarial assumption changes that were recommended, changes were made to most of the actuarial assumptions used for the SERS actuarial valuation. The 8.0 percent annual investment return assumption was among the assumptions reviewed as a part of the 2006-2010

State Employees' Retirement System

study, and the study results supported continuing with 8.0 percent for the December 31, 2010 valuation.

Based upon subsequent review of SERS investment data and results, the Board approved a reduction in the assumed annual investment return from 8.0 percent to 7.5 percent effective as of the December 31, 2011 actuarial valuation and continued use of the 7.5 percent assumption for the December 31, 2012 actuarial valuation.

Actuarial Methods

Schedule O explains the asset valuation and funding method used in the valuation, and the determination of the annual contribution, including a discussion of the Act 120 employer contribution collars. The asset valuation method spreads investment gains and losses over five years. The funding method provides for reasonable levels of contribution that will fund the cost of future benefits with a credit for amortization of the excess of assets over liabilities. Schedule O also explains how the individual class rates are determined. The final section of Schedule O discusses the plan provisions that are not valued.

Glossary

Schedule P defines certain terms used in this actuarial report.

State Employees' Retirement System
Unfunded Liability and Normal Cost as of December 31, 2012

I.	Present Value of Benefits:	
	A) Active and Inactive Participants	
	1) Superannuation and Withdrawal	\$ 25,629,987,773
	2) Disability	959,085,458
	3) Death	833,670,382
	4) Refunds	47,032,852
	5) Special Police and Enforcement Officer Benefits	-
	6) Subtotal	<u>\$ 27,469,776,465</u>
	B) Annuitants and Beneficiaries	22,095,052,070
	C) Total	<u>\$ 49,564,828,535</u>
II.	Present Value of Member and Employer Contributions:	
	A) Employer Portion of Normal Cost	\$ 3,019,911,443
	B) Member Contributions	<u>3,489,353,244</u>
	C) Total	<u>\$ 6,509,264,687</u>
III.	Actuarial Accrued Liability: (I) - (II)	\$ 43,055,563,848
IV.	Actuarial Value of Assets	\$ 25,302,688,240
V.	Unfunded Liability (III) - (IV)	\$ 17,752,875,608
VI.	Employer Normal Cost Rate	
	A) Total Normal Cost Rate for new active members to fund:	
	1) Superannuation and Withdrawal	9.66%
	2) Disability	0.76%
	3) Death	0.52%
	4) Refunds	<u>0.32%</u>
	5) Total	11.26%
	B) Member Contribution Rate	6.25%
	C) Employer Normal Cost Rate (A) - (B)	5.01%

State Employees' Retirement System
Employer Contribution Rate in Fiscal Year 2013 - 2014

	<u>Funding Period</u>		Initial Amount of Liability	Outstanding Balance as of 12/31/12	Annual Payment Amount	Payment as a Percent of Compensation*
	Initial Years	From July 1				
I. Amortization of Liability (Asset) For:						
A) Liability Fresh Start	30	2010	\$5,592,323,524	\$5,427,032,062	\$474,333,657	8.13%
B) Changes in 2010	30	2011	4,192,690,873	4,112,053,394	355,302,793	6.09%
C) Changes in 2011	30	2012	5,018,078,343	4,969,547,323	424,886,895	7.28%
D) Changes in 2012	30	2013	3,244,242,829	<u>3,244,242,829</u>	<u>274,694,050</u>	<u>4.71%</u>
Total				\$ 17,752,875,608	\$ 1,529,217,395	26.21%
II. Employer Normal Cost						5.01%
III. Total Employer Cost before Act 2010-120 = (I) + (II)						31.22%
IV. Total Employer Cost (III), reflecting the 16.00 percent contribution prescribed by Act 2010-120						16.00%

* The payment is expressed as a percentage of the total projected covered compensation for active members in fiscal year 2013-2014 of \$5,836,402,000. Percentages may not add due to rounding.

State Employees' Retirement System

**Employer Contribution Rate by Group
(excluding Benefits Completion Plan rate)**

Employer Group (1)	Base Contribution Rate (2)	Age 50 or 55 Retirement Adjustment (3)	Multiplier Adjustment* (4)	Past Liability Adjustment (5)	Adjusted Contribution Rate** (6)	Projected 2013-2014 Compensation (7)	Employer Contribution Amount (8)
Class A-3 and A-4 - Age 65 Retirement	10.41%		1.0000		10.41%	\$ 571,539,000	\$ 59,497,210
Class AA - Age 60 Retirement	10.41%		1.4472		15.07%	3,676,801,000	554,093,911
Class A - Age 60 Retirement	10.41%		1.1578		12.05%	31,387,000	3,782,134
Class A-3 and A-4 - Age 55 Retirement	10.41%	2.69%	1.0000		13.10%	97,765,000	12,807,215
Class AA - Age 50 Retirement (Including Enforcement Officers)	10.41%	2.69%	1.4472		18.97%	879,570,000	166,854,429
Class A - Age 50 Retirement (Including Enforcement Officers)	10.41%	2.69%	1.1578		15.17%	14,718,000	2,232,721
Class A-3 and A-4 - Park Rangers & Capitol Police	10.41%	2.00%	1.0000	0.64%	13.05%	1,671,000	218,066
Class AA - Park Rangers & Capitol Police	10.41%	2.00%	1.4472	0.64%	18.61%	11,865,000	2,208,077
Class A - Park Rangers & Capitol Police	10.41%	2.00%	1.1578	0.64%	15.01%	127,000	19,063
Class A-3 and A-4 - State Police	10.41%	2.69%	1.4724	4.40%	23.69%	22,005,000	5,212,985
State Police - Other	10.41%	2.69%	1.6491	4.40%	26.00%	377,818,000	98,232,680
Class D4	10.41%	2.69%	1.7367		22.75%	15,427,000	3,509,643
Class E	10.41%		1.8347		19.10%	135,709,000	25,920,419
Total***						\$ 5,836,402,000	\$ 934,588,549

* The multiplier adjustment is the adjustment for the employer group contribution rate. Because the majority of new active members of SERS will be covered under Class A-3 (65), the 2.0 percent accrual rate for that Class is used to determine the base contribution rate. Column (4) is the applicable adjustment factor relative to the Class A-3 benefit value.

** The adjusted contribution rate is [(2) + (3)] times (4) + (5).

*** The total employer contribution (\$934,588,549) is approximately equal to the average employer contribution rate from Schedule B (16.00 percent) times the total projected covered compensation of \$5,836,402,000. The base contribution rate of 10.41 percent was determined as the percentage needed to produce employer contribution amounts by employer group that sum to \$934,588,549.

NOTE: See Schedule O, Section IV for further discussion of this schedule.

State Employees' Retirement System
Development of Shared Risk Member Contributions

<u>Calendar Year</u>	<u>Actual Return</u>	<u>Expected Return</u>	<u>Difference</u>		
2016	TBD	7.5%	TBD		July 1, 2017 Shared Risk Basis
2015	TBD	7.5%	TBD		
2014	TBD	7.5%	TBD		
2013	TBD	7.5%	TBD	July 1, 2014	
2012	12.0%	7.5%	4.5%	Shared Risk	
2011	2.7%	8.0%	-5.3%	Basis	

- 1) Current Shared Rate for Class A-3 and Class A-4 Members: 0.0%
- 2) Average Difference in Actual Versus Expected Returns: TBD
- 3) Adjustment to Shared Rate Based upon Statutory 3-Year Review: TBD
- 4) New Shared Rate Effective July 1, 2014 = (1) + (3): TBD

Under the Shared Risk provision of Act 2010-120, beginning in 2014, it is possible that higher member contribution rates could be triggered if SERS investments underperform. The first potential Shared Risk Contribution Rate (Shared Rate) will be determined based upon the actual SERS investment returns earned during the three calendar year period ending December 31, 2013. Only two years of this three-year period have occurred, so no Shared Rate can apply until July 1, 2014. If the actual return over this period is less than the expected return by more than 1.0%, then the Shared Rate will increase from 0.0% to 0.5%. Given the actual returns earned during 2011 and 2012, it should be noted that a calendar year 2013 actual return of less than 5.3% will trigger a 0.5% Shared Rate effective July 1, 2014. If a Shared Rate applies on July 1, 2014, it will be effective for three years, through June 30, 2017.

As of December 31, 2016, the next potential adjustment to the Shared Rate will be determined based upon investment returns over the six calendar years 2011 through 2016. Any resulting adjustment will be effective July 1, 2017 and will apply for three years, through June 30, 2020. If the actual return over the 6 calendar year period: (i) is less than the expected return by more than 1.0%, then the Shared Rate will increase by 0.5%, (ii) is equal to or exceeds the expected return, then the Shared Rate will decrease by 0.5%, or (iii) is less than the expected return by 1.0% or less, then the Shared Rate will remain unchanged.

As of December 31, 2019, the Shared Rate adjustment will be measured based upon the returns over the nine calendar years 2011 through 2019. As of December 31, 2022 and every three years thereafter, the Shared Rate adjustment will be based upon the returns over the preceding ten calendar years.

In no case will the Shared Risk Contribution Rate be less than 0.0% or greater than 2.0%. Also, should the employer contribution level be below the amount prescribed under Act 2010-120 in any fiscal year, the Shared Risk Contribution Rate will revert to zero.

State Employees' Retirement System
Analysis of the Change in Employer Contribution Rate

	Normal <u>Cost</u>	Unfunded <u>Liability</u>	<u>Total</u>
I. December 31, 2011 Valuation	5.10%	21.29%	26.39%
II. Changes in the December 31, 2012 Valuation:			
A) Loss from investment earnings (net, during 2008-2012)		3.69%	3.69%
B) Additional cost due to Act 120 contribution collar restrictions		1.37%	1.37%
C) Pay increases different than assumptions		-0.56%	-0.56%
D) Differences between actual and expected demographic experience		0.15%	0.15%
E) Change in demographics of new entrants	-0.09%	0.08%	-0.01%
F) Change in amortization due to change in payroll	<u>0.00%</u>	<u>0.19%</u>	<u>0.19%</u>
G) Total Change	-0.09%	4.92%	4.83%
III. December 31, 2012 Valuation: I + II(G)	5.01%	26.21%	31.22%

Analysis of the Change in the Unfunded Liability

I. December 31, 2011 Unfunded Liability	\$ 14,663,401,046
II. Expected Amortization Payment	1,254,523,345
III. Expected Liability as of December 31, 2012 [(I x 1.075) - II]	\$ 14,508,632,779
IV. Change in Liability Due to:	
A) Loss from investment earnings (net, during 2008-2012)	\$ 2,541,098,435
B) Additional cost due to Act 120 contribution collar restrictions	941,267,079
C) Pay increases different than assumptions	(383,003,359)
D) Differences between actual and expected demographic experience	90,630,768
E) Change in demographics of new entrants	<u>54,249,906</u>
F) Total change	\$ 3,244,242,829
V. December 31, 2012 Unfunded Liability: III + IV(F)	\$ 17,752,875,608

State Employees' Retirement System
Actuarial Balance Sheet as of December 31, 2012

ASSETS

Present Assets:

Members' Savings Account	\$ 4,551,506,833
Annuity Reserve Account	20,083,517,367
State Police Benefit Account	1,965,067,499
Enforcement Officers' Benefit Account	46,467,204
State Accumulation Account *	(1,260,147,379)
Supplemental Annuity Account	-
Total Present Assets (Market Value)	<u>\$ 25,386,411,524</u>

Adjustment to Smooth Market Fluctuations (83,723,284)

Total Present Assets (Actuarial Value) \$ 25,302,688,240

Present Value of Future Contributions

Normal Cost Contributions (Employer)	\$ 3,019,911,443
Members' Contributions (Employee)	3,489,353,244
Accrued Liability Amortization (Employer)	17,752,875,608
Supplemental Annuity Amortization (Employer)	-
Special State Police Contributions (Employer)	-
Special Enforcement Officer Contributions (Employer)	-

Total Future Contributions \$ 24,262,140,295

Total Assets \$ 49,564,828,535

LIABILITIES

Present Value of Benefits Payable to Annuitants and Beneficiaries from:

Annuity Reserve Account	\$ 20,083,517,367
State Police Benefit Account	1,965,067,499
Enforcement Officers' Benefit Account	<u>46,467,204</u>
Total for Annuitants and Beneficiaries	\$ 22,095,052,070

Present Value of Benefits to Active and Inactive Members from:

Members' Savings Account and State Accumulation Account	
Superannuation and withdrawal	\$ 25,629,987,773
Disability	959,085,458
Death	833,670,382
Refunds	<u>47,032,852</u>
Subtotal	\$ 27,469,776,465

State Police Benefit Account -

Enforcement Officers' Benefit Account -

Total Present Value of Benefits to Active and Inactive Members \$ 27,469,776,465

Total Liabilities \$ 49,564,828,535

* Includes \$4,023,835 in directed commissions.

State Employees' Retirement System
Required Transfers Within SERS Accounts

I. Annuity Reserve Account

Balance as reported by SERS	\$ 19,775,553,818
Transfer from State Accumulation Account	307,963,549
Transfer to Supplemental Annuity Account	<u>-</u>
December 31, 2012 balance after transfers	\$ 20,083,517,367

II. State Accumulation Account *

Balance as reported by SERS	\$ (941,632,122)
Transfer to Enforcement Officers' Benefit Account	(1,595,707)
Transfer to State Police Benefit Account	(8,956,001)
Transfer to Annuity Reserve Account	<u>(307,963,549)</u>
December 31, 2012 balance after transfers	\$ (1,260,147,379)

III. Enforcement Officers' Benefit Account

Balance as reported by SERS	\$ 44,871,497
Transfer from State Accumulation Account	1,595,707
Transfer from Supplemental Annuity Account	<u>-</u>
December 31, 2012 balance after transfers	\$ 46,467,204

IV. State Police Benefit Account

Balance as reported by SERS	\$ 1,956,111,498
Transfer from State Accumulation Account	8,956,001
Transfer from Supplemental Annuity Account	<u>-</u>
December 31, 2012 balance after transfers	\$ 1,965,067,499

V. Supplemental Annuity Account

Balance as reported by SERS	\$ -
Transfer from Annuity Reserve Account	-
Transfer to State Police Benefit Account	-
Transfer to Enforcement Officers' Benefit Account	<u>-</u>
December 31, 2012 balance after transfers	\$ -

* Balance includes \$4,023,835 in directed commissions.

State Employees' Retirement System
Accounting Disclosure Statements

I. Schedule of Funding Progress as of December 31, 2012

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a) / (b)	Covered Compensation (c)	Unfunded Actuarial Accrued Liability as a Percentage of Covered Compensation ((b-a)/c)
12/31/1993	\$ 13,060,613	\$ 12,213,736	\$ (846,877)	106.9%	\$ 3,731,515	-22.7%
12/31/1994	13,991,485	13,742,056	(249,429)	101.8%	3,990,440	-6.3%
12/31/1995*	15,510,309	15,067,205	(443,104)	102.9%	4,021,605	-11.0%
12/31/1996	16,841,069	15,936,616	(904,453)	105.7%	4,163,683	-21.7%
12/31/1997	18,565,136	17,288,413	(1,276,723)	107.4%	4,219,034	-30.3%
12/31/1998	20,670,711	18,357,899	(2,312,812)	112.6%	4,446,147	-52.0%
12/31/1999	23,624,267	19,091,840	(4,532,427)	123.7%	4,519,112	-100.3%
12/31/2000*	26,094,306	19,702,278	(6,392,028)	132.4%	4,769,180	-134.0%
12/31/2001	27,505,494	23,658,757	(3,846,737)	116.3%	4,872,375	-78.9%
12/31/2002	27,497,464	25,650,389	(1,847,075)	107.2%	5,093,454	-36.3%
12/31/2003	27,465,615	26,179,761	(1,285,854)	104.9%	4,965,360	-25.9%
12/31/2004	26,900,027	27,999,026	1,099,000	96.1%	5,093,573	21.6%
12/31/2005*	26,793,782	28,851,716	2,057,934	92.9%	5,138,377	40.1%
12/31/2006	28,148,834	30,364,997	2,216,163	92.7%	5,661,675	39.1%
12/31/2007	30,839,877	31,753,971	914,093	97.1%	5,529,069	16.5%
12/31/2008**	30,635,621	34,437,396	3,801,775	89.0%	5,660,319	67.2%
12/31/2009	30,204,693	35,797,017	5,592,324	84.4%	5,935,988	94.2%
12/31/2010*	29,443,945	39,179,594	9,735,649	75.2%	5,851,704	166.4%
12/31/2011***	27,618,461	42,281,862	14,663,401	65.3%	5,890,704	248.9%
12/31/2012	25,302,688	43,055,564	17,752,876	58.8%	5,836,402	304.2%

* Revised economic and demographic assumptions due to experience review.

** Revised interest rate assumption from 8.5% to 8.0%.

*** Revised interest rate assumption from 8.0% to 7.5%.

State Employees' Retirement System
Accounting Disclosure Statements (continued)

II. Schedule of Employer Contributions as of December 31, 2012

(Dollars in Thousands)

Calendar Year	Annual Required Contribution (ARC)	Actual Contribution	Percentage Contributed
1993	310,089	304,122	98.1%
1994	342,158	342,927	100.2%
1995	376,692	384,506	102.1%
1996	373,903	373,903	100.0%
1997	324,093	324,093	100.0%
1998	310,501	310,501	100.0%
1999	269,869	269,869	100.0%
2000	168,002	168,002	100.0%
2001	52,104	76,709	147.2%
2002	22,906	50,831	221.9%
2003	55,079	67,947	123.4%
2004	105,229	105,229	100.0%
2005	319,190	147,163	46.1%
2006	548,745	195,407	35.6%
2007	617,253	242,337	39.3%
2008	584,248	233,138	39.9%
2009	643,861	251,870	39.1%
2010	866,822	272,525	31.4%
2011	913,778	391,189	42.8%
2012	1,044,632	562,883	53.9%

Notes Pertaining to Governmental Accounting Standards Board Statement No. 25

The actual contribution amounts in the above table include the employer share of regular contributions, the employer share of purchased service and contributions for employee service under the Public School Employees' Retirement System.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

State Employees' Retirement System

Accounting Disclosure Statements (continued)

Valuation Date	December 31, 2012
Actuarial cost method	Variation of Entry-age Actuarial Cost Method
Amortization method	10-year or 30-year schedule with level payments
Remaining amortization period	27 to 30 years
Asset valuation method	5-year smooth market
Actuarial Assumptions	
Investment rate of return	7.5 percent
Projected compensation increases	Average increase of 6.2 percent (range: 4.3 to 11.05 percent)
Inflation	2.75 percent
Cost-of-living adjustments	None

The annual employer contribution as set forth in the SERC is equal to the sum of the following:

- (1) The employer share of the normal cost.
- (2) The fresh start amortization of the December 31, 2009 unfunded liability over a 30-year period beginning July 1, 2010 and ending on June 30, 2040.
- (3) The amortization of the change in liability due to Act 2010-120 over a 30-year period beginning July 1, 2011 and ending on June 30, 2041.
- (4) The amortization of changes in liability due to actual experience differing from assumed experience after December 31, 2009 over 30-year periods beginning with the July 1st following the actuarial valuation determining such changes.

Valuations are performed on December 31 of each year and the results are presented to the Board as a basis for determining the employer contribution rate for the year beginning July 1 after the valuation date. The Board has adopted the rate from the valuation unless information available after or as part of the valuation supports an adjustment to the valuation rate.

Apart from the statutory funding requirements set forth in the SERC, there is a separate accounting standard that defines an Annual Required Contribution (ARC) for financial reporting purposes. As long as the statutory annual employer contribution, as defined above, is at least equal to the minimum contribution reported under GASB Statement No. 25, the statutory annual employer contribution will be deemed to be the ARC. Should the statutory annual employer contribution be less than the minimum contribution reported under GASB, the GASB minimum will be the ARC.

State Employees' Retirement System

Accounting Disclosure Statements (continued)

GASB Statement No. 25 defines the ARC to be equal to the employer normal cost plus an amount to amortize the unfunded actuarial accrued liability. The Statement prescribes the maximum acceptable period over which the total unfunded actuarial liability should be amortized. GASB requires that the "equivalent single amortization period" for all combined amortizations should not exceed the maximum acceptable period. Under the contribution collars from Act 2010-120, the current contribution level results in an "equivalent single amortization period" in excess of the maximum acceptable period and thus an actual contribution less than the ARC. In this case, the ARC is determined using a 30-year amortization period.

The Board has adopted the valuation rate as the contribution rate since 1995. The Board adopted slightly different rates in 1993 and 1994 based on information available after the valuation was performed. In 1993, the valuation rate of 9.27 percent was lowered to 8.92 percent because it was determined that the covered compensation reported for the valuation was unusually high and that future covered compensation was expected to be relatively lower. In 1994, the valuation rate of 8.53 percent was increased to 8.92 percent to allow for the extension of the early retirement window and acceleration of the longevity pay scales.

The actuary agreed with the actions taken by the Board that resulted in some difference between the ARC and the actual contribution. The table presented on page 2 of Schedule H shows the ARC based on the actuarial valuation. The effect of the adjustments in 1993 and 1994 extended over three calendar years so the 1993 through 1995 actual contributions are different from the ARCs in those years.

During 2001, 2002, and 2003, actual contributions exceeded the ARC. For the period July 1, 2001 through June 30, 2003, the ARC was set at zero. However, contributions were made by employers of some special class members for the cost of additional benefits including payment of past liabilities for retroactive benefit enhancements. Collection of those amounts resulted in the actual contributions exceeding the ARC for all or part of calendar years 2001, 2002 and 2003.

All amortization payments are currently based upon a 30-year schedule of contributions which remain level during the amortization period. The employer cost is determined as a percent of covered compensation, and the employer contributes that percent of the compensation of all covered members during each fiscal year.

The employer contribution has been below the GASB Statement No. 25 minimum since July 1, 2005, and we anticipate that the employer contribution to SERS will be lower than the ARC through June 30, 2015. Thereafter, provided that employer contributions are made in accordance with current law, we expect actual employer contributions to exceed the GASB minimum.

State Employees' Retirement System
Solvency Test

Valuation Date	Actuarial Accrued Liabilities For			Total Actuarial Accrued Liability (AAL)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Reported Assets			Funded Ratio
	(1)	(2)	(3)			(1)	(2)	(3)	
	Active Participant Contributions	Annuitants and Beneficiaries	Active Participants (Employer Financed Portion)						
(Amounts in Thousands)									
December 31, 1992	\$ 1,994,567	\$ 4,621,318	\$ 4,872,529	\$ 11,488,414	\$ 11,769,388	100.0 %	100.0 %	100.0 %	102.4 %
December 31, 1993	2,170,593	4,806,907	5,236,236	12,213,736	13,060,613	100.0	100.0	100.0	106.9
December 31, 1994	2,352,731	5,039,221	6,350,104	13,742,056	13,991,485	100.0	100.0	100.0	101.8
December 31, 1995	2,499,485	5,649,454	6,918,265	15,067,205	15,510,309	100.0	100.0	100.0	102.9
December 31, 1996	2,646,630	6,027,333	7,262,653	15,936,616	16,841,069	100.0	100.0	100.0	105.7
December 31, 1997	2,748,177	6,951,411	7,588,825	17,288,413	18,565,136	100.0	100.0	100.0	107.4
December 31, 1998	2,904,232	7,200,000	8,253,666	18,357,899	20,670,711	100.0	100.0	100.0	112.6
December 31, 1999	2,989,489	7,779,993	8,322,358	19,091,840	23,624,267	100.0	100.0	100.0	123.7
December 31, 2000	3,182,776	8,148,876	8,370,626	19,702,278	26,094,306	100.0	100.0	100.0	132.4
December 31, 2001	3,344,107	8,684,734	11,629,915	23,658,757	27,505,494	100.0	100.0	100.0	116.3
December 31, 2002	3,498,672	10,129,669	12,022,048	25,650,389	27,497,464	100.0	100.0	100.0	107.2
December 31, 2003	3,588,664	11,296,520	11,294,578	26,179,761	27,465,615	100.0	100.0	100.0	104.9
December 31, 2004	3,593,576	12,779,570	11,625,880	27,999,026	26,900,027	100.0	100.0	90.5	96.1
December 31, 2005	3,696,477	14,000,196	11,155,043	28,851,716	26,793,782	100.0	100.0	81.6	92.9
December 31, 2006	3,916,841	14,474,525	11,973,631	30,364,997	28,148,834	100.0	100.0	81.5	92.7
December 31, 2007	3,849,293	16,255,843	11,648,835	31,753,971	30,839,877	100.0	100.0	92.2	97.1
December 31, 2008	4,068,036	17,305,971	13,063,389	34,437,396	30,635,621	100.0	100.0	70.9	89.0
December 31, 2009	4,280,680	17,962,741	13,553,596	35,797,017	30,204,693	100.0	100.0	58.7	84.4
December 31, 2010	4,409,444	18,995,355	15,774,795	39,179,594	29,443,945	100.0	100.0	38.3	75.2
December 31, 2011	4,406,306	21,222,075	16,653,481	42,281,862	27,618,461	100.0	100.0	11.9	65.3
December 31, 2012	4,551,507	22,095,052	16,409,005	43,055,564	25,302,688	100.0	93.9	0.0	58.8

State Employees' Retirement System
Actuarial Value of Assets

I. Development of 12/31/12 Expected Actuarial Value:	
A) Actuarial Value as of 12/31/11	\$ 27,618,460,988
B) Contributions in 2012	910,819,546
C) Benefits and Expenses in 2012	(2,690,153,413)
D) Investment return at 7.5% to 12/31/12 on (A)	2,071,384,574
E) Investment return at 7.5% to 12/31/12 on (B) and (C): 7.5% x .5 x ((B) + (C))	<u>(66,725,020)</u>
F) Expected Actuarial Value as of 12/31/12: (A) + (B) + (C) + (D) + (E)	\$ 27,843,786,675
II. Previous Differences Not Yet Amortized:	
A) Unrecognized amount of 12/31/08 Difference: .2 x (\$13,612,163,456)	\$ (2,722,432,691)
B) Unrecognized amount of 12/31/09 Difference: .4 x \$1,178,482,945	471,393,178
C) Unrecognized amount of 12/31/10 Difference: .6 x \$734,085,211	440,451,127
D) Unrecognized amount of 12/31/11 Difference: .8 x (\$1,795,550,551)	<u>(1,436,440,441)</u>
E) Total	\$ (3,247,028,827)
III. Gain or Loss from 2012	
A) Market Value of Assets on 12/31/12	\$ 25,386,411,524
B) Expected Market Value II(E) + I(F)	<u>24,596,757,848</u>
C) Gain (loss) from 2012 Investments (A) - (B)	\$ 789,653,676
IV. Development of Actuarial Value of Assets as of 12/31/12:	
A) 20% of (\$13,612,163,456) (12/31/08 Difference):	\$ (2,722,432,691)
B) 20% of \$1,178,482,945 (12/31/09 Difference):	235,696,589
C) 20% of \$734,085,211 (12/31/10 Difference):	146,817,042
D) 20% of (\$1,795,550,551) (12/31/11 Difference):	(359,110,110)
E) 20% of \$789,653,676 (12/31/12 Difference):	<u>157,930,735</u>
F) Total Difference: (A) + (B) + (C) + (D) + (E)	\$ (2,541,098,435)
G) Actuarial Value at 12/31/12: I(F) + IV(F)	\$ 25,302,688,240

State Employees' Retirement System
Projection of Population, Benefits, and Contributions

Projection of Annuitants, Beneficiaries and Active Participants
Actual Data Through 2012

Calendar Year	New Annuitants During the Year	Annuitant Deaths During the Year	Total Annuitants (End of Year)	New Beneficiaries During the Year	Beneficiary Deaths During the Year	Total Beneficiaries (End of Year)	Total Annuitants and Beneficiaries	Active Participants
1994			73,780			7,055	80,835	114,120
1995			74,110			7,094	81,204	112,637
1996			75,609			7,477	83,086	110,922
1997			77,667			7,790	85,457	108,684
1998			78,017			7,817	85,834	108,893
1999			80,095			7,948	88,043	108,035
2000			80,289			8,103	88,392	109,469
2001			80,911			8,306	89,217	109,716
2002			82,805			8,423	91,228	111,059
2003			85,808			8,604	94,412	109,018
2004			89,869			8,858	98,727	108,405
2005			92,120			9,059	101,179	109,981
2006			92,879			9,181	102,060	110,972
2007			97,657			9,473	107,130	109,610
2008			98,492			9,654	108,146	110,866
2009			99,776			9,863	109,639	110,107
2010			101,701			10,012	111,713	109,255
2011			105,096			10,246	115,342	107,021
2012			106,673			10,388	117,061	106,048
2013	5,232	3,489	108,416	698	554	10,532	118,948	106,048
2014	5,258	3,534	110,140	707	604	10,635	120,775	106,048
2015	5,228	3,565	111,803	713	646	10,702	122,505	106,048
2016	5,223	3,593	113,433	719	681	10,740	124,173	106,048
2017	5,158	3,619	114,972	724	708	10,756	125,728	106,048
2018	4,915	3,653	116,234	731	730	10,757	126,991	106,048
2019	4,721	3,679	117,276	736	746	10,747	128,023	106,048
2020	4,480	3,711	118,045	742	756	10,733	128,778	106,048
2021	4,274	3,746	118,573	749	763	10,719	129,292	106,048
2022	4,093	3,779	118,887	756	768	10,707	129,594	106,048
2023	3,904	3,835	118,956	767	773	10,701	129,657	106,048

The retirement projections in Schedule K are based upon the current retirement assumptions used for the valuation.

State Employees' Retirement System
Projection of Population, Benefits, and Contributions

Projection of Expected Contributions and Benefits - Reflecting Act 120 Collars
Actual Data Through 2012 (Dollars in Millions)

Year	Contributions as a Percent of Pay						Calendar Year Benefits and Expenses
	<u>Calendar Year Contributions</u>		<u>Calendar Year Contributions</u>		<u>Actual Projected</u>		
	(After 2012, Based Upon Blended Fiscal Projections)		(Employer Rates Based Upon Blended Fiscal Projections)		<u>Employer Rate</u> (Fiscal Year Beginning July 1)		
	Employee	Employer	Employee	Employer			
1994	\$ 193	\$ 343				\$ 812	
1995	202	385				894	
1996	210	374				943	
1997	213	324				1,037	
1998	222	311				1,080	
1999	224	270				1,248	
2000	232	168				1,198	
2001	240	77				1,266	
2002	304	51				1,450	
2003	308	68				1,656	
2004	302	106				1,880	
2005	306	147				1,966	
2006	317	196				1,943	
2007	334	242				2,361	
2008	337	233				2,231	
2009	349	252				2,297	
2010	349	273				2,473	
2011	351	391				2,730	
2012	348	563				2,690	
2013	348	806	6.3%	13.8%	16.0%	2,812	
2014	351	1,081	6.3%	18.3%	20.5%	2,933	
2015	362	1,389	6.3%	22.8%	25.0%	3,054	
2016	373	1,715	6.3%	27.3%	29.5%	3,179	
2017	384	1,976	6.3%	30.5%	31.4%	3,303	
2018	396	2,080	6.3%	31.1%	30.8%	3,418	
2019	408	2,099	6.3%	30.5%	30.1%	3,532	
2020	421	2,114	6.3%	29.8%	29.5%	3,642	
2021	433	2,130	6.3%	29.1%	28.8%	3,748	
2022	447	2,146	6.3%	28.5%	28.2%	3,853	
2023	460	2,163	6.3%	27.9%	27.5%	3,955	

This projection is based upon these assumptions: a projected investment return of 7.5 percent in 2013 and after; general pay increases of 3.05 percent; no future COLAs. The employer contributions are subject to the Act 2010-120 collars, which are projected to be applicable through 2016, after which actuarially determined employer contribution rates apply.

State Employees' Retirement System
Projection of Population, Benefits, and Contributions

Projection of Expected Contributions and Benefits - Without Future Act 120 Collars
Actual Data Through 2012 (Dollars in Millions)

Year	Calendar Year Contributions		Contributions as a Percent of Pay			Calendar Year Benefits and Expenses
	(After 2012, Based Upon Blended Fiscal Projections)		(Employer Rates Based Upon Blended Fiscal Projections)		Actual Projected Employer Rate	
	Employee	Employer	Employee	Employer	(Fiscal Year Beginning July 1)	
1994	\$ 193	\$ 343				\$ 812
1995	202	385				894
1996	210	374				943
1997	213	324				1,037
1998	222	311				1,080
1999	224	270				1,248
2000	232	168				1,198
2001	240	77				1,266
2002	304	51				1,450
2003	308	68				1,656
2004	302	106				1,880
2005	306	147				1,966
2006	317	196				1,943
2007	334	242				2,361
2008	337	233				2,231
2009	349	252				2,297
2010	349	273				2,473
2011	351	391				2,730
2012	348	563				2,690
2013	348	1,252	6.3%	21.4%	31.2%	2,812
2014	351	1,831	6.3%	30.9%	30.6%	2,933
2015	362	1,849	6.3%	30.3%	30.0%	3,054
2016	373	1,873	6.3%	29.8%	29.6%	3,179
2017	384	1,889	6.3%	29.1%	28.7%	3,303
2018	396	1,897	6.3%	28.4%	28.1%	3,418
2019	408	1,912	6.3%	27.8%	27.5%	3,532
2020	421	1,927	6.3%	27.2%	26.9%	3,642
2021	433	1,943	6.3%	26.6%	26.3%	3,748
2022	447	1,959	6.3%	26.0%	25.7%	3,853
2023	460	1,976	6.3%	25.4%	25.2%	3,955

This projection is based upon these assumptions: a projected investment return of 7.5 percent in 2013 and after; general pay increases of 3.05 percent; no future COLAs. No Act 2010-120 employer contribution collars are assumed after June 30, 2013 in this projection, therefore actuarially determined employer contribution rates apply effective July 1, 2013.

State Employees' Retirement System
I. Age, Service and Salary Profile of Active Participants as of December 31, 2012

Active Participants*

Males - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total	Average Salary
Less than 20	15	0	0	0	0	0	0	15	\$ 25,275
20-24	787	18	0	0	0	0	0	805	29,676
25-29	2,065	584	10	0	0	0	0	2,659	36,962
30-34	1,591	1,526	368	3	0	0	0	3,488	43,082
35-39	1,250	1,195	950	251	4	0	0	3,650	46,620
40-44	1,309	1,215	1,082	916	418	13	0	4,953	50,504
45-49	1,178	1,096	1,024	811	1,088	502	22	5,721	53,116
50-54	1,236	1,198	1,032	799	1,106	1,253	759	7,383	54,698
55-59	1,187	1,173	1,044	855	1,004	1,037	1,277	7,577	55,833
60-64	804	872	775	572	502	390	620	4,535	55,560
65+	<u>380</u>	<u>434</u>	<u>368</u>	<u>207</u>	<u>148</u>	<u>100</u>	<u>276</u>	<u>1,913</u>	56,514
Total	11,802	9,311	6,653	4,414	4,270	3,295	2,954	42,699	\$ 51,148

Average Age 47.84
Average Service 12.12

Females - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total	Average Salary
Less than 20	26	0	0	0	0	0	0	26	\$ 22,561
20-24	852	19	0	0	0	0	0	871	27,373
25-29	1,850	621	18	0	0	0	0	2,489	34,414
30-34	1,532	1,524	501	22	0	0	0	3,579	39,945
35-39	1,279	1,222	944	302	27	0	0	3,774	43,141
40-44	1,230	1,269	1,047	734	546	61	0	4,887	45,445
45-49	1,382	1,265	974	708	916	629	63	5,937	46,575
50-54	1,322	1,405	1,176	797	955	923	962	7,540	48,705
55-59	1,046	1,317	1,099	869	1,078	838	1,225	7,472	49,571
60-64	507	783	703	477	474	310	467	3,721	49,394
65+	<u>174</u>	<u>254</u>	<u>226</u>	<u>141</u>	<u>131</u>	<u>83</u>	<u>129</u>	<u>1,138</u>	48,029
Total	11,200	9,679	6,688	4,050	4,127	2,844	2,846	41,434	\$ 45,628

Average Age 47.11
Average Service 11.94

* The following three pages contain information on members in special categories. These include selected hazardous duty members, legislators, judges and district justices. The above information is for all other active members. Page five of Schedule L is the total of all active categories. Page six is the total of all active participants and inactive and vested participants.

State Employees' Retirement System

I. Age, Service and Salary Profile of Active Participants as of December 31, 2012

Selected Hazardous Duty*

Males - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total	Average Salary
Less than 20	0	0	0	0	0	0	0	0	\$ -
20-24	124	0	0	0	0	0	0	124	37,692
25-29	1,109	239	2	0	0	0	0	1,350	48,856
30-34	844	1,005	181	6	0	0	0	2,036	55,313
35-39	501	761	754	229	2	0	0	2,247	60,443
40-44	378	575	871	1,318	655	18	0	3,815	70,733
45-49	263	398	527	844	1,331	313	5	3,681	72,998
50-54	157	253	328	369	481	327	72	1,987	68,289
55-59	102	153	234	223	203	142	84	1,141	65,318
60-64	50	100	152	172	114	54	48	690	63,075
65+	<u>17</u>	<u>38</u>	<u>48</u>	<u>57</u>	<u>29</u>	<u>17</u>	<u>14</u>	<u>220</u>	66,269
Total	3,545	3,522	3,097	3,218	2,815	871	223	17,291	\$ 65,117

Average Age 43.18

Average Service 12.47

Females - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total	Average Salary
Less than 20	0	0	0	0	0	0	0	0	\$ -
20-24	35	1	0	0	0	0	0	36	36,456
25-29	199	45	0	0	0	0	0	244	45,252
30-34	196	217	30	0	0	0	0	443	50,501
35-39	143	204	137	19	1	0	0	504	53,184
40-44	112	173	156	139	24	0	0	604	57,156
45-49	82	136	92	114	86	19	0	529	59,945
50-54	89	105	81	85	64	40	7	471	60,220
55-59	44	77	70	69	42	29	31	362	61,500
60-64	13	38	26	43	16	7	5	148	62,003
65+	<u>1</u>	<u>9</u>	<u>11</u>	<u>3</u>	<u>6</u>	<u>3</u>	<u>8</u>	<u>41</u>	66,186
Total	914	1,005	603	472	239	98	51	3,382	\$ 56,263

Average Age 43.64

Average Service 9.91

* Enforcement officers, correction officers, psychiatric security aides, and officers of the Pennsylvania State Police and the Delaware River Port Authority

State Employees' Retirement System

I. Age, Service and Salary Profile of Active Participants as of December 31, 2012

Legislators*

Males - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total	Average Salary
Less than 20	0	0	0	0	0	0	0	0	\$ -
20-24	0	0	0	0	0	0	0	0	-
25-29	4	0	0	0	0	0	0	4	83,802
30-34	6	2	1	0	0	0	0	9	83,802
35-39	4	3	4	0	0	0	0	11	84,871
40-44	8	6	5	1	0	0	0	20	86,038
45-49	8	8	4	2	0	0	0	22	86,932
50-54	7	6	9	4	4	1	1	32	87,154
55-59	3	8	6	3	9	2	6	37	91,790
60-64	3	3	7	5	4	0	3	25	88,531
65+	<u>3</u>	<u>2</u>	<u>3</u>	<u>1</u>	<u>3</u>	<u>3</u>	<u>9</u>	<u>24</u>	86,013
Total	46	38	39	16	20	6	19	184	\$ 87,603

Average Age 52.72
Average Service 12.55

Females - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total	Average Salary
Less than 20	0	0	0	0	0	0	0	0	\$ -
20-24	0	0	0	0	0	0	0	0	-
25-29	0	0	0	0	0	0	0	0	-
30-34	1	0	0	0	0	0	0	1	83,802
35-39	1	0	0	0	0	0	0	1	83,802
40-44	2	1	0	0	1	0	0	4	83,802
45-49	1	2	0	1	0	0	0	4	83,802
50-54	3	0	0	1	1	1	0	6	87,720
55-59	2	0	1	0	0	2	1	6	86,769
60-64	0	2	0	1	1	1	0	5	83,802
65+	<u>0</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>5</u>	<u>0</u>	<u>0</u>	<u>11</u>	83,802
Total	10	6	3	6	8	4	1	38	\$ 84,889

Average Age 56.74
Average Service 13.42

*Legislators are not required to join the retirement system, therefore the total participant count may not add to 253.

State Employees' Retirement System

I. Age, Service and Salary Profile of Active Participants as of December 31, 2012

Judges And Magisterial District Judges

Males - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total	Average Salary
Less than 20	0	0	0	0	0	0	0	0	\$ -
20-24	0	0	0	0	0	0	0	0	-
25-29	0	0	0	0	0	0	0	0	-
30-34	1	1	0	0	0	0	0	2	127,989
35-39	9	4	3	0	0	0	0	16	91,527
40-44	26	4	4	2	0	0	0	36	113,522
45-49	29	21	10	6	2	0	0	68	108,094
50-54	30	24	25	18	4	6	0	107	114,332
55-59	42	52	30	38	22	15	3	202	122,419
60-64	21	36	28	41	29	20	13	188	129,610
65+	<u>3</u>	<u>19</u>	<u>12</u>	<u>27</u>	<u>28</u>	<u>23</u>	<u>14</u>	<u>126</u>	144,002
Total	161	161	112	132	85	64	30	745	\$ 124,336

Average Age 57.30
Average Service 12.82

Females - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total	Average Salary
Less than 20	0	0	0	0	0	0	0	0	\$ -
20-24	0	0	0	0	0	0	0	0	-
25-29	1	0	0	0	0	0	0	1	84,803
30-34	1	0	0	0	0	0	0	1	84,803
35-39	3	3	1	0	0	0	0	7	96,986
40-44	9	7	7	0	0	0	0	23	99,581
45-49	14	18	4	6	1	0	0	43	120,123
50-54	12	14	12	4	4	1	0	47	135,881
55-59	13	21	14	15	8	7	1	79	136,824
60-64	3	5	8	12	11	6	5	50	142,691
65+	<u>1</u>	<u>1</u>	<u>1</u>	<u>8</u>	<u>7</u>	<u>6</u>	<u>0</u>	<u>24</u>	146,925
Total	57	69	47	45	31	20	6	275	\$ 131,492

Average Age 54.31
Average Service 12.07

State Employees' Retirement System

I. Age, Service and Salary Profile of Active Participants as of December 31, 2012

All Active Participants

Males - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total	Average Salary
Less than 20	15	0	0	0	0	0	0	15	\$ 25,275
20-24	911	18	0	0	0	0	0	929	30,746
25-29	3,178	823	12	0	0	0	0	4,013	41,010
30-34	2,442	2,534	550	9	0	0	0	5,535	47,678
35-39	1,764	1,963	1,711	480	6	0	0	5,924	52,056
40-44	1,721	1,800	1,962	2,237	1,073	31	0	8,824	59,588
45-49	1,478	1,523	1,565	1,663	2,421	815	27	9,492	61,298
50-54	1,430	1,481	1,394	1,190	1,595	1,587	832	9,509	58,319
55-59	1,334	1,386	1,314	1,119	1,238	1,196	1,370	8,957	58,691
60-64	878	1,011	962	790	649	464	684	5,438	59,225
65+	<u>403</u>	<u>493</u>	<u>431</u>	<u>292</u>	<u>208</u>	<u>143</u>	<u>313</u>	<u>2,283</u>	62,593
Total	15,554	13,032	9,901	7,780	7,190	4,236	3,226	60,919	\$ 56,118

Average Age 46.64

Average Service 12.23

Females - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total	Average Salary
Less than 20	26	0	0	0	0	0	0	26	\$ 22,561
20-24	887	20	0	0	0	0	0	907	27,733
25-29	2,050	666	18	0	0	0	0	2,734	35,400
30-34	1,730	1,741	531	22	0	0	0	4,024	41,129
35-39	1,426	1,429	1,082	321	28	0	0	4,286	44,420
40-44	1,353	1,450	1,210	873	571	61	0	5,518	46,980
45-49	1,479	1,421	1,070	829	1,003	648	63	6,513	48,170
50-54	1,426	1,524	1,269	887	1,024	965	969	8,064	49,915
55-59	1,105	1,415	1,184	953	1,128	876	1,258	7,919	51,015
60-64	523	828	737	533	502	324	477	3,924	51,102
65+	<u>176</u>	<u>265</u>	<u>240</u>	<u>155</u>	<u>149</u>	<u>92</u>	<u>137</u>	<u>1,214</u>	50,922
Total	12,181	10,759	7,341	4,573	4,405	2,966	2,904	45,129	\$ 46,981

Average Age 46.90

Average Service 11.79

State Employees' Retirement System

II. Age and Service Profile of Active Participants and Inactive and Vested Participants

As of December 31, 2012

Active Participants and Inactive and Vested Participants

Males - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total
Less than 20	15	0	0	0	0	0	0	15
20-24	911	18	0	0	0	0	0	929
25-29	3,185	851	12	0	0	0	0	4,048
30-34	2,466	2,679	568	9	0	0	0	5,722
35-39	1,787	2,135	1,754	489	6	0	0	6,171
40-44	1,747	1,995	2,067	2,265	1,077	31	0	9,182
45-49	1,519	1,709	1,687	1,710	2,443	824	27	9,919
50-54	1,473	1,647	1,521	1,266	1,639	1,624	847	10,017
55-59	1,384	1,542	1,426	1,188	1,281	1,232	1,424	9,477
60-64	960	1,082	1,022	818	671	496	747	5,796
65+	<u>461</u>	<u>540</u>	<u>470</u>	<u>311</u>	<u>223</u>	<u>159</u>	<u>333</u>	<u>2,497</u>
Total	15,908	14,198	10,527	8,056	7,340	4,366	3,378	63,773

Average Age 46.82

Average Service 12.19

Females - Full Years of Service to December 31, 2012

Age Group	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30+	Total
Less than 20	26	0	0	0	0	0	0	26
20-24	887	22	0	0	0	0	0	909
25-29	2,057	705	18	0	0	0	0	2,780
30-34	1,758	1,910	550	22	0	0	0	4,240
35-39	1,469	1,677	1,134	328	28	0	0	4,636
40-44	1,421	1,711	1,309	914	576	62	0	5,993
45-49	1,562	1,665	1,206	879	1,024	659	64	7,059
50-54	1,531	1,768	1,439	947	1,056	989	993	8,723
55-59	1,278	1,647	1,357	1,041	1,171	903	1,307	8,704
60-64	707	949	822	582	560	356	532	4,508
65+	<u>239</u>	<u>315</u>	<u>277</u>	<u>173</u>	<u>159</u>	<u>110</u>	<u>149</u>	<u>1,422</u>
Total	12,935	12,369	8,112	4,886	4,574	3,079	3,045	49,000

Average Age 47.20

Average Service 11.63

SCHEDULE L

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State Employees' Retirement System
III. Age and Benefit Profile of Annuitants and Beneficiaries as of December 31, 2012

Superannuation Annuitants

<u>Age</u>	<u>Male</u>		<u>Female</u>		<u>Total</u>	
	<u>Number</u>	<u>Annual Annuity</u>	<u>Number</u>	<u>Annual Annuity</u>	<u>Number</u>	<u>Annual Annuity</u>
Under 25	-	\$ -	-	\$ -	-	\$ -
25-29	-	-	-	-	-	-
30-34	-	-	-	-	-	-
35-39	-	-	-	-	-	-
40-44	-	-	-	-	-	-
45-49	-	-	-	-	-	-
50-54	452	18,029,944	134	4,533,075	586	22,563,019
55-59	1,531	59,514,217	1,076	42,065,071	2,607	101,579,288
60-64	5,566	190,985,854	3,959	124,333,797	9,525	315,319,651
65-69	7,938	249,838,227	4,635	114,211,726	12,573	364,049,953
70-74	6,115	179,950,845	4,140	85,149,532	10,255	265,100,377
75-79	4,532	111,173,213	3,216	52,114,421	7,748	163,287,634
80-84	3,446	72,501,790	2,819	34,142,043	6,265	106,643,833
85-89	2,475	43,609,886	2,457	25,817,030	4,932	69,426,916
90 & over	1,166	17,480,597	1,782	15,307,808	2,948	32,788,405
Total	33,221	\$ 943,084,573	24,218	\$ 497,674,503	57,439	\$ 1,440,759,076

Average Age 72.5
Average Annual Annuity \$25,083

State Employees' Retirement System
III. Age and Benefit Profile of Annuitants and Beneficiaries as of December 31, 2012

Disabled Annuitants

Age	Male		Female		Total	
	Number	Annual Annuity	Number	Annual Annuity	Number	Annual Annuity
Under 25	-	\$ -	-	\$ -	-	\$ -
25-29	-	-	-	-	-	-
30-34	13	149,334	12	137,634	25	286,968
35-39	36	477,808	34	398,384	70	876,192
40-44	121	1,897,326	119	1,443,758	240	3,341,084
45-49	268	4,418,833	208	2,802,190	476	7,221,023
50-54	435	7,944,430	491	7,808,612	926	15,753,042
55-59	705	12,967,120	753	12,367,901	1,458	25,335,021
60-64	856	14,031,992	951	14,379,109	1,807	28,411,101
65-69	649	8,743,541	690	9,121,733	1,339	17,865,274
70-74	393	4,287,494	392	3,814,713	785	8,102,207
75-79	205	1,831,263	271	2,338,217	476	4,169,480
80-84	115	1,117,302	164	1,237,835	279	2,355,137
85-89	55	510,117	67	483,194	122	993,311
90 & over	11	93,181	39	278,580	50	371,761
Total	3,862	\$ 58,469,741	4,191	\$ 56,611,860	8,053	\$ 115,081,601

Average Age 62.1
Average Annual Annuity \$14,291

State Employees' Retirement System
III. Age and Benefit Profile of Annuitants and Beneficiaries as of December 31, 2012

Beneficiaries and Survivor Annuitants

<u>Age</u>	<u>Male</u>		<u>Female</u>		<u>Total</u>	
	<u>Number</u>	<u>Annual Annuity</u>	<u>Number</u>	<u>Annual Annuity</u>	<u>Number</u>	<u>Annual Annuity</u>
Under 25	21	\$ 205,459	20	\$ 167,922	41	\$ 373,381
25-29	5	37,475	13	102,980	18	140,455
30-34	17	391,794	9	80,493	26	472,287
35-39	18	198,714	22	191,228	40	389,942
40-44	31	442,250	60	487,973	91	930,223
45-49	29	209,018	126	1,266,916	155	1,475,934
50-54	44	240,839	256	2,560,752	300	2,801,591
55-59	101	923,857	515	5,998,066	616	6,921,923
60-64	124	1,138,690	822	11,077,649	946	12,216,339
65-69	163	1,981,016	1,046	14,849,729	1,209	16,830,745
70-74	140	1,285,808	1,104	16,926,339	1,244	18,212,147
75-79	137	1,245,025	1,292	14,824,607	1,429	16,069,632
80-84	109	988,787	1,423	14,482,343	1,532	15,471,130
85-89	111	899,191	1,445	12,485,863	1,556	13,385,054
90 & over	39	240,022	1,146	7,717,398	1,185	7,957,420
Total	1,089	\$ 10,427,945	9,299	\$ 103,220,258	10,388	\$ 113,648,203

Average Age 74.7
Average Annual Annuity \$10,940

State Employees' Retirement System

Benefit and Contribution Provisions as of December 31, 2012 (as embodied in Act 31 of 1974, and amended through Act 181 in October 2012)

The State Employees' Retirement System makes provision for retirement, disability, and death benefits for all State employees, except those specifically excluded under Section 5301 of the SERC, and certain other eligible groups. The major provisions are summarized as follows:

Eligible Employees

- Class A-3 - All eligible employees hired after December 31, 2010, except members of the judiciary. Certain groups have effective dates after December 31, 2010 that are tied to the expiration of collective bargaining agreements. Members of the General Assembly who joined SERS on or after December 1, 2010 are also part of this class.
- Class A-4 - Same as Class A-3 except that this class is for members who elect to pay a higher member contribution amount and receive a higher benefit.
- Class AA - All eligible employees hired after June 30, 2001 but prior to January 1, 2011, except State Police Officers, members of the judiciary and legislators, and employees hired before July 1, 2001, who elected Class AA by December 31, 2001.
- Class A - State Police Officers hired on or after March 1, 1974 but prior to July 1, 2012, members of the judiciary who have not elected Class E-1 or E-2, legislators elected and became members before July 1, 2001, who have not elected Class AA or Class D-4 and Class A employees hired before July 1, 2001, who remained in Class A.
- Class D-4 - Legislators coming into service after June 30, 2001 but prior to December 1, 2010, who elect to be SERS members, and legislators who elected Class D-4 before July 1, 2001.
- Class E-1 - Judges who elect Class E-1.
- Class E-2 - Magisterial District Judges who elect Class E-2.

State Employees' Retirement System

Benefit and Contribution Provisions as of December 31, 2012 (continued) (as embodied in Act 31 of 1974, and amended through Act 181 in October 2012)

Age and Service Requirements for Superannuation (full formula benefits)

Class A-3 & Class A-4

General Conditions	Age 65 with three years of credited state service; or a total attained age and years of credited service of 92 (the "Rule of 92") with credited service being at least 35 years.
Legislators and certain enforcement officers	Age 55 with three years of credited state service.
Park Rangers & Capitol Police	Age 55 with 20 years of Park Ranger or Capitol Police credited service. If total credited service is less than 20 years, General Conditions apply.
State Police	Age 55. State Police are eligible for special unreduced benefits after 20 years of credited service, regardless of age; however, age 55 remains their superannuation age.

Class AA & Class A

General Conditions	Age 60 with three years of credited state service; or 35 or more years of credited service, regardless of age.
Legislators and certain enforcement officers	Age 50 with three years of credited state service.
Park Rangers & Capitol Police	Age 50 with 20 years of Park Ranger or Capitol Police credited service. If total credited service is less than 20 years, General Conditions apply.
State Police	Age 50. State Police are eligible for special unreduced benefits after 20 years of credited service, regardless of age; however, age 50 remains their superannuation age.

Class D-4

Age 50 with three years of credited state service.

Class E-1 & Class E-2

Age 60 with three years of credited state service; or 35 or more years of credited service, regardless of age.

State Employees' Retirement System

Benefit and Contribution Provisions as of December 31, 2012 (continued) **(as embodied in Act 31 of 1974, and amended through Act 181 in October 2012)**

Formula for Superannuation Annuity

The single life annuity applicable to members of Class AA and Class A-4 is equal to 2.5 percent of the high 3-year final average salary (FAS) of the member multiplied by the years and fractions of credited service.

The single life annuity applicable to members of Class A and Class A-3 is equal to 2 percent of the high 3-year final average salary of the member multiplied by the years and fractions of credited service.

The single life annuity applicable to Class A State Police is 50 percent of the highest full calendar year of compensation if the member has over 20 but less than 25 years of service. With more than 25 years of service the benefit is 75 percent of the highest annual salary.

The benefit accrual rates for other classes of members are as follows:

<u>Class</u>	<u>Benefit Accrual Rate</u>
D-4	3.0 percent
E-1	4.0 percent for each of the first 10 years of judicial service, dropping to 3.0 percent for each subsequent year of judicial service.
E-2	3.0 percent for each year of judicial service.

Members who have 41 or more years of combined Class A-3, A-4, A and AA service are entitled to a supplemental benefit ranging from 2 percent of the applicable single life annuity for members with 41 years of service to 10 percent of the applicable single life annuity for members with 45 or more years of service.

The benefit for a member who works past age 70 is at least equal to a benefit that is the actuarial equivalent of the prior year's benefit. This determination is made each year after age 70.

In addition to the above benefits, a member who has elected Social Security Integration Coverage is entitled to a single life annuity of 2 percent of the member's "Average Non-Covered Salary" for each year of Social Security Integration (SSI) coverage. All Class E members can elect SSI coverage. Other members must have elected SSI coverage before March, 1974. "Average Non-Covered Salary" is the average annual salary received while covered by the Retirement System since January 1, 1956 in excess of the maximum covered wages under Social Security.

State Employees' Retirement System

Benefit and Contribution Provisions as of December 31, 2012 (continued) **(as embodied in Act 31 of 1974, and amended through Act 181 in October 2012)**

Limitations on Annuity

In almost all cases, SERS benefits are limited to no more than 100 percent of compensation. An exception to this limit is the actuarial increase portion of the benefit for certain members eligible for actuarial increases due to retirement beyond age 70. For such members, the 100 percent of salary limit only applies to the base benefit. Also, the amount of annual retirement benefit a member may receive shall not exceed the dollar limit specified under Section 415(b) of the Internal Revenue Code. Benefits in excess of the 415(b) limit are paid through the Benefits Completion Plan.

Age and Service Requirements for Disability Retirement

A member is eligible for disability retirement if the member is unable to perform his or her current job and has at least 5 years of service. An officer of the State Police or enforcement officer does not have a service requirement.

Formula for Disability Benefit

The disability benefit is equal to the benefit calculated as of normal retirement age, based on years of credited service at disability, if the result is greater than or equal to 33-1/3 percent of FAS at time of disability. If the benefit so calculated is less than 33-1/3 percent of FAS, the disability benefit is equal to the smaller of:

- (a) the benefit calculated as of normal retirement age based on Service projected to retirement date, or
- (b) 33-1/3 percent of FAS at time of disability.

For service connected disabilities, the disability benefit payable will be increased, as needed, so that the sum of the plan benefit and the benefits paid or payable under the Workers' Compensation Act, The Pennsylvania Occupational Disease Act, and the Social Security Act equals 70 percent of FAS.

Eligibility for Vested Benefit

All Class A-3 and A-4 members have a vested entitlement to an annuity after 10 years of credited service. All other classes are vested after 5 years of credited service.

Vested Benefit

The vested benefit is equal to the benefit calculated using years of credited service at the time of leaving the plan. The former member can receive the full benefit beginning at normal retirement age, or an actuarially reduced withdrawal annuity beginning at any date after separation but before retirement.

State Employees' Retirement System

Benefit and Contribution Provisions as of December 31, 2012 (continued) **(as embodied in Act 31 of 1974, and amended through Act 181 in October 2012)**

For those not in Classes A-3 or A-4, the withdrawal annuity is reduced from the earlier of age 60, or the age at which the member would have 35 years of credited service. Benefits for Park Rangers and Capitol Police who have 20 years of credited service are reduced from age 50. Benefits for other members who have an age 50 superannuation age are reduced from age 50 irrespective of the amount of credited service they have.

For Classes A-3 and A-4, the withdrawal annuity is reduced from age 65. If prior to age 65 the member has both reached 35 years of credited service and met the conditions of the Rule of 92, then the member is eligible for unreduced benefits. Benefits for Park Rangers and Capitol Police who have 20 years of credited service are reduced from age 55. Benefits for other members who have an age 55 superannuation age are reduced from age 55 irrespective of the amount of credited service they have.

Eligibility for Death Benefit Prior to Retirement

A member is eligible if the member (1) is under superannuation age with 5 years (or 10 years under Classes A-3 and A-4) of credited service or (2) has attained superannuation age with 3 years of credited state service.

Amount of Death Benefit Prior to Retirement

An eligible beneficiary receives the full present value of the benefits to which the member would have been entitled had the member retired the day before he or she died, assuming the member had elected Option 1 if no other option had been elected. This death benefit includes the present value associated with benefits, if any, to which the member may not have been entitled because they exceeded the member's highest consecutive twelve months of salary and are limited by appropriate IRS limitations.

Death Benefits After Retirement

A member who elects the maximum single life annuity is entitled to a refund of the unpaid balance of the accumulated member contributions and interest at the time of retirement. A member may elect one of several optional reduced pensions in lieu of the maximum single life annuity to provide additional death benefit protection. The optional forms of benefit are actuarially equivalent to the maximum single life benefit using 4.0 percent interest per annum, and the actuarial equivalence factors described below.

The beneficiary of a disabled member who did not elect an alternative option receives benefits determined under Option 1. Option 1 provides that the beneficiary will receive a benefit equal to the present value of the maximum single life annuity at retirement reduced by any payments received by the annuitant. The Option 1 benefit is provided to a disabled member without any reduction in the member's benefit.

State Employees' Retirement System

Benefit and Contribution Provisions as of December 31, 2012 (continued) **(as embodied in Act 31 of 1974, and amended through Act 181 in October 2012)**

A Supplemental Death Benefit is payable to a beneficiary of a member who had a retirement benefit limited by 100 percent of final compensation. The Supplemental Death Benefit is the present value of the excess of the retirement benefit payable to the member before applying the 100 percent of final compensation limit, over the 100 percent of final compensation limit, subject to limits imposed by IRC Section 401(a)(9). If the benefit payable to the member is larger than the IRC Section 415(b) limit, the part of the Supplemental Death Benefit in excess of the IRC Section 415(b) limit will be payable from the Benefits Completion Plan. The Supplemental Death Benefit payment is in addition to any death benefit that may be paid as a result of the optional election.

The “Extra Piece”

The SERC provides for an “extra piece” to be added to the annual benefit if the member’s accumulated deductions exceed one-half of the actuarially equivalent value of the annual benefit. The extra piece is equal to the difference between the total accumulated deductions and one-half of the actuarially equivalent value of the annual benefit. This provision does not apply to Classes A-3 and A-4.

Cost-of-Living Allowances (COLAs)

Supplemental annuities applying cost-of-living increases to the benefits of annuitants have been instituted from time to time. The last cost-of-living increase was a two-stage increase under Act 2002-38. The first stage was applicable to annuitants who retired on or before July 1, 1990, and it became effective in July of 2002. The second stage provided cost-of-living increases to annuitants who retired after July 1, 1990, but prior to July 2, 2002, and it became effective in July of 2003.

Rate of Member Contribution

(i) **Regular member contributions, excluding Social Security Integration contributions**

<u>Class A-3</u> -	6.25 percent of total compensation
<u>Class A-4</u> -	9.30 percent
<u>Class AA</u> -	6.25 percent
<u>Class A</u> -	5.00 percent
<u>Class D-4</u> -	7.50 percent
<u>Class E-1</u> -	10.00 percent during the first 10 years of judicial service and 7.50 percent thereafter.
<u>Class E-2</u> -	7.50 percent

State Employees' Retirement System

Benefit and Contribution Provisions as of December 31, 2012 (continued) (as embodied in Act 31 of 1974, and amended through Act 181 in October 2012)

(ii) Additional contribution for Social Security Integration Credit

Any member who elects the Social Security Integration Credit pays 5.00 percent of any salary in excess of the amount of salary covered by Social Security during the year for which contributions are being made. A member electing to end additional contributions is ineligible to make future contributions or accrue future benefits.

(iii) Waiver of contributions

Members may elect to waive future contributions on an annual basis if their maximum single life annuity exceeds 110 percent of their highest calendar year compensation. This waiver does not apply to Classes A-3 and A-4.

Interest Credited on Member Contributions

A rate of 4 percent, the statutory rate of interest, has been credited on the member contributions since the inception of the system.

Refund of Accumulated Member Contributions

On the death of a member not qualifying for death benefits, the accumulated member contributions and interest will be paid to the beneficiary. Upon application, a member terminating service when not eligible for another form of benefit is paid a refund of the accumulated contributions and interest. Other terminating members may elect to receive a lump sum payment of a portion of the present value of their benefit, not to exceed their accumulated contributions and interest under Option 4 as part of the members' option. Their lump sum payment results in a decrease to the annuity benefit otherwise payable. Under Act 120, Classes A-3 and A-4 are not eligible to receive a lump sum and reduced annuity under Option 4.

Employer Contributions

The employer pays the balance of the cost in excess of the members' contributions with payment schedules determined by law. Act 2010-120 made changes to the SERS funding rules which have significantly affected the required employer contributions. See Section III of Schedule O for the details.

Actuarial Equivalence

The actuarial table used to determine optional and early retirement benefits for members who entered service after August 1983 is the 1983 Group Annuity Mortality (1983 GAM) Unisex table.

State Employees' Retirement System

Benefit and Contribution Provisions as of December 31, 2012 (continued)
(as embodied in Act 31 of 1974, and amended through Act 181 in October 2012)

Members who entered service before August 1983 receive the better of benefits based on the 1983 GAM table or a variation of the 1971 Group Annuity Mortality (1971 GAM) male table. The 1971 GAM table that applies in determining the benefits for members who entered service before August 1983 is:

For service before August, 1983:

- Males (members or survivors) – 1971 GAM for males
- Females (members or survivors) – 1971 GAM for males, set back 6 years

For service after August, 1983:

- Members (male or female) – 1971 GAM for males, set back 6 years
- Survivors (male or female) – 1971 GAM for males

Military Service

Act 2012-181, effective December 31, 2012, brought SERS into compliance with the federal Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act) and Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA) for State employees who go on military leave, and revised the purchase price formula for nonintervening military service for members seeking to purchase nonstate service credit for military service that does not qualify for USERRA benefits or that was performed before becoming a State employee. The primary impacts of Act 181 are:

- (i) Employees who return from USERRA qualified military leave receive vesting credit, even though they do not make member contributions to purchase credited service for the military leave.
- (ii) Employees who return from USERRA qualified military leave may make the member contributions that they would have made had they not gone on military leave and if they do so will be treated as if they remained in active State service for that time.
- (iii) Employees who die on military leave receive all SERS benefits that they would have received, except benefit accruals, as if they had returned to State service the day before their death.
- (iv) The Pennsylvania Military and Veterans Code provisions allowing State employees on military leave to continue to make member contributions and remain active members of SERS while on military leave have been repealed.

State Employees' Retirement System

Benefit and Contribution Provisions as of December 31, 2012 (continued) **(as embodied in Act 31 of 1974, and amended through Act 181 in October 2012)**

- (v) The purchase price for nonintervening military service for Class A-3 and Class A-4 members has been revised from the full actuarial value formula established in Act 2010-120 to the formula used by State employees who are members of the other classes of service, which is based on employee and employer normal contribution rates and the employees' compensation.

Given the past approach to funding the impact of military service-related events among SERS members and considering the overall changes in benefits related to military service and military leave resulting from Act 181, it was determined that Act 181 had no material impact on the future actuarial funding of SERS and thus did not produce a cost added by legislated benefit improvements that needed to be reflected in the final contribution rate.

State Employees' Retirement System

Actuarial Assumptions

This schedule shows the actuarial assumptions used for the valuation. With the exception of the investment return assumption, these assumptions were adopted by the Board based upon a review of experience under SERS from 2006 through 2010. Based upon subsequent review of the SERS investment data and results, the Board approved a reduction in the assumed annual investment return from 8.0% to 7.5% effective as of the December 31, 2011 actuarial valuation.

Schedule N contains an extract of the full set of rates used in the valuation. The full set of rates is in the Seventeenth Investigation of Actuarial Experience of the State Employees' Retirement System of the Commonwealth of Pennsylvania – January 12, 2011, which can be obtained from SERS. The rates are the probabilities that an event will occur in the year after the valuation and are all assumed to occur at the beginning of the year. For example, the male retirement rate of 25.0 percent at age 60 means that 250 of every 1,000 male employees age 60 and who are eligible for full benefits are expected to retire at the date of the valuation.

Interest Rate: 7.5 percent compounded annually. The assumed interest rate of 7.5 percent is the investment return less investment and administrative expenses.

Mortality After Retirement:

Non-disabled Retirees, Beneficiaries and Survivors: The RP-2000 Healthy Annuitant Mortality Table projected to 2008 and updated to reflect actual SERS experience through 2010. The table includes a margin for future improvement in life expectancy.

Disability Retirees: The RP-2000 Disabled Retiree Mortality Table projected to 2008 and updated to reflect actual SERS experience through 2010. The table includes a margin for future improvement in life expectancy.

Spouse Age Difference: Females are assumed to be 2 years younger than males.

State Employees' Retirement System

Actuarial Assumptions (continued)

Demographic Assumptions for General Employees while Active Members

Rates of Separation for Eligibility for Full Unreduced Benefits
(35 years of credited service under age 60; 3 years of credited service over age 60)

Representative Rates of Separation for Eligibility for Full Unreduced Benefits		
Age	Male	Female
53	25.0%	23.0%
54	26.0	23.0
55	27.0	23.0
56	28.0	23.0
57 – 59	30.0	23.0
60	25.0	25.0
61	20.0	20.0
62	25.0	25.0
63 – 64	20.0	20.0
65	25.0	25.0
66 – 79	20.0	20.0
80	100.0	100.0

Rates of Separation for Eligibility for Reduced Benefits
(only apply to members not eligible for full unreduced benefits)

Representative Rates of Separation for Eligibility for Reduced Benefits				
Age	5 – 14 Years of Credited Service		15 or More Years of Credited Service	
	Male	Female	Male	Female
25	1.0%	1.0%	N/A	N/A
30	1.5	1.5	N/A	N/A
35	1.5	1.5	1.5%	1.5%
40	1.0	1.0	1.5	1.5
45	1.0	1.0	1.5	1.5
50	1.0	1.0	2.0	2.0
55	1.0	1.0	5.5	5.5

State Employees' Retirement System

Actuarial Assumptions (continued)

Rates of Separation Due to Withdrawal

It is assumed that the benefit will be reduced from age 58 for general members (to factor 35 years of service before age 60) and from age 50 for members eligible for age 50 retirement.

Representative Rates of Separation Due to Withdrawal								
Age	Male				Female			
	Years of Credited Service				Years of Credited Service			
	0	5	9	14	0	5	9	14
20	20.7%	N/A	N/A	N/A	22.4%	N/A	N/A	N/A
25	16.2	0.8%	0.8%	N/A	20.5	2.7%	1.9%	N/A
30	13.9	0.8	0.6	0.6%	17.9	2.4	1.7	1.8%
35	13.6	0.7	0.4	0.4	12.8	1.9	1.2	1.3
40	13.0	0.5	0.4	0.4	10.0	1.9	0.7	0.5
45	12.1	0.5	0.2	0.2	9.8	1.8	0.7	0.5
50	11.3	0.5	0.2	0.2	9.8	1.8	0.4	0.5
55	11.3	0.6	0.6	0.6	9.8	1.5	1.2	1.2

Rates of Separation Due to Death and Disability

(Disability rates only apply to members not eligible for full retirement)

Representative Rates of Separation Due to Death and Disability				
Age	Death		Disability	
	Male	Female	Male	Female
20	0.04%	0.02%	N/A	N/A
25	0.04	0.02	0.02%	0.04%
30	0.05	0.02	0.07	0.09
35	0.06	0.03	0.12	0.16
40	0.08	0.04	0.19	0.21
45	0.12	0.06	0.33	0.33
50	0.22	0.09	0.46	0.50
55	0.27	0.14	0.60	0.63
60	0.32	0.24	N/A	N/A

State Employees' Retirement System

Actuarial Assumptions (continued)

For Special Benefit Classes if Different from General Employee Rates:

Rates of Separation Due to Withdrawal			
Years of Service	State Police/ Hazardous Duty	Legislators	Judicial Officers
0	15.0%	5.0%	2.0%
1	5.0	5.0	2.0
2	3.0	5.0	1.0
3	2.5	10.0	1.0
4	1.5	5.0	1.0
5	0.9	10.0	0.5
6	0.7	5.0	0.5
7	0.6	5.0	0.4
8	0.4	5.0	0.4
9	0.3	5.0	0.3
10+	0.2	1.3	0.3

Rates of Separation Due to Early Retirement at Any Age		
State Police/ Hazardous Duty	Legislators	Judicial Officers
0.8%	3.0%	0.5%*

* The Judicial Officer rate increase to 1.2% at beginning at age 50.

Representative Rates of Separation Due to Retirement other than State Police with 19 or More Years of Credited Service			
Age	State Police/ Hazardous Duty	Legislators	Judicial Officers
50	7.0%	5.0%	N/A
55	7.0	7.5	2.3%
60	12.0	12.0	5.0
65	25.0	25.0	10.0
70	25.0	25.0	100.0
75	25.0	25.0	N/A
80	100.0	100.0	N/A

State Employees' Retirement System

Actuarial Assumptions (continued)

Rates of Separation due to Retirement for State Police with 19* or More Years of Credited Service			
Years of Service	Rate	Years of Service	Rate
19* – 23	5.0%	31	20.0%
24*	15.0	32 – 34	40.0
25	50.0	35 – 39	50.0
26 – 29	20.0	40+	100.0
30	30.0		

* State Police with 19 and 24 years of service at the beginning of the year are assumed to retire at the point they reach 20 and 25 years respectively during the year and to receive the FOP award.

Years of Service Purchased by Eligible Members

Service	Number of Years Purchased
0	0.4
1	0.3
2	0.2
3	0.1
4+	0.0

It is assumed that the member will elect to pay for the reduction through an actuarial debt and that all purchased service is a 2 percent accrual. Under Act 2010-120 and Act 2012-181, the assumed years purchased as shown above were reduced by 9% for Classes A-3 and A-4.

Form of Payment: Members are assumed to elect the maximum benefit 33 percent of the time, some form of joint and survivor annuity 26 percent of the time, and some form of guaranteed present value (including joint and survivor with a guaranteed present value) 41 percent of the time. Also, 85 percent of members are assumed to elect a full Option 4 withdrawal of contributions and interest.

Career Salary Increases

The career salary scale shown on the following page includes average increases in the employee salary due to promotions and longevity growth. The average career salary growth is 3.15 percent

State Employees' Retirement System

Actuarial Assumptions (continued)

per year. In addition, it is assumed that the salary schedules will increase by 3.05 percent per year. The scale below does not include the assumed 3.05 percent general salary increase.

Career Salary Scale for Members			
Years of Credited Service	Annual Increase	Years of Credited Service	Annual Increase
1	8.00%	16	2.50%
2	6.00	17	2.40
3	4.50	18	2.30
4	4.00	19	2.20
5	3.75	20	2.10
6	3.50	21	2.00
7	3.25	22	1.90
8	3.20	23	1.80
9	3.15	24	1.70
10	3.10	25	1.60
11	3.00	26	1.50
12	2.90	27	1.40
13	2.80	28	1.30
14	2.70	29	1.25
15	2.60	30+	1.25

The above scale does not apply to members in Classes D and E. It is assumed that only the general salary increase (3.05 percent per year) would apply to members in these classes.

New Class A-3 and A-4 Assumptions

The following tables are the early and superannuation retirement rates applicable to the new Class A-3 and A-4 members.

State Employees' Retirement System

Actuarial Assumptions (continued)

Early Retirement Rates for Class A-3 and Class A-4 Active Employees with 10 or more Years of Service	
Ages	Rate
35	1.5%
40	1.5
45	1.5
50	2.0
55	5.5
60	5.5
61	6.0
62	20.0
63	10.0
64	15.0
65	N/A

Superannuation Retirement Rates for Class A-3 and Class A-4 Employees	
Age	Rate
55	15.0%
56	16.0
57	17.0
58	18.0
59	19.0
60	20.0
61	20.0
62	25.0
63	20.0
64	20.0
65	25.0
66 to 79	20.0
80	100.0

State Employees' Retirement System

Actuarial Methods

I. Asset Valuation

The actuarial value of assets is developed by recognizing the difference between the expected actuarial value of assets and the market value of assets over a five-year period. The expected actuarial value is last year's actuarial value brought forward to reflect actual contributions, benefit payments and expenses, and assumed investment income. Each year 20 percent of the difference between this expected value and the market value is recognized in determining the current actuarial value of assets with the remaining 80 percent to be recognized over the next four years.

II. Funding Method

The State Employees' Retirement System funding policy provides for employer contributions at actuarially determined rates that will amortize liabilities over a ten-year or 30-year period beginning with the July first following the measurement of the liability. See Section III below for details regarding the specific liabilities subject to amortization and the applicable amortization periods. This policy assures that the SERS is appropriately funded and also that the fund will accumulate sufficient assets to pay benefits when they are due. The policy is set by the State Employees' Retirement Board in conformance with specific legal requirements as to the method of funding.

A variation of the Entry-Age Actuarial Cost Method is used to determine the liabilities and costs related to all SERS benefits including retirement, withdrawal, death and disability benefits. The significant difference between the method used for SERS and the typical Entry-Age Actuarial Cost Method is that the normal cost is based on the benefits and contributions for new employees rather than for all current employees from their date of entry. The SERS variation should produce approximately the same results as the typical method over the long run.

III. Determination of the Annual Contribution

The annual employer contribution is equal to the sum of the following:

- (1) The employer share of the normal cost.
- (2) The fresh start amortization of the December 31, 2009 unfunded liability over a 30-year period beginning July 1, 2010 and ending on June 30, 2040.
- (3) The amortization of the change in liability due to Act 2010-120 over a 30-year period beginning July 1, 2011 and ending on June 30, 2041.
- (4) The amortization of changes in liability due to actual experience differing from assumed experience after December 31, 2009 over 30-year periods beginning with the July first following the actuarial valuation determining such changes.
- (5) The amortization of benefit improvements, including cost-of-living increases, over 10-year periods beginning with the July first following the actuarial valuation determining such changes.

State Employees' Retirement System

Actuarial Methods (continued)

The amortization payments are level amounts over the remaining applicable amortization period. The employer cost is determined as a percent of compensation, and the employer contributes that percent of the compensation of all covered members during each fiscal year. The actuarially determined employer cost for fiscal year 2013/2014 is the total of (1) the employer normal cost percent and (2) the net amortization payment for fiscal year 2013/2014 divided by the projected covered compensation for the fiscal year. However, Act 2010-120 established employer contribution collars for the purpose of temporarily limiting the extent of annual increase in the employer contribution rate.

To determine the maximum 2013/2014 employer contribution rate under Act 2010-120, we add the fiscal 2013/2014 contribution collar of 4.5 percent of payroll to the final 2012/2013 employer contribution requirement of 11.50 percent of payroll, to produce a result of 16.00 percent of compensation. It should be noted that, since the December 31, 2011 actuarial valuation, Act 2012-181 became law. Act 181 amended certain military service-related provisions of the SERC effective December 31, 2012. However, neither Act 181 nor any other legislation enacted since the prior valuation resulted in any costs added by legislated benefit improvements that would impact the December 31, 2012 actuarial valuation results. Therefore, the 2013/2014 employer contribution rate is limited to 16.00 percent of covered compensation, well below the actuarially determined rate (31.22 percent of covered compensation) that would otherwise be required. The 4.5 percent contribution collar established under Act 2010-120 will limit the annual increase in the employer contribution rate for each fiscal year after fiscal 2012/2013 until the collar ceases to apply, after which the actuarially determined contribution rates apply (subject to a minimum employer contribution rate equal to the employer normal cost percent).

The assumptions used in determining the actuarial cost are stated in Schedule N, and the employer cost, as a percent of covered compensation, is determined in Schedules A and B. Except for the 7.5 percent investment return assumption, which has been used since the December 31, 2011 valuation, the assumptions used for the current valuation were based upon an evaluation of SERS experience from 2006 through 2010.

The annual investment return assumption is 7.5 percent. Salary growth is the total of assumed increases in salary rates and career salary growth. It is generally assumed that the total payroll will increase at 3.05 percent per year and that employee career salary growth (promotion and longevity growth) will average an additional 3.15 percent per year. Therefore, the average total salary growth for an individual will generally be 6.20 (3.05 plus 3.15) percent per year. The investment return and the salary rate increase assumptions are based on an assumed underlying inflation of 2.75 percent per year.

All costs and liabilities have been determined in conformance with generally accepted actuarial principles and procedures in accordance with the principles of practice prescribed by the Actuarial Standards Board of the American Academy of Actuaries. The calculations were performed on the basis of actuarial assumptions and methods, which are internally consistent, and reasonable (taking into account past experience under SERS and reasonable expectations) and which in combination represent the best estimate of anticipated experience under the plan.

State Employees' Retirement System

Actuarial Methods (continued)

IV. Allocation of the Annual Contribution Among Employer Groups

The annual employer contribution (total employer cost) is expressed as a percentage of the total projected covered compensation for active members. This amount is reflected on Schedule B, line IV. and is referred to as the total employer cost. The total employer cost is the average contribution amount that needs to be received from the employer groups participating in the system. Therefore, some employer groups contribute a higher percent of compensation, and some employer groups contribute a lower percent of compensation.

Schedule C develops the contribution rate for each of the employer groups. The allocation method used to determine the employer rate takes into consideration the cost of additional benefits for special classes of members. For example, the contribution rate for Class E members takes into consideration the additional accrual rate those members receive at retirement. The Base Contribution Rate (column 2 on Schedule C) is determined as the percentage needed to produce employer contribution amounts by class that, when added together, equal the total employer contribution.

The following is an explanation of the elements of Schedule C.

Column (1) is the employer group.

Column (2) is the Base Contribution Rate. The Base Contribution Rate is the amount needed to fund the benefits for Class A-3 (65) members. Because the majority of SERS new entrants will be covered under Class A-3 (65), the 2.0 percent accrual rate for that class is used to determine the base contribution rate.

Column (3) is the additional cost for members who are eligible to retire with unreduced benefits at age 50 or 55. The age 50/55 normal cost is determined for two groups of members: members who can retire at age 50/55 if they have 3 years of credited service, and members who can retire at age 50/55 once they obtain 20 service credits. Park Rangers and Capitol Police fall into the latter category. The additional cost for members who can retire at age 50/55 if they have 3 years of credited service is larger than the additional cost for members who can retire at age 50/55 if they have 20 years of credited service.

Column (4) is the multiplier adjustment to the basic benefit, which is applicable to members in classes that receive a different percent accrual rate than the accrual rate for Class A-3 members. The normal cost is determined for members who would receive the standard 2.0 percent single life annuity set by Act 120 (Class A-3). For example, members in Class AA receive an annuity equal to 1.25 times the standard Class A-3 single life annuity. The multiplier adjustment (Column (4)) for Class AA is 1.4472, which includes the 1.25 multiplier plus some additional adjustments (e.g., differences in superannuation age and limitations on Option 4 withdrawals under Act 120). There currently are no multiplier adjustments less than the 1.0.

State Employees' Retirement System

Actuarial Methods (continued)

Column (5) is the past-service liability component for certain employee groups. These employee groups were granted benefit improvements that were retroactive at the date of passage and, therefore, cover all credited service for the class. Upon establishment of a benefit improvement it was determined that the employers of the individual employee group, not the Commonwealth, would fund the benefit improvement.

At implementation of the new benefit provision, a liability is established for the members who are eligible for the new benefit provisions, and a schedule is determined to pay off the increase in liability. For example, Park Rangers and Capitol Police Officers were formerly covered under the age 60 retirement provisions. Effective with the valuation at December 31, 1992, Park Rangers and Capitol Police Officers became eligible to retire at age 50 upon attaining 20 years of service. At that valuation, a liability was established that would fund the increase in benefits.

The liability for the increase in benefits for past service is paid off in equal installments by the employers of the member group. Each year, the annual contribution as a percent of payroll is determined as the annual payment divided by the funding payroll for the group. The outstanding balance is carried forward with interest each year.

The following table shows the payment schedule for the two groups of employees who have a past service liability.

Amortization Schedule for Past Liabilities		
Employer Group	Payment	Last Payment (fiscal year beginning)
State Police	\$17,596,938	July 2029
Park Rangers / Capitol Police	\$87,124	July 2027

Column (6) is the adjusted contribution rate, and is equal to column (2) plus column (3), multiplied by column (4). Column (5) is added.

Column (7) is the projected compensation for the class of employees. The projected compensation is for the fiscal year to which the contribution rate is applicable.

Column (8) is the dollar amount of the employer group contribution. Except when the base employer contribution rate is zero, the sum of the dollar amounts for each group is (approximately) equal to the total employer contribution (as a percent of covered compensation) multiplied by the total projected covered compensation for the active members.

State Employees' Retirement System

Actuarial Methods (continued)

V. Plan Provisions Not Valued

The cost effect of two plan provisions was not included in this valuation because the effect of the provisions is minimal. These are the limit on the amount of retirement benefit imposed by Section 5702(c) (100 percent limit) and the supplemental death benefit payable when the retirement benefit is limited by Section 5702(c).

These two provisions are not valued because they only apply to very few SERS members. Since by definition the liability for the supplemental death benefit is lower than the reduction in liability for the 100 percent limit, the net effect of not including these provisions in the actuarial valuation is a minimal overstatement in the total employer cost.

VI. Determination of Present Value of Benefits for Inactive and Vested Members

The present value of benefits for inactive members not currently receiving benefits is determined using the same methods and procedures as for active members. They are valued using the final average compensation and service as of separation and are assumed to begin receiving benefits in accordance with the active employee assumptions.

State Employees' Retirement System

Glossary

Accrued Service. Service credited under the system, which was rendered before the date of the actuarial valuation.

Active Participants. Active members who are in a position covered by SERS and on payroll, on leave with pay, or on certain unpaid leave (e.g., military leave). Inactive members on leave without pay are also included as active participants if there is an expectation they will return to paid service.

Actuarial Accrued Liability. The portion of the actuarial present value of benefits not provided for by the actuarial present value of future normal costs. Also referred to as Past Service Liability.

Actuarial Assumptions. Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, investment income and salary growth. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the actuarial present value of future benefits between future normal costs and the actuarial accrued liability.

Actuarial Present Value. The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting projected future payments at assumed rates of interest and probabilities of payment.

Amortization. Paying off an amount with periodic payments of interest and principal -- as opposed to paying off with a lump sum payment.

Annuitants. Participants of SERS who are currently receiving benefits for reason of superannuation retirement, early retirement, deferred retirement, or disability retirement.

Beneficiaries and other payment recipients. Beneficiaries, survivors or alternate payees who are receiving benefits as a result of the death of an active member or annuitant or due to a divorce (based upon a domestic relations order).

Funding Payroll. The contribution determinations for the funding of SERS are based on a fiscal year running from July 1 to June 30. The Total Annualized Compensation is adjusted to an appropriate fiscal year Funding Payroll using the salary scale assumption and expected turnover and replacement estimates.

Inactive and Vested Participants. In general, inactive and vested participants are former active members who are not expected to return to paid service in a position covered by SERS. Inactive and vested participants include employees on furlough as well as employees with prior SERS service currently participating in the Pennsylvania Public School Employees' Retirement System

State Employees' Retirement System

Glossary (continued)

(PSERS). All inactive and vested participants are entitled to either a refund of accumulated deductions from SERS or a monthly benefit. Inactive and vested participants will eventually change statuses; for example, they may terminate non-vested and receive a refund of their accumulated deductions, they may retire and commence annuity payments, they may return to active membership, etc.

Total Annualized Compensation. The Total Annualized Compensation is a snapshot of compensation on December 31. For full-time employees, it is equal to the compensation during the calendar year ending December 31. For part-time employees, compensation is annualized using the current rate of compensation times the appropriate number of pay periods.

Total Normal Cost. The portion of the actuarial present value of future benefits that is allocated to the current year by the actuarial cost method.

Unfunded Actuarial Accrued Liability. The difference between actuarial accrued liability and the actuarial value of assets.