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- State of the Fund

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Take Our Call Center Survey

In an effort to continually evaluate and improve, PSERS is asking for your help. As you may know, PSERS maintains a call center to answer questions. For the next few weeks, we will be conducting an online survey to learn about your experiences with this service and how it can be improved to meet your needs. To complete the survey, go to the home page of the PSERS website (www.psers.state.pa.us) and click on the box "Take Our PSERS Call Center Survey."

The survey is intended for all members—and we invite you to participate even if you have never called the call center. The survey will be brief (it should take no more than about 10 minutes), and, if you want to provide additional comments, you will have the opportunity to do so. We encourage you to be candid. It will not be necessary to include your name or identifying information.

To ensure that we hear from members who have current experience with the call center, we will also be conducting an optional telephone survey for those who call in February. If you call then, you will have the opportunity to participate in an automated phone survey by staying on the line for a few minutes at the end of your call.

Whether you complete the survey on our website, by telephone, or both, your feedback will help PSERS provide better service. Please take the time to respond. We thank you for participating.

Misconceptions about Retirement

The decision to retire will be one of the most important ones in your life. For the most part, your decision is irrevocable. Over the course of this year, we will cover some of the most common misconceptions PSERS' members have when preparing for retirement.

Misconception: 55/25 is normal retirement.

Normal retirement means there is no early reducing factor. Eligibility for normal retirement differs depending on your membership class with PSERS. Please refer to the Active Member Handbook on the PSERS website to see the requirements for normal retirement.

55/25 is **not** normal retirement. Once you reach age 55 with 25 years of service, the early retirement reducing factor goes down to a maximum of 3% per year. Early retirement reducing factors normally range between 4% and 7% per year, for each year less than the closest point of normal retirement.

(continued on page 2)

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(except holidays):
8:00 a.m. - 5:00 p.m.

Website Address:
www.psers.state.pa.us
Email Address:
ContactPSERS@pa.gov

PSERS is proud to be an equal opportunity employer supporting workforce diversity.

(Misconceptions...continued from page 1)

Misconception: Pension income is always less than working income.

You will have fewer deductions from your PSERS monthly benefit than from your school paycheck, so your take-home pay may actually be larger after you retire. The only taxes that currently are withheld on PSERS annuitants' monthly benefit in Pennsylvania are federal income taxes. Many annuitants find that they receive a higher net pay in retirement than the salary they received while working because they no longer have deductions like union dues, state and local earned income taxes, and contributions to PSERS.

Misconception: It is always advantageous to defer retirement until there are no early reducing factors.

Members should carefully consider both the possible gains (and possible losses) involved in delaying a benefit until attaining normal retirement status. It is not always worth avoiding the early retirement reduction when deciding to retire. The impact on your benefit by working those few extra months might not make much of a difference.

Please refer to the following example. What are you willing to give up, to eliminate ALL early reducing factors?

Example:

Joan is a Class T-D member with 25 years of service. Her final average salary is \$82,000. She terminates employment on June 15, but will not turn age 62 until her birthday next March 15. Joan considers delaying receipt of any retirement benefits to eliminate all early reducing factors at 62.

Based upon the monthly option Joan is considering, she would be eligible to receive a monthly benefit of \$4,175 if her benefit becomes effective as of a June retirement date. This includes her early reducing factors.

If vesting her benefits until age 62, Joan would be eligible to receive a monthly benefit of \$4,271. The \$96 difference sounds pretty substantial, right?

BUT, what exactly does Joan give up to gain this additional \$96 per month? Based upon a June retirement date, Joan could have received the following:

Monthly benefits of \$4,175 x 9 months = \$37,575.

By delaying retirement, Joan would forfeit \$37,575 to receive an extra \$96 per month. Consider how long it would take her to recover the forfeited benefit payments:

$$\$37,575 / \$96 = 391.40$$

forfeited total / increase in benefit = # of monthly payments to recover

It would take 391.40 months, 32.61 YEARS, to recover!

Updating Addresses

Each year, the United State Postal Service (USPS) returns more than 7,500 pieces of mail to PSERS due to incorrect addresses. It is essential for PSERS to have your correct mailing address in order for you to receive important time-sensitive communications and newsletters.

If you are currently working in a Pennsylvania public school, please report any change of address to your employer. Your employer will submit the information to PSERS. If you left employment and have deferred receiving your retirement benefit until later, submit your address change to PSERS in writing.

You must include your signature and the last four digits of your social security number in the letter to assure proper identification of your account.

Building a Foundation For Your Future

Regardless of how close you are to retirement or the position you hold within a public school entity, you should attend *Foundations For Your Future* (FFYF) seminars. These seminars disseminate basic information crucial to successfully understanding and planning for a retirement benefit from PSERS. While our website contains a large number of helpful resources, we want to present to our members a condensed version of all that information. FFYF seminars are held around the Commonwealth throughout the year and allow members to meet and interact with a PSERS retirement counselor.

Each seminar lasts approximately 90 minutes. A complete list of seminars and a copy of our FFYF presentation can be found on the PSERS website under "Regional Office." Your employer will also have information about FFYF programs in your area.

If a seminar is scheduled at a school and that specific school has closed or dismissed early because of inclement weather, the seminar will be cancelled. Please check the PSERS website to verify that the date and/or location of the meeting has not changed due to weather conditions or other unforeseen circumstances.

PSERS Board of Trustees Meeting Schedule

March 11, 2016
June 10, 2016
October 7, 2016

PSERS Board meetings are held in Harrisburg at PSERS, located at 5 N 5th Street. In addition to these Board meetings, Committee meetings are held throughout the year. All PSERS Board meetings are open to the public.

For exact meeting times or if you would like to attend and require an accommodation to participate, please call Barbara Book, PSERS Executive Office at 1.888.773.7748, extension 4617.

Public School Employees' Retirement System as of June 30, 2015

A summary of the state of PSERS funding as of June 30, 2015, is listed below and on the following three pages. More detailed information is available in the publication, *Comprehensive Annual Financial Report as of June 30, 2015*, which can be viewed on PSERS' website at www.psers.state.pa.us through the Publications page.

Net Position Held in Trust

PSERS is the 20th largest state-sponsored public defined benefit pension fund in the nation and the 30th largest among public and corporate pension funds in the nation. The fund's net position decreased by \$1.3 billion since June 30, 2014. This decrease was due in large part to deductions for benefits and administrative expenses exceeding net investment income plus member and employer contributions.

| | Fair Value (in Billions) |
|--|--------------------------|
| Total Assets of the Fund (receivables, investments, fixed assets, etc.) | \$ 54.1 |
| Total Liabilities of the Fund (payables, obligations under securities lending, etc.) | 2.2 |
| Total Plan Net Position Held in Trust | \$ 51.9 |

Investments

As of June 30, 2015, total investments, which comprise the majority of PSERS' overall net position held in trust, by asset class were as follows:

| | Fair Value (in Billions) |
|--|--------------------------|
| Short-term investments | \$ 3.8 |
| Fixed income investments | 5.1 |
| Common and preferred stock investments | 11.4 |
| Collective trust funds | 13.1 |
| Real estate investments | 6.4 |
| Alternative investments | 10.8 |
| Total investments as of June 30, 2015 | \$ 50.6 |

Contributions

During the 2014-2015 school year, the employer contribution rate was 21.40% of the employer's payroll. For the 2015-2016 school year, the rate increased to 25.84%. Both the employer and the Commonwealth are responsible for paying a portion of the employer's share. Employers are divided into two groups: school entities and non-school entities. School entities are responsible for paying 100% of the employer share of contributions to PSERS. The Commonwealth reimburses the employer 50% of the payment for employees hired on or before June 30, 1994. For employees hired after June 30, 1994, based on a statutory formula, school entities are reimbursed by the Commonwealth a minimum of 50% of the payment. Non-school entities and the Commonwealth each contributed one-half of the total employer rate (10.20%) for school year 2014-2015.

Employee & Employer Rate History

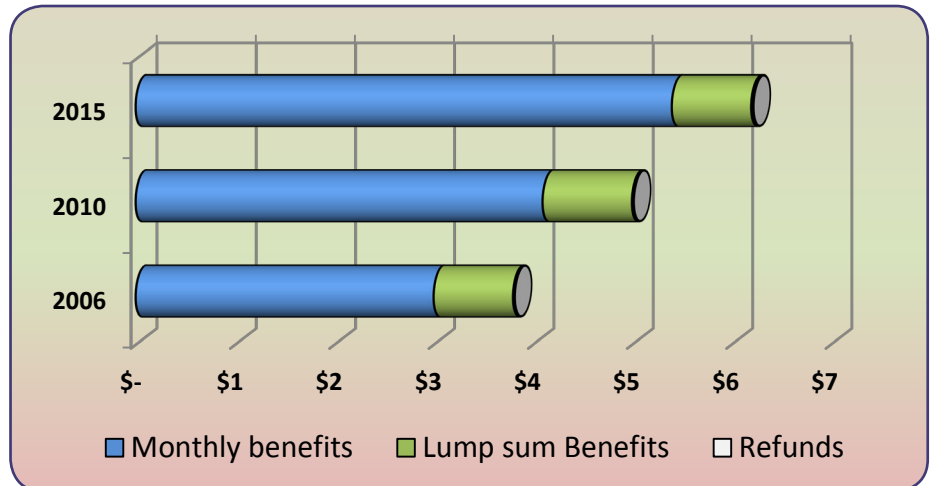
| Fiscal Year Ended June 30 | Employee Contribution Rate* | Employer Contribution Rate | Cumulative Yearly Salaries Paid to School Employees |
|------------------------------|--|----------------------------|---|
| 2015 | 6.50%/7.50% or 5.25%/6.25% or 7.5%/10.3% | 21.40% | \$12.9 Billion |
| 2014 | 6.50%/7.50% or 5.25%/6.25% or 7.5%/10.3% | 16.93% | \$12.8 Billion |
| 2013 | 6.50%/7.50% or 5.25%/6.25% or 7.5%/10.3% | 12.36% | \$12.8 Billion |
| 2012 | 6.50%/7.50% or 5.25%/6.25% or 7.5%/10.3% | 8.65% | \$12.9 Billion |
| 2011 | 6.50%/7.50% or 5.25%/6.25% | 5.64% | \$13.3 Billion |

* Rate is dependent on membership class, which is based on an employee's date of membership eligibility. The "7.5%/10.3%" beginning in 2012 represents membership classes TE and TF, respectively.

Benefit Payments (Amounts in Billions)

Highlights on Payment of Benefits:

1. PSERS paid \$6.2 billion in total benefit payments (including benefits, lump-sum and installment payments, refunds, and net transfers to SERS) for the fiscal year ended June 30, 2015.
2. PSERS' current monthly retirement payroll exceeds \$456 million.

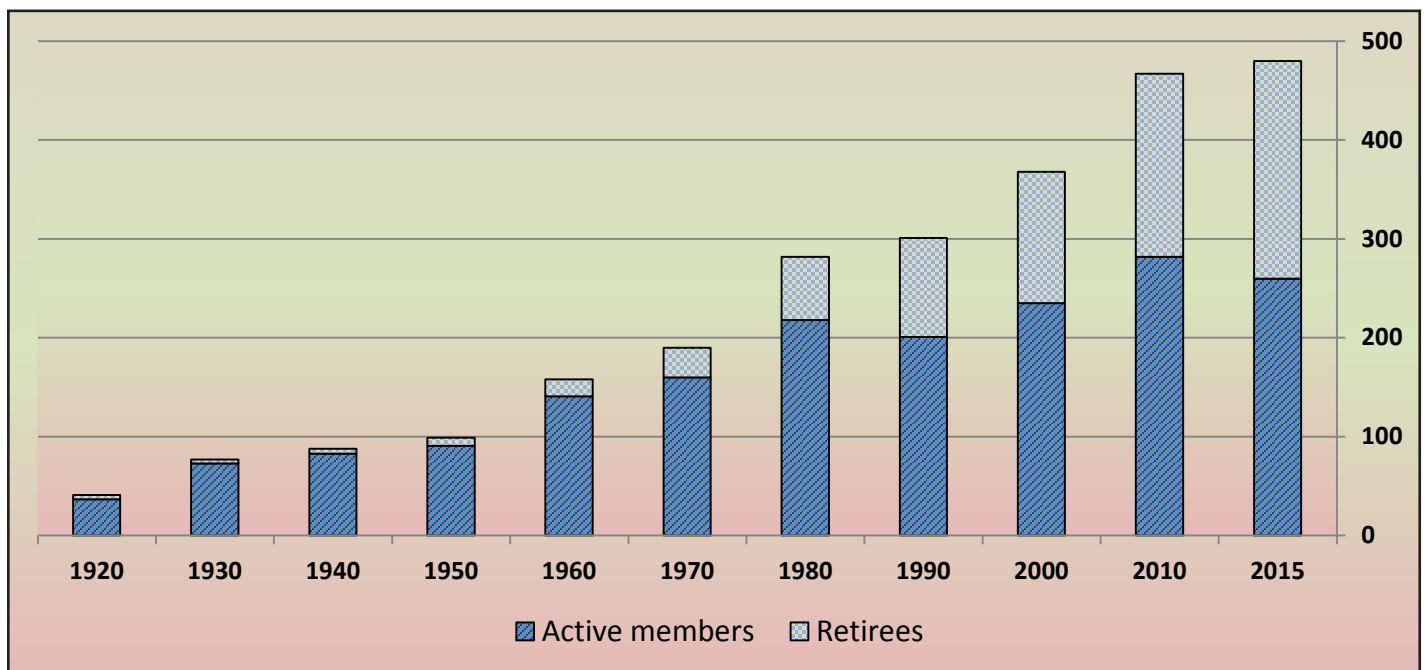


Total Membership - Active & Retired (in Thousands)

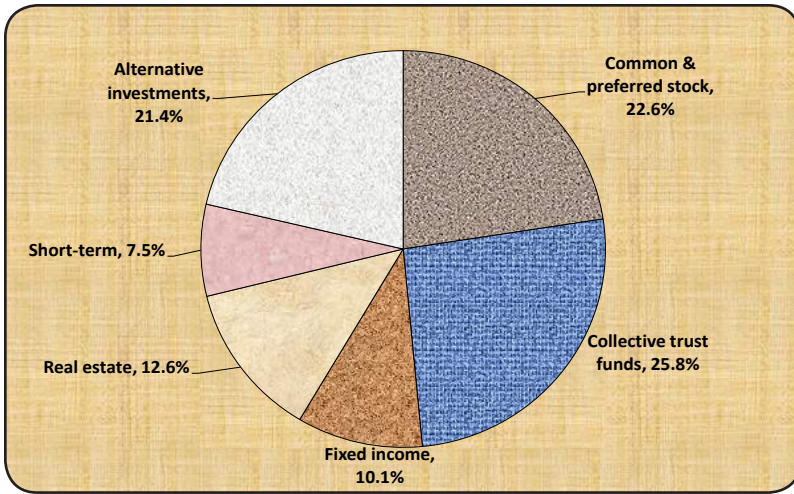
Highlights on Membership Statistics:

This bar chart below is based upon actuarial valuation statistics through June 30, 2015. PSERS' newest member population totals show the number of retired members and survivors/beneficiaries now to be approximately 220,000 and the active contributing membership to be approximately 260,000.

From 2006 to 2015, the retired membership increased by approximately 35.8% and the active membership has decreased by approximately 1.1%.



Investment Portfolio Distribution at June 30, 2015 (Fair Value)



Highlights on Investments:

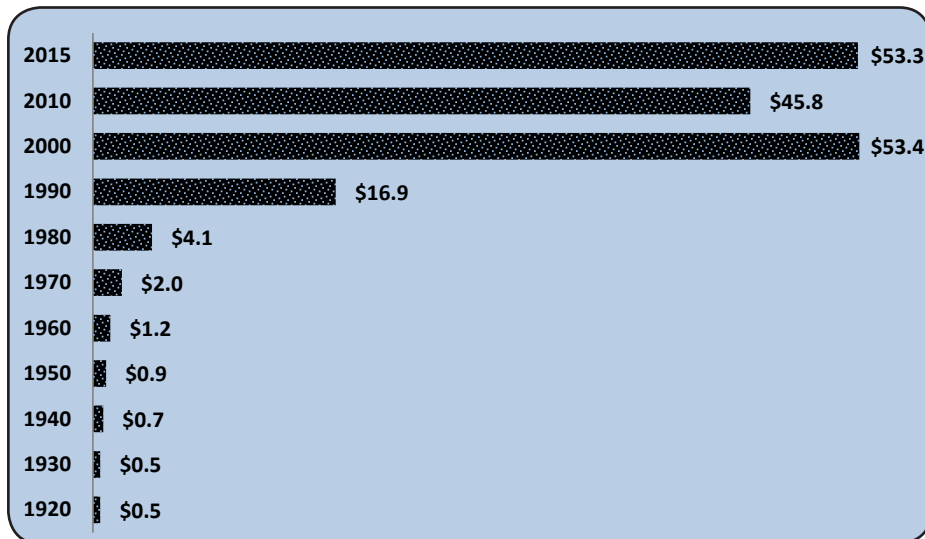
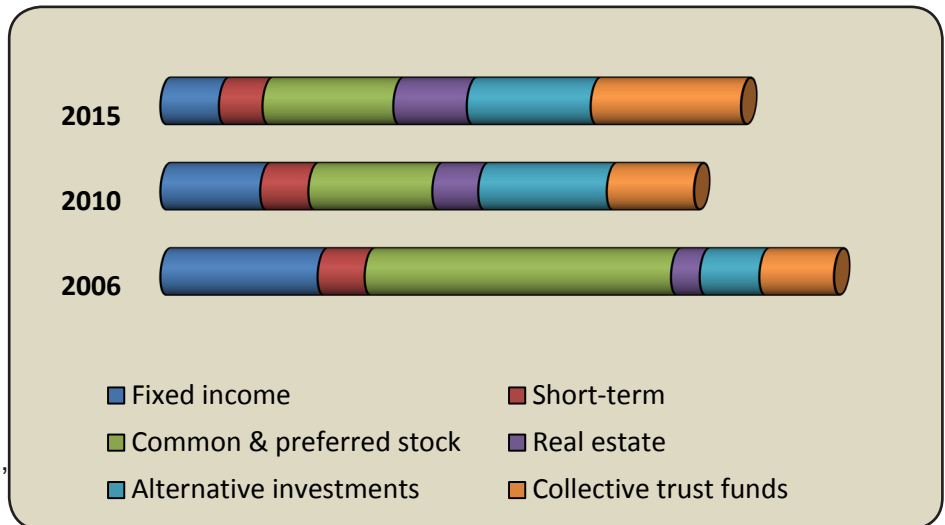
The five largest individual domestic common and preferred stocks in PSERS' domestic portfolios (in millions) as of June 30, 2015, were:

| | Fair Value |
|-----------------------------------|------------|
| AllianceBernstein Factor Risk | |
| Premia Fund, L.P. | \$ 189 |
| Security Capital Preferred Growth | 183 |
| Apple Computer, Inc. | 81 |
| Microsoft Corporation | 40 |
| Exxon Mobil Corporation | 39 |

Investment Portfolio Distribution - 10-Year Trend (Fair Value - Amounts in Billions)

Highlights on Investments:

1. In 2006, PSERS' investments at fair value were \$58.7 billion compared to 2015's \$50.6 billion.
2. PSERS' common & preferred stock investments were 45.5% in 2006 and 22.5% in 2015 of the fair value of PSERS' total investments.
3. PSERS' investments from 2005 to 2014 have shown a reallocation common & preferred stock investments to real estate, alternative, and collective trust investments.



Net Position Restricted for Benefits (Amounts in Billions)

PSERS is the 20th largest state-sponsored public defined benefit pension fund in the nation and the 30th largest among public and corporate pension funds in the nation.

**Comparison of Total Accrued Liabilities to Total System Assets
For Valuation Years 2015, 2010, and 2006 (\$ Amounts in Billions)**

| Year | (A) Accrued Liabilities* | (B) Actuarial Value of Assets | (A) - (B) (Unfunded) Funded Accrued Liability** | (B) / (A) Funded Ratio*** |
|------|-----------------------------|----------------------------------|--|------------------------------|
| 2015 | \$ 94.7 | \$ 57.4 | \$ (37.3) | 60.6% |
| 2010 | \$ 79.1 | \$ 59.4 | \$ (19.7) | 75.1% |
| 2006 | \$ 64.7 | \$ 52.6 | \$ (12.1) | 81.2% |

* Accrued Liabilities - Generally PSERS' benefit obligations to current retirees and future benefits to be paid to active members who eventually retire.

** Unfunded Accrued Liability - Shows the portion of the accrued liabilities not covered by assets available to PSERS at the end of the valuation year.

*** Funded Ratio - Measurement used to show PSERS' progress toward funding pension obligations.

Condensed Statement of Fiduciary Net Position as of June 30, 2015

| | | |
|---|--|---------------|
| Assets: | | |
| Receivables: | | |
| Contributions due from members and employers | | \$ 1,114 |
| Investment receivables and other miscellaneous | | 1,222 |
| Total Receivables | | <u>2,336</u> |
| Investments (at fair value) | | 50,579 |
| Securities lending collateral pool | | 1,207 |
| Capital assets | | 23 |
| Total Assets | | <u>54,145</u> |
| Deferred outflows of resources | | 4 |
| Liabilities: | | |
| Benefits and other accounts payable | | 756 |
| Investment purchases and other liabilities | | 301 |
| Obligations under securities lending | | 1,207 |
| Total Liabilities | | <u>2,264</u> |
| Deferred inflows of resources | | - |
| Net Position - restricted for pension and postemployment healthcare benefits | | <u>51,885</u> |

Condensed Statement of Changes in Fiduciary Net Position for Year Ended June 30, 2015

| | | |
|--|------------------|---|
| Net Assets - restricted for pension and postemployment healthcare benefits at beginning of year, July 1, 2014, as restated | \$ 53,220 | A |
| Additions during the year: | | |
| Contributions, Participant premiums, and Centers for Medicare & Medicaid Services | 4,022 | |
| Net investment income | 1,329 | |
| Total Additions | <u>5,351</u> | B |
| Deductions during year: | | |
| Benefits and refunds paid to members | 6,613 | |
| Administrative expenses | 73 | |
| Total Deductions | <u>6,686</u> | C |
| Change in Net Position restricted for pension and postemployment healthcare benefits (B - C) | (1,335) | D |
| Net Position - restricted for pension and postemployment healthcare benefits at end of year, June 30, 2015 (A + D) | <u>\$ 51,885</u> | |

Detailed information regarding the financial statements is available in the PSERS' *Comprehensive Annual Financial Report* (CAFR). The CAFR financial statements are presented in conformity with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The CAFR is available on PSERS' website, www.psers.state.pa.us, through the Publications page, or call 1.888.773.7748 for a copy.

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Public School Employees' Retirement System
Important Information from the
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