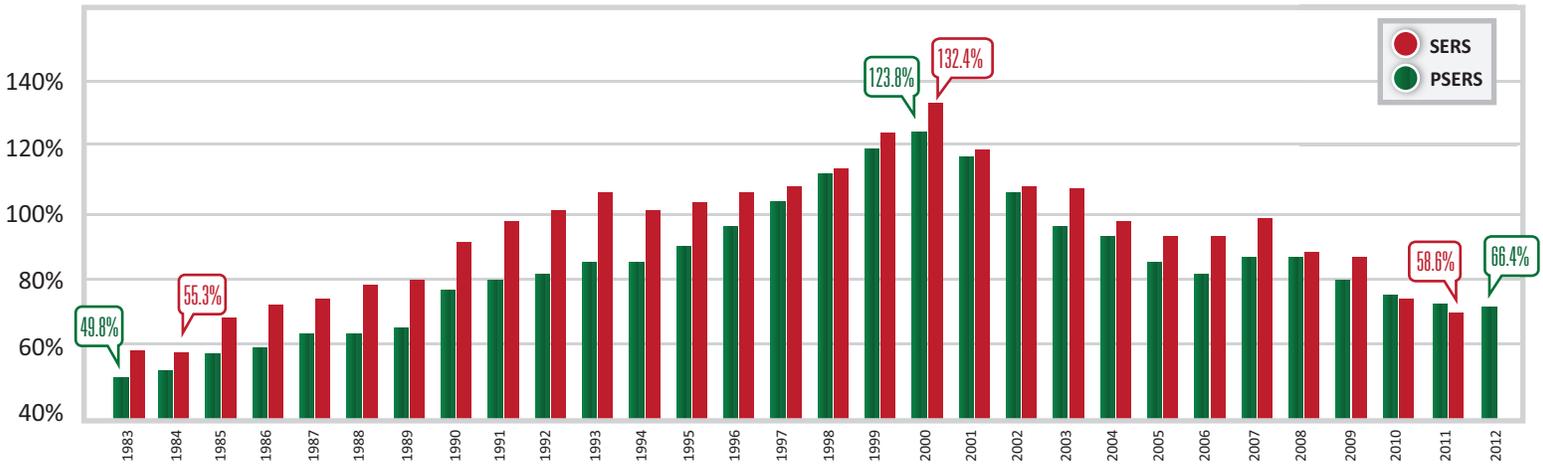


THE McCord Report

A quarterly look at Pennsylvania's economic vital signs

Funded Ratios

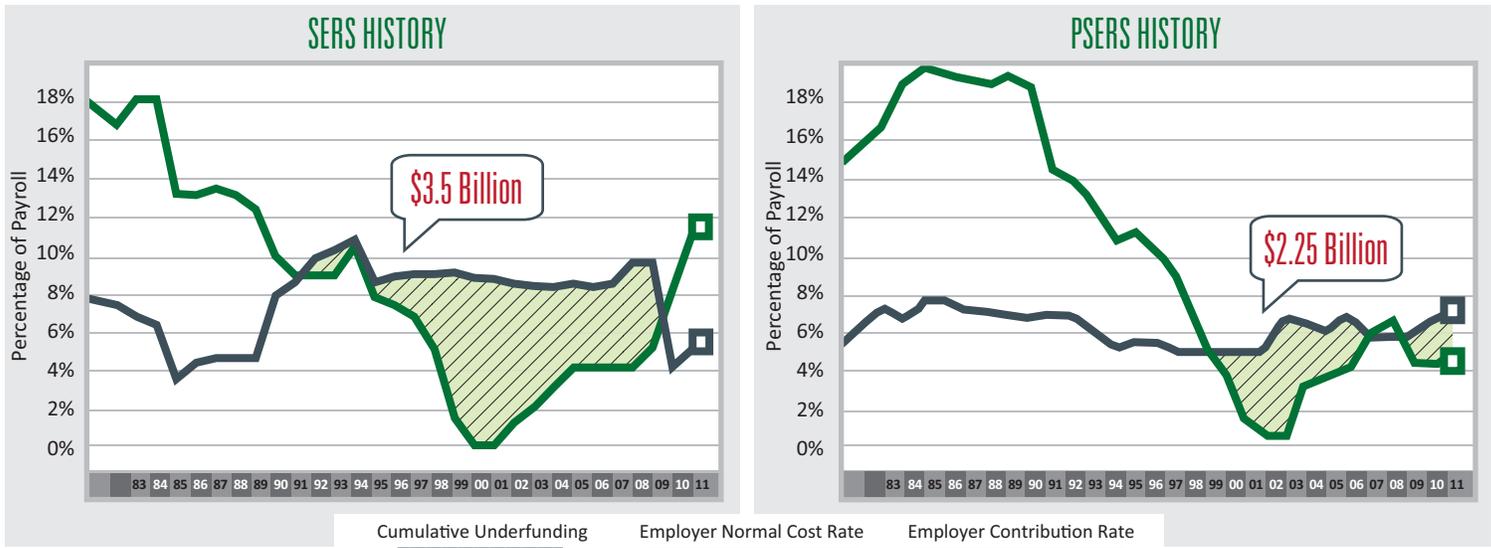
The respective actuarial funded ratios of the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS) have changed over the past three decades. These ratios provide a measurement of future liabilities to the projected future value of present assets. According to the most recent actuarial reports, SERS has a current funded ratio of 58.6% (as of December 31, 2011) and PSERS's funded ratio was 66.4% as of June 30, 2012. SERS's fiscal year coincides with the calendar year, while PSERS's fiscal year mirrors the state's (July 1 – June 30). All data here is presented as of the respective system's fiscal year end.



Source: Pennsylvania Public Employees Retirement Commission annual reports

Employer Contribution Rates vs. Normal Costs

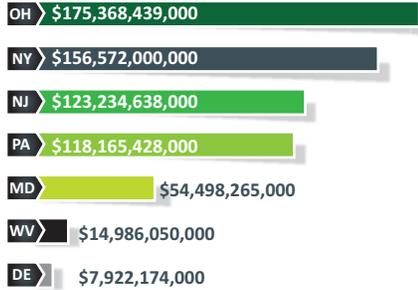
The employer contribution rates to both SERS and PSERS – or the percent of payroll employers contribute toward the future retirement benefits of their employees – have varied greatly over the past 30 years. Until the early 1990s, the Commonwealth regularly contributed more than the required normal cost, or the amount necessary to fully fund accrued benefits, to SERS. The contributions of public school districts and the state to PSERS regularly exceeded the normal cost until the late 1990s. The practice of contributing less than was required to meet future obligations during those periods contributed \$3.5 billion and \$2.25 billion to the deficits at SERS and PSERS, respectively.



Source: Pennsylvania Public Employees Retirement Commission annual reports and PA Treasury

Regional Comparison of State Pension Funds and Liabilities

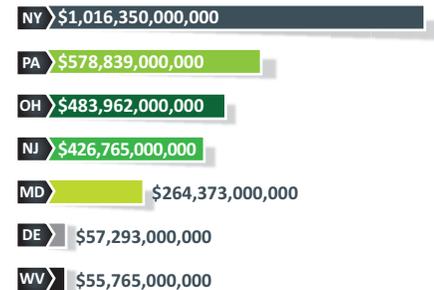
TOTAL LIABILITIES¹



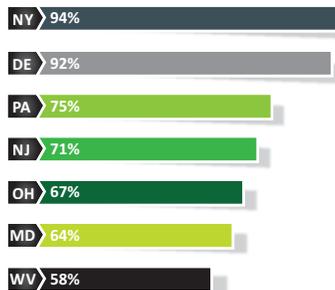
TOTAL ANNUAL STATE TAX COLLECTIONS²



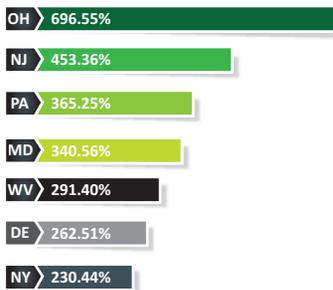
STATE GROSS DOMESTIC PRODUCT³



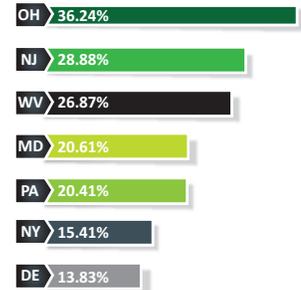
PERCENT OF LIABILITIES FUNDED¹



LIABILITIES AS PERCENT OF ANNUAL STATE TAX COLLECTIONS



LIABILITIES AS PERCENT OF STATE GDP



1 Pew Center on the States, The Widening Gap Update, published June 2012 using FY 2010 data. For Pennsylvania, includes liabilities of SERS, PSERS, and PMERS.
 2 U.S. Census Bureau, 2011 Annual Survey of State Government Tax Collections. Collections include sales and gross receipts taxes, license taxes, individual income taxes, corporate taxes, property taxes, and other revenues.
 3 U.S. Federal Reserve using data from the Bureau of Economic Analysis as of January 2011.

State Employees' Retirement System

229,908 MEMBERS
 117,061 active
 106,152 retirees/beneficiaries
 6,695 vested inactive

\$25,083 AVERAGE ANNUAL ANNUITY

105 Employers
\$25.3 Billion in assets



\$17.9 Billion unfunded liability (as of 12.31.11)

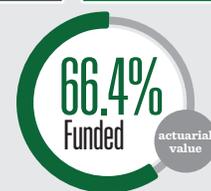
All data as of 12.31.12 unless otherwise noted.

Public School Employees' Retirement System

597,805 MEMBERS
 273,504 active
 202,015 retirees/beneficiaries
 122,286 vested inactive

\$24,122 AVERAGE ANNUAL ANNUITY
 (annuitants, survivors, beneficiaries, disabled annuitants)

773 Employers
\$48.6 Billion in assets

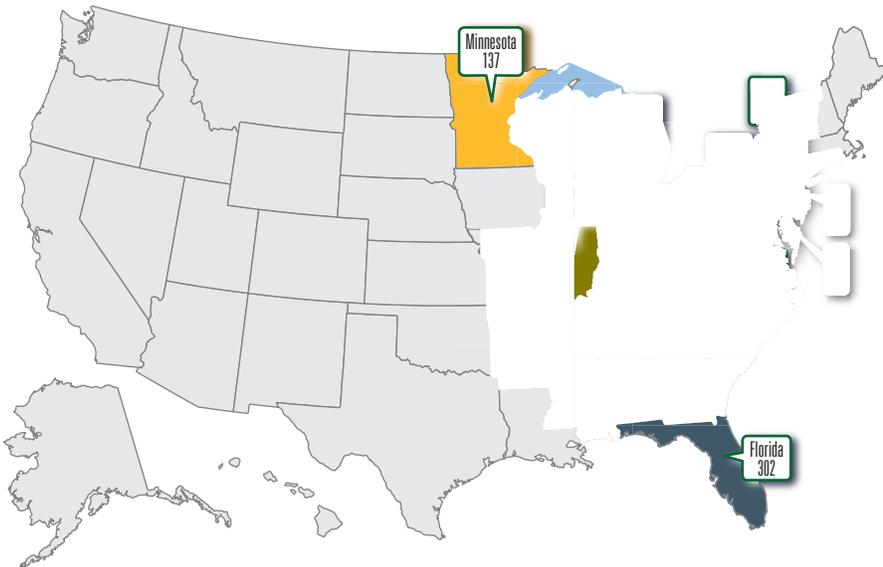


\$29.5 Billion unfunded liability

All data as of 06.30.12.

Municipal Pensions

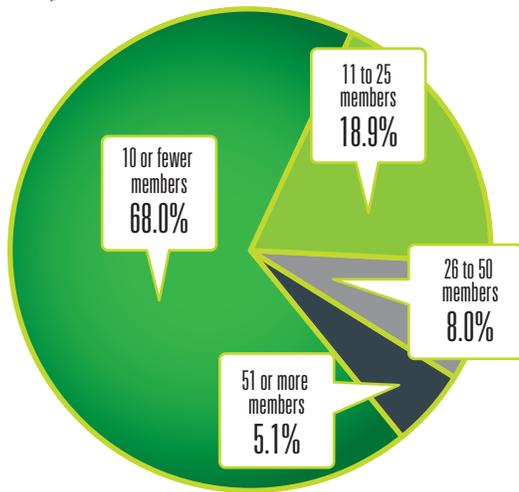
Local Defined Benefit Plans by Select States



There are 3,196 local government defined benefit plans in the United States. Pennsylvania is home to 1,422, or 44%, of those plans. In fact, Pennsylvania has more than three times as many public employee defined benefit pension plans as any other state.

Source: Public-Employee Retirement Systems State- and Locally-Administered Pensions Summary Report: 2010, U.S. Census Bureau, April 2012.

752
number of plans
among all the other
states combined



Distribution of Municipal Pension by Number of Active Members

An often used threshold to classify a public pension plan as “large” or “small” is 100 employees. Using that criterion, 98% of Pennsylvania’s local government pension plans are small. Broken down further, 95% of the state’s plans have fewer than 50 employees and 32% have three or fewer active members.

Source: Status Report on Local Government Pension Plans, Pennsylvania Public Employee Retirement Commission, Dec. 2012.

Growth in PA Local Government Pension Plans



The number of local government pension plans has increased with each report of the PA Public Employee Retirement Commission since reporting requirements went into effect in 1974. The overall increase since that time has been 102%. Of the 21 plans created between 2009 and 2011, only two had 10 or more members.

Source: Status Report on Local Government Pension Plans, Pennsylvania Public Employee Retirement Commission, December 2012.



The issue of public pensions in Pennsylvania has received a lot of coverage recently. Pennsylvania faces about \$41 billion in unfunded pension liabilities. These are existing obligations that must be paid in the future. There is no quick or easy fix. Even converting the current system for public employees to a 401(k)-style system does nothing to free the state from those unfunded liabilities.

In this edition of The McCord Report, we look at the history and status of Pennsylvania's two largest pension funds: the State Employee Retirement System (SERS) and the Public School Employees Retirement System (PSERS). We also look at the issue of municipal pensions – a topic not often discussed in policy conversations regarding these retirement plans for public sector employees.

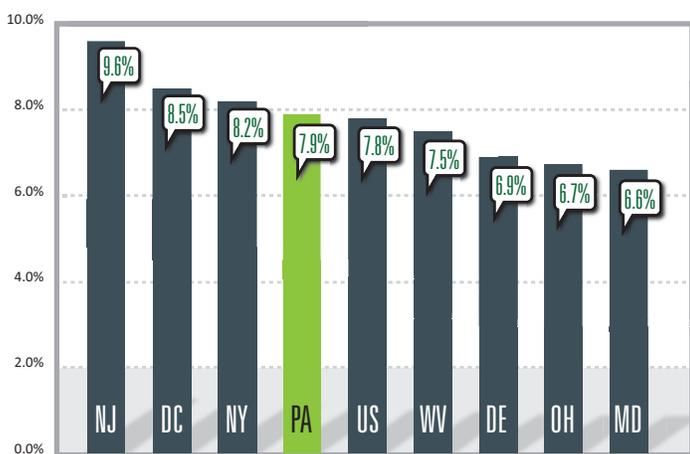
These topics are bound to be issues in the Capitol for some time to come, so I look forward to your thoughts and feedback.

Please do email us at McCordReport@ptreasury.gov.

Rob McCord

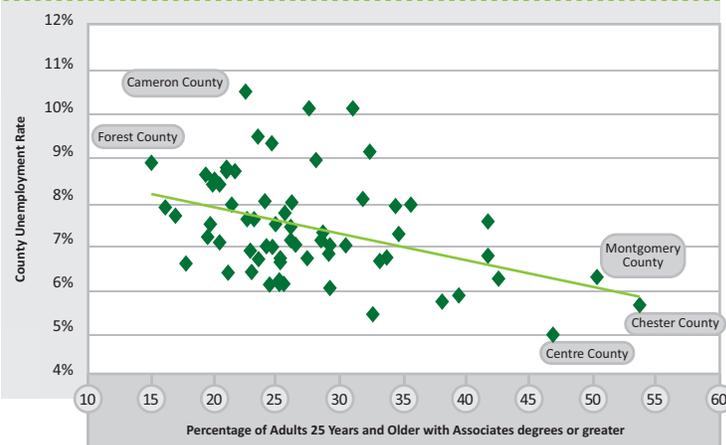
Rob McCord, Pennsylvania State Treasurer

December 2012 Unemployment Rate



Source: U.S. Bureau of Labor Statistics.

Education & Unemployment



Source: U.S. Census, American Community Survey (Educational attainment); Department of Labor and Industry (unemployment rates).

October 2012 County Unemployment Rates, Seasonally Adjusted

