**Investment Report**

**A Review of PMRS Portfolio For 2012**


Assisting the Board in evaluating the managers were Richard Dahab and David Lee of Dahab Associates, the System’s investment consultant.

In the fourth quarter of 2012, the composite portfolio gained 2.5%, which ranked in the 14th percentile of the Public Fund universe (1st being the best and 100th being the worst). Over the trailing twelve-month period, the portfolio returned 13.2%, which ranked it in the 45th percentile.

On December 31, 2012, the Pennsylvania Municipal Retirement System’s composite portfolio was valued at $1,657,283,689. This is an increase of $179,308,899 from the December 31, 2011 net worth of $1,477,974,790.

The current PMRS portfolio is allocated to the following segments; large cap equity, small cap equity, international equity, emerging markets equity, real estate and fixed income.

**State Aid**

**PMRS Answers Your Questions**

Before you know it, state aid season will once again be upon us. As important as it is to receive these contributions, it is equally important that this additional funding is properly reported. This article contains answers to the most popular questions that PMRS has received in regards to State Aid. We hope this information provides you with a better understanding of various state requirements and aids you in your quest to document your municipality’s retirement funding.

**What is General Municipal Pension System State Aid?**

State Aid is a program to aid municipalities in funding their pension plans and is generated from proceeds of the insurance premium tax on foreign casualty insurance companies. Only cities, boroughs, and townships are eligible to receive state aid; authorities and counties are not eligible. The pension plan must also be established and funded by the municipality for three calendar years before becoming eligible for state aid.

See State Aid, Page 3
In 2012, large cap equity returned 16.4% which exceeded the benchmark by 0.4% and ranked in the 44th percentile. Small cap equity returned 16.1% which was 0.2% less than the benchmark and it was ranked in the 56th percentile. The greatest returns came from international equity which saw a return of 22.8% return, which exceeded the benchmark by 4.0% while emerging market equity followed closely with a return of 18.9%, 0.1% greater than the benchmark. International equity placed in the 25th percentile while emerging equity was in the 60th percentile.

Real estate, the combination of both property and timberland, saw a return of 8.5%, which was 2.0% below the benchmark. Finally, fixed income returned 4.3% which was 0.1% greater than the benchmark, and it was ranked in the 90th percentile.

Asset allocation in terms of percent of portfolio and total dollars invested can be seen in the chart at the right. The complete economic breakdown will be available in the 2012 Comprehensive Annual Financial Report. The report will be available July 1, 2013 and can be viewed online at www.pmrs.state.pa.us.

Also at the March meeting, the Board of Directors decided to reduce the fixed income percentage from its current level of 20.0% down to 15.0%. Further, at the May 16 Board meeting, the Board decided to reallocate the 5.0% from fixed income equally between real estate and timberland.

### Permanent Member, Part Time Employee, or Both?

In the coming months, if you have not yet received it, your municipality will be receiving a mailing from the Municipal Services division of PMRS which contains, along with a cover letter, compensation sheet and possibly a listing of the plan’s current complement, a “Municipal Checklist.” The purpose of this mailing, and specifically the municipal checklist, is to assist us in assembling revised contracts for each of the pension plans enrolled in the System.

In order to ensure that all of our pension plans are considered “qualified,” in accordance with the Internal Revenue Code (IRC), each governing document must contain exact language in describing the benefits provided for under the terms of the contract. The intent of this article is to eliminate any possible confusion surrounding one of the items contained in the aforementioned municipal checklist, Item #4 “Part-time Employees.”

If the most recent contract for your non-uniformed pension plan was put in place prior to 2005 it does not specifically address the membership status of part-time employees. More than likely section “1. Coverage” of the contract reads, in part, as follows:

“This plan shall cover all permanent municipal employees, hereinafter referred to as “member”, of the (Municipality.)”

The legislature made an effort to address the issue of part-time employment, as it relates to plan eligibility, in late 2004 with the passage of Act 169. This act amended Act 15 of 1974 - the Pennsylvania Municipal Retirement Law (PMRL) - and enabled municipalities within PMRS to amend their individual contracts in order to explicitly define the treatment of both existing and future part-time employees going forward. Prior to Act 169, membership was required for all permanent employees, both full-time and part-time.

In order to address the existing part-time employees whose membership was in question, it was required that municipalities enact a new contract with an effective date prior to July 1, 2005. If a municipality did not enact a contract by this date then the permanent part-time employees on municipal complement at that time were to have been enrolled in PMRS. (Please note that PMRS notified all of our member municipalities, via both written and electronic communications, in the fourth quarter of 2004 and first quarter of 2005 of their opportunity to address this issue then all those employees hired in the interim on a permanent part-time basis (provided they have fulfilled the terms of any probationary period) are to have been enrolled in PMRS as well.

Item #4 on the municipal checklist is intended to address the membership status of any future part-time employees of municipalities that did not update their pension contracts subsequent to Act 169. Again this only applies to non-uniformed plans. Should you have any questions, either after having read this article, or upon receipt of the mailing, please do not hesitate to contact the Municipal Services division of PMRS.
When should the municipality expect to receive state aid?

State aid is distributed annually to each eligible recipient no later than the first business day occurring in the month of October.

What should the municipality do with the State Aid check?

The State Aid must be deposited into a Pension Plan within 30 days of receipt. PMRS prefers that the municipality deposit the check into a checking account and proceed as follows:

**Defined Benefit Plans**

Defined Benefit Plans use State Aid to pay the plan’s MMO (Bill). If the State Aid is more than the MMO, the total State Aid amount must be forwarded to PMRS to be deposited into the pension plan. If the State Aid is less than the MMO, the balance of the MMO is not due until December 31. To ensure accuracy, please complete a Revenue Transmittal Form (PMRB-20) to provide PMRS with a breakdown of the State Aid and Municipal Funds.

If the MMO has already been paid, the municipality may reimburse its General Fund for any amount already spent. Please notify PMRS in writing of the amount reimbursed to the Municipal or General Fund. If the State Aid received is more than the paid MMO, the balance must be deposited into a Pension Plan within 30 days of receipt accompanied by a PMRS Revenue Transmittal Form (PMRB-20).

**Cash Balance Plans**

Cash Balance Plans must total all expenses for the current year that were previously remitted to PMRS. This includes the Annual Bill for Administration Costs, Municipal for Member Contributions, and New Enrollment Fees. The municipality may reimburse its General Fund for any amount already spent. Please inform PMRS in writing of the amount of State Aid used to reimburse the General Fund for paid expenses. If the State Aid received is more than the total expenses, the balance must be remitted to PMRS accompanied by a PMRS Revenue Transmittal Form (PMRB-20). This amount must be used as a credit against the municipality’s obligations for the remainder of the year. Any excess State Aid not used for current year expenses must be returned to the Auditor General’s Office.

**Municipalities with more than one pension plan**

State Aid may be allocated among the plans at the discretion of the municipality. Please inform PMRS of the amount of State Aid received or allocated to each pension plan. Below is a sample memo to PMRS:

- **Amount of State Aid received**: $9999.99
- **Reimburse General Fund Plan A**: $1111.11
- **Reimburse General Fund Plan B**: $2222.22
- **Remaining State Aid**: $6666.66
- **Allocated State Aid to Plan A**: $3333.33
- **Allocated State Aid to Plan B**: $3333.33
- **Total State Aid to PMRS**: $6666.66

While this review of State Aid may not answer all your questions, we hope that you’ll find it a useful tool in the years to come. Should you have any questions that were not addressed in this issue, please do not hesitate to contact the Accounting Division at PMRS. We welcome the opportunity to provide you with assistance.

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**Back row, left to right:** Heather Seilhamer Kreider, Sue Golembiewski, Sean Christine, Mike Mortimer, James Allen, Tom Garrett, Tonna Hoot, Donna Miller, Darlean Colbert, Sreelekha Nagarajnam

**Middle row, left to right:** Mike Landry, Ginger Bates, Kristine Cline, Lynette Chism, Diane Reisinger, Beth Malone, Pat Falk, Bryant Taylor, Lorain Payne

**Sitting, left to right:** Larry Taliani, Lisa Greene, Anthony Pinto, Janet Davenport, Doug Baker, Shaniqua Brooks

**Not pictured:** Bob Porambo, Wanita Campbell, Diane Bamford, Shannon Cassel

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**THE SPOTLIGHT**
The PMRS Vision:
To be Pennsylvania local governments’ pension administrator of choice

The PMRS Board Members
Standing, left to right: Barry Sherman, Paul Corbin, John Haiko, David Perruso
Sitting, left to right: Steve Heinly, George Milakovic, Sandy Leopold
Not pictured: Salvatore Panto, William Junkin, Duane Filchner, Carol Aichele, Robert McCord

Calendar of Events

July 4
Holiday: Independence Day (Office Closed)

July 11
Pennsylvania Municipal Retirement Board Meeting.

July 30
Retiree checks mailed from PMRS. (Directly deposited pension payments deposited to retirees’ accounts on July 31.)

August 23 (Date is approximate)
Reimbursement by Auditor General’s Department to municipalities for ad hoc payments that were made to eligible retired firefighters and police officers in the previous year.

August 23 (Date is approximate)
Minimum Municipal Obligation (MMO) worksheets used to calculate the plan’s financial requirement for the next year mailed from PMRS.

Note: This form needs to be completed by the plan’s chief administrative officer and submitted to the governing body by September 30. The MMO form also must be returned to PMRS by the first week in October. Each plan’s MMO becomes a part of the municipal budget process for the upcoming year.

August 29
Retiree checks mailed from PMRS. (Directly deposited pension payments deposited to retirees’ accounts on August 30.)

September 2
Holiday: Labor Day (Office Closed)

September 19
Pennsylvania Municipal Retirement Board Meeting.

September 20
Quarterly Reports for the 3rd Quarter mailed to municipalities.

September 27 (Date is approximate)
Annual state pension aid payments sent to municipalities by the Auditor General’s Department; must be deposited into your pension plan(s) within 30 days of receipt.

September 27
Retiree checks mailed from PMRS. (Directly deposited pension payments deposited to retirees’ accounts on September 30.)
Our Mission
The Pennsylvania Municipal Retirement System seeks to help Pennsylvania’s local governments, regardless of size or resources, secure the future retirement of their employees by providing comprehensive, cost-efficient and professional pension administration services through a pension plan tailored to the participants’ and sponsor’s requirements.

Our History
Years ago, PMRS came into existence with just over 170 plans. In sharp contrast, the agency now provides full-service plan administration to nearly 1,000 plans. The objective of the PMRS board is to provide customized plan benefits to all local government entities in Pennsylvania while instituting policies that safeguard the investments of more than 14,000 individual members in the most cost-effective manner.

WHAT CAN PMRS DO FOR YOU?

Pension plans can be confusing. Did you know that the Membership Services Division has a retirement counselor to help you figure it all out?

In 2011, Heather Kreider joined the PMRS team with a simple mission: to help you understand your pension so that you can better plan for your retirement. Although that mission is easier said than done, she is nonetheless here to help you make sense of it all.

Heather’s region encompasses all of our plans in the state of Pennsylvania, but you can always count on her to give you individualized assistance, whether you are the pension representative for your municipality or a participant who wants to know what to expect when it comes time to enjoy your retirement.

Each plan in PMRS is as unique as the municipality that it serves. With nearly 1,000 different pension plans in the commonwealth, there is no better source to get information about your specific plan than from PMRS.

The typical day for Heather as a retirement counselor is never “typical.” One day, she could be near Philadelphia, and another day, she could be toward Erie. Although she serves many important roles in the PMRS agency, none may be as important as conducting a seminar at your municipality to review all of the facets of your pension and the many options you have for retirement.

How can the retirement counselor help you as an individual employee? For each city, borough, and township that Heather visits, she will come prepared with a pension estimate specific to each employee who requests one in advance of her arrival. Each estimate is unique to that employee and provides them a clear picture of what their retirement might look like based on current assumptions. These estimates are actuarial-based calculations that predict what will happen to your retirement based on current assumptions while taking into account your contributions into the plan and the number of years you have to go until retirement.

Because things can change over time, people who have further to go until retirement need to realize an estimate is just that – an approximate calculation based on assumptions such as how long you will continue to work, final average salary, and contributions into the plan along the way.

For those people closer to retirement, the assumptions are easier to predict. We highly recommend people within one year of retirement let a Retirement Technician prepare an estimate at no cost to them.
The End Of An Era

At the January board meeting, longtime PMRS Secretary James B. Allen announced his retirement effective April, 2014. After 30 years of service to the agency and the municipal members of PMRS, Jim’s leadership will be difficult to replace. However, the PMRS Board of Directors, with Jim’s assistance, has begun the recruiting process with hopes to begin interviewing in July and name a successor sometime this fall. Look for more to come in the fall issue of The Spotlight.

What’s New?

PMRS welcomes Sean Christine, CFP® as the new Chief of the Membership Services Division. Sean brings with him a long history in the financial services industry with a focus on customer service. As a former Financial Planner, Bank Manager, Army Officer and even Mayor, Sean has the background to insure your needs are met preparing for retirement.

Moving Forward

On November 15, 2012 the PA Municipal Retirement Board voted to reduce the rate of regular interest that will be credited to the System’s accounts in 2013 from 6% to 5.5%.

What does this mean to you? For employees under a Cash Balance Plan, you will see a decrease in the “projected monthly benefit.” Employees under the majority of Defined Benefit Plans will see no change.

This adjustment allows the System to insure it will keep up with retirement payouts. As other systems make the news for their unfunded liabilities, PMRS remains steadfast in its fiduciary responsibility to insure your retirement is there when you need it.

Stay In Touch…

As your life changes, so should our records at PMRS. It is very important that we have your most up-to-date contact information and personal data to insure we are providing you the best possible service and your pension is properly administered.

A small sample of what we would like to hear about may include that you’ve moved, you’re planning on retiring in the next year, you have a change in your domestic situation that would affect your beneficiary choices, you’ve had a change in employment status, and so on.

Life goes by pretty fast, and thinking about your pension may get put on the back burner until you need it. Taking a few minutes to update your information with PMRS now could make a huge difference in the future.

For your convenience, most of our forms are now accessible through our website at www.pmrs.state.pa.us. Just click on the “Forms” tab in the left column of the main page. From enrolling as a new member through applying for retirement benefits, you are likely to find the form you need on our website. But as always, a friendly retirement technician is just a phone call away if you have questions.

What’s In a Name?

Accidents and injuries are an unfortunate part of life. When you, as a municipal employee, find yourself unable to work, there are certain things you should know that can impact your pension. There are two basic types of disability retirement which may be available through PMRS: Service-Connected and Non-Service-Connected. Here, we will focus on an issue that may affect you pertaining to a Service-Connected Disability.

In order for a member to be granted a service-connected disability, the member must show that (1) he/she is unable to engage in gainful employment; (2) the injury is total and permanent; (3) the injury was incurred in the course of employment; and (4) the injury is compensable under the Workers’ Compensation Act or the Occupational Disease Act.

In some instances, members have signed agreements where one sentence makes the difference between being qualified or disqualified for service-connected disability benefits through PMRS. In particular, the member and Worker’s Compensation Appeal Board may come to an agreement where the member is awarded a lump sum payment. What is important is the wording associated with that payment. For example, if the agreement states that you are being awarded a lump sum of benefits, you may be OK. However, if the agreement states that a lump sum award is being paid “in lieu of” benefits, you may be giving up your rights to worker’s comp and therefore giving up your rights to service-connected disability retirement benefits through PMRS.

If you find yourself in such a situation where you are faced with signing a Compromise and Release Agreement for Worker’s Comp, please have your attorney consult PMRS first.