

Pennsylvania Municipal Retirement System

**Comprehensive Annual Financial Report
For the fiscal year ended December 31, 1995**

George E. Gift, Jr.
Chairman

Pennsylvania Municipal Retirement Board

James B. Allen
PMRS Secretary

Report prepared by the Pennsylvania Municipal Retirement System staff

Larry E. Barbour
Accounting Division Chief

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- Chairman's Report
- Summary of Plan Provisions

Letter of Transmittal



Pennsylvania Municipal Retirement System

Commonwealth of Pennsylvania

May 6, 1996

Members of the Pennsylvania Municipal Retirement Board
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It is with a continued commitment to complete financial reporting that we submit the Comprehensive Annual Financial Report of the Pennsylvania Municipal Retirement System (the System) for the fiscal year ended December 31, 1995. As required by the Pennsylvania Municipal Retirement Law, Act of 1974, P.L. 34, No. 15 (the Act) as amended, the System distributes this Comprehensive Annual Financial Report to our governing board, to the members of the General Assembly of Pennsylvania, and to each participating municipal employer.

The System is solely responsible for the accuracy of the data in this report. As the individuals responsible for the System's financial records, we are confident that we are presenting a complete financial report. To the best of our knowledge, the enclosed information is accurate in all material respects.

Overview of the System

The Pennsylvania Municipal Retirement System, which is an agent multiple-employer system, is headquartered in Harrisburg, Pennsylvania. It is a state retirement agency created by the Pennsylvania General Assembly in 1974. Responsibility for the organization and administration of the System is vested in the eleven-member Pennsylvania Municipal Retirement Board (the Board).

The System administers sound, cost-effective pension plans on a contracted basis for local government employees. Our services include accounting services, actuarial valuations, employee consulting and record keeping, and asset management. Any Pennsylvania county, city, town, township, borough, municipal authority, or institution supported and maintained by a municipality may participate. A complete list of participating public plans as of December 31, 1995 can be found in the Statistical Section of this report.

The System offers two benefit approaches: defined benefit and defined contribution. The annual benefit is dependent upon the individual municipality's contracted benefit package because the System offers flexible pension plan design based on each municipality's individual needs. Benefits provided to participants in the System include both age and service retirements, vesting, disability benefits, survivor benefits, and death benefits. The plan cost is determined by individual plan characteristics. The System's individual plans may have a municipal contribution and an employee contribution or just an employee

Letter of Transmittal (Continued)

charge. Municipal contributions typically range from 1 to 14 percent of projected payroll for municipal employees and 9 to 40 percent for police and firefighters. The employee contribution is determined by plan contract. In 1995, plan requirements ranged from no employee contribution to as high as 10 percent of earnings.

1995 CAFR

The 1995 Comprehensive Annual Financial Report is presented in five sections: introductory, financial, actuarial, statistical, and investment. The Introductory Section contains this transmittal letter, the Certificate of Achievement for Excellence in Financial Reporting, the System's administrative organizational structure, the Board Chairman's report, and a summary of plan provisions; the Financial Section presents the opinion of the System's independent auditors, Ernst & Young, and the financial statements of the System; the Actuarial Section presents the opinion of the independent actuarial firm, The Segal Company, and the results of its annual actuarial valuation; the Statistical Section includes significant financial and demographic data generally presented on a multi-year basis and also the Schedule of Participating Employers; and the Investment Section contains an overview of the System's investment activities and policies.

Economic Environment

The 1995 economic environment in the United States was as close to perfect as we can get. The various financial markets rewarded this situation by producing the best possible results imaginable. Because economic growth continued, albeit at a modest pace, and inflation remained clearly in check with an annual rate of just over 2.50 percent, the bond holder saw reason to rejoice. The news of the shrinking United States deficit also helped keep alive a very active bond market. The final good news, however, was the Federal Reserve cutting the Fed rate for the first time since 1993. The Lehman Aggregate Bond index had a return of 18.47 percent.

The equity market also saw much good news in the above data but was even further advanced by the consistently revised surprise "earnings" coming from United States companies. The effects of "downsizing" revealed a lovely picture for the average investor in United States equities — especially in large capitalized companies or newly founded small capitalized companies. The Standard & Poor's 500 equity index saw a 37.48 percent return, and the Russell 2,000 index of smaller stocks still produced a return of better than 32 percent.

With this environment, one might have expected the real estate asset class to be a poor producer. While it did not match the previous two markets mentioned, the positive returns — and in some cases the double digit positive returns — were clearly cause for investors in this class to breathe a sigh of relief.

Only in the international market was turmoil a cause of worry. As with any asset class, however, returns depended upon the specific areas of investment. Some countries produced returns well above 30 percent while one country saw a return of minus 4.72 percent. The Morgan Stanley Capital International World Index (MSCI) - Europe, Australia, and Far East Stock index (EAFE) combined the returns of twenty countries to yield an annual return of over 11.20 percent.

Financial Information

The report's financial statements were prepared in accordance with generally accepted accounting principles of government accounting and reporting as adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The financial statements and the supplementary information in the report have been prepared in accordance with the standards for disclosure allowed by Statement No. 6 of the National Council on Governmental Accounting. The accrual basis of accounting is used to record all financial transactions including assets and liabilities as well as revenues and expenses. Gains and losses on sales and exchanges of investments are recognized on the transaction date. Significant accounting policies are detailed in the Financial Section under Note B of "Notes to Financial Statements."

The System's assets totaled \$518,067,929 as of December 31, 1995. During 1995, the System's assets increased by \$74,017,830 which included contributions of \$62,959,659. Investment related income increased the portfolio by \$34,432,357. Additional information on the System's assets is detailed in the Financial Section (Comparative Balance Sheets and Schedule 4 - Investment Summary).

Letter of Transmittal (Continued)

The System has established internal computerized control policies and procedures for the review and verification of all receipts and payments made to and from the fund. The System prepares a yearly budget which must be adopted by the Board. The budget is also presented to and reviewed by the Local Government Committees of the Pennsylvania House and Senate at least two months prior to the beginning of the fiscal year. The committees can approve the budget, reject it or take no action by the end of the year in which case the proposed budget becomes final. Budgetary controls include monthly review and presentation by management with bimonthly Board reviews. For 1995, the adopted budget was \$1,652,550 exclusive of investment fees; expenditures (exclusive of investment fees and depreciation) amounted to \$1,492,762 allowing the System to end the year \$159,788 under budget. More information on the System's budget is included in Schedule 3 of the Financial Section.

Revenues

The System was established by law to pay pension benefits when due. It accumulates sufficient funds to pay benefits through employee and employer contributions and through investment earnings. The following schedule presents a summary of revenues for the fiscal year ended December 31, 1995 and the amount and percentage of increases and decreases in relation to December 31, 1994 revenues.

| Revenues | Amount | Percent of Total | Increase (Decrease) from 1994 | Percent of Increase (Decrease) |
|-------------------------------|---------------------|------------------|-------------------------------|--------------------------------|
| Member Contributions | \$ 9,132,878 | 9.36% | \$ 439,912 | 5.06% |
| Municipal Contributions | 53,826,781 | 55.14 | 33,023,108 | 158.74 |
| Assessments | 221,660 | .23 | 9,300 | 4.38 |
| Investment Income | 34,432,357 | 35.27 | (1,424,028) | (3.97) |
| Total..... | \$97,613,676 | 100.00% | \$32,048,292 | |

There was one area causing a significant increase in revenues: municipal contributions. In 1995, the System had its first municipal member take advantage of recent legislation to let a Pension Benefit Obligation Bond. The proceeds of this bond were contributed to the pension fund of the municipality in December 1995. This contribution provided for over \$34,000,000 in revenue to the System.

Municipal contributions are based upon an actuarial valuation, using the Entry Age Normal Actuarial Cost Method computed as a percentage of the total compensation of all active members during the period for which the amount is determined. Routine municipal contributions show an increase from 1994 because the System added twenty-eight new member plans and had withdrawals of only four municipal plans. This large growth in municipal plans added significantly to the 1995 municipal contributions.

Member contributions vary according to the type of pension plan. Under Articles II and III of the Act, members are required to contribute 3 to 8 percent of their salary. The amount a member contributes under Article IV of the Act is based upon contracted plan provisions and is principally expressed as a percent of compensation or salary. Member contributions show an increase from 1994 because of an increase in individual membership.

Investment revenues are a combination of earnings from bonds, equities, real estate, and a short-term cash management fund. During the year, the System's investment portfolio increased from \$445,467,060 to \$591,731,748. The largest portions of the investment revenue came from equities (\$18,583,731) and bonds (\$9,544,184).

The final portion of revenue is derived from assessments. Each municipality is charged a \$20 assessment per member to help cover administrative expenses incurred by the System. The fluctuation in assessments is due to the number of members per municipality since this figure is \$20 times the number of members.

Ten-year historical trend information listing the System's revenues by source is presented in Schedule 2 of the Financial Section of this report.

Letter of Transmittal (Continued)

Expenses

The System's primary expense represents the purpose for which it was created: payment of benefits. The following schedule presents a summary of the System's expenses for the fiscal year ended December 31, 1995 and the percentage of increases and decreases in relation to December 31, 1994 amounts.

| Expenses | Amount | Percent of Total | Increase from 1994 | Percent of Increase |
|---------------------------|---------------------|-------------------------|---------------------------|----------------------------|
| Annuity benefits..... | \$14,790,805 | 63.10% | \$1,358,363 | 10.11% |
| Disability benefits | 893,437 | 3.81 | 42,302 | 4.97 |
| Terminations..... | 4,842,814 | 20.66 | 2,189,902 | 82.55 |
| Administrative | 2,912,441 | 12.43 | 267,443 | 10.11 |
| Total..... | \$23,439,497 | 100.00% | \$3,858,010 | |

The major expense-related items for 1995 were Payment of Benefits, Refunds of Contributions Due to Termination or Death, and administrative expenses. Fluctuations in benefit expenses from 1994 are due mainly to an increased number of retirees. Terminations increased due to withdrawal of a large municipality.

A breakdown of the System's expenses including ten-year historical trend information is presented in Schedules 2 and 3 of the Financial Section of this report.

Investment Highlights

The Board's investment objective is to benefit the System's member municipalities by adding value to their assets. Recognizing that inflation can erode value, the Board's goal is to have the fund earn at least 2 percent more annually than the average annual inflation rate over a long period of time. The System invests its assets in order to maximize current and future income yield and to provide long-term stability. For the fiscal year ended December 31, 1995, investments provided 35.27 percent of the System's total revenues.

On December 31, 1995, the market value of the System's investments was \$591,731,748. This represents an increase of \$146,264,688 over the previous year. For the last five years, the System's annualized return was 12.0 percent. At December 31, 1995, the System's investment portfolio was distributed as follows: 45.7 percent in domestic equities, 8.6 percent in international equities, 28.5 percent in bonds, 7.3 percent in real estate, and 9.9 percent in cash equivalents.

Additional information on the System's investments is provided in the Investment Section of this report.

Funding

The System's level of funding is based on the actuarial reserve method. Funds are derived from the excess of revenues over expenses and are accumulated by the System in order to meet current and future benefit obligations to retirees and beneficiaries. As the funding level increases, the assets accumulate and strengthen the investment income potential. Net operating income for the 1995 fiscal year was \$74,174,179. This represents an increase in the fund balance of 16.8 percent over the 1994 fund balance.

To comply with GASB Statement No. 5 disclosure requirements, a pension benefit obligation (PBO) of \$433.5 million was calculated during the most recent actuarial valuation dated January 1, 1995. The market value of the System's assets exceeds this amount by \$15.5 million. This indicates that the contribution rates and the current assets of the System are adequate to fund the System's actuarial liabilities. Additional information on the System's pension benefit obligation, actuarial liability, and funding progress can be found in the Actuarial and Financial Sections of this report.

Letter of Transmittal (Continued)

As an agent multiple-employer PERS, the System reports to each of the trustees of the plans it administers providing the governing authority of the member plans with complete actuarial, accounting, and funding data. PBOs for each plan are calculated and distributed. Detailed information on the funding level ranges of the System's plans can be found in the Actuarial Section of this report under "Schedule of Contribution Requirements vs. Actual Contributions."

Major Initiatives

During the 1995 financial year, the Board awarded new contracts for actuarial services and for investment consulting services. (See information under "Professional Services" in this letter.) Other initiatives concerning the investment portfolio included renewing a small cap investment management contract with The Putnam Companies, Inc. and awarding two investment contracts: one with Provident Capital Management for managing a small cap equity portfolio and one with Metric Realty for managing a real estate portfolio. At the beginning of 1995, the System's master custodian was changed due to the new master custodian agreement with State Street Bank which the State Treasurer's Office entered into effective January 1, 1995.

As part of the investment portfolio requirements, a detailed asset allocation study was performed. Following the study, the Board adopted a revised asset allocation to be reached by July 1, 1996: bonds 25 percent, real estate 10 percent, large cap 35 percent, small cap 15 percent, and international 15 percent. Of special emphasis regarding assets, the System's investments topped the half billion mark as of July 31, 1995. At that time the market value was \$516.9 million.

The year was also extremely active from a plan membership perspective. Twenty-eight member plans were added and approval was given for withdrawal of four member municipalities. As of December 31, 1995, the System had 546 defined benefit plans and 69 defined contribution plans. It administers to over 8,400 active employees, over 2,350 retirees and beneficiaries, and over 190 vested members. Most membership activity during the year was associated with benefit consulting and redesigning plan structures. By year-end 1995, 45 plans increased benefits and consequently costs by amending plan contracts.

To better serve municipalities, the System held an optional seminar for plan member municipal contact persons. Topics included state aid, quarterly reports, membership applications and withdrawals, and upcoming GASB changes. Also, the System added an Accountant I position to insure the successful implementation of a new service for plan members providing financial statements that meet GASB standards.

The System again met its initiative in the area of retiree service by holding pre-retirement seminars in five locations this fall. The seminar provided prospective retirees with detailed information to help them plan for retirement. In an additional effort to be certain that potential retirees understand their retirement options, a special series entitled "PMRS Benefit Provisions" was included in the System's newsletters. Articles focused on an explanation of present value and the System's various benefit provisions and retirement options including single life annuity and survivor annuities.

The Board's major initiatives for 1996 include scripting a cassette tape explaining the System's various retirement options. A copy of the tape will be sent to each member municipality and will be available to individual members upon request. The Board also plans to continue a study of fiduciary liability insurance and directors and officers liability insurance in order to determine whether or not to purchase the coverage. In addition, the Board has requested a trustee handbook with information regarding the System and various other educational pieces such as actuarial concepts and a glossary of financial terms for each Board member. The Board also plans to review and implement recommendations contained in the federal compliance analysis of the System's rules, regulations, and plan documents. Some regulations will be modified and legislation will be sought to provide consistency between state operations and the federal plan qualification provisions.

Professional Services

The financial information has been audited by the independent accounting firm of Ernst & Young which is completing year three of a three-year contract with a two-year renewal option. The actuarial information was prepared with the help of E. Greenblum, consulting actuary from The Segal Company. The firm has completed the first six months of a competitively bid five-year renewal contract for actuarial consulting. The investment portion of the report was prepared with the cooperation of our independent investment consultant, R. Dahab of Dahab Associates. This firm's competitive

Letter of Transmittal (*Continued*)

bid contract is from April 1, 1995 through December 31, 1999. Without the complete cooperation and commitment of these three advisors in serving the Pennsylvania Municipal Retirement System, this report could not have been prepared.

Other Information

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Pennsylvania Municipal Retirement System for its comprehensive annual financial report for the fiscal year ended December 31, 1994. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Pennsylvania Municipal Retirement System has received a Certificate of Achievement for the last five consecutive years (fiscal years ended December 31, 1990 - December 31, 1994). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Of special note, the System's Secretary J. Allen, who is in charge of administering the System's plans, received his Certified Employee Benefit Specialist (CEBS) designation effective April 1, 1995.

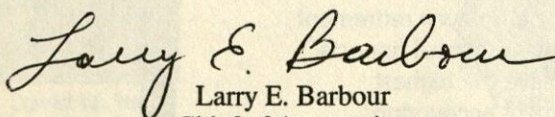
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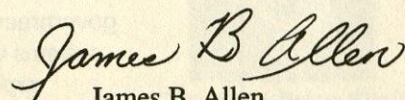
We extend sincere appreciation to our Board members for their time and effort in providing responsible and prudent management of the System's assets. They deserve an extra special thank you for serving the System without remuneration.

We also thank the System's staff for providing input and information needed for preparing this financial report. The staff's efforts and commitment are most appreciated.

The last and most important thank you goes to our plan members. We sincerely appreciate your support and trust. Thank you for the continued opportunity to administer your pension needs.

Respectfully submitted,


Larry E. Barbour
Chief of Accounting


James B. Allen
Secretary

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Pennsylvania Municipal Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1994

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Timothy H. Rividan
President

Jeffrey L. Essler
Executive Director

Administrative Organization

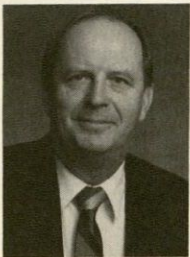
Pennsylvania Municipal Retirement Board as of December 31, 1995



George E. Gift, Jr.
Chairman
serves until replacement named
Pennsylvania State Fire
Fighters Association



John G. Brown, III
Vice-Chairman
serves until replacement named
Pennsylvania State Association
of Township Supervisors



James B. Bonner
serves until replacement named
Pennsylvania State
Association of Boroughs



Richard G. Bonneville
serves until reappointed or replacement named
Chiefs of Police
Association



Douglas K. Bowen
serves until reappointed or replacement named
Pennsylvania Municipal
Authorities Association



David W. Hays
term expires February 24, 1997
First Class Township
Commissioners



Yvette Kane
appointed by statute
Secretary of the Commonwealth
(ex-officio) represented by
Kenneth Villwock, Deputy Secretary



Catherine Baker Knoll
appointed by statute
State Treasurer
(ex-officio) represented by
Duane M. Searle Associate General Counsel



Paul S. McMillen
term expires March 11, 1996
Pennsylvania State Association
of County Commissioners



Veronica T. Recker
serves until reappointed or replacement named
Pennsylvania Municipal Retirement System
Retired Members

Vacant
Pennsylvania League of Cities

Administrative Staff as of December 31, 1995

James B. Allen
Secretary

Edward L. Bechtel
Assistant Secretary

Larry E. Barbour
Accounting Division Chief

Benjamin F. Mader
*Membership & Municipal Services
Division Chief*

Vacant
*Operations Division
Chief*

Professional Consultants as of December 31, 1995

Actuary

The Segal Company
Washington, DC
Eli Greenblum
A.S.A., M.A.A.A.

Auditor

Ernst & Young LLP
Harrisburg, PA
Independent Auditors
Stephen A. Baloga

Comptroller

Commonwealth of Pennsylvania
Harrisburg, PA
Central Services
Bruno J. Chiesa

Investment Consultant

Dahab Associates, Inc.
Islip, NY
Richard E. Dahab, C.F.A.
President

Legal Counsel

Commonwealth of Pennsylvania
Harrisburg, PA
Jeffrey B. Clay
Chief Counsel

Investment Advisors

Chase Investment Counsel Corp.
Charlottesville, VA
Derwood S. Chase, Jr., President

CIGNA Investment Management Real Estate
Hartford, CT
William J. Grady, Managing Director

First Fidelity Bank, N.A.
Philadelphia, PA
Bruce J. Besecker, Vice President

Globalt Incorporated
Atlanta, GA
Angela Z. Allen, President

Heitman/JMB Advisory
Chicago, IL
John A. Gorham, Vice President

Newbold's Asset Management, Inc.
Bryn Mawr, PA
Stephen A. Mozur, Senior Vice President

Provident Capital Management, Inc.
Philadelphia, PA
Susan D. Menzies, Vice President

Prudential Real Estate Investors (PRISA)
Short Hills, NJ
Lester F. Lockwood, Vice President

The Putnam Companies, Inc.
Boston, MA
Richard M. Frucci, Senior Vice President

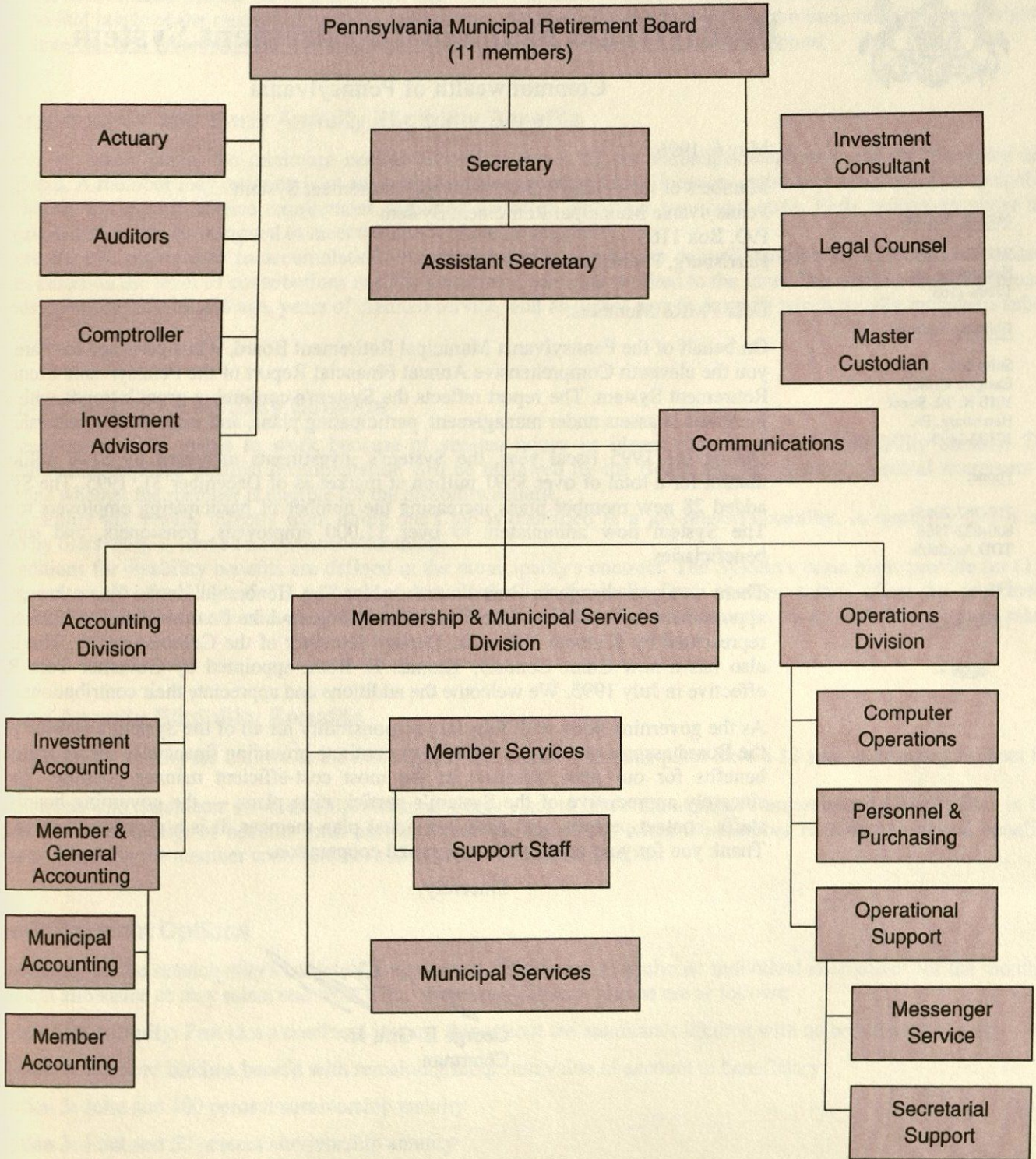
State Street Global Advisors
Boston, MA
Lynn S. Blake, Portfolio Manager

Master Custodian

State Street Bank & Trust Company
Boston, MA
James F. Sheridan
Client Service Manager

Administrative Organization (Continued)

Organizational Chart



Chairman's Report



Pennsylvania Municipal Retirement System

Commonwealth of Pennsylvania

May 6, 1996

Members of the Pennsylvania Municipal Retirement System
 Pennsylvania Municipal Retirement System
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 Harrisburg, Pennsylvania 17108-1165

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Dear PMRS Members:

On behalf of the Pennsylvania Municipal Retirement Board, it is a privilege to share with you the eleventh Comprehensive Annual Financial Report of the Pennsylvania Municipal Retirement System. The report reflects the System's continuing growth trends with solid increases in assets under management, participating plans, and individual membership.

During the 1995 fiscal year, the System's investments increased by \$146 million at market for a total of over \$591 million at market as of December 31, 1995. The System added 28 new member plans increasing the number of participating employers to 615. The System now administers to over 11,000 employees, pensioners, and survivor beneficiaries.

There was one change in Board membership: The Honorable Yvette Kane through her appointment as Secretary of the Commonwealth joined the Board in January 1995. She is represented by Kenneth Villwock, Deputy Secretary of the Commonwealth. The Board also has a new Chief Counsel, Thomas E. Ross, appointed by Governor Tom Ridge effective in July 1995. We welcome the additions and appreciate their contributions.

As the governing body with fiduciary responsibility for all of the System's pension plans, the Board assures you that our goal is to continue providing financially secure retirement benefits for our plan members in the most cost-efficient manner possible. We are sincerely appreciative of the System's participating plans — the governing boards, the staffs, contact persons, and each individual plan member. It is a pleasure to serve you. Thank you for your continued support and cooperation.

Sincerely,

George E. Gift, Jr.
 Chairman

Summary of Plan Provisions*

The System offers a variety of alternative pension plans. Municipalities may design their own pension benefit structures. Most municipalities select this option and work with the System to create a combination of benefits that meet the individual needs of the municipality and its employees. Additionally, the System has two basic benefit plans designed by the State General Assembly: one for municipal employees and one for police and firefighters.

Superannuation and Early Annuity Eligibility Benefits

Under the basic plans, the minimum normal retirement age is 65 for municipal employees and 55 for police and firefighters. A member may retire early at any age after 24 years of service. Under an optional plan design, a municipality may choose any age or service requirement permitted under its particular municipal code. Early retirement under the optional plan may also be designed to meet the needs of the municipality.

There are two approaches to accumulating retirement benefits. Under the defined contribution approach, the benefit accrues based on the level of contributions and the investment earnings credited to the fund. The defined benefit approach depends upon the individual's age, years of credited service, and an actual benefit formula which usually includes a salary factor.

Disability Annuity Eligibility Benefits

A member who is unable to work because of serious injury or illness may apply for a disability annuity. The application and required medical documentation will be reviewed by the Board and the System's medical examiners to determine whether the member is eligible for the disability benefit.

A disability that results directly from doing one's job is classified as a job-related disability. A disability that is not caused by one's work is termed a nonservice disability.

Conditions for disability benefits are defined in the municipality's contract. The System's basic plans provide for (1) a service connected disability of 50 percent of the disabled individual's final average salary offset by workmen's compensation, and (2) a nonservice disability with a minimum of 10 years' service and a 30 percent final average salary annuity.

Vesting Annuity Eligibility Benefits

Conditions for vesting are defined in the municipality's contract. The basic plans have a 12 year service requirement for vesting.

A member who terminates service before retirement may elect to leave the member's accumulated contributions in the System and defer receipt of benefits until normal retirement age. Then when the member receives the vested benefits, checks will include the member contributions and the municipal contributions.

Benefit Payment Options

Depending on the municipality's contractual agreement, employees may choose individual alternatives for the monthly retirement allowance or may select one from a list of options. Typical options are as follows:

- **Single Life Annuity:** Provides a continual income throughout the annuitant's lifetime with no beneficiary benefit
- **Option 1:** Reduced lifetime benefit with remaining lump sum value of account to beneficiary
- **Option 2:** Joint and 100 percent survivorship annuity
- **Option 3:** Joint and 50 percent survivorship annuity

* Descriptions are not identical to those in the audit report. Information has been rewritten for ease of understanding.

Summary of Plan Provisions (Continued)

Death Benefit Eligibility

A death benefit provides some continuation of payment or presentation of benefits to a beneficiary given certain eligibility requirements of the covered individual. If an active member or vestee with minimum years of service dies, the death benefit goes into effect provided the municipality has included this feature in its plan.

Termination of Service

A member always receives his accumulated deductions and interest earned at the regular rate of interest, currently 6.5 percent. Depending upon the municipality's contract structure, the member might also receive excess investment monies upon withdrawal.

If a member terminates employment and goes to work for another municipality which is a member of the System, the employee may transfer his service credits unimpaired to the new municipal employer.

FINANCIAL SECTION

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 - Administrative Expenses**
 - Investment Summary**

Report of Independent Auditors



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Report of Independent Auditors

Board of Directors
Pennsylvania Municipal Retirement System

We have audited the accompanying balance sheets of the Pennsylvania Municipal Retirement System (the System) as of December 31, 1995 and 1994, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pennsylvania Municipal Retirement System at December 31, 1995 and 1994 and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedules of Funding Progress, Ten-Year Historical Information, Administrative Expenses, and Investment Summary Information are presented in accordance with Statement No. 5 of the Governmental Accounting Standards Board for purposes of additional analysis and are not a required part of the financial statements. Such information for the years 1988 through 1995 has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. Such information for the years 1986 and 1987 has been derived from financial statements audited by other auditors whose reports thereon expressed unqualified opinions.

April 26, 1996

Ernst & Young LLP

Comparative Balance Sheets

December 31, 1995 and 1994

| | 1995 | 1994 |
|--|----------------------|----------------------|
| Assets: | | |
| Cash | \$ 3,698 | \$ 3,766 |
| Short-term investments..... | 58,546,000 | 17,622,000 |
| Total cash and short-term investments..... | 58,549,698 | 17,625,766 |
| Contributions receivable | 1,987,538 | 1,175,406 |
| Accrued investment income..... | 3,090,092 | 2,078,491 |
| Investment sales receivable | 2,021,253 | 2,566,343 |
| Investments: | | |
| Bonds, at cost (market value \$168,588,496 in 1995 and \$134,180,128 in 1994)..... | 154,859,352 | 135,556,154 |
| Common and preferred stocks, at cost (market value \$321,233,716 in 1995 and \$251,468,924 in 1994) | 248,356,050 | 236,865,105 |
| Real estate mutual funds, at cost (market value \$43,363,536 in 1995 and \$42,196,008 in 1994) | 49,059,632 | 48,021,033 |
| Total investments | 452,275,034 | 420,442,292 |
| Fixed assets..... | 144,314 | 161,801 |
| Total assets | \$518,067,929 | \$444,050,099 |
| Liabilities and Fund Balance: | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 861,238 | \$ 740,174 |
| Investment purchases payable | 1,405,274 | 1,682,687 |
| Total liabilities..... | 2,266,512 | 2,422,861 |
| Fund Balance: | | |
| Members' Reserve Account..... | 119,811,233 | 110,402,774 |
| Municipal Accounts..... | 237,378,294 | 187,483,564 |
| Retired Members' Reserve Account | 158,869,909 | 145,920,081 |
| Disability Reserve Account | 954,943 | 1,032,422 |
| Undistributed earnings (deficit) | (1,212,962) | (3,211,603) |
| Total fund balance | 515,801,417 | 441,627,238 |
| Total liabilities and fund balance | \$518,067,929 | \$444,050,099 |

See notes to financial statements.

Statements of Revenues, Expenses, and Changes in Fund Balance Years Ended December 31, 1995 and 1994

| | 1995 | 1994 |
|--|----------------------|----------------------|
| Operating Revenues: | | |
| Member contributions | \$ 9,132,878 | \$ 8,692,966 |
| Municipal contributions | 53,826,781 | 20,803,673 |
| Assessments | 221,660 | 212,360 |
| Investment income | 34,432,357 | 35,856,385 |
| Total operating revenues | 97,613,676 | 65,565,384 |
| Operating Expenses: | | |
| Annuity benefits | 14,790,805 | 13,432,442 |
| Disability benefits | 893,437 | 851,135 |
| Terminations | 4,842,814 | 2,652,912 |
| Administrative | 2,912,441 | 2,644,998 |
| Total operating expenses | 23,439,497 | 19,581,487 |
| Net operating income | 74,174,179 | 45,983,897 |
| Fund balance, beginning of year | 441,627,238 | 395,643,341 |
| Fund balance, end of year | \$515,801,417 | \$441,627,238 |

See notes to financial statements.

Statements of Cash Flows

Years Ended December 31, 1995 and 1994

| | 1995 | 1994 |
|---|----------------------|----------------------|
| Operating Activities: | | |
| Net operating income | \$ 74,174,179 | \$ 45,983,897 |
| Adjustments to reconcile net operating income to net cash provided by (used in) operating activities: | | |
| Depreciation/amortization | 30,672 | 26,827 |
| Investment income | (34,432,357) | (35,856,385) |
| Gain on sale of investments | (23,567,040) | (18,777,863) |
| Loss on sale of investments | 5,440,760 | 3,352,093 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in contributions receivable | (812,132) | 152,661 |
| (Increase) decrease in accrued investment income | (1,011,601) | 629,918 |
| (Increase) decrease in investment sales receivable | 545,090 | (1,685,771) |
| Increase (decrease) in accounts payable and other liabilities | (156,349) | 620,530 |
| Net cash provided by (used in) operating activities.. | 20,211,222 | (5,554,093) |
| Investing Activities: | | |
| Purchases of investments | (277,492,854) | (190,296,463) |
| Proceeds from sale of investments | 263,786,392 | 168,691,128 |
| Investment income | 34,432,357 | 35,856,385 |
| Net cash provided by investing activities | 20,725,895 | 14,251,050 |
| Capital and Related Financing Activities: | | |
| Acquisition of capital assets | (13,185) | (31,768) |
| Net cash used in capital and related financing activities | (13,185) | (31,768) |
| Increase in cash and cash equivalents | 40,923,932 | 8,665,189 |
| Cash and cash equivalents at beginning of year | 17,625,766 | 8,960,577 |
| Cash and cash equivalents at end of year | \$ 58,549,698 | \$ 17,625,766 |

See notes to financial statements.

Notes to Financial Statements

Years Ended December 31, 1995 and 1994

(A) Organization and Description of the System

Organization

The Pennsylvania Municipal Retirement System (the System) was created by the Pennsylvania General Assembly in 1974 with the passage of the Pennsylvania Municipal Retirement Law, Act of 1974, P.L. 34, No. 15 (the Act). The System is an agent multiple-employer system, and its designated purpose is to administer sound, cost-effective pensions for local government employees. Responsibility for the organization and administration of the System is vested in the eleven-member Pennsylvania Municipal Retirement Board (the Board).

Membership in the System is optional for Pennsylvania's local governments. When a municipality joins the System, its permanent employees contractually become members. Seasonal and temporary employees as well as elected officials may also become members through contractual agreement. At January 1, 1995, the date of the most recent actuarial valuation, there were 545 municipalities with defined benefits and 68 with defined contributions.* Membership consisted of:

Participating Local Government Employers

| | Defined Benefits | Defined Contributions |
|-------------------------------------|------------------|-----------------------|
| Counties | 4 | 0 |
| Cities | 20 | 0 |
| Boroughs | 131 | 9 |
| Townships of the First Class | 21 | 0 |
| Townships of the Second Class | 88 | 35 |
| Authorities and Other Units | 131 | 22 |
| Police | 141 | 2 |
| Firefighters | 9 | 0 |
| Total | 545 | 68 |

* This includes twenty-one defined benefit plans in which there were no active participants as of the valuation date.

Notes to Financial Statements (Continued)

Individual Membership

Active Members

| | |
|-----------------------------------|--------------|
| Defined Benefit Plans | |
| Municipal..... | 6,571 |
| Police | 810 |
| Firefighters | 146 |
| Total..... | 7,527 |
| Defined Contribution Plans | |
| Municipal..... | 368 |
| Police | 3 |
| Firefighters | 0 |
| Total..... | 371 |
| Total active members | 7,898 |

Retirees and Beneficiaries

| | |
|---------------------|--------------|
| Retirees..... | 1,978 |
| Beneficiaries | 320 |
| Total..... | 2,298 |

Inactive participants with rights to deferred pension (vested)

| | |
|----------------------------|------------|
| Defined Benefit | 174 |
| Defined Contribution | 31 |
| Total..... | 205 |

Inactive participants with rights to return of contributions (nonvested)

| | |
|---|---------------|
| Defined Benefit | 118 |
| Defined Contribution | 13 |
| Total..... | 131 |
| Total individual memberships | 10,532 |

Benefits

The System has the broad authority of enabling a municipality to design its own retirement benefit structure. As an alternative, the System has two basic benefit plans: one for municipal employees (Article II of the Act) and one for uniformed employees (Article III of the Act). Members are eligible for monthly retirement benefits upon reaching the age of 65 and 55, under Articles II and III, respectively, or upon accumulating 24 years of service. Under Articles II and III of the Act, vesting occurs after 12 years of service.

Such benefits under Articles II and III are generally equal to (a) the actuarial value of the members' contributions and (b) a municipal annuity which is based upon a percentage of a member's salary or compensation.

The plans also provide death, disability, and early retirement benefits. These benefit provisions and all other requirements are established under Articles II and III of the Act.

Under Article IV of the Act, municipalities may provide for benefits different from those available under Articles II and III. Vesting provisions, if any, under Article IV may vary.

Notes to Financial Statements (Continued)

Contributions

Contributions to the System are made by members and municipalities. Under Articles II and III of the Act, members are required to contribute 3 to 8 percent of their salary. The amount a member contributes under Article IV of the Act is based upon contracted plan provisions and is principally expressed as a percent of compensation or salary. The contributions required of municipalities are based upon an actuarial valuation, using the Entry Age Normal Actuarial Cost Method, computed as a percentage of the total compensation of all active members during the period for which the amount is determined. The required contributions from municipalities for the year ended December 31, 1995 consisted of the following:

| | |
|---|---------------------|
| Municipality normal cost..... | \$11,982,380 |
| Amortization of unfunded actuarial accrued liability..... | <u>5,352,979</u> |
| Total | \$17,335,359 |

Total contributions to the System during 1995 amounted to \$62,959,659 of which \$9,132,878 and \$53,826,781 were made by its members and municipalities, respectively. The difference between the municipalities' required and actual contributions is due to the municipalities transferring state aid money to the System as required under the Municipal Pension Plan Funding Standard and Recovery Act of 1984 (Act 205).

Each municipality is also charged a \$20 assessment per member to help cover administrative expenses incurred by the System.

Contributions Required and Contributions Made

The System's funding policy requires actuarially determined contributions at rates that accumulate sufficient assets to pay benefits when due. The System's actuary used the Entry Age Normal Actuarial Cost Method to determine plan liabilities and normal cost. Under this method, a normal cost is calculated that would fund each employee's benefits during the employee's career as a level percent of pay.

At each valuation date, the unfunded actuarial accrued liability is calculated as the present value of all plan benefits, less the present value of future normal cost accruals, less current assets (actuarial value).

The normal cost rate is applied to the projected payroll, and projected employee contributions are deducted. Actuarial gains (or losses) are reflected by decreases (or increases) in the unfunded actuarial accrued liability. Under Act 205, the unfunded accrued liability is being amortized as a level dollar amount over the lesser of:

1. a. 30 years with respect to the initial liability as of January 1, 1985 (or first valuation),
 b. 20 years with respect to changes due to plan provisions and actuarial assumptions,
 c. 15 years with respect to actuarial gains and losses, or
2. the average assumed working lifetime of active employees as of the date the liability was established.

Significant actuarial assumptions used to compute the actuarially determined contribution requirement include (a) a rate of return on the investment of present and future assets of 6.5 percent a year (net of investment and certain administrative expenses) compounded annually, (b) projected salary increases of 4 percent a year compounded annually for inflation, with an additional age-based component to reflect merit/seniority, (c) post-retirement cost-of-living increases of 4 percent per annum until maximum is reached (optional in contracts), and (d) pre- and post-retirement mortality based on the 1983 Group Annuity Mortality Table for males set back 6 years for females and an additional set forward of 10 years for disabled lives.

* Total does not include \$20.00 per member administrative charges to municipalities.

Notes to Financial Statements (Continued)

(B) Significant Accounting Policies

Basis of Accounting

The System's financial statements are prepared using the accrual basis of accounting and in accordance with NCGA Statement No. 6. Employee and employer contributions are recognized as revenues in the same period that services are performed. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

In November 1994, the Government Accounting Standards Board issued Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." Statement No. 25 will supersede most of the existing standards currently followed by the System in presenting its financial statements, including requiring the use of fair value to report system assets. The System has not completed the analyses required to estimate the financial statement impact of this new statement, which is effective for the System's 1997 fiscal year.

Statements of Cash Flows

The System has adopted Governmental Accounting Standards Statement No. 9 which permits the presentation of a "Statement of Cash Flows." Cash equivalents for purposes of the Statements of Cash Flows are defined as short-term investments with a remaining maturity at the date of acquisition of three months or less.

Fund Balance

Details concerning the pension benefit obligation have not been disclosed in the fund balance section of the balance sheets as required by NCGA Statement No. 6, since such actuarial information is not available as of December 31, 1995. Such information as of January 1, 1995 and 1994 is disclosed in Note E to the financial statements.

Methods Used to Value Investments

Corporate and government bonds with fixed maturities are reported at amortized cost. Investments in common and preferred stocks are carried at cost. Gains and losses on stock sales are recognized on the basis of the average cost of stocks sold. Real estate mutual funds are carried at cost. Gains and losses on sales and exchanges of investments are recognized on the transaction date.

Short-term investments, which include investments in the state treasury pool, U.S. Treasury bills, and other short-term investment vehicles are carried at cost which approximates market value.

Fixed Assets

Fixed assets, primarily office furniture and equipment, are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, typically eight years.

Excess Interest

In addition to regular interest, the System may also award excess interest. Excess interest is investment earnings on the System's assets in excess of that required for allocation to regular interest and administrative expenses.

Rates for excess interest are determined yearly by the Board with advice from the System's actuary. The excess interest is distributed to the member accounts, the municipal accounts, and the retiree accounts as directed by the municipality.

Federal Income Tax Status

During the years ended December 31, 1995 and 1994, the System qualified under the provisions of the Internal Revenue Code and was exempt from federal income taxes.

Notes to Financial Statements (Continued)

(C) Description of Funds

The Act defines the following funds to be maintained by the System:

Members' Reserve Account

The Members' Reserve Account is credited with all contributions made by active members of the System. Interest is added to each member's individual account at an annual rate determined by the Board. The System's current interest rate is 6.5 percent.

Upon retirement or disability of an active member, the member's accumulated contributions plus interest are transferred to the Retired Members' Reserve Account or the Disability Reserve Account for subsequent benefit payments. Withdrawals of members' contributions not eligible for benefits are paid from this reserve.

Municipal Accounts

Separate municipal accounts are maintained for each municipality. The Municipal Reserve Account is credited with each municipality's contributions toward the superannuation retirement and death benefits of its members. Annual interest is added to each separate municipal account at the current rate of 6.5 percent.

Retired Members' Reserve Account

The Retired Members' Reserve Account represents the amounts transferred from the Members' Reserve Account, the Municipal Accounts, and the Disability Reserve Account. All retirement and retirees' death benefits plus voluntary and involuntary early retirements are paid from this reserve. Annual interest is credited to the Retired Members' Reserve Account at the current rate of 6.5 percent.

Disability Reserve Account

The Disability Reserve Account is credited with the contributions made by municipalities toward the disability retirement of member employees.

Undistributed Earnings (Deficit)

The System approved a distribution of excess interest at a rate of 3.93 percent during 1994. Such calculation, as described in Note B, was prepared in accordance with a Board approved formula and was based on the actuarial value (market value) of the System's assets as of December 31, 1993 and the expected cash flows of the System for 1994. This distribution, which amounted to \$14,864,447, combined with the excess of regular interest at 6.5 percent (distributed directly from undistributed earnings) and administrative costs over the investment income during 1994 resulted in a deficit in undistributed earnings of \$3,211,603 at December 31, 1994. No such distribution occurred during 1995.

(D) Investments

Members of the Board are trustees of the System's assets. They have exclusive responsibility for the management of such assets and have full power to invest the System's assets, subject to the terms, conditions, limitations, and restrictions imposed by law upon fiduciaries.

The Board has authorized investments in U.S. government and agency securities, foreign government bonds denominated in U.S. dollars and rated "AA," corporate bonds rated "A" or better, equity securities, and real estate commingled funds allowing for equity participation. The Board specifically prohibits investments in commodities, mineral rights, and options. Additionally, short-selling and margin purchase transactions are prohibited.

Notes to Financial Statements (Continued)

The Board achieves day-to-day management of the investment portfolio through the use of investment advisors. Restrictions concerning diversification within each advisor and among advisors are provided by adopted investment policy.

The System invests in the Commonwealth of Pennsylvania Treasury Department's short-term cash management fund. The fund comprises various short-term investments, including repurchase agreements. Restrictions on these repurchase agreements are outlined below.

Repurchase agreements with nonbanking institutions are allowable if (a) the institution has a minimum of \$50 million in capital, (b) the collateral that is pledged to the Treasury is composed of U.S. government securities with a maturity of four years or less, (c) the collateral's market value equals or exceeds the amount invested by the Treasury, and (d) the collateral is delivered to Treasury's Book Entry Account at the Philadelphia Federal Reserve Bank.

Repurchase investments in banking institutions are subject to identical restrictions as those noted above for non-banking institutions.

The System also invests in mortgage-backed securities such as GNMA and FNMA obligations. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The carrying and market values of such securities, which are reported with "Bonds" in the System's balance sheet, approximated \$27.0 million and \$27.2 million, respectively, at December 31, 1995, and \$21.5 million and \$19.8 million, respectively, at December 31, 1994.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at December 31, 1995. In accordance with a contractual relationship between the Commonwealth's Treasury Department and a custodial agent, substantially all investments subject to categorization are held in book entry form via a unique account so as to be identified at all times as the possession of the Commonwealth. Therefore, all such investments are reflected in Category 1, which is defined as investments which are insured or registered or securities held by the System or its agent in the System's name. Investments may also be categorized as Category 2, which is defined as investments which are uninsured and unregistered, with the securities held by the System's master custodian (bank) or agent in the System's name, and Category 3, which is defined as investments which are uninsured and unregistered, with the securities held by the System's master custodian (bank) or agent but not in the System's name. The System has no investments which would be classified in Categories 2 or 3. However, the System does have investments which are not in any of the three defined categories, because the securities are not used as evidence of the investment. Such investments are separately identified.

| Investments (Book Value) | Category 1 | Not Categorized | Total |
|---|----------------------|----------------------|----------------------|
| U.S. government and agency bonds (market value \$140,179,081)..... | \$129,343,907 | \$ 0 | \$129,343,907 |
| Corporate bonds and notes (market value \$28,409,415)..... | 25,515,445 | 0 | 25,515,445 |
| Common and preferred stocks (market value \$321,233,716)..... | 248,356,050 | 0 | 248,356,050 |
| Real estate mutual funds (market value \$43,363,536)..... | 0 | 49,059,632 | 49,059,632 |
| State Treasury short-term investment fund (market value \$58,546,000)..... | 0 | 58,546,000 | 58,546,000 |
| Total (market value \$591,731,748) | \$403,215,402 | \$107,605,632 | \$510,821,034 |

Notes to Financial Statements (Continued)

Investments that represented 5 percent or more of the plan's net assets at December 31, 1995 and 1994 were:

| Security | Rate | Due Date | Book Value | Market Value |
|--|----------|----------|--------------|---------------|
| 1995 | | | | |
| Prudential Real Estate Investors (PRISA) | Variable | Variable | \$31,038,955 | \$ 25,207,779 |
| State Street Index Fund | Variable | Variable | \$98,041,284 | \$125,654,227 |
| 1994 | | | | |
| Prudential Real Estate Investors (PRISA) | Variable | Variable | \$28,943,961 | \$ 23,130,526 |
| State Street Index Fund | Variable | Variable | \$96,182,820 | \$102,577,013 |

**(E)
Funding Status and Progress**

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. This measure is the actuarial present value of credited projected benefits and is intended to (a) help users assess the System's funding status on a going-concern basis, (b) assess progress being made in accumulating sufficient assets to pay benefits when due, and (c) allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation which was determined for the most recent actuarial valuation, dated January 1, 1995, was done so in compliance with GASB Statement No. 5. Significant actuarial assumptions used include (a) a 7.0 percent discount rate per year (assumed net rate of return on the investment of present and future assets) compounded annually, (b) projected salary increases of 4 percent per year compounded annually for inflation, with an additional age-base component to reflect merit/seniority, (c) post-retirement cost-of-living increases of 4 percent per annum until maximum is reached (optional in contracts), and (d) pre- and post-retirement mortality based on the 1983 Group Annuity Mortality Table for Males set back 6 years for females, and an additional set forward of 10 years for disabled lives.

Significant actuarial assumptions used for the pension benefit obligation dated January 1, 1994 were as follows: (a) a 7.0 percent discount rate per year, (b) projected salary increases of 5.5 percent per year, (c) post-retirement cost-of-living increases of 5 percent per annum, and (d) pre- and post-retirement mortality based on the 1971 Group Annuity Mortality Table set back 0 years for males, 6 years for females, and disability set forward 5 years.

The changes in actuarial assumptions resulted in an increase in the pension benefit obligation of \$11,272,800 at January 1, 1995.

The System's assets in excess of the pension benefit obligation were as follows at January 1:

| | Benefit Information Date | |
|---|--------------------------|------------------------|
| | January 1, 1995 | January 1, 1994 |
| Pension benefit obligation: | | |
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | \$149,161,100 | \$128,996,500 |
| Current employees | | |
| Accumulated employee contributions including allocated investment income | 103,727,900 | 89,611,100 |
| Employer-financed vested | 150,939,200 | 133,820,300 |
| Employer-financed nonvested | 29,712,400 | 26,210,600 |
| Total pension benefit obligation | 433,540,600 | 378,638,500 |
| Net assets available for benefits, at cost (market value is \$449,030,006 in 1995 and \$437,716,293 in 1994) | 441,627,238 | 395,643,341 |
| Assets in excess of pension benefit obligation | \$ (8,086,638) | \$ (17,004,841) |

Notes to Financial Statements (Continued)

(F) Relationships with Other Commonwealth Agencies

Responsibility for the organization and administration of the System is vested in the eleven-member Pennsylvania Municipal Retirement Board. The State Treasurer and the Secretary of the Commonwealth serve on the Board by virtue of statute. Eight Board members are also appointed by the Governor after being nominated by their respective organizations. One member each represents the Chiefs of Police Association, Pennsylvania League of Cities, Pennsylvania Municipal Authorities Association, Pennsylvania State Association of Boroughs, Pennsylvania State Association of County Commissioners, Pennsylvania State Association of Township Commissioners, Pennsylvania State Association of Township Supervisors, and the Pennsylvania State Fire Fighters Association. In addition, one Board position is filled by a retired member of the Pennsylvania Municipal Retirement System. Interested individuals submit an application, and then the Governor appoints someone from the list of applicants.

The System is not included as a component unit of the Commonwealth of Pennsylvania for financial reporting purposes because the System is not financially accountable to the Commonwealth as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with the System toward the Commonwealth.

(G) Litigation and Contingencies

The System is subject to various threatened and pending lawsuits which generally deal with issues concerning upgrading of benefits. Management does not anticipate that the ultimate liability arising from such litigation and threats of litigation will have a material effect on the financial statements of the System.

(H) Plan Termination

Member municipalities may withdraw from the System if the conditions for withdrawal under the Act have been met. Requirements include a minimum of five years of membership and approval of the Board. In the event of withdrawal, a municipality is entitled to receive a net refund of the amount then standing to the credit of the municipality in the municipal account, the member employees' account, and the retired members' reserve account. In no event shall the municipality refund exceed the pro rata interest of the withdrawing municipality in the net assets of the entire fund based on market value of the fund investments. Liability for any continuation of retirement or disability benefits being paid from the System shall attach to the withdrawing municipality.

(I) Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay pension benefits when due is presented immediately following the Notes to Financial Statements in Schedules 1 and 2.

Schedule 1 Analysis of Funding Progress for Last 9 Years

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---------------------|---|----------------------------|-----------------------------|---|------------------------|---|
| Valuation as of 1/1 | Net Assets Available for Benefits at Cost | Pension Benefit Obligation | Percentage Funded (1) ÷ (2) | Unfunded (Assets in Excess of) Pension Obligation (2) - (1) | Annual Covered Payroll | Unfunded (Assets in Excess of) Pension Obligation as % of Covered Payroll (4) ÷ (5) |
| 1995 | \$441,627,238 | \$433,540,600 | 101.9% | \$ (8,086,638) | \$220,896,500 | (3.7%) |
| 1994 | 395,643,341 | 378,638,500 | 104.5% | (17,004,841) | 205,576,600 | (8.3%) |
| 1993 | 346,811,732 | 353,092,100 | 98.2% | 6,280,368 | 199,520,300 | 3.1% |
| 1992 | 308,188,187 | 306,891,400 | 100.4% | (1,296,787) | 183,077,135 | (0.7%) |
| 1991 | 280,860,370 | 276,842,300 | 101.5% | (4,018,070) | 169,014,027 | (2.4%) |
| 1990 | 259,678,437 | 242,959,900 | 106.9% | (16,718,537) | 154,392,434 | (10.8%) |
| 1989 | 233,842,678 | 227,907,400 | 102.6% | (5,935,278) | 148,709,536 | (4.0%) |
| 1988 | 215,563,330 | 227,201,900 | 94.9% | 11,638,570 | 139,935,278 | 8.3% |
| 1987 | 175,901,000 | 208,149,600 | 84.5% | 32,248,600 | 132,969,603 | 24.3% |

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded (assets in excess of) pension obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension obligation provides one indication of funding status on a going-concern basis. Analysis of this percentage over time indicates whether the fund is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the pension fund. Trends in unfunded (assets in excess of) pension obligation as a percentage of annual covered payroll approximately adjust for the effects of inflation and aid analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the pension fund.

* Data is unavailable prior to 1987.

Schedule 2

Revenues by Source and Expenses by Type for Last 10 Years

Revenues by Source

| Fiscal Year | Member Contributions | Municipal Contributions ⁽¹⁾ | Municipal Assessments ⁽²⁾ | Investment Income ⁽³⁾ | Total Revenue |
|-------------|----------------------|--|--------------------------------------|----------------------------------|---------------|
| 1995 | \$9,132,878 | \$53,826,781 | \$221,660 | \$34,432,357 | \$97,613,676 |
| 1994 | 8,692,966 | 20,803,673 | 212,360 | 35,856,385 | 65,565,384 |
| 1993 | 8,005,897 | 17,393,710 | 213,540 | 45,673,490 | 71,286,637 |
| 1992 | 7,691,304 | 17,455,364 | 205,900 | 30,442,797 | 55,795,365 |
| 1991 | 7,049,195 | 14,175,058 | 200,520 | 25,317,942 | 46,742,715 |
| 1990 | 6,511,819 | 13,609,021 | 195,460 | 17,379,987 | 37,696,287 |
| 1989 | 5,983,693 | 17,457,290 | 198,460 | 20,488,089 | 44,127,532 |
| 1988 | 5,630,152 | 13,657,999 | 192,800 | 14,620,070 | 34,101,021 |
| 1987 | 5,570,496 | 24,008,631 | 181,920 | 25,445,009 | 55,206,056 |
| 1986 | 5,419,728 | 15,486,732 | 198,655 | 26,648,239 | 47,753,354 |

(1) Contributions were made in accordance with actuarially determined contribution requirements.

(2) Municipal assessments are receipts but not assets of the plans.

(3) The investment income does not include any unrealized gains or losses resulting from changes in market movements in the System's portfolio.

Expenses by Type

| Fiscal Year | Total Benefit Expenses | Administrative Expenses | | Total Expenses |
|-------------|------------------------|-------------------------|----------------------------|----------------|
| | | Operational Expenses | Investment Management Fees | |
| 1995 | \$20,527,056 | \$1,523,433 | \$1,389,008 | \$23,439,497 |
| 1994 | 16,936,489 | 1,519,615 | 1,125,383 | 19,581,487 |
| 1993 | 20,093,174 | 1,299,410 | 1,062,444 | 22,455,028 |
| 1992 | 14,912,545 | 1,300,173 | 959,102 | 17,171,820 |
| 1991 | 17,456,476 | 1,169,439 | 788,983 | 19,414,898 |
| 1990 | 14,723,270 | 1,132,739 | 658,345 | 16,514,354 |
| 1989 | 16,570,180 | 1,129,091 | 592,502 | 18,291,773 |
| 1988 | 14,360,550 | 923,046 | 538,077 | 15,821,673 |
| 1987 | 13,917,366 | 943,489 | 541,004 | 15,401,859 |
| 1986 | 12,568,611 | 794,026 | 499,771 | 13,862,408 |

Continued on next page

Schedule 2 (Continued)

Expenses by Type (Continued)

Benefit Expenses

| Fiscal Year | Annuity Benefits | Disability Benefits | Terminations | Total Benefit Expenses |
|-------------|------------------|---------------------|--------------|------------------------|
| 1995 | \$14,790,805 | \$893,437 | \$4,842,814 | \$20,527,056 |
| 1994 | 13,432,442 | 851,135 | 2,652,912 | 16,936,489 |
| 1993 | 12,144,279 | 760,676 | 7,188,219 | 20,093,174 |
| 1992 | 11,288,793 | 658,263 | 2,965,489 | 14,912,545 |
| 1991 | 10,438,173 | 592,732 | 6,425,571 | 17,456,476 |
| 1990 | 8,992,091 | 632,732 | 5,098,447 | 14,723,270 |
| 1989 | 8,365,751 | 659,164 | 7,545,265 | 16,570,180 |
| 1988 | 7,406,401 | 489,130 | 6,465,019 | 14,360,550 |
| 1987 | 6,332,690 | 395,846 | 7,188,830 | 13,917,366 |
| 1986 | 6,021,055 | 341,426 | 6,206,130 | 12,568,611 |

Schedule 3
Administrative Expenses
Comparative Two-Year Schedule
Years Ended December 31, 1995 and 1994

| | 1995 | | 1994 | |
|---|--------------------|--------------------|--------------------|--------------------|
| | Actual | Budget | Actual | Budget |
| Personnel costs: | | | | |
| Salaries and wages | \$ 653,263 | | \$ 608,013 | |
| Social security contributions | 49,511 | | 44,942 | |
| Retirement contributions | 54,382 | | 45,224 | |
| Insurance contributions | 147,593 | | 106,677 | |
| Other employee benefits | 4,117 | | 4,388 | |
| Total personnel costs | 908,866 | \$ 984,800 | 809,244 | \$ 887,700 |
| Professional costs: | | | | |
| Performance evaluation | 45,250 | | 37,000 | |
| Actuarial | 196,024 | | 192,260 | |
| Data processing | 7,576 | | 8,774 | |
| Audit | 21,000 | | 20,000 | |
| Legal | 67,697 | | 67,285 | |
| Security movement & control | 2,747 | | 10,429 | |
| Investment advisors | 1,389,008 | | 1,125,383 | |
| Miscellaneous professional | 75,596 | | 92,588 | |
| Total professional costs | 1,804,898 | 1,824,308 | 1,553,719 | 1,580,133 |
| Communication costs: | | | | |
| Printing | 18,675 | | 30,378 | |
| Telephone | 10,502 | | 21,438 | |
| Postage | 27,359 | | 30,920 | |
| Travel | 16,377 | | 18,074 | |
| Advertising | 2,431 | | 2,208 | |
| Total communication costs | 75,344 | 81,500 | 103,018 | 74,300 |
| Other services and charges: | | | | |
| Office space rental | 75,000 | | 121,683 | |
| Equipment leasing | 3,379 | | 6,277 | |
| Supplies | 10,710 | | 20,154 | |
| Maintenance | 1,438 | | 1,205 | |
| Bonding & insurance | 637 | | 1,065 | |
| Dues & subscriptions | 1,497 | | 1,806 | |
| Total other services & charges | 92,661 | 150,950 | 152,190 | 144,900 |
| Depreciation | 30,672 | | 26,827 | |
| Total administrative expenses | \$2,912,441 | \$3,041,558 | \$2,644,998 | \$2,687,003 |

Schedule 4 Investment Summary Year Ended December 31, 1995

January 1, 1995

| Type of Investment | Book Value | Market Value | Purchases |
|---------------------------------|----------------------|----------------------|----------------------|
| Corporate and government bonds: | | | |
| U.S. Government bonds | \$114,534,128 | \$113,227,495 | \$102,813,867 |
| Corporate bonds | 21,022,026 | 20,952,633 | 4,493,419 |
| Total bonds | 135,556,154 | 134,180,128 | 107,307,286 |
| Common stock..... | 236,865,105 | 251,468,924 | 168,090,574 |
| Real estate equity | 48,021,033 | 42,196,008 | 2,094,994 |
| Cash equivalents | 17,622,000 | 17,622,000 | 123,237,000 |
| Total investments | \$438,064,292 | \$445,467,060 | \$400,729,854 |

Investment Summary (Continued) Year Ended December 31, 1994

January 1, 1994

| Type of Investment | Book Value | Market Value | Purchases |
|---------------------------------|----------------------|----------------------|----------------------|
| Corporate and government bonds: | | | |
| U.S. Government bonds | \$103,507,214 | \$116,383,328 | \$ 52,054,753 |
| Corporate bonds | 21,022,026 | 23,761,968 | 0 |
| Total bonds | 124,529,240 | 140,145,296 | 52,054,753 |
| Common stock..... | 212,679,124 | 243,861,584 | 136,423,500 |
| Real estate equity | 46,202,824 | 41,477,260 | 1,818,209 |
| Cash equivalents | 8,957,000 | 8,957,000 | 104,380,000 |
| Total investments | \$392,368,188 | \$434,441,140 | \$294,676,462 |

Schedule 4
Investment Summary (Continued)
Year Ended December 31, 1995

December 31, 1995

| Sales and Redemptions | Book Value | Market Value | % of Total Market Value |
|--------------------------|----------------------|----------------------|----------------------------|
| \$ 88,004,088 | \$129,343,907 | \$140,179,081 | 24% |
| 0 | 25,515,445 | 28,409,415 | 5 |
| 88,004,088 | 154,859,352 | 168,588,496 | 29% |
| 156,599,629 | 248,356,050 | 321,233,716 | 54% |
| 1,056,395 | 49,059,632 | 43,363,536 | 7% |
| 82,313,000 | 58,546,000 | 58,546,000 | 10% |
| \$327,973,112 | \$510,821,034 | \$591,731,748 | 100% |

Investment Summary (Continued)
Year Ended December 31, 1994

December 31, 1994

| Sales and Redemptions | Book Value | Market Value | % of Total Market Value |
|--------------------------|----------------------|----------------------|----------------------------|
| \$ 41,027,839 | \$114,534,128 | \$113,227,495 | 25% |
| 0 | 21,022,026 | 20,952,633 | 5 |
| 41,027,839 | 135,556,154 | 134,180,128 | 30% |
| 112,237,519 | 236,865,105 | 251,468,924 | 56% |
| 0 | 48,021,033 | 42,196,008 | 10% |
| 95,715,000 | 17,622,000 | 17,622,000 | 4% |
| \$248,980,358 | \$438,064,292 | \$445,467,060 | 100% |

Investment Summary (Continued)

Year Ended December 31, 1993

December 31, 1993

| Category | Market Value | Book Value | % of Total |
|--------------------------|------------------|------------------|--------------|
| Equity Investments | 1,234,567 | 1,123,456 | 15.2% |
| Fixed Income Investments | 567,890 | 543,210 | 7.5% |
| Real Estate | 345,678 | 321,098 | 4.5% |
| Commodities | 123,456 | 112,345 | 1.6% |
| Other | 98,765 | 87,654 | 1.2% |
| Total | 2,370,356 | 2,187,763 | 29.0% |

Investment Summary (Continued)

Year Ended December 31, 1994

December 31, 1994

| Category | Market Value | Book Value | % of Total |
|--------------------------|------------------|------------------|--------------|
| Equity Investments | 1,345,678 | 1,234,567 | 16.5% |
| Fixed Income Investments | 678,901 | 654,321 | 9.0% |
| Real Estate | 456,789 | 432,109 | 5.8% |
| Commodities | 156,789 | 145,678 | 2.0% |
| Other | 112,345 | 101,234 | 1.4% |
| Total | 2,750,502 | 2,567,909 | 34.7% |

ACTUARIAL SECTION

- **Actuary's Certification Letter**
Pension Benefit Obligation
Value of Plan Benefits
Actuarial Assumptions
Actuarial Methods
- **Membership Data**
Active Members
Retired Members
- **Summary of Accrued and Unfunded**
Accrued Liabilities
- **Solvency Test**
- **Schedule of Contribution Requirements vs.**
Actual Contributions
- **Analysis of Financial Experience**

Actuary's Certification Letter

THE SEGAL COMPANY

1920 N Street, N.W.
Suite 500
Washington, DC
20036-1601
202-833-6480
FAX: 202-833-6490

April 22, 1996

PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM

Eli Greenblum, A.S.A., M.A.A.A., E.A.
Vice President & Actuary

Certificate of Actuarial Valuation

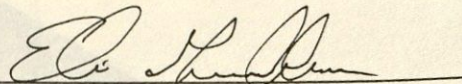
This is to certify that we have prepared an annual actuarial valuation of the entire System as of January 1, 1995, in accordance with generally accepted actuarial principles and practices. This certificate includes the following attached exhibits:

- EXHIBIT I** - Pension Benefit Obligation
- EXHIBIT II** - Actuarial Present Value of Accumulated Plan Benefits
- EXHIBIT III** - Actuarial Assumptions
- EXHIBIT IV** - Actuarial Methods

Individual municipality actuarial valuation results as of January 1, 1995, have been provided separately for 541 plans, including 16 plans sponsored by distressed municipalities which are required to redetermine contribution levels as of January 1, 1995 under applicable Commonwealth Statute (Act 205). We have calculated (1) the unfunded liability; (2) the amortization required; and (3) the normal cost as a percentage of payroll. State law delegates to the governing authority the determination of payroll which is to be applied to the normal cost percentage. Other municipalities have been included in the actuarial results reported in this certificate, but individual plan funding requirements were either not required or not redetermined; contribution requirements for 4 plans sponsored by counties are determined under Commonwealth statute Act 293 on a biennial basis, most recently as of January 1, 1994.

The valuation was based on information supplied by the System's auditor with respect to assets, and by the System's administrative staff with respect to reserve accounts; age, service and compensation of employees; and age, benefit form and amount for inactive participants and pensioners. We have not verified and customarily would not verify such information, but we have examined the data for reasonableness and have no reason to doubt its substantial accuracy. The actuarial assumptions employed in this valuation were adopted by the Pennsylvania Municipal Retirement Board with the recommendation of the actuary.

To the best of my knowledge, the information supplied in this actuarial certificate is complete and accurate, and in my opinion the assumptions used in the aggregate are reasonably related to the experience of the various plans and to reasonable expectations of anticipated experience.



Eli Greenblum, A.S.A., M.A.A.A.
Vice President & Actuary
Enrolled Actuary No. 96-3636

EG:vm
Attachments

Actuary's Certification Letter (Continued)

Exhibit I Pension Benefit Obligation

The value of the pension benefit obligation required for disclosure by Statement No. 5 of the Governmental Accounting Standards Board is shown below as of January 1, 1995 and, for comparative purposes, as of January 1, 1994.

| | Benefit Information Date | |
|---|--------------------------|----------------------|
| | January 1, 1995 | January 1, 1994 |
| Pension benefit obligation: | | |
| Participants currently receiving benefits and terminated employees not yet receiving benefits | \$149,161,100 | \$128,996,500 |
| Current employees | | |
| Accumulated employee contributions including allocated investment income | 103,727,900 | 89,611,100 |
| Employer-financed vested | 150,939,200 | 133,820,300 |
| Employer-financed nonvested | 29,712,400 | 26,210,600 |
| Total pension benefit obligation..... | \$433,540,600 | \$378,638,500 |

The actuarial assumptions are shown in Exhibit III. The above information was derived from the following membership data, as provided by PMRS, regarding 545 defined benefit plans and 68 defined contribution-only plans as of January 1, 1995:

| | |
|---|-------|
| a. Retirees currently receiving benefits | 1,978 |
| b. Beneficiaries currently receiving benefits | 320 |
| c. Terminated vested employees entitled to future benefits - defined benefit plans..... | 174 |
| d. Terminated nonvested employees entitled to contribution refunds - defined benefit plans..... | 118 |
| e. Active employees in defined benefit plans with aggregate salary of \$212,746,400 | 7,527 |
| i. vested | 3,334 |
| ii. nonvested | 4,193 |
| f. Participants in defined contribution-only plans with aggregate salary of \$8,150,100 | 415 |
| i. active vested..... | 371 |
| ii. inactive vested..... | 44 |

Actuary's Certification Letter (Continued)

Exhibit II
Actuarial Present Value of Accumulated Plan Benefits

The actuarial present value of accumulated Plan benefits, calculated in conformance with FASB Statement No. 35, is shown below as of January 1, 1995 and, for comparative purposes, as of January 1, 1994.

| | Benefit Information Date | |
|--|---------------------------------|------------------------|
| | January 1, 1995 | January 1, 1994 |
| Actuarial present value of accrued vested benefits: | | |
| Participants currently receiving benefits | \$140,777,500 | \$121,495,600 |
| Other vested benefits..... | 184,229,900 | 162,910,400 |
| Total vested benefits | \$325,007,400 | \$284,406,000 |
| Actuarial present value of nonvested accumulated plan benefits..... | 34,371,000 | 18,814,600 |
| Total actuarial present value of accumulated plan benefits..... | \$359,378,400 | \$303,220,600 |

The amounts shown above have been calculated in accordance with Interpretations 1 and 2 promulgated by the Actuarial Standards Board for calculating such values. The actuarial assumptions used as of January 1, 1995 are as shown in Exhibit III.

The factors which affected the change in the actuarial present value of accumulated Plan benefits from the preceding to the current benefit information date are as follows:

| Factor | Change in Actuarial Present Value of Accumulated Plan Benefits |
|---|---|
| Withdrawn municipalities | \$ (125,500) |
| Newly entered municipalities | 3,445,900 |
| Benefits accumulated, net experience gain or loss, changes in data, upgrades | 28,051,100 |
| Benefits paid (including contribution refunds) | (16,811,000) |
| Changes in actuarial assumptions | 20,920,000 |
| Interest | 20,677,300 |
| Total | \$56,157,800 |

Actuary's Certification Letter (Continued)

Exhibit III Actuarial Assumptions

The following actuarial assumptions were adopted by the Board upon advice of the System's actuary in July 1994 for first use in the January 1, 1995 actuarial valuation:

Mortality rates: 1983 Group Annuity Mortality Table for Males (with margins), with ages set back 6 years for females

Disability mortality: Mortality under stipulated table for a healthy life 10 years older

The following chart presents life expectancies that result from the application of the 1983 Group Annuity Mortality Table for Males for healthy lives aged 50 to 80.

Expected Number of Years of Life Remaining (from the 1983 Group Annuity Mortality Table)

| Age | | Years | Age | | Years | Age | | Years |
|------|--------|-------|------|--------|-------|------|--------|-------|
| Male | Female | | Male | Female | | Male | Female | |
| 50 | 56 | 29.2 | 61 | 67 | 19.8 | 71 | 77 | 12.5 |
| 51 | 57 | 28.3 | 62 | 68 | 19.0 | 72 | 78 | 11.9 |
| 52 | 58 | 27.4 | 63 | 69 | 18.2 | 73 | 79 | 11.3 |
| 53 | 59 | 26.5 | 64 | 70 | 17.5 | 74 | 80 | 10.7 |
| 54 | 60 | 25.7 | 65 | 71 | 16.7 | 75 | 81 | 10.2 |
| 55 | 61 | 24.8 | 66 | 72 | 15.9 | 76 | 82 | 9.6 |
| 56 | 62 | 24.0 | 67 | 73 | 15.2 | 77 | 83 | 9.1 |
| 57 | 63 | 23.1 | 68 | 74 | 14.5 | 78 | 84 | 8.6 |
| 58 | 64 | 22.3 | 69 | 75 | 13.8 | 79 | 85 | 8.1 |
| 59 | 65 | 21.5 | 70 | 76 | 13.2 | 80 | 86 | 7.6 |
| 60 | 66 | 20.6 | | | | | | |

Termination rates before retirement: For municipal plans with 25 or more active members, the termination rates indicated below are used; for municipalities with between 6 and 24 members, a percentage of the indicated rates was used where such percentage equals 100 percent less 5 percent \times (25 - number of members); for municipalities with 5 or fewer members, no terminations are assumed.

Termination Rates Before Retirement

| Years of Service | Rate of Termination* (%) | | |
|---------------------|--------------------------------------|-------------------|--------|
| | Uniformed Members Male and Female | Municipal Members | |
| | | Male | Female |
| fewer than 1 | 10% | 13% | 16% |
| 1 but fewer than 2 | 10 | 12 | 14 |
| 2 but fewer than 3 | 10 | 11 | 13 |
| 3 but fewer than 4 | 9 | 10 | 12 |
| 4 but fewer than 5 | 8 | 9 | 10 |
| 5 but fewer than 6 | 7 | 8 | 9 |
| 6 but fewer than 7 | 6 | 7 | 8 |
| 7 but fewer than 8 | 5 | 6 | 7 |
| 8 but fewer than 9 | 4 | 5 | 6 |
| 9 but fewer than 10 | 3 | 4 | 5 |
| 10 or more | 2 | 2 | 2 |

*No termination rates are applied once the employee becomes eligible for voluntary early retirement.

Actuary's Certification Letter (Continued)

Disability rates: Rates are equal to 50 percent of the rates set forth in the 1964 OASDI (Social Security) Experience for Males. Sample rates are as follows:

Disability Rate Assumptions

| Age | Rate of Disablement (%) |
|-----|-------------------------|
| 25 | 0.043% |
| 35 | 0.074 |
| 45 | 0.180 |
| 55 | 0.504 |
| 65 | 1.160 |

Type of Disability: Municipal plans — 20 percent of disablements assumed to be service related
 Uniformed plans — 65 percent of disablements assumed to be service related

Salary scale: 4.0 percent inflation and age related scale for merit/seniority

Sample Salary Scale Rates

| Age | Total Rate (including inflation) |
|-----|----------------------------------|
| 30 | 7.0% |
| 40 | 5.5 |
| 50 | 5.1 |
| 60 | 4.7 |

Retirement age: Members are assumed to retire no earlier than the age at which unreduced benefits are available. No early retirement is assumed. Specific assumptions regarding retirement age are as follows:

Retirement Age Assumptions

| Uniformed Members | |
|-----------------------------------|------------------------------|
| age first eligible ⁽²⁾ | projected retirement age |
| 57 (or younger) | 4 years after first eligible |
| 58-61 | 62 |
| 62 (or older) | at first eligibility |
| | |
| | |
| | |
| | |

| Municipal Members ⁽¹⁾ | |
|----------------------------------|--|
| age, if eligible ⁽²⁾ | projected rate of normal retirement ⁽³⁾ |
| 59 (and younger) | 5% |
| 60-61 | 10% |
| 62 | 30% |
| 63-64 | 15% |
| 65 | 35% |
| 66-69 | 15% |
| 70 | 100% |

⁽¹⁾ Members are assumed to retire over a range of ages. The probability that a member retires at a given age (if still active and eligible for unreduced benefits at that age) is shown in the chart.

⁽²⁾ Rates apply only if member is eligible for unreduced benefits (no early retirement assumed).

⁽³⁾ Rates indicated are adjusted by adding 5 percent for the year in which the member is **first** eligible for normal retirement.

Actuary's Certification Letter (Continued)

Marital status and spouse's age*: 85 percent of members married at time of retirement; wives 4 years younger than their husbands

- Social Security*:**
- (a) The Social Security Taxable Wage Base will increase by 4.5 percent compounded annually.
 - (b) The Consumer Price Index will increase by 4 percent compounded annually.
 - (c) The Average Total Wages of All Workers will increase by 4.5 percent compounded annually.

Post-retirement cost-of-living increases*: 4 percent per annum until maximum is reached (optional in contracts)

Net investment return: 6.5 percent compounded annually (net of investment and certain administration expenses) for funding purposes; 7.0 percent compounded annually (net of investment expenses) for calculation of values intended to comply with GASB Statement No. 5 and FASB Statement No. 35

* If applicable

Continued on next page

Actuary's Certification Letter (Continued)

Exhibit IV Actuarial Methods

Contribution requirements are individually determined for each participating municipality on an actuarial basis at least biannually as described below. The frequency of actuarial valuation is determined by applicable Commonwealth statute (Act 205 and Act 293). The following actuarial methods were adopted effective January 1, 1985, unless indicated otherwise.

Actuarial Value of Assets (adopted effective January 1, 1991)

The actuarial value of assets is the sum of all audited reserve accounts as of the valuation date including member, municipal, retired, and disability reserves, and a one-year administration expense reserve, plus the portion of any additional investment income (beyond the "regular" rate of 6.5 percent) to be distributed as "excess interest." The actuarial value can never be less than 90 percent of market value.

Each year, municipalities may receive an excess interest allocation derived as a portion of new surplus created during the year. "Surplus" refers to the excess of market value over the actuarial value of assets. Once the preliminary actuarial asset value has been determined, a formula⁽¹⁾ is used to allocate the new surplus based on the prior year's investment experience. Generally, depending on the relative size of surplus to market value, between 10 percent and 90 percent of new surplus will become excess interest. For the year ended December 31, 1994, there was no excess interest to be allocated.

Actuarial Cost Method — Entry Age Normal Actuarial Cost Method

Entry age is defined as attained age less credited service. The normal cost rate is derived as a level percent of future compensation of current employees, on an individual basis. This rate is applied to the projected payroll, and projected employee contributions are deducted. Actuarial gains (or losses), including the effect of contributions greater or less than the previously determined actuarial level, are reflected by decreases (or increases) in the unfunded actuarial accrued liability. Under Act 205, the unfunded actuarial accrued liability is amortized as a level dollar amount⁽²⁾ over the lesser of:

- (a) i. 30 years, with respect to the initial liability as of January 1, 1985 (or first valuation);
 - ii. 20 years, with respect to changes due to plan provisions and actuarial assumptions;
 - iii. 10 years, with respect to changes in benefits for currently retired members;
 - iv. 15 years, with respect to actuarial gains and losses; or
- (b) the average assumed working lifetime of active employees as of the date the liability was established.

With the two exceptions which follow, the funding method is applied individually to each municipality:

Retired and disabled members are paid monthly benefits from the System's Retired Members' Reserve Account, which at the time of retirement receives a transfer from the municipal and member accounts in an amount actuarially determined to be sufficient to pay all future benefits for the member (and, if applicable, a surviving beneficiary). Thus, post-retirement experience is pooled within the System. (However, this procedure does not apply to the legislated ad hoc adjustments which became effective January 1, 1989 for a segment of the retirees.)

A disabled member's pension is met in part from the amount that can be provided by the member's own accumulated contributions and from the amount that can be provided by the value of that portion of the member's accrued benefit attributable to municipal contributions, with the balance of the pension being provided by the appropriate transfer from the Disability Reserve Account. The amount of annual transfer from accumulated municipal contributions to the Disability Reserve Account is determined on the one year term cost basis (i.e., the expected cost of disabilities in the coming year).

⁽¹⁾The portion of investment income to be distributed as excess interest is based on a complicated algebraic formula adopted by the Board with the advice of the System's actuary effective January 1, 1985.

⁽²⁾In certain instances, distressed municipalities may use "level percent of payroll" amortization of the initial liability, where the assumed annual payroll increase is 4 percent.

Schedule of Active Member Valuation Data for Last 10 Years

Defined Benefit Plans

| Valuation Date 1/1 | Number of Active Members | Percentage Change in Membership | Number of Participating Employers | Percentage Increase in Number of Participating Employers | Total Annual Payroll | Percentage Increase in Payroll | Average Annual Salary | Percentage Increase in Average Annual Salary |
|--------------------|--------------------------|---------------------------------|-----------------------------------|--|----------------------|--------------------------------|-----------------------|--|
| 1995 | 7,527 | 2.7% | 545 | 2.6% | \$212,746,400 | 7.0% | \$28,264 | 4.2% |
| 1994 | 7,329 | (2.1) | 531 | 3.9 | 198,826,000 | 2.6 | 27,129 | 4.8 |
| 1993 | 7,487 | 2.0 | 511 | 4.9 | 193,837,800 | 9.1 | 25,890 | 6.9 |
| 1992 | 7,337 | 2.4 | 487 | 3.6 | 177,713,900 | 7.3 | 24,222 | 4.8 |
| 1991 | 7,165 | 4.6 | 470 | 2.6 | 165,660,300 | 9.4 | 23,121 | 4.6 |
| 1990 | 6,850 | (1.8) | 458 | 1.3 | 151,429,600 | 3.5 | 22,107 | 5.5 |
| 1989 | 6,979 | 1.3 | 452 | 4.2 | 146,262,900 | 5.8 | 20,958 | 4.4 |
| 1988 | 6,887 | 0.6 | 434 | 1.6 | 138,269,100 | 4.7 | 20,077 | 4.1 |
| 1987 | 6,847 | 3.1 | 427 | 1.9 | 132,103,400 | 8.9 | 19,294 | 5.6 |
| 1986 | 6,640 | 0.4 | 419 | — * | 121,313,600 | 5.9 | 18,270 | 5.4 |

* Information prior to 1986 is incomplete.

Defined Contribution Plans

| Valuation Date 1/1 | Number of Active Members | Percentage Change in Membership | Number of Participating Employers | Percentage Increase in Number of Participating Employers | Total Annual Payroll | Percentage Increase in Payroll | Average Annual Salary | Percentage Increase in Average Annual Salary |
|--------------------|--------------------------|---------------------------------|-----------------------------------|--|----------------------|--------------------------------|-----------------------|--|
| 1995 | 371 | 16.3% | 68 | 23.6% | \$8,150,100 | 20.7% | \$21,968 | 3.8% |
| 1994 | 319 | 16.4 | 55 | 10.0 | 6,750,600 | 18.8 | 21,162 | 2.0 |
| 1993 | 274 | 0.4 | 50 | 13.6 | 5,682,500 | 6.0 | 20,739 | 5.6 |
| 1992 | 273 | 44.4 | 44 | 37.5 | 5,363,235 | 44.5 | 19,646 | 0.0 |
| 1991 | 189 | 12.5 | 32 | 10.3 | 3,710,993 | 25.3 | 19,635 | 11.3 |
| 1990 | 168 | 23.5 | 29 | 26.1 | 2,962,834 | 21.1 | 17,636 | (2.0) |
| 1989 | 136 | 44.7 | 23 | 43.8 | 2,446,636 | 46.8 | 17,990 | 1.5 |
| 1988 | 94 | 80.8 | 16 | 60.0 | 1,666,178 | 92.3 | 17,726 | 6.4 |
| 1987 | 52 | 23.8 | 10 | 25.0 | 866,203 | 34.5 | 16,658 | 8.6 |
| 1986 | 42 | 200.0 | 8 | 100.0 | 644,044 | 293.9 | 15,334 | 31.3 |

Schedule of Retirees and Beneficiaries Added to and Removed from Rolls for Last 10 Years

| Valuation Date 1/1 | Added to Roll | Deleted from Roll | Number on Roll | Annual Annuities | Percentage Increase in Annuities | Average Annual Annuities | Percentage Increase in Average Annual Annuities |
|--------------------|---------------|-------------------|----------------|------------------|----------------------------------|--------------------------|---|
| 1995 | 206 | 111 | 2,298 | \$14,480,500 | 10.9% | \$6,301 | 6.3% |
| 1994 | 191 | 99 | 2,203 | 13,057,600 | 12.0 | 5,927 | 7.3 |
| 1993 | 211 | 171 | 2,111 | 11,659,400 | 11.5 | 5,523 | 9.4 |
| 1992 | 237 | 112 | 2,071 | 10,456,600 | 15.0 | 5,049 | 8.1 |
| 1991 | 167 | 85 | 1,946 | 9,091,927 | 12.7 | 4,672 | 8.0 |
| 1990 | 184 | 137 | 1,864 | 8,065,204 | 11.1 | 4,327 | 8.4 |
| 1989 | 137 | 59 | 1,817 | 7,255,404 | 9.0 | 3,993 | 4.3 |
| 1988 | 159 | 112 | 1,739 | 6,655,980 | 18.0 | 3,827 | 14.8 |
| 1987 | 133 | 54 | 1,692 | 5,639,460 | 7.8 | 3,333 | 2.8 |
| 1986* | 158 | 78 | 1,613 | 5,229,240 | 70.4 | 3,242 | 27.6 |

* Figures reflect the System's administration of the City of Harrisburg, Plan A retiree benefits, which began December 1984. Harrisburg, Plan A had 323 pensioners in 1986. It officially joined the System in 1987; therefore, these figures are not included in the 1986 actuarial valuation.

Summary of Accrued and Unfunded Accrued Liabilities⁽¹⁾

When a new employer joins the System and credits prior service or an employer adopts a higher level of benefit, unfunded actuarial liabilities are often created. Under the Pennsylvania statutes (Act 205 of 1984, Municipal Pension Plan Funding Standard and Recovery Act), these additional liabilities, determined under the Entry Age Normal Actuarial Cost Method, must be financed over a period of future years.

Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Assets as a percentage of actuarial accrued liabilities provide a clearer picture of a plan's financial soundness. The larger the ratio of assets to actuarial accrued liabilities, the stronger the plan is. For purposes of the table below, both the assets and the actuarial liability exclude amounts applicable to retirees. The System's plans are at various stages of funding their actuarial liabilities. As of January 1, 1995, 243 of the defined benefit plans have completely funded the liability. A distribution of the funding percentages is shown as of January 1, 1995.⁽²⁾ This calculation will only be available every two years.

Distribution of Plans Based on Assets as a Percentage of Accrued Liabilities⁽³⁾

| Assets as a % of Accrued Liability | Number of Municipalities with an Unfunded Accrued Liability (UAL) | Assets as a % of Accrued Liability | Number of Overfunded Municipalities |
|------------------------------------|---|------------------------------------|-------------------------------------|
| 0 - 10% | 5 | 100 - 110% | 49 |
| 10 - 20 | 10 | 110 - 120 | 39 |
| 20 - 30 | 7 | 120 - 130 | 27 |
| 30 - 40 | 13 | 130 - 140 | 19 |
| 40 - 50 | 16 | 140 - 150 | 18 |
| 50 - 60 | 27 | 150 - 160 | 9 |
| 60 - 70 | 37 | 160 - 180 | 12 |
| 70 - 80 | 50 | 180 - 200 | 13 |
| 80 - 90 | 48 | 200 - 250 | 14 |
| 90 - 100 | 69 | 250 - 300 | 9 |
| | Total 282 | 300 - 400 | 8 |
| | | 400 - 500 | 6 |
| | | 500 - 600 | 4 |
| | | 600 - 700 | 3 |
| | | 700 - 800 | 2 |
| | | 800 - 1,000 | 3 |
| | | 1,000 or higher | 8 |
| | | Total 243 | |

⁽¹⁾ Due to the unique nature of the System and wide range of funding for member municipalities, it would be misleading to present the Summary of Accrued and Unfunded Accrued Liabilities for the System as a whole. The System's plans are at various stages of funding their individual actuarial liabilities. Therefore, to give a true picture of the System, the summary would need to include each individual municipality's aggregate accrued liabilities, valuation assets, unfunded accrued liabilities, etcetera. Grouping all plans together would create a skewed picture.

⁽²⁾ Twenty municipalities are not included in the table because they (a) do not have an actuarial accrued liability, (b) are new plans and therefore have no assets, or (c) have a negative asset balance as a result of transfers to the Retired Members' Reserve Account.

⁽³⁾ "Accrued liabilities" refers to actuarial accrued liabilities computed under the Entry Age Normal Actuarial Cost Method.

Solvency Test

A short term solvency test, which is one means of determining a system's progress under its funding program, compares the plan's present assets with

1. active member contributions on deposit,
2. the liabilities for future benefits to present retired lives⁽¹⁾, and
3. the pension benefit obligation for service already rendered by active members.

In a system that has been following the level percent of payroll financing discipline, the obligation for active member contributions on deposit (Item A) and the liabilities for future benefits to present retired lives⁽¹⁾ (Item B) will be fully covered by present assets with the exception of rare circumstances. The obligation for service already rendered by active members (Item C) will be partially covered by the remainder of present assets. If the system has been using level cost financing, the funded portion of Item C usually will increase over a period of time. Item C being fully funded is rare.

| Valuation Date 1/1 | Aggregate Pension Benefit Obligation | | | | Portion of Pension Benefit Obligation Covered by Assets | | |
|---------------------|--------------------------------------|---|--|---------------------------------|---|------|------|
| | (A) | (B) | (C) | Valuation Assets ⁽²⁾ | | | |
| | Active Member Contributions | Retirees and Beneficiaries ⁽¹⁾ | Active Members (Employer Financed Portion) | | (A) | (B) | (C) |
| 1995 | \$103,727,900 | \$149,161,100 | \$180,651,600 | \$446,189,000 | 100% | 100% | 100% |
| 1994 | 89,611,100 | 128,996,500 | 160,030,900 | 406,894,000 | 100 | 100 | 100 |
| 1993 | 84,581,000 | 115,232,000 | 153,279,100 | 361,937,000 | 100 | 100 | 100 |
| 1992 | 73,417,500 | 101,258,300 | 132,215,600 | 328,344,000 | 100 | 100 | 100 |
| 1991 | 67,933,000 | 86,809,100 | 122,100,200 | 285,794,000 | 100 | 100 | 100 |
| 1990 | 56,830,900 | 77,511,000 | 108,618,000 | 261,602,000 | 100 | 100 | 100 |
| 1989 | 53,066,400 | 71,471,600 | 103,369,400 | 222,990,182 | 100 | 100 | 95 |
| 1988 | 50,170,000 | 64,173,400 | 112,858,400 | 199,861,934 | 100 | 100 | 76 |
| 1987 ⁽³⁾ | 45,417,700 | 54,469,200 | 108,262,700 | 172,797,162 | 100 | 100 | 67 |

⁽¹⁾ Includes terminated employees not yet receiving benefits

⁽²⁾ May include allocated excess investment monies which potentially could create an additional pension benefit obligation (None at January 1, 1995)

⁽³⁾ Information prior to 1987 unavailable

Schedule of Contribution Requirements vs. Actual Contributions

The Pennsylvania Municipal Retirement System is an agent multiple-employer system with separate rates of contribution for each employer. Therefore, it is not practical to include a Schedule of Recommended vs. Actual Contributions. Because of the multitude of plans and required contributions ranging from 0 percent to above 100 percent of covered payroll, we list the ranges of total employer contribution requirements upon which the defined benefit plans were billed for 1995, based on individual plan actuarial valuations conducted as of January 1, 1993.

Range of Total Employer Contribution Requirements

| Percentage of Payroll | Number of Employers |
|-----------------------|---------------------|
| 0 - 5% | 23 |
| 5 - 10 | 260 |
| 10 - 15 | 163 |
| 15 - 20 | 74 |
| 20 - 30 | 24 |
| 30 - 40 | 0 |
| 40 - 50 | 1 |
| above 50 | 0 |
| | Total 545 |

Under Pennsylvania law (Act 205 of 1984 as amended) the required funding levels are jointly determined by the actuary of the System and the plan's governing board prior to the beginning of each plan year, based on the most recently completed actuarial valuation. The process involves the governing body applying the prior year's projected payroll times the actuarially determined normal cost percentage and adding the projected administrative costs and amortization payments toward the unfunded actuarial liability, required under a legislatively pre-established amortization schedule. Credit is given for 10 percent of the amount of any actuarial surplus. The aggregate employer funding required for defined benefit plans in 1995 was \$17,335,359. The actual funding received for 1995 was \$53,826,781. Differences between the municipalities' required and actual contributions are due to (1) the municipalities transferring state aid money to the System as required under the Municipal Pension Plan Funding Standard and Recovery Act of 1984 (Act 205) in amounts either more or less than anticipated, (2) the addition or deletion of new plans during the year, and/ or (3) plan sponsors seeking to reduce their unfunded liabilities over a shorter period of time than required under the amortization schedule.

Analysis of Financial Experience

The System does not conduct an extensive experience study by individual plan because the magnitude of any change in plans of average size becomes misleading and irrelevant. A comprehensive experience study is performed once every five years on the overall assumptions used by the System, but this data is not relevant to individual plan experience.

Schedules of Contributions: Adjustments to Actual Contributions

The standard deviation system is an equal weight system of contributions. It is not practical to make a schedule of contributions of 100% for each of the 100 employees of a firm and to make a schedule of contributions of 100% for each of the 100 employees of a firm. The number of employees of a firm and the number of employees of a firm are not the same. The number of employees of a firm is not the same as the number of employees of a firm. The number of employees of a firm is not the same as the number of employees of a firm.

Range of Total Employee Contributions

| Percentage of Payroll | Number of Employees |
|-----------------------|---------------------|
| 0 - 5% | 200 |
| 5 - 10 | 100 |
| 10 - 15 | 75 |
| 15 - 20 | 50 |
| 20 - 25 | 25 |
| 25 - 30 | 10 |
| 30 - 35 | 5 |
| 35 - 40 | 1 |
| 40 - 45 | 1 |
| 45 - 50 | 1 |
| 50 - 55 | 1 |
| 55 - 60 | 1 |
| 60 - 65 | 1 |
| 65 - 70 | 1 |
| 70 - 75 | 1 |
| 75 - 80 | 1 |
| 80 - 85 | 1 |
| 85 - 90 | 1 |
| 90 - 95 | 1 |
| 95 - 100 | 1 |
| Total | 1000 |

The standard deviation system is an equal weight system of contributions. It is not practical to make a schedule of contributions of 100% for each of the 100 employees of a firm and to make a schedule of contributions of 100% for each of the 100 employees of a firm. The number of employees of a firm and the number of employees of a firm are not the same. The number of employees of a firm is not the same as the number of employees of a firm. The number of employees of a firm is not the same as the number of employees of a firm.

Analysis of Financial Experience

The standard deviation system is an equal weight system of contributions. It is not practical to make a schedule of contributions of 100% for each of the 100 employees of a firm and to make a schedule of contributions of 100% for each of the 100 employees of a firm. The number of employees of a firm and the number of employees of a firm are not the same. The number of employees of a firm is not the same as the number of employees of a firm. The number of employees of a firm is not the same as the number of employees of a firm.

STATISTICAL SECTION

- **Financial**

- Revenues by Source**

- Expenses by Type**

- Revenues vs. Expenses**

- Components of Total Revenues and Expenses**

- Total Assets**

- **Membership**

- Active Members**

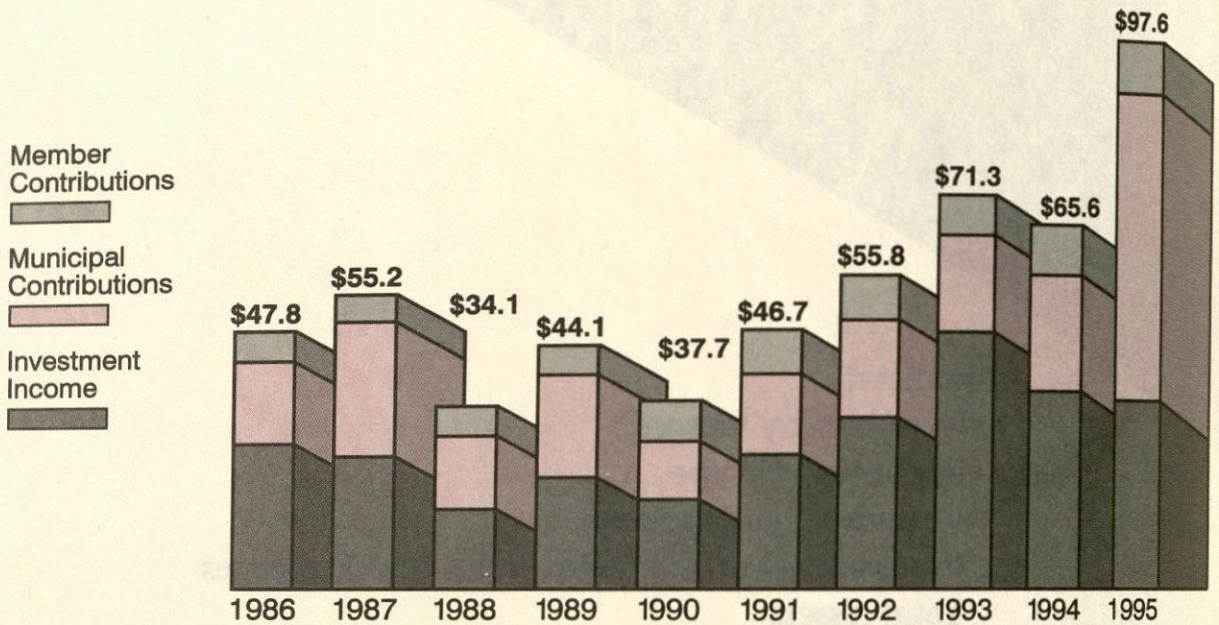
- Retired Members**

- Total Membership**

- Participating Employers**

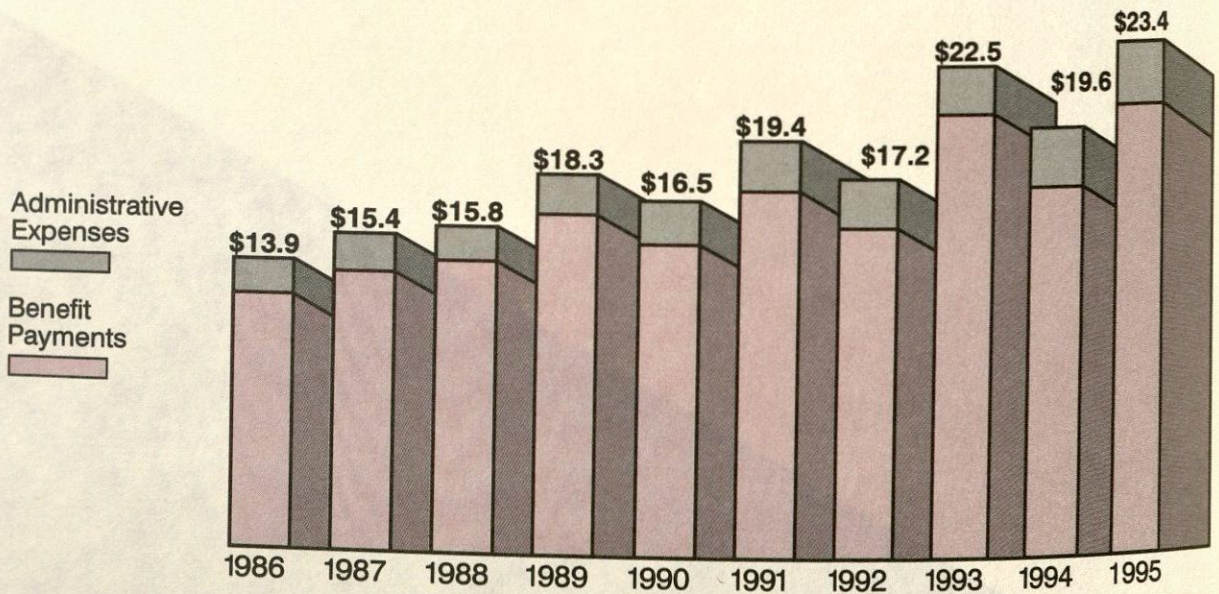
Part I — Financial

Revenues by Source — 10 Year Trend (Amounts in Millions)



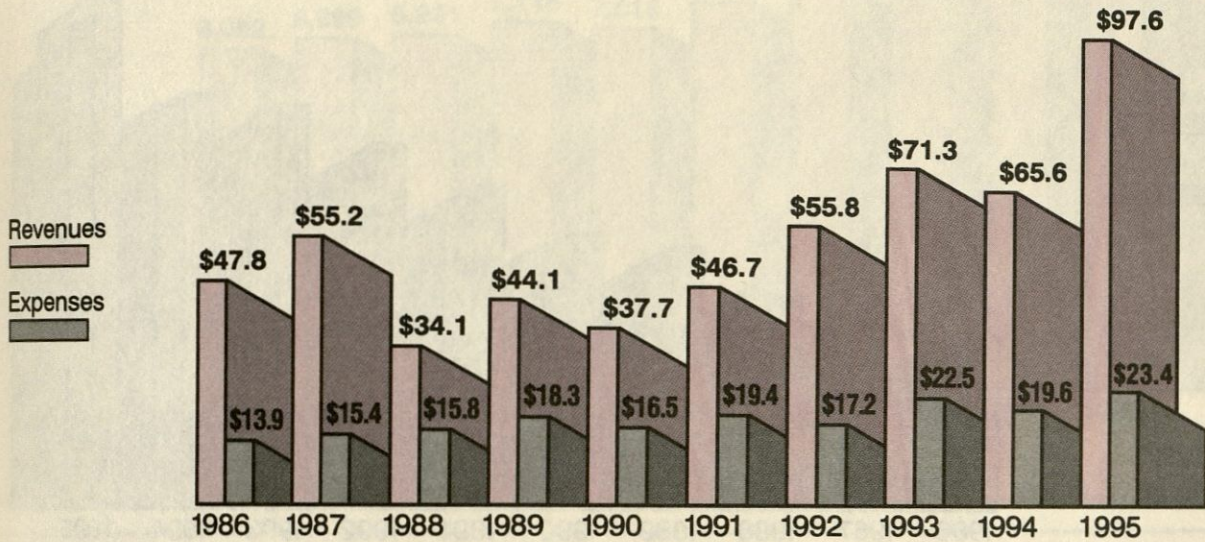
Data is from Revenues by Source, page 29.

Expenses by Type — 10 Year Trend (Amounts in Millions)



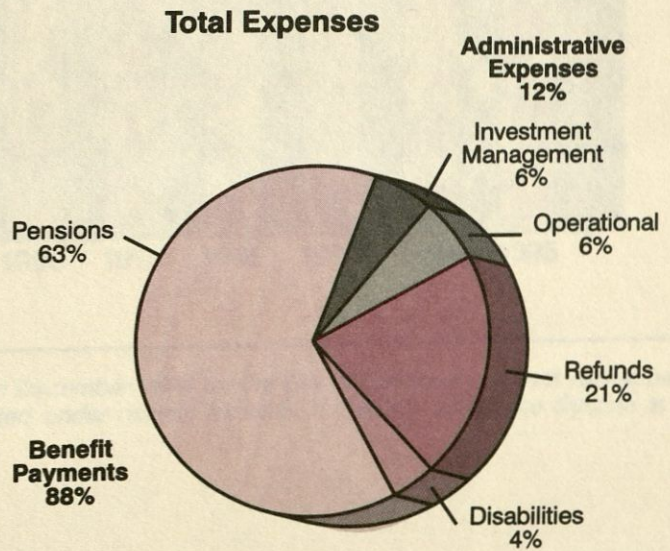
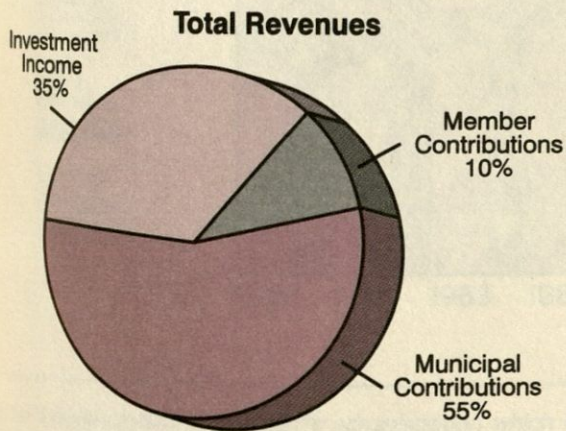
Data is from Expenses by Type, page 29.

Revenues vs. Expenses — 10 Year Trend (Amounts in Millions)



Data is from Revenues by Source and Expenses by Type, pages 29-30.

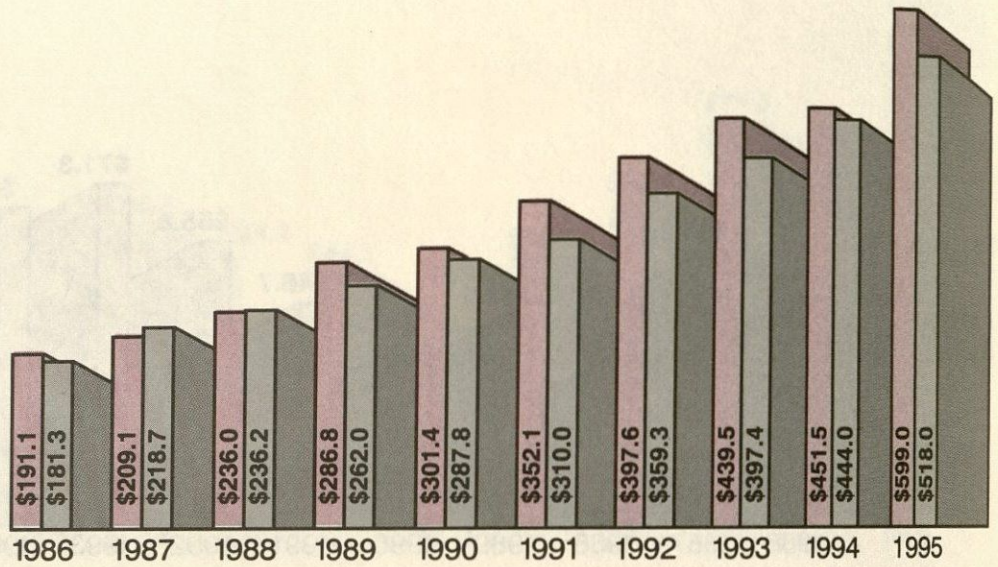
Components of Total Revenues and Expenses — 1995



Data is from Revenues by Source and Expenses by Type, pages 29-30.

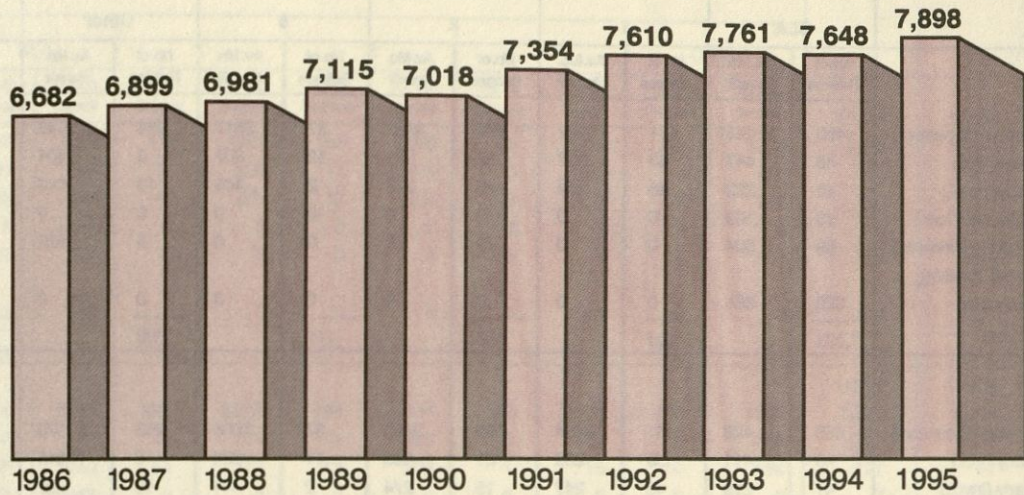
Total Assets — 10 Year Trend (Amounts in Millions)

Market
Cost



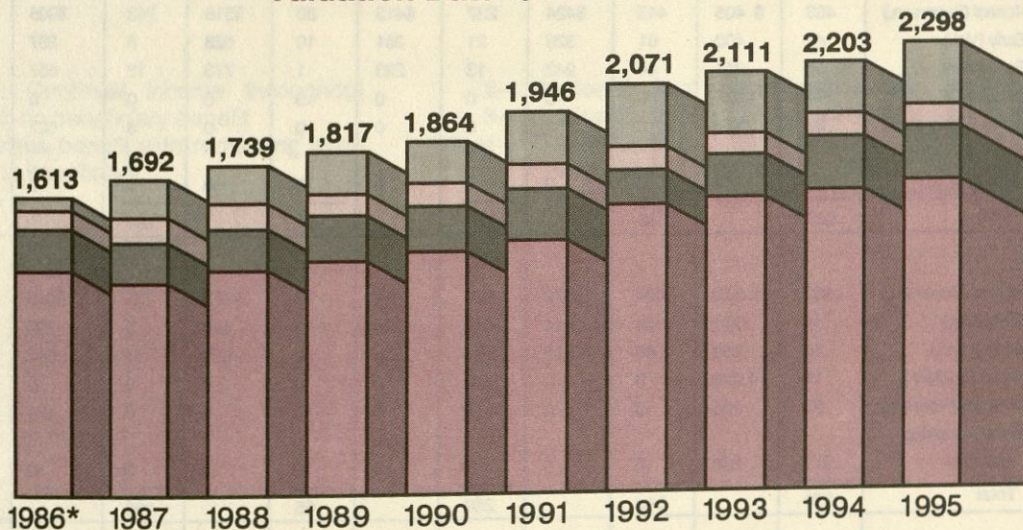
Part II — Membership

Active Members — 10 Year Trend Valuation Date 1/1



Retired Members — 10 Year Trend Valuation Date 1/1

- Beneficiary Benefits
- Disability Benefits
- Early Benefits
- Normal Benefits



* Figures include costs of the System's administration which began December 1984 for the City of Harrisburg, Plan A retiree benefits. Harrisburg, Plan A had 323 pensioners in 1986. These are listed under normal benefits. It officially joined the System in 1987; therefore, these figures are not included in the actuarial valuation.

Schedule of Average Benefit Payments by Retirement Type

| Valuation Date* 1/1 | Retirement Type | Benefit Payment Options Selected | | | | | | | | | | Total Retirees 1/1/95 | Total Retirees 1/1/94 | % Increase (Decrease) of Retirees |
|------------------------|----------------------------|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------------------|--------------------------|---|
| | | SLA | | 1 | | 2 | | 3 | | Other | | | | |
| | | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | | | |
| 1995 | Normal (Superann.) | 480 | \$ 445 | 471 | \$487 | 279 | \$486 | 97 | \$617 | 264 | \$1,048 | 1,591 | 1,529 | 4.1% |
| | Early (Vol.) | 48 | 447 | 63 | 397 | 22 | 391 | 12 | 607 | 6 | 1,404 | 151 | 146 | 3.4 |
| | Early (Invol.) | 48 | 233 | 46 | 254 | 15 | 268 | 2 | 443 | 13 | 648 | 124 | 123 | .8 |
| | Disability (Serv.) | 18 | 1,163 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 18 | 14 | 28.5 |
| | Disability (Nonserv.) | 89 | 504 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 802 | 94 | 100 | (6.0) |
| | Benef. receiving annuities | 320 | 361 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 320 | 291 | 10.0 |
| | Total | 1,003 | | 580 | | 316 | | 111 | | 288 | | 2,298 | 2,203 | 4.3% |
| 1994 | Normal (Superann.) | 456 | \$ 428 | 461 | \$454 | 262 | \$460 | 87 | \$565 | 263 | \$ 970 | 1,529 | 1,468 | 4.2% |
| | Early (Vol.) | 49 | 411 | 59 | 339 | 21 | 389 | 11 | 624 | 6 | 1,015 | 146 | 144 | 1.4 |
| | Early (Invol.) | 47 | 219 | 46 | 247 | 15 | 274 | 2 | 441 | 13 | 627 | 123 | 117 | 5.1 |
| | Disability (Serv.) | 14 | 1,159 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 14 | 14 | 0 |
| | Disability (Nonserv.) | 96 | 486 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 838 | 100 | 99 | 1.0 |
| | Benef. receiving annuities | 291 | 331 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 291 | 269 | 8.2 |
| | Total | 953 | | 566 | | 298 | | 100 | | 286 | | 2,203 | 2,111 | 4.4% |
| 1993 | Normal (Superann.) | 463 | \$ 405 | 445 | \$424 | 237 | \$418 | 80 | \$516 | 243 | \$905 | 1,468 | 1,425 | 3.0% |
| | Early (Vol.) | 46 | 400 | 61 | 329 | 21 | 361 | 10 | 628 | 6 | 887 | 144 | 145 | (.7) |
| | Early (Invol.) | 47 | 211 | 44 | 242 | 13 | 293 | 1 | 773 | 12 | 657 | 117 | 122 | (4.1) |
| | Disability (Serv.) | 14 | 1,029 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 14 | 11 | 27.3 |
| | Disability (Nonserv.) | 96 | 454 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 627 | 99 | 97 | 2.1 |
| | Benef. receiving annuities | 269 | 312 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 269 | 271 | (.7) |
| | Total | 935 | | 550 | | 271 | | 91 | | 264 | | 2,111 | 2,071 | 1.9% |
| 1992 | Normal (Superann.) | 462 | \$ 372 | 434 | \$370 | 221 | \$354 | 73 | \$483 | 235 | \$843 | 1,425 | 1,328 | 7.3% |
| | Early (Vol.) | 45 | 371 | 64 | 314 | 18 | 309 | 10 | 620 | 8 | 780 | 145 | 135 | 7.4 |
| | Early (Invol.) | 48 | 190 | 48 | 239 | 11 | 304 | 2 | 695 | 13 | 598 | 122 | 125 | (2.4) |
| | Disability (Serv.) | 11 | 1,026 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11 | 11 | 0 |
| | Disability (Nonserv.) | 93 | 403 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 624 | 97 | 99 | (2.0) |
| | Benef. receiving annuities | 271 | 298 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 271 | 248 | 9.3 |
| | Total | 930 | | 544 | | 250 | | 85 | | 260 | | 2,071 | 1,946 | 6.4% |
| 1991 | Normal (Superann.) | 428 | \$ 343 | 420 | \$334 | 197 | \$325 | 69 | \$494 | 214 | \$798 | 1,328 | 1,286 | 3.3% |
| | Early (Vol.) | 41 | 316 | 63 | 298 | 15 | 296 | 8 | 595 | 8 | 780 | 135 | 108 | 25.0 |
| | Early (Invol.) | 48 | 191 | 49 | 228 | 13 | 301 | 2 | 695 | 13 | 585 | 125 | 123 | 1.6 |
| | Disability (Serv.) | 11 | 1,011 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 11 | 6 | 83.3 |
| | Disability (Nonserv.) | 94 | 372 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 597 | 99 | 104 | (4.8) |
| | Benef. receiving annuities | 248 | 289 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 248 | 237 | 4.6 |
| | Total | 870 | | 532 | | 225 | | 79 | | 240 | | 1,946 | 1,864 | 4.4% |

Continued on next page

Schedule of Average Benefit Payments by Retirement Type (Continued)

Schedule of Average Benefit Payments by Retirement Type (Cont.)

| Valuation Date 1/1 | Retirement Type | Benefit Payment Options Selected | | | | | | | | | | Total Retirees 1/1/90 | Total Retirees 1/1/89 | % Increase (Decrease) of Retirees | |
|-----------------------|----------------------------|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------------------------|--------------------------|---|-------------|
| | | SLA | | 1 | | 2 | | 3 | | Other | | | | | |
| | | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | No. of Retirees | Av. Mo. Benefit | | | | |
| 1990 | Normal (Superann.) | 403 | \$325 | 410 | \$321 | 193 | \$319 | 68 | \$463 | 212 | \$779 | 1,286 | 1,249 | 3.0% | |
| | Early (Vol.) | 35 | 288 | 51 | 236 | 11 | 249 | 6 | 480 | 5 | 468 | 108 | 103 | 4.8 | |
| | Early (Invol.) | 45 | 188 | 49 | 231 | 12 | 306 | 2 | 677 | 15 | 610 | 123 | 127 | (3.2) | |
| | Disability (Serv.) | 6 | 1,066 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6 | 7 | 14.3 | |
| | Disability (Nonserv.) | 99 | 367 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 597 | 104 | 104 | 0 |
| | Benef. receiving annuities | 236 | 289 | 0 | 0 | 0 | 0 | 1 | 369 | 0 | 0 | 237 | 227 | 4.4 | |
| | Total | 824 | | 510 | | 216 | | 77 | | 237 | | 0 | 1,864 | 1,817 | 2.6% |
| 1989 | Normal (Superann.) | 334 | \$246 | 390 | \$227 | 194 | \$284 | 62 | \$373 | 269 | \$651 | 1,249 | 1,206 | 3.5% | |
| | Early (Vol.) | 34 | 247 | 48 | 191 | 11 | 409 | 5 | 402 | 5 | 496 | 103 | 113 | 9.7 | |
| | Early (Invol.) | 47 | 160 | 51 | 212 | 12 | 253 | 1 | 715 | 16 | 459 | 127 | 97 | 30.9 | |
| | Disability (Serv.) | 7 | 947 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 7 | 6 | 16.7 | |
| | Disability (Nonserv.) | 104 | 331 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 104 | 104 | 0 | |
| | Benef. receiving annuities | 227 | 260 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 227 | 214 | 6.6 | |
| | Total | 753 | | 489 | | 217 | | 68 | | 290 | | 0 | 1,817 | 1,739 | 4.5% |

* Annualized data was not calculated prior to 1989.

LEGEND

Benefit Payment Options:

SLA- Single Life Annuity: Continual income throughout annuitant's lifetime with no beneficiary benefit

1- Option 1: Reduced lifetime benefit with remaining lump sum value of account to beneficiary

2- Option 2: Joint and 100 percent survivorship annuity

3- Option 3: Joint and 50 percent survivorship annuity

Other- Other Option: Other alternative from municipality's contractual agreement (These include spouse's pension option chosen by the municipality.)

Schedule of Average Benefit Payments⁽¹⁾

| Retirement Effective Dates ⁽²⁾ | Years Credited Service | | | | | |
|---|------------------------|-------|-------|-------|---------|---------|
| | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
| Period 1/1/95 to 12/31/95 | | | | | | |
| Average monthly benefit | \$700 | \$723 | \$782 | \$969 | \$1,343 | \$1,029 |
| Number of retirees | 33 | 36 | 13 | 24 | 11 | 5 |
| Period 1/1/94 to 12/31/94 | | | | | | |
| Average monthly benefit | \$929 | \$687 | \$877 | \$665 | \$1,082 | \$1,105 |
| Number of retirees | 38 | 36 | 32 | 18 | 9 | 4 |
| Period 1/1/93 to 12/31/93 | | | | | | |
| Average monthly benefit | \$933 | \$630 | \$619 | \$703 | \$ 956 | \$1,171 |
| Number of retirees | 33 | 34 | 30 | 30 | 10 | 6 |
| Period 1/1/92 to 12/31/92 | | | | | | |
| Average monthly benefit | \$661 | \$590 | \$623 | \$672 | \$ 824 | \$1,024 |
| Number of retirees | 34 | 33 | 34 | 35 | 28 | 7 |
| Period 1/1/91 to 12/31/91 | | | | | | |
| Average monthly benefit | \$687 | \$578 | \$489 | \$502 | \$ 946 | \$ 178 |
| Number of retirees | 11 | 35 | 21 | 24 | 21 | 1 |
| Period 1/1/90 to 12/31/90 | | | | | | |
| Average monthly benefit | \$401 | \$450 | \$379 | \$539 | \$ 674 | \$1,626 |
| Number of retirees | 17 | 33 | 28 | 18 | 23 | 1 |

(1) Due to the numerous individual pension plans administered by the System and the wide divergence in specific benefit accruals as well as the yearly crediting of excess investment monies option which has no bearing on a time/benefit accrual basis (See B under Notes to Financial Statements), an historical schedule of average benefit payments would be misleading. However, in order to provide some insight to benefit awards, a six-year schedule is presented to show the range of average benefit payments by years of credited service. This schedule will dilute some but not all of the distortions which could be caused by the granting of excess investment bonus to retired and active members. Because of over 250 different plan structures, it is not meaningful to calculate an average final salary.

(2) Prior to 1990, benefit payments were not calculated by years of credited service.

Schedule of Total Membership — 10 Year Trend

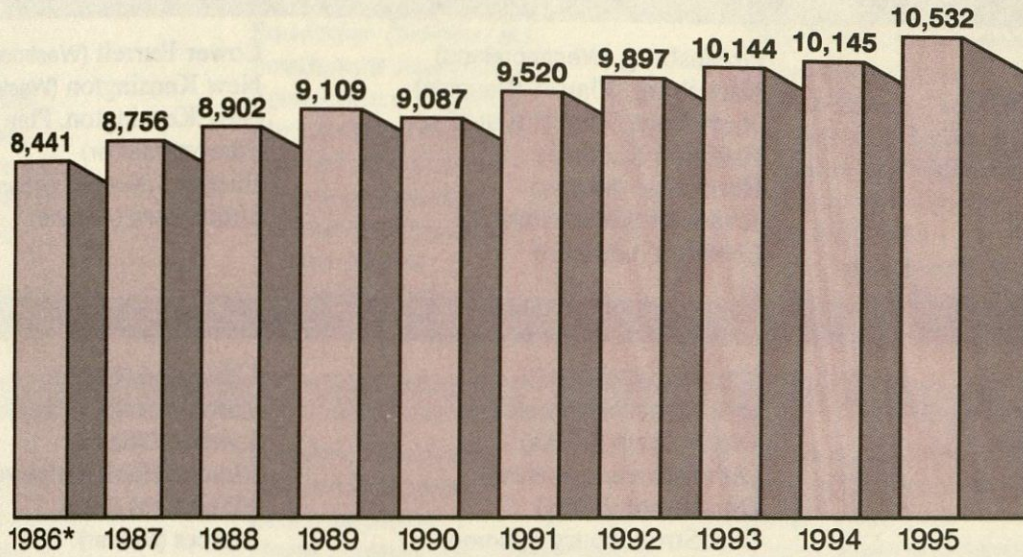
| Valuation Date 1/1 | Active Members Defined Benefit Plans | Active Members Defined Contribution Plans | Retirees | Beneficiaries | Deferred Pensions ⁽¹⁾ | Inactive Members ⁽²⁾ | Total |
|---------------------------|--------------------------------------|---|----------|---------------|----------------------------------|---------------------------------|--------|
| 1995..... | 7,527 | 371 | 1,978 | 320 | 205 | 131 | 10,532 |
| 1994..... | 7,329 | 319 | 1,912 | 291 | 169 | 125 | 10,145 |
| 1993..... | 7,487 | 274 | 1,842 | 269 | 150 | 122 | 10,144 |
| 1992..... | 7,337 | 273 | 1,800 | 271 | 128 | 88 | 9,897 |
| 1991..... | 7,165 | 189 | 1,698 | 248 | 102 | 118 | 9,520 |
| 1990..... | 6,850 | 168 | 1,627 | 237 | 95 | 110 | 9,087 |
| 1989..... | 6,979 | 136 | 1,590 | 227 | 91 | 86 | 9,109 |
| 1988..... | 6,887 | 94 | 1,526 | 213 | 91 | 91 | 8,902 |
| 1987..... | 6,847 | 52 | 1,469 | 223 | 77 | 88 | 8,756 |
| 1986 ⁽³⁾ | 6,640 | 42 | 1,527 | 86 | 57 | 89 | 8,441 |

(1) Inactive participants with rights to deferred pension (vested)

(2) Inactive participants with rights to return of contributions (nonvested)

(3) Figures include costs of the System's administration which began December 1984 for the City of Harrisburg, Plan A retiree benefits. Harrisburg, Plan A had 323 pensioners in 1986. It officially joined the System in 1987; therefore, these figures are not included in the actuarial valuation.

Total Membership —10 Year Trend
Valuation Date 1/1



* Figures include costs of the System's administration which began December 1984 for the City of Harrisburg, Plan A retiree benefits. Harrisburg, Plan A had 323 pensioners in 1986. It officially joined the System in 1987; therefore, these figures are not included in the actuarial valuation.

Schedule of Participating Employers^{*} as of December 31, 1995

Counties

Adams

Forest

Jefferson

Cities

Allentown (Lehigh)
Bethlehem (Northampton)
Clairton (Allegheny)
Connellsville (Fayette)
DuBois (Clearfield)
Easton (Northampton)
Franklin (Venango)

Greensburg (Westmoreland)
Harrisburg, Plan A (Dauphin)
Harrisburg, Plan B (Dauphin)
Hazleton (Luzerne)
Hermitage (Mercer)
Jeannette (Westmoreland)
Lebanon (Lebanon)

Lower Burrell (Westmoreland)
New Kensington (Westmoreland)
New Kensington, Plan B (Westmoreland)
Sharon (Mercer)
Sunbury (Northumberland)
Uniontown (Fayette)

Boroughs

Ashland (Schuylkill)
Bally (Berks)
Bangor (Northampton)
Bedford (Bedford)
Bellefonte (Centre)
Bellwood (Blair)
Bentleyville (Washington)
Berlin (Somerset)
Big Beaver (Beaver)
Bloomfield (Perry)
Brackenridge (Allegheny)
Bridgeville (Allegheny)
Brockway (Jefferson)
Brookville (Jefferson)
California (Washington)
Cambridge Springs (Crawford)
Camp Hill (Cumberland)
Carnegie (Allegheny)
Carroll Valley (Adams)
Castle Shannon (Allegheny)
Central City (Somerset)
Charleroi (Washington)
Cheswick (Allegheny)
Clymer (Indiana)
Cochranton (Crawford)
Collegeville (Montgomery)
Collingdale (Delaware)
Conneautville (Crawford)
Conshohocken (Montgomery)
Conway (Beaver)
Coopersburg (Lehigh)

Cressona (Schuylkill)
Delmont (Westmoreland)
Doylestown (Bucks)
Duboistown (Lycoming)
Duncannon (Perry)
East Stroudsburg (Monroe)
East Washington (Washington)
Emporium (Cameron)
Etna (Allegheny)
Everett (Bedford)
Falls Creek (Jefferson)
Ferdale (Cambria)
Fountain Hill (Lehigh)
Franklin (Cambria)
Freeburg (Snyder)
Freeland (Luzerne)
Greenville (Mercer)
Hatfield (Montgomery)
Hollidaysburg (Blair)
Homer City (Indiana)
Hummelstown (Dauphin)
Huntingdon (Huntingdon)
Hyndman (Bedford)
Jim Thorpe (Carbon)
Johnsonburg (Elk)
Kenhorst (Berks)
Kennett Square (Chester)
Kittanning (Armstrong)
Kulpmont (Northumberland)
Kutztown (Berks)
Latrobe (Westmoreland)

Lehighton (Carbon)
Lewistown (Mifflin)
Lykens (Dauphin)
Marcus Hook (Delaware)
Matamoras (Pike)
Mercer (Mercer)
Meyersdale (Somerset)
Middleburg (Snyder)
Middletown (Dauphin)
Millersburg (Dauphin)
Millerstown (Perry)
Minersville (Schuylkill)
Monaca (Beaver)
Monroeville Municipality (Allegheny)
Moosic (Lackawanna)
Morrisville (Bucks)
Mount Alto (Franklin)
Mount Gretna (Lebanon)
Mount Jewett (McKean)
Mount Pleasant (Westmoreland)
Mount Union (Huntingdon)
Nanty Glo (Cambria)
Narberth (Montgomery)
Nesquehoning (Carbon)
New Eagle (Washington)
New Stanton (Westmoreland)
Newport (Perry)
Norristown (Montgomery)
North East (Erie)
Northumberland (Northumberland)
Orwigsburg (Schuylkill)

^{*} County names are in parentheses.

Schedule of Participating Employers (Continued)

Boroughs (Continued)

| | | |
|-------------------------------|------------------------------|--------------------------------|
| Palmerton (Carbon) | Sellersville (Bucks) | Turtle Creek (Allegheny) |
| Pennsburg (Montgomery) | Shamokin Dam (Snyder) | Verona (Allegheny) |
| Perkasie (Bucks) | Sharpsburg (Allegheny) | Versailles (Allegheny) |
| Pine Grove (Schuylkill) | Sharpsville (Mercer) | Waynesburg (Greene) |
| Pottstown (Montgomery) | Shenandoah (Schuylkill) | West Conshohocken (Montgomery) |
| Prospect Park (Delaware) | Slippery Rock (Butler) | West Grove (Chester) |
| Renovo (Clinton) | Souderton (Montgomery) | West Newton (Westmoreland) |
| Richland (Lebanon) | Southmont (Cambria) | Wheatland (Mercer) |
| Ridley Park (Delaware) | Springdale (Allegheny) | White Haven (Luzerne) |
| Roaring Spring (Blair) | Stroudsburg (Monroe) | Williamstown (Dauphin) |
| Royersford (Montgomery) | Summit Hill (Carbon) | Wilmerding (Allegheny) |
| Rural Valley (Armstrong) | Tarentum (Allegheny) | Wilson (Northampton) |
| Salisbury (Somerset) | Telford (Montgomery) | Windsor (York) |
| Saxton (Bedford) | Topton (Berks) | York Springs (Adams) |
| Schuylkill Haven (Schuylkill) | Trainer (Delaware) | Youngwood (Westmoreland) |
| Selinsgrove (Snyder) | Turbotville (Northumberland) | |

Townships of the First Class

| | | |
|-----------------------|---------------------------------|-----------------------------|
| Butler (Butler) | Harrison (Allegheny) | Salisbury (Lehigh) |
| Caln (Chester) | Hopewell (Beaver) | Springdale (Allegheny) |
| Collier (Allegheny) | Leet (Allegheny) | Swatara (Dauphin) |
| Crescent (Allegheny) | North Huntingdon (Westmoreland) | Upper Moreland (Montgomery) |
| East Deer (Allegheny) | North Versailles (Allegheny) | Whitehall (Lehigh) |
| Elizabeth (Allegheny) | Ridley (Delaware) | Wilkins (Allegheny) |
| Hanover (Luzerne) | Rochester (Beaver) | York (York) |

Townships of the Second Class

| | | |
|--------------------------|--------------------------------|----------------------------|
| Allegheny (Westmoreland) | Derry (Westmoreland) | Granville (Mifflin) |
| Antrim (Franklin) | Donegal (Westmoreland) | Greene (Beaver) |
| Bald Eagle (Clinton) | Douglass (Montgomery) | Greenfield (Blair) |
| Bedminster (Bucks) | East Allen (Northampton) | Greenfield (Erie) |
| Bell (Westmoreland) | East Coventry (Chester) | Hamilton (Monroe) |
| Black Creek (Luzerne) | East Fallowfield (Chester) | Hemlock (Columbia) |
| Bloomfield (Crawford) | East Hanover (Dauphin) | Hilltown (Bucks) |
| Boggs (Centre) | East Huntingdon (Westmoreland) | Hopewell (Cumberland) |
| Brecknock (Lancaster) | East Manchester (York) | Horsham (Montgomery) |
| Brighton (Beaver) | East Marlborough (Chester) | Huntington (Luzerne) |
| Brown (Mifflin) | Elizabeth (Lancaster) | Jackson (Lebanon) |
| Buckingham (Bucks) | Elk Creek (Erie) | Jenner (Somerset) |
| Burrell (Indiana) | Fairfield (Westmoreland) | Keating (McKean) |
| Caernarvon (Lancaster) | Fairview (Erie) | Kennett (Chester) |
| Cambria (Cambria) | Farmington (Clarion) | Lancaster (Lancaster) |
| Center (Greene) | Forks (Northampton) | LeBoeuf (Erie) |
| Center (Indiana) | Forward (Allegheny) | Lehman (Philadelphia) |
| Centre (Perry) | Franklin (Carbon) | Liberty (McKean) |
| Clarion (Clarion) | Franklin (Greene) | Mahoning (Montour) |
| Concord (Delaware) | Freedom (Blair) | Manchester (York) |
| Corydon (McKean) | Freehold (Warren) | Mead (Warren) |
| Derry (Dauphin) | Glade (Warren) | Middle Smithfield (Monroe) |

Schedule of Participating Employers (Continued)

Townships of the Second Class (Continued)

| | | |
|-------------------------------|---------------------------------|-----------------------------|
| Middlesex (Cumberland) | Plumstead (Bucks) | Union (Snyder) |
| Milford (Bucks) | Pocopson (Chester) | Unity (Westmoreland) |
| Millcreek (Lebanon) | Point (Northumberland) | Wallace (Chester) |
| Monongahela (Greene) | Pymatuning (Mercer) | Warsaw (Jefferson) |
| Morris (Greene) | Raccoon (Beaver) | Warwick (Lancaster) |
| Mount Joy (Lancaster) | Richhill (Greene) | Washington (Berks) |
| Mount Pleasant (Westmoreland) | Ridgway (Elk) | Washington (Dauphin) |
| New Garden (Chester) | Scott (Columbia) | Washington (Greene) |
| Nockamixon (Bucks) | Sewickley (Westmoreland) | Washington (Northampton) |
| North Coventry (Chester) | Shade (Somerset) | Washington (Schuylkill) |
| North Strabane (Washington) | Solebury (Bucks) | West Bradford (Chester) |
| Nottingham (Washington) | South Abington (Lackawanna) | West Brunswick (Schuylkill) |
| Oil Creek (Crawford) | South Huntingdon (Westmoreland) | West Caln (Chester) |
| Old Lycoming (Lycoming) | South Manheim (Schuylkill) | West Carroll (Cambria) |
| Paradise (Monroe) | South Middleton (Cumberland) | West Pennsboro (Cumberland) |
| Pennsbury (Chester) | South Strabane (Washington) | West Rockhill (Bucks) |
| Pike (Berks) | Sugar Grove (Warren) | Whiteley (Greene) |
| Pine Grove (Schuylkill) | Tinicum (Bucks) | Wiconisco (Dauphin) |
| Pleasant (Warren) | Towanensing (Carbon) | Windsor (York) |
| Plum Creek (Armstrong) | Tredyffrin (Chester) | Wright (Luzerne) |

Authorities and Other Units

| | |
|--|---|
| Allegheny Valley Joint Sewer Authority (Allegheny) | Columbia County Conservation District (Columbia) |
| Ambridge Borough Municipal Authority (Beaver) | Conneaut Lake Borough Municipal Authority (Crawford) |
| Avonmore Borough Municipal Authority (Westmoreland) | Connellsville Municipal Authority (Fayette) |
| BARTA (Berks) | Connellsville Redevelopment Authority (Fayette) |
| Bedford Borough Water Authority (Bedford) | Conshohocken Borough Authority (Montgomery) |
| Bedford Municipal Authority (Bedford) | Coplay-Whitehall Sewer Authority (Lehigh) |
| Belle Vernon Municipal Authority (Fayette) | Crescent South Heights Municipal Authority (Allegheny) |
| Bensalem Township Authority (Bucks) | Creswell Heights Joint Authority (Beaver) |
| Bethlehem Authority (Northampton) | Derry Township Municipal (Westmoreland) |
| Bethlehem City Redevelopment Authority (Northampton) | DuBois City Redevelopment Authority (Clearfield) |
| Bloomfield Township Sewer Authority (Crawford) | East Norriton-Plymouth Joint Sewer Authority (Montgomery) |
| Bradford City Water Authority (McKean) | Eastern Snyder County Regional Authority (Snyder) |
| Bradford Regional Airport Authority (McKean) | Easton Area Joint Sewer Authority (Northampton) |
| Brighton Township Municipal Authority (Beaver) | Elizabeth Borough Municipal Authority (Allegheny) |
| Brighton Township Sewer Authority (Beaver) | Erie County Housing Authority (Erie) |
| Bristol Township Authority (Bucks) | Falls Township Authority (Bucks) |
| Brockway Borough Municipal Authority (Jefferson) | Fawn-Frazer Joint Water Authority (Allegheny) |
| Bucks County Redevelopment Authority (Bucks) | Forward Township Municipal Authority (Allegheny) |
| Bucks County Water & Sewer Authority (Bucks) | Franklin City Housing Authority (Venango) |
| Butler Area Public Library (Butler) | Franklin Township Sewer Authority (Greene) |
| Cambria Township Sewer Authority (Cambria) | Freeland Borough Municipal Authority (Luzerne) |
| Cambria Township Water Authority (Cambria) | Greater Lebanon Refuse Authority (Lebanon) |
| Carbon County Conservation District (Carbon) | Guilford Township Authority (Franklin) |
| Carlisle Suburban Authority (Cumberland) | Guilford Water Authority (Franklin) |
| Carmichaels-Cumberland Joint Sewer Authority (Greene) | Harrison Township Water Authority (Allegheny) |
| Carroll Township Authority (Washington) | Hazleton Transit Authority (Luzerne) |
| Centerville Borough Sanitary Authority (Washington) | Hellertown Borough Authority (Northampton) |
| Centre County Library & Historical Museum (Centre) | Horsham Township Sewer Authority (Montgomery) |
| Coaldale-Lansford Summit Hill Sewer Authority (Carbon) | Indiana County Conservation District (Indiana) |

Schedule of Participating Employers (Continued)

Authorities and Other Units (Continued)

| | |
|--|---|
| Jeannette Municipal Authority (Westmoreland) | Northern Lancaster County Authority (Lancaster) |
| Johnsonburg Municipal Authority (Elk) | Northern York County Regional (York) |
| Juniata County Conservation District (Juniata) | Oil City Housing Authority (Venango) |
| Kiskiminetas Township Municipal Authority (Armstrong) | PA League of Cities (Dauphin) |
| Kulpmont-Marion Heights Joint Municipal Authority (Northumberland) | Parks Township Municipal Authority (Armstrong) |
| Lancaster City Parking Authority (Lancaster) | Pennridge Regional (Bucks) |
| Lansford Coaldale Joint Water Authority (Carbon) | Pennridge Waste Treatment Authority (Bucks) |
| Lebanon Community Library (Lebanon) | Perkasie Borough Authority (Bucks) |
| Leetsdale Borough Municipal Authority (Allegheny) | Peters Creek Sanitary Authority (Washington) |
| Lehigh County Authority (Lehigh) | Portage Area Sewer Authority (Cambria) |
| Lehighon Water Authority (Carbon) | Portage Borough Municipal Authority (Cambria) |
| Lower Bucks County Joint Municipal Authority (Bucks) | Robesonia-Wernersville Municipal Authority (Berks) |
| Lower Bucks County Joint Municipal Authority Supervisors (Bucks) | Robinson Township Municipal Authority (Allegheny) |
| Luzerne County Conservation District (Luzerne) | Rochester Area Joint Sewer Authority (Beaver) |
| Lykens Borough Authority (Dauphin) | Rostraver Township Sewer Authority (Westmoreland) |
| Mahanoy Township Authority (Schuylkill) | St. Marys Area Joint Water Authority (Elk) |
| Maidencreek Township Authority (Berks) | Shamokin City Redevelopment Authority (Northumberland) |
| Manor Township Joint Municipal Authority (Armstrong) | Sheffield Township Municipal Authority (Warren) |
| Mary Meuser Memorial Library (Monroe) | Slippery Rock Municipal Authority (Butler) |
| Matamoras Borough Municipal Authority (Pike) | South Fayette Township Municipal Authority (Allegheny) |
| McKean County Solid Waste Authority (McKean) | Southwestern PA Water Authority (Greene) |
| Mercer County Regional Planning Commission (Mercer) | Susquehanna Township Authority (Dauphin) |
| Mid Mon Valley Water Authority (Washington) | Tower City Borough Authority (Schuylkill) |
| Middletown Township Sewer Authority (Delaware) | Tri-County Joint Municipal Authority (Washington) |
| Mifflin County Regional (Mifflin) | Upper Allegheny Joint Sanitation Authority (Allegheny) |
| Mifflintown Municipal Authority (Juniata) | Upper Montgomery Joint Authority (Montgomery) |
| Millersburg Area Authority (Dauphin) | Upper Southampton Municipal Authority (Bucks) |
| Mon Valley Sewage Authority (Washington) | Upper Southampton Sewer Authority (Bucks) |
| Monroe County Control Center (Monroe) | Vanport Township Municipal Authority (Beaver) |
| Montgomery County Sewer Authority (Montgomery) | Warren County Housing Authority (Warren) |
| Montour County Conservation District (Montour) | Warren County Solid Waste Authority (Warren) |
| Moon Township Municipal Authority (Allegheny) | Warrington Township Municipal Authority (Bucks) |
| Morrisville Borough Municipal Authority (Bucks) | Warwick Township Municipal Authority (Lancaster) |
| Mount Jewett Borough Authority (McKean) | Washington Area Council of Governments (Washington) |
| Mount Lebanon Parking Authority (Allegheny) | Washington Township Municipal Authority (Berks) |
| Myerstown Borough Water Authority (Lebanon) | Washington Township Municipal Authority (Fayette) |
| Myerstown Community Library (Lebanon) | Waterford Borough Municipal Authority (Erie) |
| Nanty Glo Water Authority (Cambria) | Wayne County Redevelopment Authority (Wayne) |
| Nesquehoning Borough Authority (Carbon) | Wernersville Municipal Authority (Berks) |
| New Kensington Municipal Sanitary Authority (Westmoreland) | Western Butler County Authority (Butler) |
| Newport Borough Water Authority (Perry) | Western Clinton County Municipal Authority (Clinton) |
| North & South Shenango Joint Municipal Authority (Crawford) | Western Westmoreland Municipal Authority (Westmoreland) |
| North Coventry Municipal Authority (Chester) | Westmoreland-Fayette Municipal Sewer Authority (Westmoreland) |
| North Huntingdon Township Municipal Authority (Westmoreland) | White Haven Municipal Authority (Luzerne) |
| North Strabane Township Municipal Authority (Washington) | White Run Regional Municipal Authority (Adams) |
| | Whitehall Township Authority (Lehigh) |
| | Williamstown Borough Authority (Dauphin) |
| | Womelsdorf-Robesonja Joint Authority (Berks) |
| | York County Planning Commission (York) |

Schedule of Participating Employers (Continued)

Police

| | | |
|--------------------------------------|---|---|
| Ashley Borough (Luzerne) | Harrisburg, Plan B (Dauphin) | Old Lycoming Township (Lycoming) |
| Bally Borough (Berks) | Harveys Lake Borough (Luzerne) | Orangeville Borough (Columbia) |
| Barrett Township (Monroe) | Heidelberg Township (York) | Orwigsburg Borough (Schuylkill) |
| Bedminster Township (Bucks) | Hemlock Township (Columbia) | Paxtang Borough (Dauphin) |
| Bellwood Borough (Blair) | Hilltown Township (Bucks) | Penbrook Borough (Dauphin) |
| Bensalem Township (Bucks) | Hummelstown Borough (Dauphin) | Pennridge Regional (Bucks) |
| Bentleyville Borough (Washington) | Hyndman Borough (Bedford) | Perkasie Borough (Bucks) |
| Birmingham Township (Chester) | Independence Township (Beaver) | Pine Grove Borough (Schuylkill) |
| Blair Township (Blair) | Jenner Township (Somerset) | Plumstead Township (Bucks) |
| Brockway Borough (Jefferson) | Johnsonburg Borough (Elk) | Point Township (Northumberland) |
| Buckingham Township (Bucks) | Lancaster Township (Butler) | Pulaski Township (Lawrence) |
| California Borough (Washington) | Larksville Borough (Luzerne) | Pymatuning Township (Mercer) |
| Cambria Township (Cambria) | Leet Township (Allegheny) | Red Lion (York) |
| Cambridge Springs Borough (Crawford) | Locust Township (Columbia) | Richland Borough (Lebanon) |
| Camp Hill Borough (Cumberland) | Lower Windsor Township (York) | Roaring Spring Borough (Blair) |
| Carroll Valley Borough (Adams) | Lower Yoder Township (Cambria) | Rochester Township (Beaver) |
| Central City Borough (Somerset) | Lykens Borough (Dauphin) | Rye Township (Perry) |
| Clairton City (Allegheny) | Mahoning Township (Montour) | Saxton Borough (Bedford) |
| Colebrookdale Township (Berks) | Manor Borough (Westmoreland) | Schuylkill Township (Schuylkill) |
| Conneaut Lake (Crawford) | Marcus Hook Borough (Delaware) | Schwenksville Borough (Montgomery) |
| Coopersburg Borough (Lehigh) | Mead Township (Warren) | Scott Township (Columbia) |
| Crescent Township (Allegheny) | Mercer Borough (Mercer) | Scottdale Borough (Westmoreland) |
| Danville Borough (Montour) | Middleburg Borough (Snyder) | Selinsgrove Borough (Snyder) |
| Delmont Borough (Westmoreland) | Middlesex Township (Cumberland) | Shade Township (Somerset) |
| Douglass Township (Berks) | Millersburg Borough (Dauphin) | Shamokin Dam Borough (Snyder) |
| Douglass Township (Montgomery) | Montour Township (Columbia) | Shippingport Borough (Beaver) |
| Dravosburg Borough (Allegheny) | Moore Township (Northampton) | Shiremanstown Borough (Cumberland) |
| Dublin Borough (Bucks) | Moosic Borough (Lackawanna) | Souderton Borough (Montgomery) |
| Duboistown Borough (Lycoming) | Morrisville Borough (Bucks) | South Waverly Borough (Bradford) |
| Dunbar Borough (Fayette) | Moscow Borough (Lackawanna) | Summit Hill Borough (Carbon) |
| Duncannon Borough (Perry) | Mount Jewett Borough (McKean) | Telford Borough (Montgomery) |
| East Bangor Borough (Northampton) | Mount Pleasant Borough (Westmoreland) | Tinicum Township (Bucks) |
| East Coventry Township (Chester) | Mount Union Borough (Huntingdon) | Trainer Borough (Delaware) |
| East Deer Township (Allegheny) | New Garden Township (Chester) | Tunkhannock Township (Wyoming) |
| East Earl Township (Lancaster) | New Wilmington Borough (Lawrence) | Upper Uwchlan Township (Chester) |
| East Fallowfield Township (Chester) | Newport Borough (Perry) | Versailles Borough (Allegheny) |
| East Pennsboro Township (Cumberland) | Nockamixon Township (Bucks) | West Conshohocken Borough (Montgomery) |
| East Washington Borough (Washington) | North Coventry Township (Chester) | West Grove Borough (Chester) |
| Elizabeth Township (Allegheny) | North Huntingdon Township (Westmoreland) | West Lampeter Township (Lancaster) |
| Everett Borough (Bedford) | North Middleton Township (Cumberland) | West Middlesex Borough (Mercer) |
| Factoryville Borough (Wyoming) | Northeastern Berks Regional (Berks) | West Pottsgrove Township (Montgomery) |
| Fairview Borough (Erie) | Northeastern Regional (York) | Westfield Borough (Tioga) |
| Falls Creek Borough (Jefferson) | Northern Lancaster County Regional (Lancaster) | White Haven Borough (Luzerne) |
| Forward Township (Allegheny) | Northumberland Borough (Northumberland) | Williamstown Borough (Dauphin) |
| Franklin Borough (Cambria) | Ohio Township (Allegheny) | Windsor Borough (York) |
| Freedom-Greenfield Township (Blair) | | Windsor Township (York) |
| Gilpin Township (Armstrong) | | Wrightstown Township (Bucks) |
| Greenville Borough (Mercer) | | Youngwood Borough (Westmoreland) |
| Harrisburg, Plan A (Dauphin) | | |

Schedule of Participating Employers (Continued)

Firefighters

Clairton City (Allegheny)
Easton City (Northampton)
Greenville Borough (Mercer)
Harrisburg, Plan A (Dauphin)

Harrisburg, Plan B (Dauphin)
Larksville Borough (Luzerne)
Manchester Township (York)

Upper Moreland Township
(Montgomery)
Wilson Borough (Northampton)

| Location | Year | Sample Size | Mean | Standard Deviation | Minimum | Maximum |
|--------------------|------|-------------|------|--------------------|---------|---------|
| Wilson Borough, NJ | 1990 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 1991 | 100 | 1.1 | 0.4 | 0.0 | 2.0 |
| Wilson Borough, NJ | 1992 | 100 | 1.3 | 0.6 | 0.0 | 2.0 |
| Wilson Borough, NJ | 1993 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 1994 | 100 | 1.1 | 0.4 | 0.0 | 2.0 |
| Wilson Borough, NJ | 1995 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 1996 | 100 | 1.3 | 0.6 | 0.0 | 2.0 |
| Wilson Borough, NJ | 1997 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 1998 | 100 | 1.1 | 0.4 | 0.0 | 2.0 |
| Wilson Borough, NJ | 1999 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2000 | 100 | 1.3 | 0.6 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2001 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2002 | 100 | 1.1 | 0.4 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2003 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2004 | 100 | 1.3 | 0.6 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2005 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2006 | 100 | 1.1 | 0.4 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2007 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2008 | 100 | 1.3 | 0.6 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2009 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2010 | 100 | 1.1 | 0.4 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2011 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2012 | 100 | 1.3 | 0.6 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2013 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2014 | 100 | 1.1 | 0.4 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2015 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2016 | 100 | 1.3 | 0.6 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2017 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2018 | 100 | 1.1 | 0.4 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2019 | 100 | 1.2 | 0.5 | 0.0 | 2.0 |
| Wilson Borough, NJ | 2020 | 100 | 1.3 | 0.6 | 0.0 | 2.0 |

TABLE 2. (Continued)

INVESTMENT SECTION

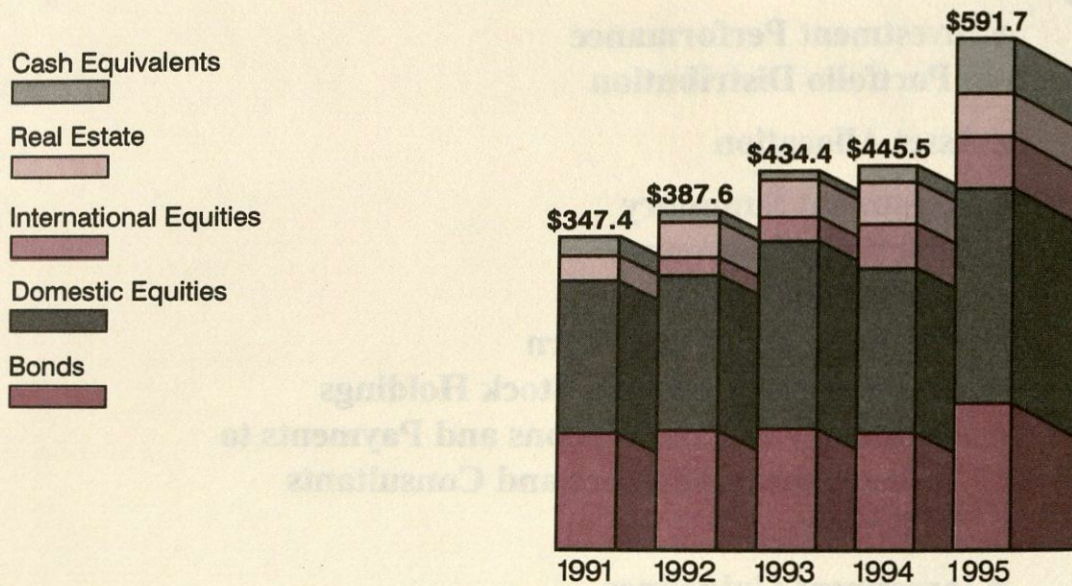
- **Investment Performance
Portfolio Distribution**
- **Asset Allocation**
- **Investment Summary
Portfolio Summary
Portfolio Quality
Portfolio Rates of Return
Ten Largest Common Stock Holdings
Summary of Commissions and Payments to
Investment Advisors and Consultants
Brokers**
- **Investment Guidelines**

Investment Performance

On December 31, 1995, the System's investment assets were valued at \$591,731,748, an increase in value of \$146,264,688 over the December 31, 1994 valuation of \$445,467,060.

During the last five years, the System has grown from \$347.4 million to \$591.7 million. Net contributions added \$58.3 million, and net investment returns added \$232.7 million. The following graph shows the System's five year trend of investment assets at market value.

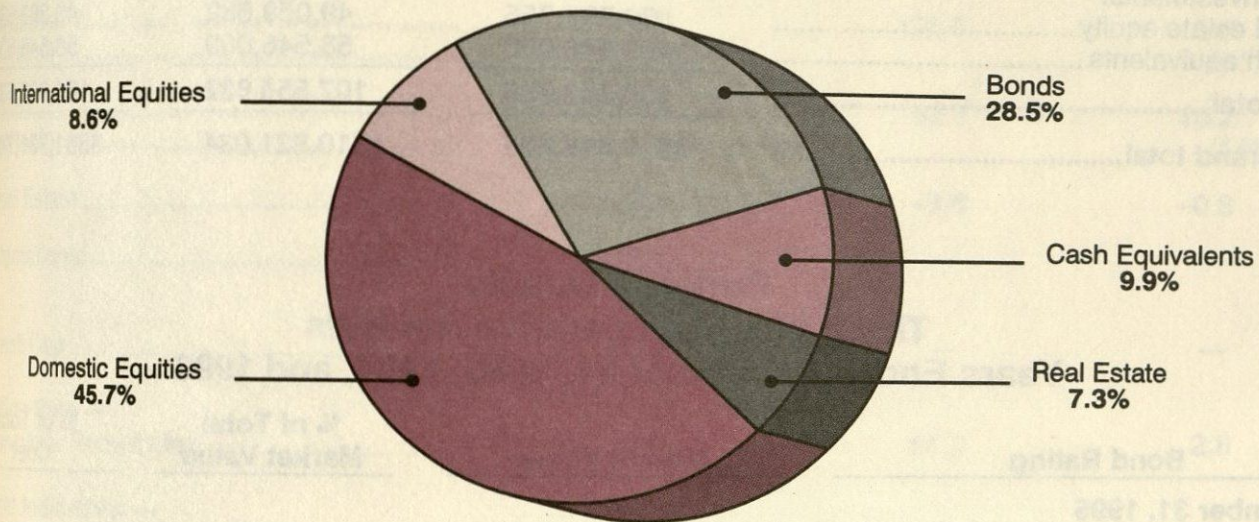
**Portfolio Distribution — 5 Year Trend
(Market Value — Amounts in Millions)**



Asset Allocation

The System's asset allocation as of December 31, 1995 was \$270.5 million committed to domestic equities, \$50.7 million to international equities, \$168.6 million to bonds, \$43.4 million to real estate, and \$58.5 million to cash equivalents. The percentage distribution is illustrated below.

**Asset Allocation (Market Value)
December 31, 1995**



The time-weighted rate of return for the System's investments during the fiscal year ended December 31, 1995 was 23.9 percent ranking well above the median in the 45th percentile of all balanced funds as measured by the CDA universe. This performance level was 21.6 percent above the median balanced fund's return of 2.4 percent. The cumulative five year return for December 1990 through December 1995 of 76.2 percent (12.0 percent per year) ranked in the 59th percentile.

For the year ended December 31, 1995, equities gained 33.8 percent and ranked in the 35th percentile, outperforming the median but underperforming the Standard and Poor's 500 return of 37.5 percent by 3.7 percent. For the last five years, the System's stock return of 106.7 percent (15.6 percent per year) ranked just below the median in the 55th percentile, 1.0 percent per year below the Standard and Poor's 500 return of 16.6 percent for the same time period.

Bonds returned 17.5 percent, ranking in the 32nd percentile, 1.0 percent below the Lehman Aggregate bond index return of 18.5 percent. For the five year period, the cumulative return of 62.7 percent (10.2 percent per year) ranked well above the median in the 14th percentile, 0.7 percent per year above the market index (9.5 percent) for the same time period.

The real estate segment of the portfolio earned 7.4 percent for the fiscal year and for the last five years has lost 3.8 percent, or 0.8 percent annualized. For the same cumulative period, the bank median was negative 2.2 percent (-0.5 percent per annum), and the insurance median returned 7.7 percent (1.5 percent per annum).

Investment Summary

Portfolio Summary As of December 31, 1995

| Type of Investment | Par Value | Book Value | Market Value |
|---------------------------------|----------------------|----------------------|----------------------|
| Corporate and government bonds: | | | |
| U.S. Government bonds | \$127,196,626 | \$129,343,907 | \$140,179,081 |
| Corporate bonds | 25,600,000 | 25,515,445 | 28,409,415 |
| Total | 152,796,626 | 154,859,352 | 168,588,496 |
| Common stock..... | 248,356,050 | 248,356,050 | 321,233,716 |
| Other investments: | | | |
| Real estate equity | 50,797,755 | 49,059,632 | 43,363,536 |
| Cash equivalents | 58,546,000 | 58,546,000 | 58,546,000 |
| Total | 109,343,755 | 107,555,632 | 101,909,536 |
| Grand total..... | \$510,496,431 | \$510,821,034 | \$591,731,748 |

Portfolio Quality Three-Year Comparative Analysis Years Ended December 31, 1995, 1994, and 1993

| Bond Rating | Market Value | % of Total Market Value | % of Total Cost |
|--------------------------|----------------------|----------------------------|--------------------|
| December 31, 1995 | | | |
| AAA.....(4.0) | \$143,287,861 | 85% | 85% |
| AA1.....(3.0) | 5,155,905 | 3 | 3 |
| A1.....(2.5) | 8,761,100 | 5 | 5 |
| A2.....(2.0) | 10,369,520 | 6 | 6 |
| A3.....(1.5) | 1,014,110 | 1 | 1 |
| Total bonds | \$168,588,496 | 100% | 100% |
| December 31, 1994 | | | |
| AAA.....(4.0) | \$113,227,495 | 84% | 84% |
| AA1.....(3.0) | 3,116,250 | 2 | 2 |
| A1.....(2.5) | 5,913,115 | 5 | 5 |
| A2.....(2.0) | 10,920,708 | 8 | 8 |
| A3.....(1.5) | 1,002,560 | 1 | 1 |
| Total bonds | \$134,180,128 | 100% | 100% |
| December 31, 1993 | | | |
| AAA.....(4.0) | \$119,885,828 | 85% | 85% |
| AA.....(3.0) | 1,148,760 | 1 | 1 |
| A1.....(2.5) | 18,032,928 | 13 | 13 |
| A.....(2.0) | 1,077,780 | 1 | 1 |
| Total bonds | \$140,145,296 | 100% | 100% |

Investment Summary (Continued)

Portfolio Rates of Return⁽¹⁾

The following table compares rates of return for the System's total investment portfolio with standard indexes. The System's returns have been competitive with other professionally managed funds.

| Rates of Return — (Dollar-Weighted) | Year Ended 12/31/95 | Period from 12/90 to 12/95 | |
|---|------------------------|----------------------------|---------------------|
| | | Cumulative | Annual |
| Total | 23.9% | 76.2% | 12.0% |
| (Rank) | (45) | | (59) ⁽²⁾ |
| Equities | 33.8 | 106.7 | 15.6 |
| (Rank) | (35) | | (55) ⁽³⁾ |
| Bonds | 17.5 | 62.7 | 10.2 |
| (Rank) | (32) | | (14) ⁽⁴⁾ |
| Real Estate | 7.4 | -3.8 | -0.8 |
| International | 17.1 | — | — |
| | (20) | | |
| Small Cap | 35.2 | — | — |
| Inflation Rate — | | | |
| Consumer Price Index | 2.9 | 14.7 | 2.8 |
| Market Indicators — | | | |
| Standard and Poor's 500 | 37.5 | 115.3 | 16.6 |
| Russell 2,000 | 28.4 | 159.5 | 21.0 |
| Lehman Aggregate Bond Index | 18.5 | 57.3 | 9.5 |
| EAFE (international) | 11.6 | 58.7 | 9.7 |
| Russell NCREIF Property Index | 8.4 | 1.2 | 0.2 |
| 90-Day Treasury Bills | 6.0 | 26.1 | 4.8 |
| Dow Jones Industrial Average | 36.8 | 124.1 | 17.5 |
| CDA Universe⁽⁵⁾ Median Rate of Return — | | | |
| (Time-Weighted) | 23.4 | 78.7 | 12.3 |

(1) Rate of return is a mathematical measure of the rate of change in the asset value of a fund. All rates of return are based on the market value of the assets. Rates of return reflect both realized and unrealized capital gains and losses as well as total earnings from interest and dividends received.

(2) Ranked against balanced funds

(3) Ranked against equity oriented funds

(4) Ranked against fixed income oriented funds

(5) The CDA universe contains the returns of 1,580 portfolios with an aggregate asset value in excess of \$1 trillion. This universe provides as accurate a standard for evaluating a manager's performance as any available through any service in the country.

Investment Summary (Continued)

**Ten Largest Common Stock Holdings (by Market Value)
As of December 31, 1995**

| Stock | Shares | Market Value | % of Stock Portfolio |
|------------------------------------|--------|--------------|----------------------|
| AT&T Corporation..... | 75,000 | \$4,856,250 | 2.15% |
| Nynex Corporation..... | 73,100 | 3,947,400 | 1.74 |
| General Electric Company..... | 50,300 | 3,621,600 | 1.60 |
| Warner Lambert Company | 32,300 | 3,137,138 | 1.39 |
| Sprint Corporation..... | 78,800 | 3,122,450 | 1.38 |
| GTE Corporation..... | 68,900 | 3,022,988 | 1.34 |
| Chevron Corporation | 55,800 | 2,922,525 | 1.29 |
| Atlantic Richfield Company..... | 25,600 | 2,835,200 | 1.25 |
| Bristol Myers Squibb Company | 31,900 | 2,739,413 | 1.21 |
| Entergy Corporation..... | 92,200 | 2,696,850 | 1.19 |

**Summary of Commissions and Payments to
Investment Advisors and Consultants
Comparative Two-Year Schedule
Years Ended December 31, 1995 and 1994**

| Firm Name | Fees and Commissions Paid (Accrued) | |
|--|--|--------------------|
| | 1995 | 1994 |
| Bond, Procope Capital Management..... | \$ 0 | \$ 18,380 |
| Chase Investment Counsel Corp..... | 267,322 | 228,911 |
| CIGNA Investment Management Real Estate | 106,819 | 108,271 |
| Dahab Associates, Inc..... | 45,250 | 37,000 |
| Ernst & Young LLP | 21,000 | 20,000 |
| First Fidelity Bank, N.A. | 293,969 | 269,108 |
| Globalt, Inc | 72,952 | 7,995 |
| Newbold's Asset Management, Inc | 273,134 | 229,075 |
| Prudential Real Estate Investors (PRISA) | 27,984 | 26,167 |
| The Putnam Companies, Inc | 464,059 | 300,198 |
| The Segal Company | 196,024 | 192,260 |
| State Street Global Advisors..... | 127,674 | 96,744 |
| Treasury Dept — Security Movement & Control Program..... | 2,747 | 10,429 |
| Total | \$1,898,934 | \$1,544,538 |

Investment Summary (Continued)

**Summary of Commissions Paid to Brokers
Comparative Two-Year Schedule
Years Ended December 31, 1995 and 1994**

| Broker Name | Commission Paid (Cash Basis) | |
|---------------------------------------|------------------------------|--------|
| | 1995 | 1994 |
| Adams Harkness & Hill Inc..... | \$ 0 | \$ 662 |
| Adler Coleman & Co Inc..... | 0 | 1,092 |
| Advantage Capital Corp..... | 0 | 159 |
| Alex Brown & Sons Inc..... | 0 | 435 |
| Austranet..... | 1,885 | 2,183 |
| Beard Robert W & Co Inc..... | 0 | 368 |
| Bank One Select..... | 228 | 0 |
| Beas Stearns & Co..... | 4,122 | 2,912 |
| Bernstein Sanford..... | 3,743 | 0 |
| Blair William & Co..... | 102 | 0 |
| Brandt R W..... | 64 | 0 |
| Bridge Trading..... | 539 | 49 |
| Brimberg & Co..... | 0 | 600 |
| Broadcoast Capital Corp..... | 0 | 1,850 |
| Brown Alex..... | 1,353 | 0 |
| C.J. Lawrence..... | 600 | 0 |
| C.L. King..... | 120 | 0 |
| Cantor Fitzgerald & Co Inc..... | 536 | 924 |
| Chicago Corporation..... | 0 | 522 |
| Citation Group/Equity & Munis..... | 624 | 360 |
| Correspondent Services Corp..... | 2,314 | 653 |
| County Natwest Sec Corp USA..... | 0 | 1,329 |
| Cowen & Co..... | 120 | 600 |
| CS First Boston Corp..... | 24,473 | 31,937 |
| Davis Mendel & Regenstein Inc..... | 0 | 258 |
| Dean Witter Reynolds Inc..... | 1,158 | 835 |
| Dillon Read & Co Inc..... | 0 | 608 |
| Donaldson Lufkin & Jenrette Inc..... | 5,010 | 2,812 |
| Edwards A G & Sons Inc..... | 2,282 | 1,370 |
| Emst & Co..... | 128 | 138 |
| Ewing Capital Inc..... | 106,211 | 25,676 |
| Factset Data Systems Inc..... | 258 | 175 |
| Fidelity Capital Markets..... | 0 | 336 |
| First Albany Corp..... | 1,050 | 0 |
| First Boston Corp..... | 1,686 | 0 |
| First Manhattan Corp..... | 300 | 0 |
| FIB Cincinnati..... | 540 | 0 |
| Frank Russell..... | 78 | 0 |
| Furman Selz Mager Dietz & Birney..... | 522 | 203 |
| Goldman Sachs & Co..... | 28,194 | 11,802 |
| Gordon Haskett..... | 0 | 126 |
| Herzog Heine Geduld Inc..... | 0 | 1,239 |
| Instinet Inc..... | 5,544 | 2,185 |
| Invest Corp..... | 0 | 133 |
| Investment Performance Svc..... | 0 | 3,304 |
| Investment Technology Grp Inc..... | 150 | 156 |
| IPS Brokerage Inc/BCC Clearing..... | 0 | 70 |
| ISI Group Inc..... | 0 | 460 |
| Jannney Montgomery Scott..... | 120 | 42 |
| Jefferies & Co..... | 2,316 | 6,394 |
| Kankaku Securities (America) Inc..... | 0 | 2,261 |
| Kemper Clearing Corp..... | 0 | 133 |

Continued on next page

Investment Summary (Continued)

Summary of Commissions Paid to Brokers (Continued)
Comparative Two-Year Schedule
Years Ended December 31, 1995 and 1994

| Broker Name | Commission Paid (Cash Basis) | |
|---|------------------------------|------------------|
| | 1995 | 1994 |
| Kemper Secs Group | 0 | 414 |
| Kidder Peabody & Co Inc..... | 0 | 2,222 |
| Legg Mason Wood..... | 906 | 0 |
| Lehman Brothers Inc..... | 14,936 | 4,106 |
| Lewco Secs Agent | 5,160 | 0 |
| Lipper Analytical..... | 1,680 | 0 |
| Lynch Jones & Ryan | 65,607 | 80,656 |
| Mabon Nugent & Co..... | 0 | 2,492 |
| Merrill Lynch Pierce Fenner & Smith..... | 1,418 | 3,469 |
| Mesirow Capital Inc..... | 162 | 0 |
| Moness Crespi | 0 | 558 |
| Morgan J P Securities Corp | 1,446 | 96 |
| Morgan Stanley & Co Inc | 7,854 | 2,028 |
| Murphy Marseilles | 220 | 0 |
| Murphy & Derieu | 368 | 0 |
| Natwest Securities | 3,870 | 0 |
| Neuberger & Berman | 150 | 11,705 |
| Oppenheimer & Co Inc..... | 1,632 | 2,298 |
| Paine Webber Jackson & Curtis | 15,606 | 2,765 |
| Piper Jaffray & Hopwood Inc..... | 0 | 144 |
| Private Ledger of Linsco Financial Serv..... | 348 | 324 |
| Prudential Securities Inc | 3,234 | 1,790 |
| Quantitative Analysis..... | 0 | 1,542 |
| Raymond James | 276 | 0 |
| Robert W. Baird & Co | 1,140 | 0 |
| Robertson Stephens & Co | 516 | 0 |
| Robinson-Humphrey Co Inc..... | 0 | 1,617 |
| Rochdale Securities Corp | 0 | 60 |
| Royal Alliance | 1,176 | 0 |
| Salomon Brothers Inc..... | 7,139 | 7,554 |
| Sanford C Bernstein & Co..... | 0 | 4,605 |
| Smith Barney/Shearson Inc | 14,391 | 10,593 |
| Standard & Poors Securities | 420 | 1,371 |
| Stover Halley Burns | 180 | 0 |
| Tucker Anthony & RL Day Inc..... | 144 | 0 |
| Warburg (SG) & Company Inc | 0 | 654 |
| Weeden & Co..... | 23,577 | 22,264 |
| Wertheim Schroder | 992 | 2,010 |
| Wheat First Securities Inc | 381 | 330 |
| Total Brokerage Commissions Paid | \$371,299 | \$275,018 |