

Pennsylvania Municipal Retirement System

2004

Comprehensive Annual Financial Report

**For the Year Ended
December 31, 2004**



Our Mission

The Pennsylvania Municipal Retirement System seeks to help Pennsylvania's local governments, regardless of size or resources, secure the future retirement of their employees by providing comprehensive, cost efficient and professional pension administration services through a pension plan tailored to the participants' and sponsors' requirements.

Our Vision

To be Pennsylvania local governments' pension administrator *of choice*.

The Pennsylvania Municipal Retirement System

Comprehensive Annual Financial Report
For the Fiscal Year Ended
December 31, 2004

Douglas K. Bowen, Chairman
Pennsylvania Municipal Retirement Board

James B. Allen, Secretary
Pennsylvania Municipal Retirement System

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**Prepared by the Accounting and Operations Divisions
of the Pennsylvania Municipal Retirement System**



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Introductory Section

Letter of Transmittal

Certificate of Achievement for Excellence in Financial Reporting

Administrative Organization

- ◆ Pennsylvania Municipal Retirement Board
- ◆ Administrative Staff
- ◆ Professional Consultants
- ◆ Organization Chart

Chairman's Report

Summary of Plan Provisions



Pennsylvania Municipal Retirement System

Commonwealth of Pennsylvania

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June 30, 2005

Members of the Pennsylvania Municipal Retirement Board
Pennsylvania Municipal Retirement System
P.O. Box 1165
Harrisburg, Pennsylvania 17108-1165

As part of our continuing commitment to full financial reporting for the Pennsylvania Municipal Retirement System (the System), we are honored to submit the System's Comprehensive Annual Financial Report for the fiscal year ended December 31, 2004. Consistent with the requirements of the Pennsylvania Municipal Retirement Law, Act of 1974, P.L. 34, No. 15 (the Act) as amended, the System distributes the Comprehensive Annual Financial Report to our governing board, to the members of the General Assembly of Pennsylvania, to each participating municipal employer, and to all other interested parties upon request.

The System is solely responsible for the accuracy of the data in this report. As the two individuals responsible for the System's financial record as of December 31, 2004, we offer our assurances that we have made every effort to present a comprehensive 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. The System 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 throughout the Commonwealth. Our services include accounting services, actuarial valuations, employee consultation 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. All participating plans as of December 31, 2004 are listed in the Statistical Section of this report.

The System offers various plan designs: defined benefit, defined contribution, and hybrid. The annual benefit is dependent upon the individual municipality's contracted benefit package because each pension plan is designed based on each municipality's individual needs. Benefits provided to participants in the System are typically dependent upon both age and service requirements. In addition to standard monthly pension benefits, plans routinely include provisions for 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 employer charge. Municipal contributions typically range from 4% to 12% of projected payroll for municipal employees and from 12% to 20% for police and firefighters. The employee contribution is determined by plan contract. In 2004, plan requirements ranged from no employee contribution to as high as 7.5% of earnings.

2004 CAFR

The 2004 Comprehensive Annual Financial Report (CAFR) format follows the required Governmental Accounting Standards Board (GASB) Statement No. 25. The annual report is presented in five sections: introductory, financial, investment, actuarial, and statistical. The Introductory Section contains this Letter of Transmittal, the System's administrative organization, the Chairman's Report, and a summary of plan provisions; the Financial Section presents the opinion of the System's independent auditors, Clifton Gunderson LLP, and the financial statements of the System with accompanying notes and schedules, including management discussion and analysis (MD&A) on page 19, which describes the financial performance of the plan; the Investment Section contains an overview of the System's investment activities and policies and an overview of the System's revenues by source, expenses by type, administrative expenses, and investments; the Actuarial Section presents the opinion of the System's independent actuarial firm, The Segal Company, and the results of its annual actuarial valuation; and the Statistical Section includes significant financial and demographic data presented on a multi-year basis and the Schedule of Participating Employers.

Economic Environment

What a year a quarter makes. The economic environment changed little during the calendar year. The economy grew by a solid 3.1% and the country's Gross Domestic Product (GDP) grew at 4.4%, stronger than 2003's growth of 3.0% and 2002's anemic 1.9%. Inflation remained low for the year at a comfortable rate of 3.3%. While the Federal Reserve Board raised the interest rate on Federal funds five times during the year, the activity was considered to be at a measured pace and the rate remained at 2.25% at the end of the year. By historical standards, this was still a rather low rate. One might expect that slow and steady was the economic pace in 2004. While this may be what one would expect, the financial markets clearly did not react during the year in a slow and steady manner.

While there is always uncertainty in the economy and the financial markets, the uncertainty that seemed to rule in 2004 was the political climate of the United States. With the United States Presidency decided in early November, the financial markets staged a remarkable fourth quarter rally. In the equity markets, the S&P 500 was up 10.9% for the year but increased 9.2% in the fourth quarter alone. The smaller capitalized stocks, as measured by the Russell 2000 Index, were up an even stronger 18.3% for the year based in large measure on the 14.1% return produced in the fourth quarter. Even the international equity markets seemed to respond to the United States' political process by generating a 12.6% return in the fourth quarter that yielded a 16.9% return for the full year.

Many feared unresolved issues that needed addressing in 2004. These included the rapidly rising price of oil, the declining value of the U.S. dollar as measured against other world currencies, a widening balance-of-trade deficit, and an ever-increasing federal deficit. Seeming to be oblivious to these potential problems, the domestic economy continued to expand at a solid pace in 2004, which was received as good news in the financial markets.

Financial Information

The System'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 required supplementary information in the report have been prepared in accordance with the standards for disclosure following GASB Statement No. 25, 34, and 37 guidelines. The accrual basis of accounting is used to record all financial transactions including assets, liabilities, 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 "Notes to Financial Statements."

The System's net assets totaled \$1,237,561,454 as of December 31, 2004. In 2004, the System's net assets increased by \$125,020,835. Investment-related gains increased the portfolio by \$140,070,192 and contributions added an additional \$33,126,179. Benefit payments and administrative expenses reduced the total assets by \$48,175,536. Additional information on the System's assets is detailed in the Financial Section ("Statements of Plan Net Assets" and "Statements of Changes in Plan Net Assets").

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. In addition, the System's staff 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. The 2004 administrative budget was adopted in September 2003 and set at \$2.826 million exclusive of investment fees. Expenditures (exclusive of investment fees and depreciation) in 2004 amounted to \$3,045,969. More information on the System's expenses are included in the Financial Section of this report ("Schedule 3 - Administrative Expenses").

Revenues

The System was established by law to pay pension benefits when due. It accumulates sufficient funds to pay benefits through employee contributions, employer contributions, and investment earnings. The following schedule presents a summary of revenues for the fiscal year ended December 31, 2004, and also shows the amount and percentage of increases and decreases in relation to December 31, 2003 revenues.

Additions to Plan Net Assets	2004 Amount	Percent of Total	2003 Amount	Increase (Decrease) from 2003	Percent of Increase (Decrease)
Member Contributions	\$ 15,821,360	9.13%	\$ 14,760,323	\$ 1,061,037	7.19%
Municipal Contributions	17,041,418	9.84	14,696,210	2,345,208	15.96
Assessments	263,401	.15	270,140	(6,739)	(2.49)
Investment Income	140,070,192	80.88	208,542,292	(68,472,100)	(32.83)
Total	\$173,196,371	100.00%	\$238,268,965	\$(65,072,594)	

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.

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% 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.

Investment revenues are a combination of earnings from bonds, equities, real estate, and a short-term cash management fund. During the 2004 fiscal year, the fair value of the System's investment portfolio increased from \$1,167,065,973 to \$1,266,520,008. The largest portions of the investment revenue increase came from domestic and international equities.

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. Any fluctuation in assessments is caused by the number of members per municipality and can be affected by employee turnover or new plans being added or plans leaving the System in previous years.

Six-year historical trend information listing the System's revenues by source is presented in Part I of the Statistical Section of this report.

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, 2004, and shows the percentage of increases and decreases in relation to December 31, 2003 amounts.

Deductions from Plan Net Assets	2004 Amount	Percent of Total	2003 Amount	Increase (Decrease) from 2003	Percent of Increase (Decrease)
Annuity benefits	\$33,640,514	69.83%	\$31,239,450	\$2,401,064	7.69%
Disability benefits	1,089,729	2.26	972,741	116,988	12.03
Terminations	10,318,197	21.42	7,578,995	2,739,202	36.14
Administrative	3,127,096	6.49	2,610,839	516,257	19.77
Total	\$48,175,536	100.00%	\$42,402,025	\$5,773,511	

The major expense-related items for 2004 were payment of benefits, refunds of withdrawing plans, refunds of contributions due to termination or death, and administrative expenses. The System processed three plan withdrawals with returns of over \$5.3 million.

A breakdown of the System's expenses including six-year historical trend information is presented in Part I of the Statistical Section of this report.

Investment Highlights

The PMRS Board was pleased to see the markets put together two years of back-to-back positive returns. While looking to the markets to produce positive performance for the year 2004, the Board was still proactive on a number of fronts.

One of the more dynamic decisions made in 2004 was the indexing of the fixed income asset class. The Board concluded that in a market environment that had long bonds yielding only 3.75% to 4.25%, there was more risk in assuming that active management would add value beyond the manager's fees. The Board re-examined the asset allocation targets with an asset allocation study conducted by the investment consulting firm of Dahab Associates. The process confirmed the Board's commitment to the existing allocation targets (35% large cap equity, 15% small cap equities, 15% international equities, 25% fixed income instruments, and 10% real estate). The year ended with a concentrated effort to find an appropriate investment vehicle to commit the cash received from a very successful real estate venture with CIGNA's TimesSquare team that was liquidated throughout the year. Success was not achieved on this front in 2004.

The System's investment success can be measured by the portfolio's 13.1% total return on investments for the year. The investment portfolio totaled \$1,165,574,132 when the year began but ended at a market value of \$1,263,312,373, exclusive of short-term assets held by the System's Master Custodian, the Treasurer of the Commonwealth. This return placed the fund in the top 19.0% of all funds measured by the Independent Consultants Cooperative (ICC) Universe. The ICC Universe measures and compares the returns of over 18,000 client portfolios. The five-year return, as measured by the System's investment consultant, Dahab Associates was 4.5% per annum, which placed the fund in the top 46.0% of the ICC Universe. Additional information concerning 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 2004 fiscal year was \$125,020,835. This represents an increase in the fund balance of 11.2% over the 2003 fund balance.

To comply with GASB Statement No. 25 disclosure requirements, the "Schedule of Funding Progress" was calculated based on the most recent actuarial valuation dated January 1, 2003. As illustrated in the schedules under "Required Supplementary Information," the System's funded ratio in relation to the System's current actuarial value of assets is adequate to fund the System's actuarial accrued liabilities. Additional information on the System's actuarial value, liabilities, and funding progress can be found in the Actuarial and Financial Sections of this report.

As an agent multiple-employer Public Employee Retirement System (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. Detailed information on the System's plan funding can be found in the Financial Section (Schedules 1 and 2) and the Actuarial Section of this report under Exhibit I.

Major Initiatives

As identified under the Investment Highlights, the System's trustees undertook several major projects involving the management of the assets of the plan. These included an asset allocation study, the passive management of the entire fixed income allocation, and a search for a real estate venture to re-commit cash to the asset class.

Addressing policy concerns, the System's Board examined its fiduciary liability and that of the officers and staff of the System. This resulted in a newly adopted policy on Indemnification and Insurance for officers and staff. The Board also addressed ongoing confusion caused by municipal employers who misunderstood or misinterpreted the law that requires all permanent municipal employees be covered under the System's

administered plan. The issue was brought to the forefront by litigation and legislation seeking to resolve interpretive language. The issue was resolved with the passage of Act 169 of 2004 that gave definitive guidance to the enrolled plans.

Operationally, the trustees continued their efforts to enhance computer resources and security. Both physical changes to the office and software enhancements were approved in 2004. The major initiative on the technology front, however, was a commitment to upgrade the major benefit software used to manage the System's 800 plus plans. The Board's expectation is that plan members will be able to access their records, perform benefit calculations, and even initiate simple account maintenance via the Internet by the spring of 2006. Enhancements to the software will also allow employers equal accessibility to key plan data, including financial records necessary for municipal audits.

Professional Services

The financial information in this report has been audited by the independent accounting firm of Clifton Gunderson LLP, which is completing year three of a three-year contract. The actuarial information was prepared with the help of E. Greenblum, consulting actuary from The Segal Company. The Segal Company is in year four of a five-year competitively bid contract. The investment information was prepared with the cooperation of the System's independent investment consultant, R. Dahab of Dahab Associates. This firm is completing year five of a five-year contract that was competitively bid. The Board and staff sincerely appreciate the cooperation and commitment of these three advisors in providing information for the preparation of this report.

Acknowledgments

We must recognize and express our sincere appreciation to the individuals who are so instrumental to the operations of the System. First and foremost, we salute our Board members for their dedicated service to the System. Their dependability, commitment to serving the System's members, dedication, and guidance are most appreciated. Board members serve the System without financial remuneration other than travel expenses for Board meetings, seminars, and conferences.

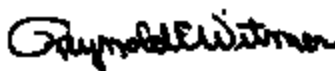
We also thank the System's staff for providing materials and information needed to compile this financial report. The staff is commended for its teamwork and concerted efforts to meet deadlines without detracting from the quality or accuracy of the report.

The third and most important thank you goes to our individual plan members, contact persons, and governing boards. We appreciate your continued support and trust. Thank you for the privilege of administering your pension needs.

Respectfully submitted,



James B. Allen
Secretary



Reynold E. Witmer
Chief of Accounting

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, 2003

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.



Nancy L. Ziehl

President

Jeffrey R. Emmer

Executive Director

Pennsylvania Municipal Retirement Board

as of December 31, 2004



Douglas K. Bowen
Chairman
Represents Pennsylvania
Municipal Authorities
Association



Robert T. Umstead
Vice-Chairman
Represents Pennsylvania
State Association of Boroughs



Pedro A. Cortés
Secretary of the Commonwealth
(ex-officio) represented by
Andrew Sislo, Chief of Staff



Barbara Hafer
State Treasurer (ex-officio)
represented by Joseph Jardine



John A. Haiko
Represents Pennsylvania State
Association of Township
Supervisors



Dawn C. Knapp
Represents Pennsylvania State
Firefighters Association



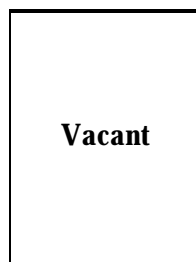
Linda L. Lingle
Represents Pennsylvania
League of Cities



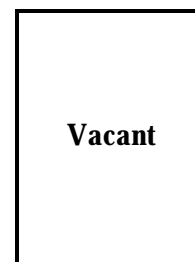
Paul S. McMillen
Represents Pennsylvania State
Association of County Commissioners



Anthony Spagnolo
Represents First Class
Township Commissioners



Vacant
Represents Pennsylvania
Municipal Retirement System
retired members



Vacant
Represents Pennsylvania
Chiefs of Police Association

Administrative Staff

James B. Allen

Secretary

Kristine M. Gibboney

Assistant Secretary

Reynold E. Witmer

Accounting
Division Chief

Benjamin F. Mader

Membership Services
Division Chief

Michael G. Mortimer

Chief Technology
Officer

Lee E. Hughey

Municipal Services
Division Chief

Cynthia L. Davis

Operations
Division Chief

Professional Consultants

Actuary

The Segal Company
Washington, DC
Eli Greenblum
FSA, MAAA, EA

Auditor

Clifton Gunderson LLP
Timonium, MD
Independent Auditors
William F. Blair

Comptroller

Commonwealth of Pennsylvania
Harrisburg, PA
Central Services
John J. Smolock

Investment Consultant

Dahab Associates, Inc.
Bay Shore, NY
Richard E. Dahab, CFA
President

Master Custodian

Mellon Bank Corporation
Pittsburgh, PA

Legal Counsel

Commonwealth of Pennsylvania
Harrisburg, PA
Gerald Gornish
Chief Counsel

Investment Advisors

Black Rock Financial Management, Inc.

Philadelphia, PA
Wayne Archambo, Managing Director

The Boston Company Asset Management, Inc.

Boston, MA
Paul Lehy, Vice President

Chase Investment Counsel Corporation

Charlottesville, VA
Derwood S. Chase, Jr., President

CIGNA Investment Management

Hartford, CT
John Eisele, Managing Director

Emerald Advisers, Inc.

Lancaster, PA
Kenneth G. Mertz II, President

Forest Investment Associates, Inc.

Atlanta, GA
L. Richard Doelling, Director of Client Relations

LSV Asset Management

Norwalk, CT
Christopher LaCroix, Managing Director

Mercator Asset Management, L.P.

Boca Raton, FL
James E. Chaney, President, JXC Corp.

Prudential Real Estate Investors (PRISA)

Parsippany, NJ
Lester F. Lockwood, President

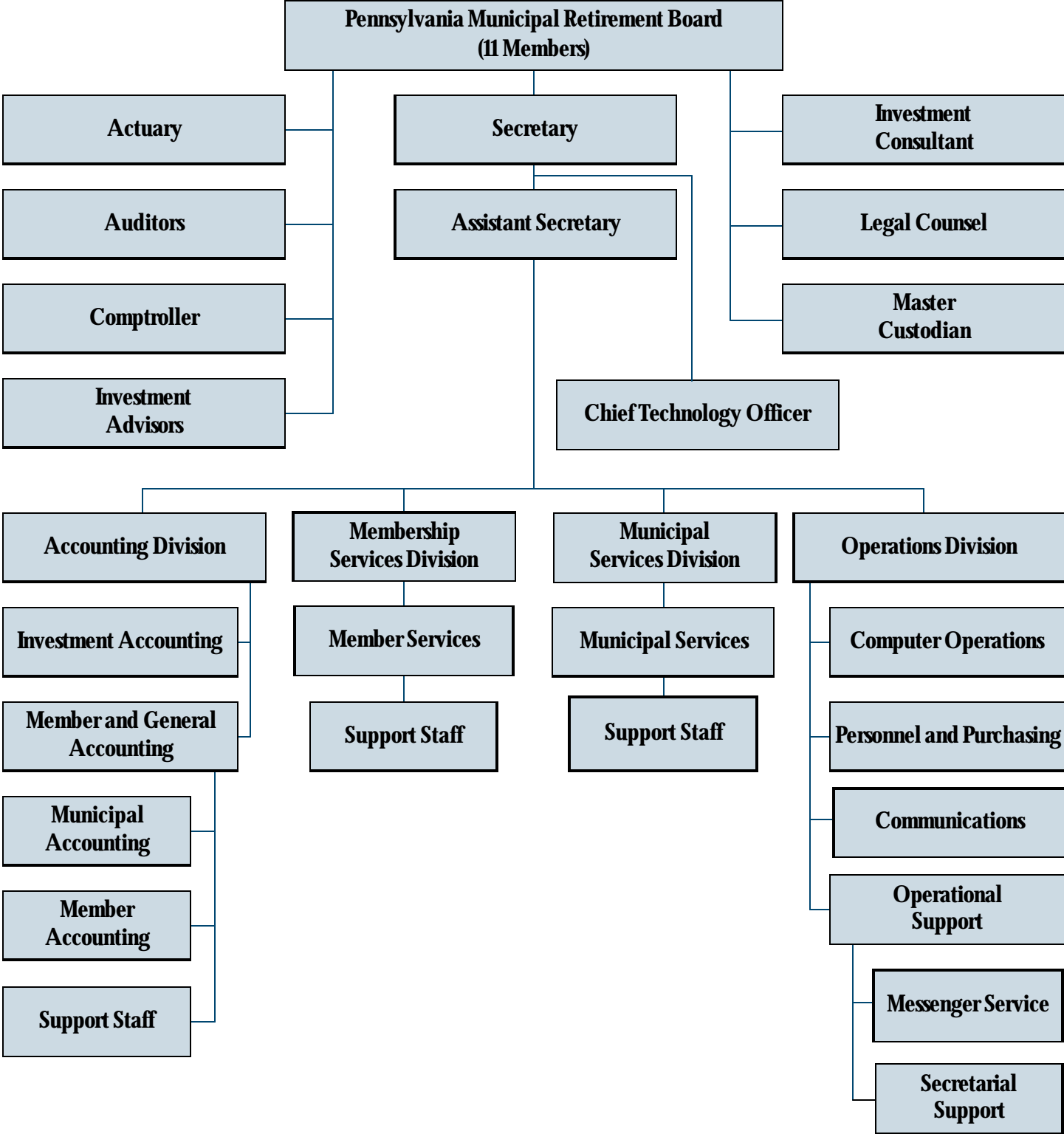
State Street Global Advisors

Boston, MA
James Thorsen, CFA

Waddell & Reed Investment Management Corp.

Overland Park, KS
Thomas Mingel, Senior Vice President

Organizational Chart



Pennsylvania Municipal Retirement System

Commonwealth of Pennsylvania



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June 30, 2005

Members of the Pennsylvania Municipal Retirement System

Pennsylvania Municipal Retirement System

P.O. Box 1165

Harrisburg, Pennsylvania 17108-1165

Dear PMRS Members:

Speaking on behalf of the entire PMRS Board, I am very pleased to share the System's Comprehensive Annual Financial Report for the fiscal year ending December 31, 2004. The Board continues its commitment to providing comprehensive disclosure of the System's financial activities. The enclosed is intended to capture the System's complete 2004 financial history. We encourage you to review the information and contact us with any comments, questions, or concerns that you may have about the System and its financial underpinnings.

In 2004 the U.S. economy and the financial markets continued the positive momentum that was initiated the prior year. Despite continuing uncertainties in Iraq, record oil prices, and a weakened U.S. dollar, interest rates remained at historically low levels and companies finally began to create jobs. The upward market trends during the year exploded after the November presidential election and the System was able to reap the rewards of its commitment to solid and sound asset allocation. At the end of 2003, the System's investment assets were at \$1.1 billion. The System's investments yielded a 13.1% return for the year. This return placed the portfolio in the top 19% of U.S. pension funds as ranked in the Independent Consultants Cooperative Universe (ICC). The System ended the year with over \$1.23 billion under management.

The Board spent much of the year focused on administrative issues. The most significant activity was associated with membership requirements and the definition of permanent employment as it relates to part-time employees. The Pennsylvania General Assembly's changes to the PMRS Law (Act 169 of 2004) helped to resolve the controversy that existed with respect to a permanent part-time employment dispute. The Board has also addressed the Killed-In-Service and disability benefits, fiduciary liability and indemnification policies, and a restatement of the System's Right-To-Know policy.

The Board continues to honor its commitment to strengthen efforts for maintaining cost-effective and efficient pension management for local Pennsylvania government. My fellow Board members' active involvement and

assistance has enabled the System to step up efforts to provide additional services to our members. This includes the approval to proceed with a major upgrade to the computer system that will bring Internet-based services to our members within the next eighteen months.

On behalf of all the Board and staff, I thank the many municipal officials, their staff, and all individual plan members for their continued support of PMRS. We appreciate the opportunity to serve you.

Sincerely,

A handwritten signature in black ink, appearing to read "Douglas K. Bowen". The signature is stylized with a large initial "D" and "K".

Douglas K. Bowen
Chairman

Summary of Plan Provisions⁽¹⁾

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 service-connected 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 annuity of 50% of the disabled individual's final average salary offset by worker's compensation, and (2) a nonservice disability with a minimum of 10 years' service and a 30% 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% survivorship annuity
- **Option 3:** Joint and 50% survivorship annuity

⁽¹⁾Descriptions are not identical to those in the audit report. Information has been rewritten for ease of understanding.

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 the accumulated deductions and interest earned at the regular rate of interest, currently 6.5%. 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 the service credits unimpaired to the new municipal employer.

Financial Section

Report of Independent Auditors

Management's Discussion and Analysis

Basic Financial Statements

- ◆ Statements of Plan Net Assets
- ◆ Statements of Changes in Plan Net Assets
- ◆ Notes to Financial Statements

Required Supplementary Information

- ◆ Schedule of Funding Progress
- ◆ Schedule of Required Employer Contributions
- ◆ Notes to Required Supplementary Schedules

Supplemental Schedules

- ◆ Administrative Expenses
- ◆ Investment Expenses
- ◆ Payments to Consultants



Board of Directors
Pennsylvania Municipal Retirement System
Harrisburg, Pennsylvania

We have audited the accompanying basic financial statements of the Pennsylvania Municipal Retirement System (the System) as of and for the years ended December 31, 2004 and 2003, as listed in the table of contents. 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 auditing standards generally accepted in the United States of America. 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 System's plan net assets as of December 31, 2004 and 2003, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Supplemental Schedules of Funding Progress and Required Employer Contributions (Schedules 1 and 2) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial and Statistical sections, as well as Supplemental Schedules 3 through 5, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental Schedules 3 through 5 have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are presented fairly, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial and Statistical sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
May 13, 2005

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Pennsylvania Municipal Retirement System's (PMRS, the System) financial performance for the fiscal years ended December 31, 2004 and 2003. It is presented as required supplemental information to the financial statements.

Overview of Financial Statements

PMRS administers sound, cost-effective pension plans on a contracted basis for local government employers throughout the Commonwealth. Any Pennsylvania county, city, town, township, borough, municipal authority, or institution supported and maintained by a municipality may participate.

The Statements of Plan Net Assets provide a snapshot of the financial position of PMRS at December 31, 2004, including comparative amounts for the prior year.

The Statements of Changes in Plan Net Assets summarize the System's financial activities that occurred during the fiscal period from January 1, 2004 to December 31, 2004, including comparative amounts for the prior year.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The Required Supplementary Information immediately following the Notes to Financial Statements provide two schedules showing historical information concerning the funded status of PMRS and the employers' contributions.

The remaining supplementary schedules provide additional detailed information concerning the operating expenses, investment expenses, and payments to non-investment consultants. All of this supplemental information is considered useful in understanding and evaluating the financial activities of PMRS.

Financial Highlights

- ◆ The System's plan net assets increased by \$125 million from \$1,113 million at December 31, 2003 to \$1,238 million at December 31, 2004. The System's plan net assets increased by \$196 million from \$917 million at December 31, 2002 to \$1,113 million at December 31, 2003. These increases are primarily attributable to a net gain on investments.
- ◆ The funded ratio as of the latest actuarial valuation dated January 1, 2003 decreased from 118.1% at January 1, 2001 to 113.6%. The decrease is due to actuarial experience losses.
- ◆ The rate of return for the year ended December 31, 2004 was a net gain of 13.1% compared to a net gain of 23.7% and a net loss of (8.9%) for the years ended December 31, 2003 and 2002, respectively.
- ◆ Total employee and employer contributions increased from \$29.7 million in 2003 to \$33.1 million in 2004. Total employee and employer contributions decreased from \$43 million in 2002 to \$29.7 million 2003.
- ◆ Total pension plan benefit payouts increased by 13.2% from \$39.8 million during 2003 to \$45.0 million during 2004. Total pension plan benefit payouts increased by 4.5% from \$38.1 million during 2002 to \$39.8 million during 2003.
- ◆ Administrative expenses increased by 19.8% from \$2.6 million for 2003 to \$3.1 million during 2004 and increased by 8.0% from \$2.4 million for 2002 to \$2.6 million in 2003. Administrative expenses were within the System's budgeted amounts for all three years.

Funded Status

PMRS uses an actuarial reserve of funding that is financed by member contributions, employer contributions, and earnings from invested assets. An independent actuarial valuation of the System's actuarial assets and liabilities is performed bi-annually. As part of this valuation, the progress toward funding pension obligations of the retirement system is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or funded status. PMRS

is 100% funded, which is one indicator of the financial soundness of the plan. The most recent actuarial valuation reports that PMRS is 113.6% funded as of January 1, 2003. The results of operations for 2003 and 2002 are reflected in the actuarial valuation as of January 1, 2003.

Summary of Plan Net Assets

as of December 31, 2004, 2003, and 2002

Analysis of Plan Assets	2004	2003	2002
ASSETS			
	<i>(In Thousands)</i>		
Receivables	\$ 6,259	\$ 9,153	\$ 12,277
Investments	1,234,207	1,114,676	915,096
Securities lending collateral pool	32,313	52,390	31,834
Capital assets	312	351	393
Total assets	1,273,091	1,176,570	959,600
LIABILITIES			
Total liabilities	35,530	64,029	42,926
Total plan assets	\$1,237,561	\$1,112,541	\$916,674

Summary of Plan Net Assets

as of December 31, 2004, 2003, and 2002

Analysis of Plan Assets	2004	2003	2002
ADDITIONS			
	<i>(In Thousands)</i>		
Contributions	\$ 33,126	\$ 29,727	\$42,736
Net investment gain (loss)	140,070	208,542	(82,540)
Total additions	173,196	238,269	(39,804)
DEDUCTIONS			
Benefit payments and terminations	45,048	39,791	38,078
Administrative expenses	3,127	2,611	2,407
Total deductions	48,175	42,402	40,485
Total changes in plan net assets	\$125,021	\$195,867	\$(80,289)

See accompanying notes to financial statements.

Investments

PMRS is a long-term investor and the Board manages the Fund with long-term objectives in mind. A primary element of the System's investment philosophy is that diversification among various asset classes is the best way to achieve its goals. PMRS makes estimates of future long-term market returns and establishes an asset allocation plan taking into account the risk associated with each asset class as well as the financial objectives of the Fund.

For 2004, the System's rate of return on investments was a net gain of 13.1%, which is primarily attributable to the positive returns in the domestic and international equity markets. The annualized rate of return over the past three and five years ended December 31, 2004 was 8.4% and 4.5%, respectively. The Fund's long-term actuarial investment return assumption is 6.5%.

The asset distribution of the System's investment portfolio at December 31, 2004, 2003, and 2002 at fair market value is listed in the chart below.

Fixed Income

Fixed income increased approximately \$34 million from December 31, 2003 to December 31, 2004, primarily due to asset allocation rebalancing, as well as income earned during 2004. Fixed income increased approximately \$10 million from December 31, 2002 to December 31, 2003, primarily due to income earned during 2003.

Common and Preferred Stock

Common and preferred stock including international stock increased approximately \$80 million from December 31, 2003 to December 31, 2004, and increased approximately \$193 million from December 31, 2002 to December 2003, primarily due to appreciation in the domestic and international equity markets.

Real Estate Equity

Real estate equity increased approximately \$8 million from December 31, 2003 to December 31, 2004 and increased approximately \$3 million from December 31, 2002 to December 31, 2003. The increases were the result of market appreciation in fair values.

Contributions and Investment Income

During 2004, contributions from employers and members totaled \$33.1 million compared to \$29.7 million during 2003 and \$42.7 million during 2002. Net investment gains during 2004 were \$140 million compared to net investment gains of \$209 million during 2003 and net investment losses of \$(83) million during 2002. Investment gains were primarily attributable to appreciation in fair values in the domestic and international equity markets during the last two years. Investment expenses also offset net investment gains as a deduction. See the "Pension Plan Benefits and Expenses" section that follows for an analysis of investment expenses.

Asset Distribution at Fair Market Value

	2004	%	2003	%	2002	%
ASSET CLASS	<i>(In Thousands)</i>					
Short term	\$ 23,953	1.9%	\$ 26,827	2.4%	\$ 32,730	3.5%
Fixed income	282,139	22.9	247,674	22.2	237,785	26.0
Common and preferred stock	621,969	50.4	559,160	50.2	450,588	49.3
International stock	190,399	15.4	172,786	15.5	88,565	9.7
Real estate equity	115,747	9.4	108,229	9.7	105,428	11.5
Total	\$1,234,207	100%	\$1,114,676	100.0%	\$915,096	100.0%

Pension Plan Benefits and Expenses

The primary source of expense during 2004 was for payment of pension benefits totaling \$45.0 million compared to \$39.8 million during 2003 and \$38.1 million during 2002. Pension benefits increased \$5.2 million from 2003 to 2004 and \$1.7 from 2002 to 2003 due to new annuitants receiving greater monthly benefits and additional municipality terminations. Investment expenses increased \$0.8 million from \$3.4 million during 2003 to \$4.2 million during 2004 and \$0.2 million from \$2.4 million during 2002 to \$2.6 million during 2003 due to the increase in fair value of investments under management. Administrative expenses totaled \$3.1 million during 2004 as compared to \$2.6 million during 2003 and \$2.4 million during 2002.

Financial Contact

The System's financial statements are designed to present users with a general overview of the System's finances and to demonstrate the trustee's accountability. If you have any questions about the report or need additional information, contact the Chief, Accounting Division of Commonwealth of Pennsylvania, Pennsylvania Municipal Retirement System at P. O. Box 1165, Harrisburg, PA 17108-1165.

Statements of Plan Net Assets

ASSETS

Receivables	2004	2003
Plan members	\$ 2,373,780	\$ 2,105,944
Municipal employers	553,473	101,601
Accrued investment income	1,913,933	2,671,270
Investment sales receivable	1,417,822	4,274,617
Total receivables	6,259,008	9,153,432
Investments, at fair value		
Short-term and other investments	23,953,206	26,826,684
U.S. Government bonds	170,496,519	158,218,589
Corporate bonds	111,642,351	89,455,108
Common and preferred stocks	621,969,293	559,160,076
Real estate equity	115,746,725	108,228,964
International equities	190,398,467	172,786,415
Total investments	1,234,206,561	1,114,675,836
Securities lending collateral pool	32,313,447	52,390,137
Capital assets (net of accumulated depreciation of \$739,158 and \$658,031, respectively)	312,674	350,702
Total assets	1,273,091,690	1,176,570,107
LIABILITIES		
Accounts payable and accrued expenses	1,707,117	1,177,467
Investment purchases payable	1,509,672	10,461,884
Collateral held under securities lending program	32,313,447	52,390,137
Total liabilities	35,530,236	64,029,488
Net Assets Held in Trust For Pension Benefits	\$1,237,561,454	\$1,112,540,619

(A schedule of funding progress is presented in the Required Supplementary Information section.)

These financial statements should be read only in connection with the accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

ADDITIONS		
CONTRIBUTIONS	2004	2003
Plan members	\$ 15,821,360	\$ 14,760,323
Municipal employers	17,041,418	14,696,210
Assessments	263,401	270,140
Total contributions	33,126,179	29,726,673
INVESTMENTS INCOME		
Net appreciation (depreciation) in fair value of investments	48,113,293	173,076,063
Short-term and other investments	571,929	655,601
U.S. Government bonds	(5,506,026)	8,507,501
Corporate bonds	1,303,097	3,382,192
Common and preferred stocks	81,600,220	17,779,153
Real estate equity	5,333,649	7,111,464
International equities	12,165,501	734,074
Miscellaneous	179,789	270,678
Securities lending	931,387	956,360
Less securities lending expenses	(457,573)	(497,940)
Less investment expenses	(4,165,074)	(3,432,854)
Net investment income (loss)	140,070,192	208,542,292
Total additions	173,196,371	238,268,965
DEDUCTIONS		
Annuity benefits	33,640,514	31,239,450
Disability benefits	1,089,729	972,741
Terminations	10,318,197	7,578,995
Administrative expenses	3,127,096	2,610,839
Total deductions	48,175,536	42,402,025
NET INCREASE (DECREASE)	125,020,835	195,866,940
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Balance, beginning of year	1,112,540,619	916,673,679
Balance, end of year	\$1,237,561,454	\$1,112,540,619

(A schedule of funding progress is presented in the Required Supplementary Information section.)

These financial statements should be read only in connection with the
accompanying notes to financial statements.

Notes to Financial Statements

(1) 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). Under the Act, each individual municipality has authority to establish or amend its respective benefits and employee

contribution rates subject to Board approval. Employer contributions are actuarially determined by the System's actuary.

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. As of January 1, 2004, there were 662 municipalities with defined benefits and 175 with defined contributions. Membership consisted of:

Participating Local Government Employees

	Defined Benefits	Defined Contributions
Counties	4	0
Cities	18	0
Boroughs	144	23
Townships of the First Class	20	1
Townships of the Second Class	142	90
Authorities and Other Units	156	50
Police	169	11
Firefighters	9	0
Total	662	175

Individual Membership

ACTIVE MEMBERS	
Defined Benefit Plans	
Municipal	7,600
Police	722
Firefighters	169
Total	8,491
Defined Contributions Plans	
Municipal	886
Police	16
Firefighters	0
Total	902
Total active members	9,393
RETIREES AND BENEFICIARIES	
Retirees	2,657
Beneficiaries	416
Total retirees and beneficiaries	3,073
INACTIVE PARTICIPANTS WITH RIGHTS TO DEFERRED PENSION (VESTED)	
Defined benefit	425
Defined contributions	121
Total vested	546
INACTIVE PARTICIPANTS (NONVESTED)	
Defined benefit	230
Defined contribution	0
Total non-vested	230
Total individual memberships	13,242

Pension 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 structures: one for municipal employees (Article II of the Act) and one for uniformed employees (police and fire fighters) (Article III of the Act). Certain elected officials are not permitted to become System members, as outlined in individual municipal ordinances. 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 that is based upon a percentage of a member's salary or compensation.

The benefit structures 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.

Automatic postretirement benefit increases are optional in plan contracts. Some plan member municipalities include the automatic increase; others occasionally grant an ad hoc cost-of-living (COLA) increase. The most common method of granting a COLA is through the System's excess interest award. (See Note 3 for an explanation of excess interest.)

Member municipalities interested in amending benefits contact the System's staff to discuss desired amendments and to obtain a cost study. Amendments are submitted to the System's staff, reviewed by the Chief Counsel's Office to be certain everything is in order, and submitted to the Board for formal approval.

(2) Significant Accounting Policies

Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Expenses are recorded when the corresponding liabilities are incurred.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions during the reported period. Actual results could differ from those estimates.

Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgage-backed securities are valued on the basis of future principal and interest payments and are discounted at

prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals every three years. In years for which an appraisal is not performed, real estate investments and investments that do not have an established market value are reported at estimated fair values. Purchases and sales of investments are recorded on a trade-date basis.

Capital Assets

Capital 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.

(3) Contributions and Reserves

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% 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 years ended December 31, 2004 and 2003 consisted of the following:

	2004	2003
Municipality normal cost	\$21,773,245	\$21,487,218
Amortization of unfunded actuarial accrued liability	(8,383,223)	(8,830,705)
Total⁽¹⁾	\$13,390,022	\$12,656,513

Total contributions to the System during 2004 amounted to \$33,126,179 of which \$15,821,360 and \$17,041,418 were made by its members and municipalities, respectively and \$263,401 were from assessments.

⁽¹⁾ Total does not include \$20 per member administrative charges to municipalities.

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 annual required contributions (ARC) of plan member municipalities at rates that accumulate sufficient assets to pay benefits when due. The System's actuary used the Entry Age Normal 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:

- 1a. 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% a year (net of investment and certain administrative expenses) compounded annually, (b) projected salary increases of 3.5% a year compounded annually for inflation, with an additional age-based component to reflect merit/seniority, (c) postretirement cost-of-living increases of 3.5% per annum until the 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 six years for females, and an additional set forward of 10 years for disabled lives.

Reserve Descriptions

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%.

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

As of December 31, 2004 and 2003, the balance in the Members' Reserve Account was \$298,043,468 and \$284,386,004, respectively. The account is fully funded.

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%.

As of December 31, 2004 and 2003, the balance in the Municipal Reserve Account was \$558,929,193 and \$538,583,165, respectively. The account is fully funded.

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' Account at the current rate of 6.5%.

As of December 31, 2004 and 2003, the balance in the Retired Members' Reserve Account was \$361,653,106 and \$332,988,305, respectively. The account is fully funded.

Disability Reserve Account

The Disability Reserve Account is credited with the contributions made by municipalities toward the disability retirement of member employees. The disability reserves are limited to 150% of the largest value of transfers to retired reserves over the most recent three years.

As of December 31, 2004 and 2003, the balance in the Disability Reserve Account was \$504,340 and \$760,442, respectively. The account is fully funded.

Undistributed Earnings Designation

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 annually 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.

The System did not distribute excess interest during 2004 and 2003. Such calculation would have been prepared in accordance with a Board-approved formula and would have been based on the actuarial value (fair value) of the System's assets as of December 31, 2003 and 2002, respectively, and the expected cash

flows of the System for 2004 and 2003 if excess interest had been distributed.

As of December 31, 2004 and 2003, the Undistributed Earnings Designation Account had a balance of \$18,431,347 and a deficit of \$44,177,297, respectively.

(4) 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.

The Board achieves day-to-day management of the investment portfolio through the use of investment managers. Restrictions concerning diversification within each manager and among managers 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 fair 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 nonbanking institutions.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at December 31, 2004. In accordance with a contractual relationship between the Commonwealth's Treasury Department and a custodial agent, substantially all investments subject to categorization, except those subject to securities lending, are held in book entry form via a unique account so as to be identified at all times as in the possession of the Commonwealth. Therefore, all such investments are reflected in Category 1, which is defined as investments that 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 that are uninsured and unregistered, with the securities held by the counterparty's trust department (bank) or agent. The System has no investments that would be classified in Category 2.

Category 3 is defined as investments that 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 also has investments that are not in any of the three defined categories, because securities are not used as evidence of the investment. Such investments are separately identified.

The System's exposure to the risk of loss of investments due to errors and omissions on behalf of its advisors is covered by the contractual obligation for the advisors to maintain errors and omissions insurance. The investment managers also must provide proof of a fidelity bond covering the advisor, the office, and its employees.

In accordance with a contract between the Treasurer of the Commonwealth of Pennsylvania and the Treasurer's custodial agent, the System participates in a securities lending program. Under this program, the custodial agent, acting as the lending agent, lends securities (equities, fixed income, and money market instruments) to independent brokers and dealers in exchange for collateral in amounts up to 105% of the fair value of securities lent. Collateral is marked-to-

market daily. If the fair value of the collateral held falls below the minimum guidelines for securities lent, additional collateral is obtained. In lieu of securities or cash, the borrower may deliver to the lending agent irrevocable bank letters of credit, government securities, or repurchase agreements as collateral. If the collateral obtained consists in whole or in part of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the State Treasurer.

All securities loans can be terminated on demand by either the System or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the lending agent's pool, which the System cannot determine. The System cannot pledge or sell collateral securities received unless the borrower defaults.

As of December 31, 2004, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. Under the securities lending program, the lending agent provides indemnification to the Commonwealth if the borrowers fail to return the underlying securities (and the collateral is inadequate to replace the securities lent) or fail to pay income distribution on them. As of December 31, 2004 and December 31, 2003, the System's carrying value and fair value of lent securities was \$30,826,695 and \$50,774,973, respectively. The fair value of associated collateral was \$32,313,447 as of December 31, 2004 and \$52,390,137 as of December 31, 2003. The System's income, net of expenses, from securities lending was \$473,811 for 2004 and \$457,994 for 2003. Securities lent at year-end 2004 for cash collateral are presented as unclassified in the following schedule of custodial credit risk.

The System had \$32,313,447 and \$52,390,137 of cash collateral invested in the custodial agent's short-term collateral investment pool as of December 31, 2004 and 2003, respectively.

Investments (Fair Value)

2004			
	Category 1	Not Categorized	Total
U.S. Government bonds	\$ 0	\$170,496,519	\$170,496,519
Corporate bonds	0	111,642,351	111,642,351
Common and preferred stocks	632,245,721	180,122,039	812,367,760
Real estate equity	0	115,746,725	115,746,725
State Treasury short-term investment fund	0	23,953,206	23,953,206
Securities lending collateral	0	32,313,447	32,313,447
Grand Total	\$632,245,721	\$634,274,287	\$1,266,520,008

2003			
	Category 1	Not Categorized	Total
U.S. Government bonds	\$ 24,608,034	\$133,610,555	\$ 158,218,589
Corporate bonds	52,541,721	36,913,387	89,455,108
Common and preferred stocks	476,613,903	255,332,588	731,946,491
Real estate equity	0	108,228,964	108,228,964
State Treasury short-term investment fund	0	26,826,684	26,826,684
Securities lending collateral	0	52,390,137	52,390,137
Grand Total	\$553,763,658	\$613,302,315	\$1,167,065,973

Investments (other than those issued or guaranteed by the U.S. government) in any one organization that represented 5% or more of the plan's net assets at December 31, 2004 and 2003 were:

Security	Fair Value
2004	
State Street Index Fund	\$462,260,909
2003	
State Street Index Fund	\$375,376,124

(5)

Pension Plan for Employees of the System

The System contributes to the Commonwealth's State Employee's Retirement System (SERS), a cost of sharing multiple-employer defined benefit pension plan. SERS provides retirement, death, and disability benefits to plan members and beneficiaries according to Commonwealth statute. SERS issues a publicly available financial report that can be obtained by writing to SERS, 30 N. Third Street, P.O. Box 1147, Harrisburg, Pennsylvania 17108-1147.

The contribution requirements of plan members and the System are mandated by Commonwealth statute. Most SERS plan members are required to contribute 5.0% or 6.25% of the annual covered payroll depending upon service class. The System is required to contribute at an actuarially determined rate. The rates applied to annual covered payroll were 1.43% at July 1, 2004, 0.59% at July 1, 2003, and 0% at July 1, 2002. The System's annual required contributions to SERS for the years ending December 31, 2004, December 31, 2003 and December 31, 2002 were \$11,711, \$4,396, and \$0 respectively.

(6)

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 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.

(7)

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 as of the date of receipt of the application for permission to withdraw. Liability for any continuation of retirement or disability benefits being paid from the System shall attach to the withdrawing municipality.

(8)

Retirement Plan

Every PMRS employee appointed to a permanent full-time or part-time salaried position or a full-time wage position must participate in the State Employees' Retirement System (SERS) from the first day of employment. Both the employee and the Commonwealth make regular contributions to the Plan. Under the State Employees' Retirement System, the employee contribution rate is 6.25% of pay for the basic retirement benefits. Employees are fully vested after 5 years of service. Expenses under the Plan were \$11,711 and \$4,396 for the years ended December 31, 2004 and 2003, respectively.

(9)

Risk Management

Exposure of the System through Board or staff activity is covered by various means. The System acts under

the cover of sovereign immunity, participation in the Employee Liability Self-Insurance Program of the Commonwealth of Pennsylvania, the Commonwealth's fidelity bond, and the State Insurance Fund. The Board also adopted a self-insurance indemnification policy in 2004. There have been no significant reductions in insurance coverage from the prior year. Settlements did not exceed insurance coverage for the past three fiscal years.

(10) Commitments and Contingencies

PMRS leases office facilities under an operating lease that expires November 2008. Future minimum lease payments under this lease are as follows:

2005	\$101,500
2006	104,250
2007	104,250
2008	95,568

Total rental expenses for the years ended December 31, 2004 and 2003 were \$101,250 and \$104,250, respectively.

PMRS entered into a contract in December 2004 to upgrade its current software system. The contract includes the purchase of an upgraded software system, training fees, technical support, data conversion and interface development. The contract is for \$409,500 and is payable over the implementation period of the new software system. PMRS anticipates that the software will be implemented in January 2006.

(11) Reclassifications

Certain amounts in the 2003 financial statements have been reclassified to be in conformity with the 2004 financial statements.

Schedule 1

Schedule of Funding Progress⁽¹⁾

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/03	\$1,084,828,900	\$955,259,400	\$(129,569,500)	113.6%	\$293,388,800	(44.2%)
1/1/01	959,454,800	812,645,100	(146,809,700)	118.1	282,113,600	(52.0)
1/1/99	768,038,700	692,084,400	(75,954,300)	111.0	267,134,600	(28.4)

See accompanying notes to required supplementary schedules.

Schedule 2

Schedule of Required Employer Contributions for Last Six Years

Year ended December 31	Annual Required Contributions (ARC)	Actual Employer Contribution	Percentage Contributed ⁽²⁾
2004	\$13,390,022	\$17,041,418	127%
2003	12,656,513	14,696,210	116
2002	27,435,886	28,836,362	105
2001	20,941,868	21,010,322	101
2000	19,033,043	22,932,542	120
1999	17,954,107	20,054,018	112

See accompanying notes to required supplementary schedules.

⁽¹⁾ As the system has chosen to have actuarial valuations performed biannually for purposes of calculating the actuarial accrued liability as allowed by GASB Statement No. 25, no actuarial valuation was performed as of January 1, 2004, January 1, 2002, or January 1, 2000, except for 10 plans sponsored by distressed municipalities and 4 plans sponsored by counties that are required to re-determine contribution levels as of January 1, 2002 under the applicable Commonwealth statutes (Act 205 of 1984 and Act 293 of 1972).

⁽²⁾ The difference between the municipalities' required contributions and the percentage contributed is due to various factors including plan takeovers and 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).

Notes to Required Supplemental Schedules

as of December 31, 2004 and 2003

Actuarial Methods and Significant Assumptions

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

Valuation Date:	January 1, 2003
Actuarial cost method	entry age normal
Amortization method	level dollar open
Remaining amortization period	30 years with respect to the initial liability as of January 1, 1985 (or first valuation) 20 years with respect to changes due to plan provisions and actuarial assumptions 15 years with respect to actuarial gains and losses, or the average assumed working lifetime of active employees as of the date the liability was established 10 years with respect to changes in benefits for currently retired members
Asset valuation method	sum of all audited reserve accounts plus any additional investment income to be distributed as excess interest

ACTUARIAL ASSUMPTIONS

Investment rate of return	6.5% compounded annually (net of investment and certain administration expenses)
Projected salary increases	3.5% inflation and age-related scale for merit/seniority (e.g., age 30 - 6.5%; age 40 - 5.0%; age 50 - 4.6%)
Inflation at	3.5%
Post-retirement cost-of-living adjustments	3.5% per annum until maximum is reached (optional in contracts)

Schedule 3 - Administrative Expenses

Comparative Two-Year Schedule Years Ended December 31, 2004 and 2003

	2004	2003
PERSONNEL COSTS		
Salaries and wages	\$1,447,926	\$1,273,297
Social security contributions	90,291	95,235
Retirement contributions	11,711	4,396
Insurance contributions	362,849	271,833
Other employee benefits	6,448	2,290
Unemployment compensation	11,986	0
Total personnel costs	1,931,211	1,647,051
PROFESSIONAL COSTS		
Performance evaluation	95,000	95,000
Actuarial	318,430	278,300
Data processing	8,132	9,561
Audit	62,364	73,179
Legal	92,302	79,031
Miscellaneous professional	242,172	103,834
Total professional costs	818,400	638,905
COMMUNICATION COSTS		
Printing	15,015	30,722
Telephone	11,455	8,659
Postage	47,676	28,302
Travel	28,312	21,188
Advertising	3,655	3,550
Total communication costs	106,113	92,421
OTHER SERVICES AND CHARGES		
Office space rental	100,088	108,225
Equipment leasing	14,558	6,937
Supplies	33,354	28,204
Maintenance	37,101	8,636
Bonding and insurance	2,131	1,046
Dues and subscriptions	3,013	1,392
Total other services and charges	190,245	154,440
DEPRECIATION	81,127	78,022
Total administrative expenses	\$3,127,096	\$2,610,839

Schedule 4 - Investment Expenses

Comparative Two-Year Schedule
Years Ended December 31, 2004 and 2003

	2004	2003
Investment management fees	\$4,165,074	\$3,432,854
Custodial fees (included in administration expenses for financial statement purposes)	7,247	7,025
Total investment expenses	\$4,172,321	\$3,439,879

Schedule 5 - Payments to Consultants

Comparative Two-Year Schedule
Years Ended December 31, 2004 and 2003

Firm Name	Nature of Service	2004	2003
Clifton Gunderson, LLP	Auditor	\$ 62,364	\$ 73,179
Dahab Associates, Inc.	Investment Consultant	95,000	95,000
The Segal Company	Actuary	318,430	278,300
Total		\$475,794	\$446,479

Investment Section

Report on Investment Activity

Investment Performance

Portfolio Distribution

Asset Allocation

Investment Summary

- ◆ Portfolio Summary
- ◆ Portfolio Quality
- ◆ Portfolio Rates of Return
- ◆ Ten Largest Common Stock Holdings
- ◆ Summary of Fees Paid to Investment Advisors
- ◆ Summary of Commissions Paid to Brokers

Investment Guidelines

Report on Investment Activity

The information in this "Report on Investment Activity" has been reproduced in part and drawn in part from the quarterly "Pennsylvania Municipal Retirement Board Performance Review" prepared and authored by the System's independent investment consultant, Richard Dahab of Dahab Associates, Inc. The Board and System staff use the quarterly reports as a tool to gauge the System's investment performance and the individual efforts of the contracted money managers.

Investment Return

On December 31, 2004, the Pennsylvania Municipal Retirement Board's investment portfolio was valued at \$1,230,917,000, which was an increase of \$120,470,024 from the December 31, 2003 valuation of \$1,110,446,976. The System recorded aggregate net withdrawals totaling \$15,807,996 and a net investment return of \$136,278,020.

During the period between January 1, 2000 and December 31, 2004, the System posted net withdrawals totaling \$11.8 million and net investment returns totaling \$240.5 million. If the System had earned a compound 6.5% rate of return during the cumulative period, the fund would have been worth \$1,363.0 million or \$132.1 million more than the actual value at the end of the year.

Economic Environment

The jobless recovery continued to grow during the year. In 2004, 1.7 million jobs were created. That was enough to reduce unemployment from 5.9% to 5.4%, however that was still not enough to replace all the jobs lost in the last recession. The country's Gross Domestic Product (GDP) grew 4.4% for the year and by year-end, the economy had expanded for nine consecutive quarters. The continued expansion was fueled by record low interest rates and government deficit spending.

During the year the Federal Reserve Board raised interest rates five times which lifted the Fed's fund rate from 1.0% to 2.25%. The measured pace and the markets' expectation of this activity prevented any dra-

matic response. Historically, the 2.25% rate is still considered a relatively low rate.

Inflation remained low during the year in spite of record oil prices that peaked at \$55 a barrel in October. The Consumer Price Index (CPI) was up 3.3% for the year. Industrial capacity utilization was at 77.6% in December, still 3.1% below the long-term average. This led many to believe that the economy could continue to expand without creating inflationary pressures. One key to the success of the expansion is the 3.1% productivity gain witnessed during the year that kept costs low.

The U.S. dollar continued its decline against the euro, from \$1.25 per euro down to \$1.36 per euro in December. While the drop should have spurred U.S. exports and limited imports, these predicted consequences were not visible. The U.S. balance-of-trade continued to widen.

Equity Market

The equity markets seemed to bide their time in anticipation of the U.S. presidential election. The post election rally saw the S&P 500 increase 9.23% and the broader Russell 1000 go up 9.80%. The rising tide lifted the small cap stocks as well. The Russell 2000 returned 14.09% for the last quarter of the year. The results were respectable gains on a year-over-year basis of 10.87% for the S&P 500, 11.40% for the Russell 1000, and 18.32% for the Russell 2000.

The trend of value stocks outperforming growth stocks for the past several years, regardless of market capitalization, continued in 2004. Large cap value rose 16.49% for the year, while large cap growth climbed a more modest 6.30%. Small cap value outperformed small cap growth by a more significant margin, 22.25% to 14.31%.

At year-end, the average yield on an S&P 500 issue was 1.7%, the average growth rate was 12.1%, and the average price/earnings (p/e) ratio (trailing 12-month earnings) was 24.0. The p/e ratio remained higher than its historical normal range of 14 to 16.

International Equities

The international equities markets, as represented by the capitalization-weighted Europe, Australia, and Far East (EAFE) index, gained 15.32% for the year. On an equal-weighted basis, the EAFE index returns were even higher at 30.60% for the year. Reflecting the impact of the weaker dollar due to the widening trade deficit and higher oil prices, the returns were almost halved when stated in local currencies.

Emerging markets significantly outperformed developed markets. The MSCI Emerging Markets Free Index rose 25.95% for the year. Regionally, Latin America had the strongest performance whereas Eastern Europe had the weakest. For the trailing three years, emerging market stocks produced a 22.76% annualized return, far better than the developed markets of the world.

Bond Market

The bond market calmly took in stride the Federal Reserve Board's raising the fed rate five times during the year. Equally unexciting to the market was the impact of rising oil prices. As if ignoring the influence of oil, the market seemed to believe the economy would be growing at a faster, but still moderate, rate as the year ended. The yield curve flattened throughout the 2-10 year maturity range. The four broad quality classifications each experienced gains commensurate with associated risk. Treasuries rose 3.54%, agencies were up 3.33%, the investment grade credits saw a 5.24% return, and high yield corporates (junk bonds) had equity-like returns of 11.13%.

The average maturity of the Lehman Aggregate index declined to 7.1 years. The interest rate sensitivity (duration) also decreased 4.3 years (on an adjusted basis) and the average yield reached 4.4%.

Cash Equivalents

Short-term yields rose marginally. The "risk-free" Treasury note returned 1.30% for 2004.

Relative Performance

Total Fund

The Composite portfolio returned 13.1%, which placed it in the 19th percentile of the Balanced Universe maintained by the Independent Consultant Cooperative. Over a cumulative five-year period, the composite portfolio returned 24.7% (4.5% annualized), which ranked in the 46th percentile.

Equities

The large cap equity portion of the portfolio gained 15.2%, which ranked above the median in the 40th percentile of the Broad Domestic Equity universe, 4.3% greater than the S&P 500 (10.9%). The cumulative large cap equity return for the last five-year period was 8.1% (1.6% annualized), which ranked below the median in the 56th percentile, still 3.9% above the S&P 500's annualized return of -2.3%.

International Equities

The international equity segment returned 19.9%, which ranked below the median in the 61st percentile of the International Equity Universe. The return was 3.0% above the Salomon World Index return of 16.9%. The cumulative international equity return for the last five-year period was 0.5%, or 0.1% annualized, which ranked below the median in the 70th percentile. This return was 0.2% less than the benchmark's annualized return of 0.3%.

Small Cap

The small cap portion of the portfolio returned 14.6%, which ranked in the 65th percentile of the Small Cap Equity Universe in the year 2004. This was 3.7% less than the index's return of 18.3%. Over the cumulative five-year period, the small cap component recorded a gain of 22.7% (4.2% annualized), which ranked in the 74th percentile. This was 2.4% below the annualized return of the index (6.6%) for the same time period.

Bonds

The bond segment of the portfolio returned 4.1%, which ranked below the median in the 71st percentile of the Broad Fixed Income Universe and was 0.2% below the Lehman Aggregate's gain of 4.3%. The cumulative bond return for the last five-year period was 44.7%, or 7.7% annualized, which ranked below the median in the 61st percentile. It matched the Lehman Aggregate return for the same time period.

Real Estate

The real estate segment returned 17.6% for the year 2004. This was 5.2% above the NCREIF return for the year. During the cumulative five-year period, the real estate component returned 68.5% (11.0% annualized). This was 1.5% above the annualized return of the benchmark (9.5%) for the same time period.

Asset Allocation

On December 31, 2004, the allocation of assets was as follows:

Domestic equities	35.1%	\$432,589,949
Small cap equities	15.4	\$189,379,345
International equities	15.5	\$190,386,550
Total equities	66.0	\$812,355,844
Fixed income	22.9	\$282,138,870
Real estate	9.4	\$116,208,572
Cash and equivalents	1.6	\$20,203,488

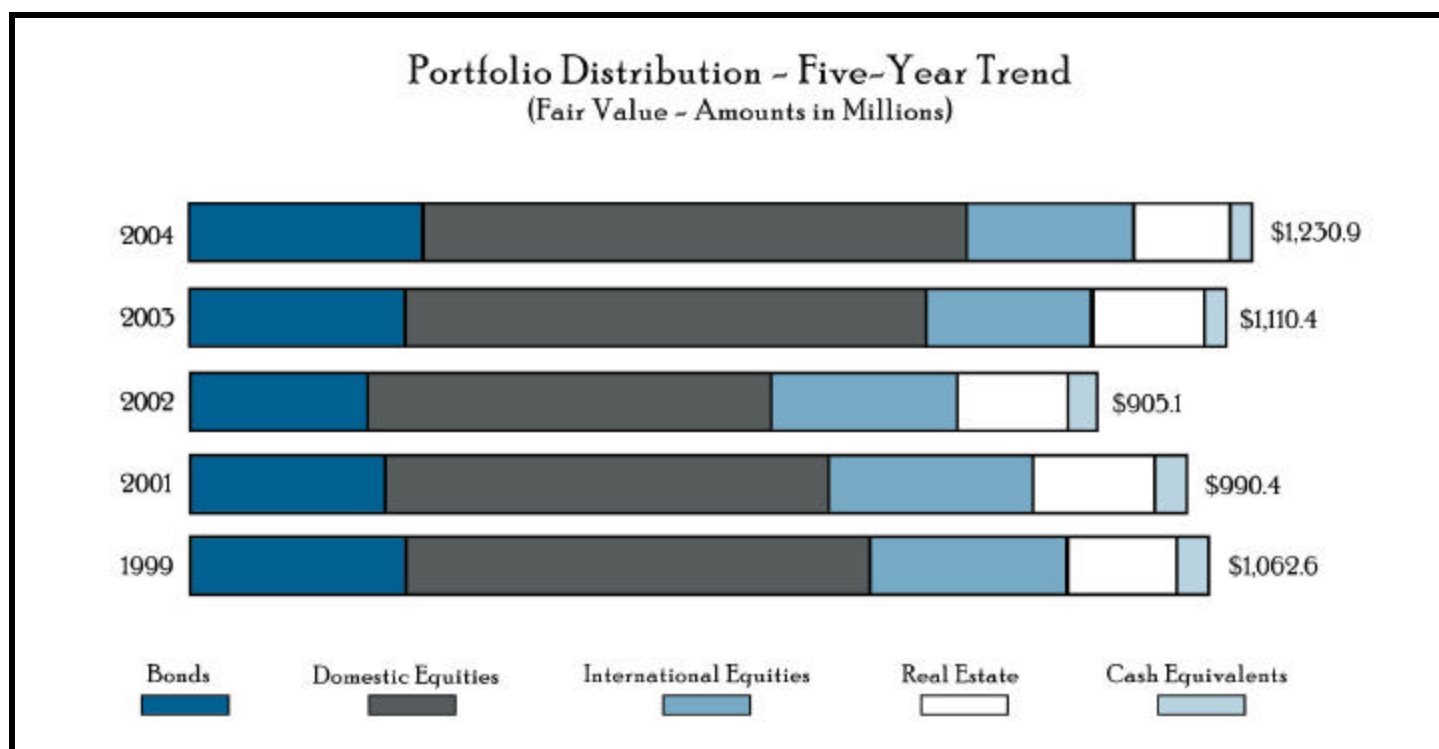
Investment Performance

On December 31, 2004, the System's investment assets were valued at \$1,230,917,000,⁽¹⁾ an increase in value of \$120,470,024 over the December 31, 2003 valuation of \$1,110,446,976.

During the last five years, the System has increased from \$1,062.6 million to \$1,230.9 million. The following graph shows the System's five-year trend of investment assets at fair value.

The data presented in the Investment Section by the System's independent investment consultant has been prepared in accordance with the standards of the Association of Investment Management and Research. The Investment Section includes only those invest-

ments under management of advisors which are under contract with the System. These investments are valued in a manner consistent with information presented in the Financial Section with the exception of the recognition of pending sales and purchases. The balances included in the Investment Section do not include a pool of certain short-term funds maintained directly by the System that are used to fund administrative and benefit payments. The differences noted above represent the difference between the investment balance of \$1,234,206,561 presented in the Financial Section and the balance of \$1,230,917,000 reported in this section.



Note: The System's investment assets reported in the Investment Section do not agree exactly with the investment on the Statements of Plan Net Assets in the Financial Section. The Investment Section includes those investments under management of advisors which are under contract by the agency and does not include pending sales and purchases. The investment consultant, Dahab Associates, oversees these investments. In addition, PMRS maintains a pool for certain short-term funds that is used to fund administrative and benefits payments. This pool is not included in the Investment Section, and it is not included in the calculation of investment performance.

⁽¹⁾ Amounts in the Investment Section do not include the securities lending collateral pool.

Asset Allocation

The System's asset allocation as of December 31, 2004 was \$622.0 million committed to domestic equities, \$190.4 million to international equities, \$282.1 million to bonds, \$115.7 million to real estate, and \$24.0 million to cash equivalents. The percentage distribution is illustrated below.

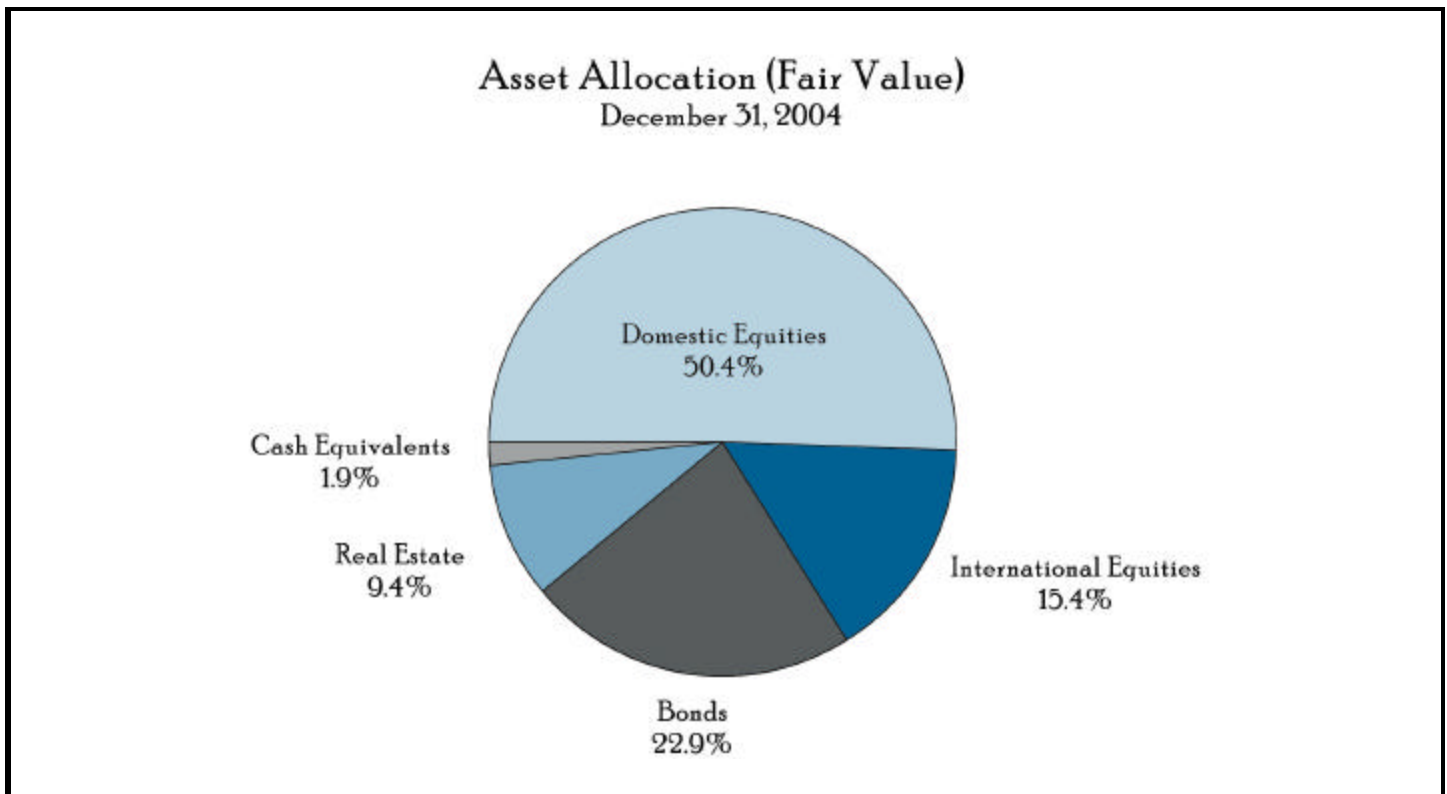
The time-weighted rate of return for the System's investments during the fiscal year ended December 31, 2004 was 13.1%, ranking above the median in the 19th percentile of all balanced funds as measured by the ICC (Independent Consultants Cooperative) universe. This performance level was above the median balanced fund's return of 11.0%. The cumulative five-year return for December 1999 through December 2004 of 24.7% (4.5% per year) ranked in the 46th percentile.

For the year ended December 31, 2004, equities gained 15.2% and ranked in the 40th percentile, performing

4.3% above the Standard and Poor's 500 return of 10.9%. For the last five years, the System's stock return of 8.1% (1.6% annualized) ranked in the 56th percentile, 3.9% per year above the Standard and Poor's 500 return of -2.3% for the same time period.

Fixed income returned 4.1% for the year, ranking in the 71st percentile, performing 0.2% below the Lehman Aggregate bond index return of 4.3%. For the five-year period, the cumulative bond return of 44.7% (7.7% per year) ranked in the 61st percentile, matching the Lehman Aggregate bond index return of 7.7% for the same period.

The real estate segment of the portfolio earned 17.6% for the fiscal year. For the cumulative five-year period, the real estate portfolio earned 68.5% (11.0% per year).



Investment Summary

Portfolio Summary As of December 31, 2004

Type of Investment	Par Value	Cost Value	Fair Value	% of Total Fair Value
CORPORATE AND GOVERNMENT BONDS				
U.S. Government bonds	\$144,300,000	\$144,300,000	\$170,500,000	14%
Corporate bonds	94,500,000	94,500,000	111,600,000	9
Total	238,800,000	238,800,000	282,100,000	23
COMMON STOCK				
Domestic	499,000,000	499,000,000	622,000,000	50
International	141,500,000	141,500,000	190,400,000	15
Total	640,500,000	640,500,000	812,400,000	66
OTHER INVESTMENTS				
Real estate equity	100,500,000	100,500,000	115,700,000	9
Cash equivalents	24,000,000	24,000,000	24,000,000	2
Total	124,500,000	124,500,000	139,700,000	11
Grand total	\$1,003,800,000	\$1,003,800,000	\$1,234,200,000	100%

Portfolio Quality Two-Year Comparative Analysis Years Ended December 31, 2004 and 2003

Bond Rating	Fair Value	% of Total Fair Value	% of Total Carrying Value
DECEMBER 31, 2004			
AAA	\$282,100,000	100%	100%
AA	0	0	0
A	0	0	0
Total bonds	\$282,100,000	100%	100%
DECEMBER 31, 2003			
AAA	\$203,600,000	82	80
AA	9,300,000	4	4
A	34,800,000	14	16
Total bonds	\$247,700,000	100%	100%

Portfolio Rates of Return⁽¹⁾

The following table compares rates of return for the System's total investment portfolio with standard indexes for the last five years. The calculations of yields were prepared using a time weighted rate of return based on the market rate in accordance with AIMR's performance presentation standards. The System's returns have been competitive with other professionally managed funds.

Rates of Return Last 5 Years

Rates of Return (Dollar Weighted)	Year Ended 12/31/04	Period From 1/1/02 to 12/31/04 (Annualized)	Period From 1/1/00 to 12/31/04 (Annualized)
Total	13.1%	8.4%	4.5%
<i>(Rank)</i> ⁽²⁾	<i>(19)</i>	<i>(27)</i>	<i>(46)</i>
Equities	15.2	6.2	1.6
<i>(Rank)</i> ⁽³⁾	<i>(40)</i>	<i>(50)</i>	<i>(56)</i>
Bonds	4.1	6.1	7.7
<i>(Rank)</i> ⁽⁴⁾	<i>(71)</i>	<i>(70)</i>	<i>(61)</i>
Real Estate	17.6	10.9	11.0
International	19.9	11.9	0.1
<i>(Rank)</i>	<i>(61)</i>	<i>(65)</i>	<i>(70)</i>
Small Cap	14.6	10.2	4.2
<i>(Rank)</i>	<i>(65)</i>	<i>(64)</i>	<i>(74)</i>
Inflation Rate			
Consumer Price Index	3.3	2.5	2.5
Market Indicators			
Standard and Poor's 500	10.9	3.6	(2.3)
Russell 2000	18.3	11.5	6.6
Lehman Aggregate Bond Index	4.3	6.2	7.7
Salomon World (International)	16.9	9.2	0.3
91-day Treasury Bills	2.1	1.4	2.3
ICC Universe⁽⁵⁾ Median Rate of Return			
(Time-Weighted)	9.9	6.1	2.3

⁽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 fair 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 Independent Consultants Cooperative (ICC) Universe contains the returns of over 18,000 portfolios with an aggregate asset value of approximately over \$1,400 billion. This universe provides as accurate a standard for evaluating a manager's performance as any available through any service in the country.

Ten Largest Common Stock Holdings

(Fair Value)

As of December 31, 2004

Stock	Shares	Fair Value	% of Stock Portfolio
United Technologies Corp.	85,300	8,815,755	1.42%
American Movil	152,300	7,972,905	1.28%
ChevronTexaco Corp.	147,800	7,760,978	1.25%
United Health Group	87,800	7,729,034	1.24%
Home Depot Inc.	171,200	7,317,088	1.18%
Wellpoint Inc.	61,100	7,026,500	1.13%
Fedex Corp.	68,800	6,776,112	1.09%
Burlington Resources Inc.	154,000	6,699,000	1.08%
Apache Corp.	128,650	6,505,830	1.05%
American Express Co.	113,000	6,369,810	1.02%

A complete list of portfolio holdings can be obtained from the System.

Summary of Fees Paid to Investment Advisors

Comparative Two-Year Schedule

Years Ended December 31, 2004 and 2003

Firm Name	2004	2003
BlackRock Financial Management	\$ 335,401	\$ 258,353
Boston Company Asset Management	392,570	336,773
Chase Investment Counsel Corporation	739,265	623,299
CIGNA Realty Investors	365,238	363,406
Emerald Advisors	252,929	200,374
Forest Investment Associates	176,537	187,780
LSV Asset Management	326,654	--
Mercator Asset Management	463,261	358,357
Prudential Real Estate Investors	423,183	377,048
Seix Investment Advisors	139,464	247,963
State Street Global Advisors	161,606	169,529
Waddell & Reed	388,966	309,972
Total	\$4,165,074	\$3,432,854

Summary of Commissions Paid to Brokers

Year Ended December 31, 2004

Broker Name	Commissions Paid	Broker Name	Commissions Paid
A. G. Edwards & Sons Inc., St. Louis	\$5,801	Credit Lyonnais Securities, Singapore	1,091
Abn Amro Securities LLC, New York	530	Credit Lyonnais Securities Inc., New York	3,185
Adams Harkness & Hill Inc., Boston	8,371	Credit Suisse First Boston Corp., New York	30,070
Advest Co., Hartford	285	Cruttenden & Co., Santa Barbara	1,810
American Technology Research Inc., Dallas	240	CSFB (Europe), London	7,741
Americas Growth Capital LLC, Jersey City	2,015	Custom Equity Research Inc., New York	765
Auerbach Grayson & Co. Inc., New York	626	D Carnegie AB Finland, Helsinki	404
B Trade Services LLC, New York	52,933	Daiwa Securities America Inc., New York	2,930
Baird, Robert W. & Co. Inc., Milwaukee	15,990	Dean Witter Reynolds Inc., New York	4,520
Banc of America Securities LLC, Charlotte	25,717	Deutsche Banc Alex Brown Inc., New York	42,031
Banco Santander, New York	282	Deutsche Bank Securities Inc., New York	206
Banque Pictet and Cie, Geneva	1,760	Dresdner Kleinwort Benson, New York	20,966
BBVA Securities Inc, New York	281	Dresdner Kleinwort Wasserstein, London	18,656
Bear Stearns & Co. Inc., New York	2,293	Dresdner Kleinwort Wasserstein, New York	2,296
Bear Stearns Sec Corp., Brooklyn	40,077	Enskilda Securities AB, London	7,225
Bernstein Sanford C. & Co., New York	10,690	Enskilda Securities, New York	1,778
BHF Securities Corp, New York	1,035	Exane Inc., Brooklyn	849
Boston Institutional Services, Inc., Boston	1,015	Exane, New York	13,167
Bridge Trading Co., St. Louis	7,910	Execution Services Inc., New York	19,427
Buckingham Research Group, Inc. Brooklyn	1,990	Factset Data Systems Inc./BCC Clearing, New York	4,034
C L Glazer & Co. Inc., Greenwich	920	Ferris Baker Watts Inc., Silver Spring	2,960
Cantor Fitzgerald & Co. Inc., New York	3,378	First Albany Capital Inc., Albany	310
Capital Institutional Services INC., Dallas	16,102	First Clearing LLC., Richmond	9,125
Carnegie Bank AS, Copenhagen	907	Fortis Investment Services LLC, New York	6,709
Carnegie Fondcommission, New York	1,007	Fortis, New York	664
Carnegie Inc., New York	5,338	Fox-Pitt Kelton Inc., New York	1,015
Carnegie Inc., New York	218	Fox-Pitt Kelton LTD, London	636
Charles Schwab CDA, Toronto	838	Friedman Billings, Washington DC	1,210
Chase Securities, New York	160	Fulcrum Global Partners LLC, New Jersey	2,380
CIBC World Markets Corp, New York	6,699	Goldman Sachs & Co., New York	21,089
Citibank Custodial, Toronto (CITC)	682	Goldman Sachs Canada Co., Toronto (GSCI)	95
Citibank NA, London	271	Greentree Brokerage Services, Jersey City	315
Citigroup Gbl Mkts Inc., New York	22,838	Griswold Company, New York	222
Citigroup Gbl Mkts/Salomon, New York	17,855	Howard Weil Labouisse Friedrichs, New Orleans	2,511
Cochran Caronia Securities LLC, Jersey City	440	Instinet Corp., New York	3,318
Compass Point Research & Trading, New York	4,359	Intermonte Securities CIM, Milan	3,074
Credit Agricole Securities, New York	1,693	Intersecurities Inc., Jersey City	3,916
Credit Lyonnais Securities (USA) Intl., New York	749	Investment Technology Groups, New York	18,809
Credit Lyonnais Securities (Asia), Hong Kong	782	J B Were & Co., New York	859
Credit Lyonnais Securities (USA) Inc., New York	5,003		

Continued on next page

Investment Summary (continued)

Broker Name	Commissions Paid	Broker Name	Commissions Paid
J B Were & Son Inc., New York	1,290	Pershing LLC, Jersey City	703
J P Morgan Sec LTD/Stock Lending, London	1,899	Piper Jaffray & Co., Minneapolis	2,315
J P Morgan Securities LTD, London	7,332	Pritchard Captial Partners, Jersey City	425
Janney Montgomery Scott, Philadelphia	6,528	Prudential Equity Group, New York	16,259
Jefferies & Co. Inc., New York	9,674	Pulse Trading LLC, Boston	8,330
JMP Securities, San Francisco	13,351	Quaker Securities Inc., Philadelphia	725
Johnson Rice & Co., New Orleans	9,669	Raymond James & Associates Inc., St. Petersburg	10,261
Jones & Associates Inc., Westlake Village	2,540	RBC Captial Markets Corp., New York	1,450
Kaufman Brothers, Weehawken	255	RBC Dain Rauscher Inc., Minneapolis	6,094
Keefe Bruyette & Woods, Jersey City	12,388	RBC Dominion Securities Inc., Toronto (DOMA)	538
King (CL) & Associates, Albany	5,993	REFCO Securities, New York	1,055
Kleinwort Benson Securities LTD, London	1,087	Ryan Beck & Co., West Orange	555
Knight Securities Broadcort, Jersey City	512	S G Cowen & Co. LLC, New York	8,616
LA Branche Financial Services/HBI, New York	7,425	Sandler O'Neill & Partners, New York	75
Lazard Freres & Company, New York	925	Schwab Charles & Co. Inc., San Francisco	450
Leerink Swann & Co., Jersey City	7,145	Scotia McLeod Inc., Toronto (SCOT)	518
Legg Mason Wood Walker, Inc., Baltimore	8,395	Scott Stringfellow Inc., Richmond	4,170
Lehman Bros Inc., New York	29,743	SG Americas Securities LLC, New York	7,410
Liquidnet Inc., Brooklyn	10,494	Southwest Securities Inc., Dallas	375
Macquarie Equities LTD, Sydney	1,114	Standard & Poors Securities, New York	1,866
Macquarie Securities (Singapore), Singapore	147	State Street Brokerage Services, Boston	50,054
Mainfirst Bank AG, Frankfurt	9,362	Sterne Agee & Leach Inc.	95
McDonald & Co., New York	6,755	Stifel Nicolaus	2,718
Merrill Lynch International LTD, New York	2,063	Suntrust Capital Markets Inc., Atlanta	12,515
Merrill Lynch Pierce Fenner Smith Inc., New York	18,863	Thomas & Weisel Inc., San Francisco	6,916
Merrill Lynch Pierce Fenner, Wilmington	5,744	Toronto Dominion Securities, Toronto	416
Merill Lynch Professional Clrg, Purchas	4,707	U S Clearing Inst Trading, New York	108
Merriman Curhan Ford & Co., Brooklyn	7,789	UBS AG/Cust Ldn Branch, Stamford	1,584
Midwest Research Securities, Jersey City	160	UBS AG, London	10,485
Mizuho Securities USA Inc., New York	1,801	UBS Financial Services Inc., Weehawken	5,915
Moors & Cabot Inc./IPO Tracking, New Jersey	925	UBS Finl Svcs Inc./Gov Secs ACC, New York	1,402
Morgan J.P. Securities Inc., New York	44,234	UBS Securities LLC, Stamford	30,650
Morgan Stanley & Co. Inc., New York	35,075	UBS Warburg Asia LTD, Hong Kong	6,980
Natexis Bleichroeder Inc., New York	235	UBS/Cust Ldn Bran Stamford	2,070
National Financial Services Corp., New York	158	Union Bank Switzerland Securities, London	7,795
Needham & Company, New York	16,002	Wachovia Capital Markets LLC, Charlotte	17,620
Nesbitt Burns, Toronto (NTDT)	297	Wachovia Securities LLC, New York	5
Nomura Securities International Inc., New York	4,119	Wedbush Morgan Securities, Inc., Los Angeles	2,630
Non-Broker Corp Actions, Boston	58	Weeden & Co., New York	362,947
Nordic Partners Inc., New York	331	Wells Fargo Securities LLC, New York	855
NZB Neue Zuercher Bank, Zurich	11,324	Westminster Resh Associates, Brooklyn	1,310
Ohman Fondkommission, Stockholm	740	Whitaker Securities LLC, New York	195
Oppenheimer & Co. Inc., New York	555	William Blair & Co., Chicago	1,500
Parker/Hunter Inc., Pittsburgh	3,517	Wilson HTM LTD, Brisbane	633
Paulsen, Dowling Securities, Boston	1,460		
		Total Brokerage Commissions Paid	\$1,446,212

Investment Guidelines

Introduction

The following represents highlights from the Board's investment guidelines adopted on January 24, 2002. These guidelines, which set forth the Board's expectations, restrictions, and policy decisions, were developed to assist the System's staff and consultants in the day-to-day management of the System's assets.

Background

The System is currently experiencing a positive cash flow and expects no change in this posture for the foreseeable future. The System assumes that all benefit payouts can be made from incoming revenue as opposed to any depletion of invested assets.

Philosophy

The Board considers itself a conservative fiduciary, placing the greatest emphasis on quality of investments and consistency in return. Despite this conservative posture, the Board still believes that the five-year rate of return on investments should exceed the recognized market indices for the various asset vehicles.

After consideration of the System's 2004 asset allocation study, the Board reaffirmed its allocation goals as follows:

Equities (large capitalized firms)	35%
Equities (small capitalized firms)	15%
Equities (non-US domiciled firms)	15%
Fixed income	25%
Real estate	10%

Objective

The Board's investment objective is to benefit our 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% more annually than the average annual inflation rate over a long period of time. While this is the System-wide goal,

individual investment advisors' performance measures rely on other characteristics which are specifically spelled out in the individual contractual service agreement.

Portfolio Construction

Short-Term Considerations - It is the Board's desire to remain as fully invested as possible. Therefore, any advisor in a cash or cash equivalent position must either invest in vehicles authorized by the System or utilize the System's depository relationship with the State Treasurer who will, in turn, invest all cash on a daily basis. No management fee will be paid by the System for any portion of a manager's average assets in excess of 5% remaining in cash equivalents at Treasury after the end of any given quarter.

Fixed Income Considerations - The Board seeks to bring income and stability to the overall portfolio through fixed income vehicles. The bond portfolio must be invested in quality vehicles, and it is expected to be diversified from a geographic and industrial standpoint. No single holding of an investment advisor other than a U.S. government bond is to account for more than 5% of the fair value of an investment advisor's bond portfolio. The System shall not hold as assets more than 10% of any one bond issue nor more than 5% of the bonds of any one issuing agent. Corporate bonds of any given industry are not to account for more than 25% of the fair value of the bond portfolio.

Equity Investment Policy - The System's equity portfolio reflects the Board's desire to include growth through market appreciation. The Board requires an equity portfolio with diversification, quality potential, and underlying value. No single equity holding may account for more than 7.5% of the fair value of the System's equity portfolio, nor are the securities of any single industry to account for more than 20% of the value of an individual manager's portfolio. No more than 1% of the capitalization of any company is to be held by the System. The cumulative holdings of a manager of all of that manager's clients shall account for no more than 5% of the outstanding voting common stock of the corporation.

Real Estate Policy - The Board believes that diversification in investment vehicles should enhance the potential return on investments without significantly altering the overall risk of the portfolio. Investment decisions regarding the real estate portfolio shall be guided by the objectives to preserve capital, maximize cash distributions and income, achieve a total return competitive with the other asset classes, and maintain a broad diversification of assets and managers. Real estate vehicles may be both direct equity participation and participation in commingled funds that involve equity participation with consideration given to types of properties and geographic location. The investment process and specific limitations shall be detailed in each real estate advisor's contract.

Prohibited Transactions

The Board prohibits (1) purchasing of commodities, mineral rights, and warrants except those previously authorized; (2) short selling and the purchasing of securities on margin; and (3) selling or buying options or futures contracts on either fixed income or equity instruments. Leveraged derivatives of any nature or the use of derivatives to create leverage are strictly prohibited.

Execution and Operation

The System utilizes Mellon Bank, N. A. as a master custodian and the Pennsylvania State Treasury as the depository. Mellon Bank is authorized to engage in security lending. It is not expected that this operation will have an impact on the discretion of the investment advisors.

Investment advisors are directed to execute orders on the best net execution/price basis. Transactional costs and the rate of turnover will be monitored. Active equity advisors are expected to execute trades on the auction market at a rate close to the execution-only cost (currently averaging three cents per share or less).

The investment advisors may enter into agreements with certain brokerage houses in order to participate in a recapture program whereby a designated percentage of the System's trades handled by these brokerage firms will be returned as cash to the System and be treated as new income for the benefit of the

membership. It is expected that under such an arrangement, the average execution cost of all trades will approximate the execution-only price.

The Board assumes full responsibility for exercising the voting privilege contained in proxy solicitations and has adopted specific guidelines for staff guidance. These guidelines as adopted and hereafter amended are an integral part of the System's investment guidelines.

Communications

The Board expects an open and constant line of communication between the System's staff and investment advisors. Reports required of investment advisors to the Board and staff include a timely confirmation of all transactions, a monthly summary of transactions, a quarterly statement of asset values at cost and fair value, any explanation of contemplated major shifts in investment strategy or manager style before implementation, and an explanation of major changes in organization or the personnel associated with the System's account. In addition to written reports, the investment advisors are obligated to make periodic personal appearances before the Board as specifically spelled out in the investment advisor's contract.

Investment advisors' fees will be paid in hard dollars. The cost for each investment advisor will be based on the fair value of the firm's assets in the System's portfolio at the end of each quarter.

Monitoring

The System will monitor the performance of its investment advisors through direct involvement of the Board, the System's staff, and any consultant hired for this purpose by the Board.

Actuarial Section

Actuary's Certification Letter

- ◆ Funded Status of Actuarial Accrued Liabilities
- ◆ Schedule of Retirees and Beneficiaries
- ◆ Actuarial Assumptions
- ◆ Actuarial Methods

Analysis of Financial Experience

Solvency Test

Actuarial Accrued Liability



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June 6, 2005

PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM

Certificate of Actuarial Valuation

This is to certify that we have prepared an annual actuarial valuation of the System as of January 1, 2004, in accordance with generally accepted actuarial principles and practices. This certificate includes the following attached exhibits:

Certificate Contents

EXHIBIT I	Funded Status of Actuarial Accrued Liabilities
EXHIBIT II	Schedule of Retirees and Beneficiaries
EXHIBIT III	Actuarial Assumptions
EXHIBIT IV	Actuarial Methods

Individual municipality actuarial valuation results as of January 1, 2004, have been provided separately for 4 plans sponsored by counties that are required to redetermine contribution levels as of January 1, 2004 under the applicable Commonwealth statute (Act 293 of 1972). 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 that is to be applied to the normal cost percentage. Individual plan funding requirements for other municipal plans were not required and not redetermined; contribution requirements for such municipalities are determined on a biennial basis, most recently as of January 1, 2003.

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 based on our recommendations, and comply with the parameters set forth in Government Accounting Standard No. 25.

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, FSA, MAAA, EA
Senior Vice President & Actuary
Enrolled Actuary No. 05-3636

Benefits, Compensation and HR Consulting ATLANTA BOSTON CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, D.C.

Multinational Group of Actuaries and Consultants AMSTERDAM BARCELONA GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE MEXICO CITY OSLO PARIS

Exhibit I - Funded Status of Actuarial Accrued Liabilities

GASB Statement No. 25 Disclosure

Actuarial Valuation Date	Actuarial Value of Assets ⁽¹⁾ (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAL) (b-a)	Funded Ratio (a/b)
1/1/04	\$ 54,024,249	\$ 45,580,670	\$ (8,443,579)	118.5%
1/1/03	1,084,828,900	955,259,400	(141,331,600)	113.6
1/1/02	242,905,700	196,473,500	(46,432,200)	123.6
1/1/01	959,454,800	812,645,100	(146,809,700)	118.1

The actuarial assumptions as of January 1, 2004 are shown in Exhibit II. The above information was derived from the following membership data, as provided by the System, regarding:

- ◆ 4 defined benefit plans required to redetermine contribution levels as of January 1, 2004;
- ◆ 656 defined benefit plans and 163 defined contribution-only plans as of January 1, 2003;
- ◆ 14 defined benefit plans required to redetermine contribution levels as of January 1, 2002;
- ◆ 630 defined benefit plans and 139 defined contribution-only plans as of January 1, 2001;
- ◆ 16 defined benefit plans required to redetermine contribution levels as of January 1, 2000;
- ◆ 600 defined benefit plans and 116 defined contribution-only plans as of January 1, 1999;
- ◆ 18 defined benefit plans required to redetermine contribution levels as of January 1, 1998.

	As of January 1	
	2004	2003
a. Retirees currently receiving benefits	194	2,534
b. Beneficiaries currently receiving benefits	8	393
c. Terminated vested employees entitled to future benefits defined benefit plans	37	473
d. Terminated nonvested employees entitled to contribution refunds- defined benefit plans	4	177
e. Active employees in defined benefit plans	731	8,142
i. aggregate salary	\$22,249,329	\$293,388,800
ii. vested	259	4,189
iii. nonvested	472	3,953
f. Participants in defined contribution-only plans	0	897
i. aggregate salary	0	21,459,225
ii. active vested	0	797
iii. inactive vested	0	100

⁽¹⁾ According to method described in Exhibit III, but excluding one-year administration expense reserve and excess interest allocation, if any, to be credited at year-end. For even-numbered year valuations of plans required to redetermine contribution requirements, excludes Disability Reserves, and Retired Reserve allocation is based on current actuarial present value.

Exhibit II - Schedule of Retirees and Beneficiaries

Added to and removed from Rolls for Last Six 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
2004	214	84	3,057	\$32,010,035	7.4%	\$10,471	2.8%
2003	199	71	2927	29,816,676	8.2	10,187	3.4
2002	250	138	2799	27,566,700	11.4	9,849	6.9
2001	209	100	2687	24,748,000	17.4	9,210	12.6
2000	179	241	2578	21,087,300	0.2	8,180	2.6
1999	185	132	2640	21,054,200	8.5	7,975	5.9

Exhibit III - Actuarial Assumptions

The following actuarial assumptions were adopted by the PMRS Board in November 1999 for first use in the January 1, 1999 actuarial valuation:

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

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

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

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

⁽¹⁾ No termination rates are applied once the employee becomes eligible for voluntary early or normal retirement.

Disability rates: 50% of 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

Disability rates - Uniformed plans: 100% of 1964 OASDI (Social Security) Experience for Males. Sample rates are as follows:

Disability Rate Assumptions	
Age	Rate of Disablement (%)
25	0.085%
35	0.147
45	0.360
55	1.009
65	2.321

Type of disability:

Municipal plans - 15% of disablements are assumed to be service related.

Uniformed plans - 50% of disablements are assumed to be service related.

Workers Compensation: Service related disability benefits payable from municipal plans are offset by 25% of final average salary.

Salary scale: 3.5% inflation and age related scale for merit/seniority. Plans that calculate benefits based on final rate of pay at time of retirement or on the final year's actual salary have an additional 6% increase applied at time of assumed retirement. Sample rates are as follows:

Sample Salary Scale Rates	
Age	Total Rate (%) (including inflation)
30	6.5%
40	5.0
50	4.6
60	4.2

Retirement age: Active 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:

- Uniformed Members: (i) Members first eligible to retire at age 57 or younger will defer their retirement four years; (ii) members first eligible to retire at ages 58, 59, 60, or 61 will retire at age 62; and (iii) members first eligible to retire at ages 62 or older will retire when first eligible.
- Municipal Members: 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 below:

Retirement Assumptions	
Age	Rate of Normal Retirement ⁽¹⁾
61 and younger	10%
62	35
63-64	20
65	45
66-74	20
75	100

Inactive vested members are assumed to retire when first eligible for unreduced benefits.

Marital status and spouse's age⁽²⁾: 85% of members will be married at time of retirement and wives are four years younger than their husbands.

⁽¹⁾ Rates indicated are adjusted by adding 5% for the year in which the member is first eligible for normal retirement.

⁽²⁾ If applicable

Social Security⁽¹⁾:

- (a) The Social Security Taxable Wage Base will increase by 4.0% compounded annually.
- (b) The Consumer Price Index will increase by 3.5% compounded annually.
- (c) The Average Total Wages of All Workers will increase by 4.0% compounded annually.

Post-retirement cost-of-living increases⁽¹⁾: 3.5%

Net investment return: 6.5% compounded annually (net of investment and certain administration expenses) for funding purposes.

6.5% compounded annually (net of investment expenses) for calculation of values intended to comply with FASB Statement No. 35.

Exhibit IV - Actuarial Methods

Contribution requirements are individually determined for each participating municipality, on an actuarial basis as described below, at least biannually. The frequency of actuarial valuation is determined by applicable Commonwealth statute (Act 205 of 1984 and Act 293 of 1972). The following actuarial methods were adopted effective January 1, 1985, unless indicated otherwise.

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

Sum of all audited reserve accounts as of the valuation date, including Members, Municipal, Retired, and Disability Reserves, and a one-year administration expense reserve, plus the portion of any additional investment income to be distributed as "excess interest." The actuarial value can never be less than 90% of fair market value.

Each year, municipalities may receive an excess interest allocation derived as a portion of new surplus

created during the prior year. "Surplus" refers to the excess of fair market value over the actuarial value of assets. Once the preliminary actuarial asset value has been determined, a formula⁽²⁾ is used to allocate the new surplus. Generally, depending on the relative size of surplus to fair market value, between 10% and 90% of new surplus will become excess interest. However, there was no excess interest allocation in 2004 because the new surplus was negative.

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 of 1984, the unfunded actuarial accrued liability is amortized as a level dollar amount⁽³⁾ 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⁽⁴⁾.

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

⁽¹⁾ If applicable.

⁽²⁾ 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.

⁽³⁾ In certain instances, distressed municipalities may use "level percent of payroll" amortization of the initial liability, where the assumed payroll increase is 4.0%.

⁽⁴⁾ If there are no active employees, the unfunded actuarial liability is amortized for one year from the date that the liability was established. If a municipality attains certain levels of distressed status under applicable Commonwealth statute, part (b) will not be applied.

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.)

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.

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.

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 actuarial accrued liability for service already rendered by active members.

In a system that has been following the entry age normal actuarial cost method 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 actuarial accrued liability for 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.

Actuarial Accrued Liability

Valuation	(A)	(B)	(C)	Valuation Assets ⁽²⁾	Portion of Actuarial Accrued Liability Covered by Assets		
	Active Member Contributions	Retirees and Beneficiaries ⁽¹⁾	Active Members (Employer Financed Portion)				
2003	\$213,174,400	\$329,766,100	\$412,318,900	\$1,084,828,900	100%	100%	100%
2001	201,814,300	263,171,300	347,659,500	976,868,000	100%	100%	100%
1999	170,495,100	224,089,800	297,499,500	773,062,000	100%	100%	100%

⁽¹⁾ Includes terminated employees not yet receiving benefits.

⁽²⁾ Sum of Member, Municipal, Retirement, and Disability Reserve Accounts as shown in audited financial statements.

Statistical Section

Financial

- ◆ Revenues by Source
- ◆ Expenses by Type
- ◆ Revenues vs. Expenses
- ◆ Components of Total Revenues and Expenses
- ◆ Total Investments

Membership

- ◆ Active Members
- ◆ Retired Members
- ◆ Pensions in Payment Status by Retirement Type
- ◆ Pensions Awarded by Retirement Type
- ◆ Total Membership
- ◆ Active Member Valuation Data
- ◆ Participating Pension Plans

Part I - Financial

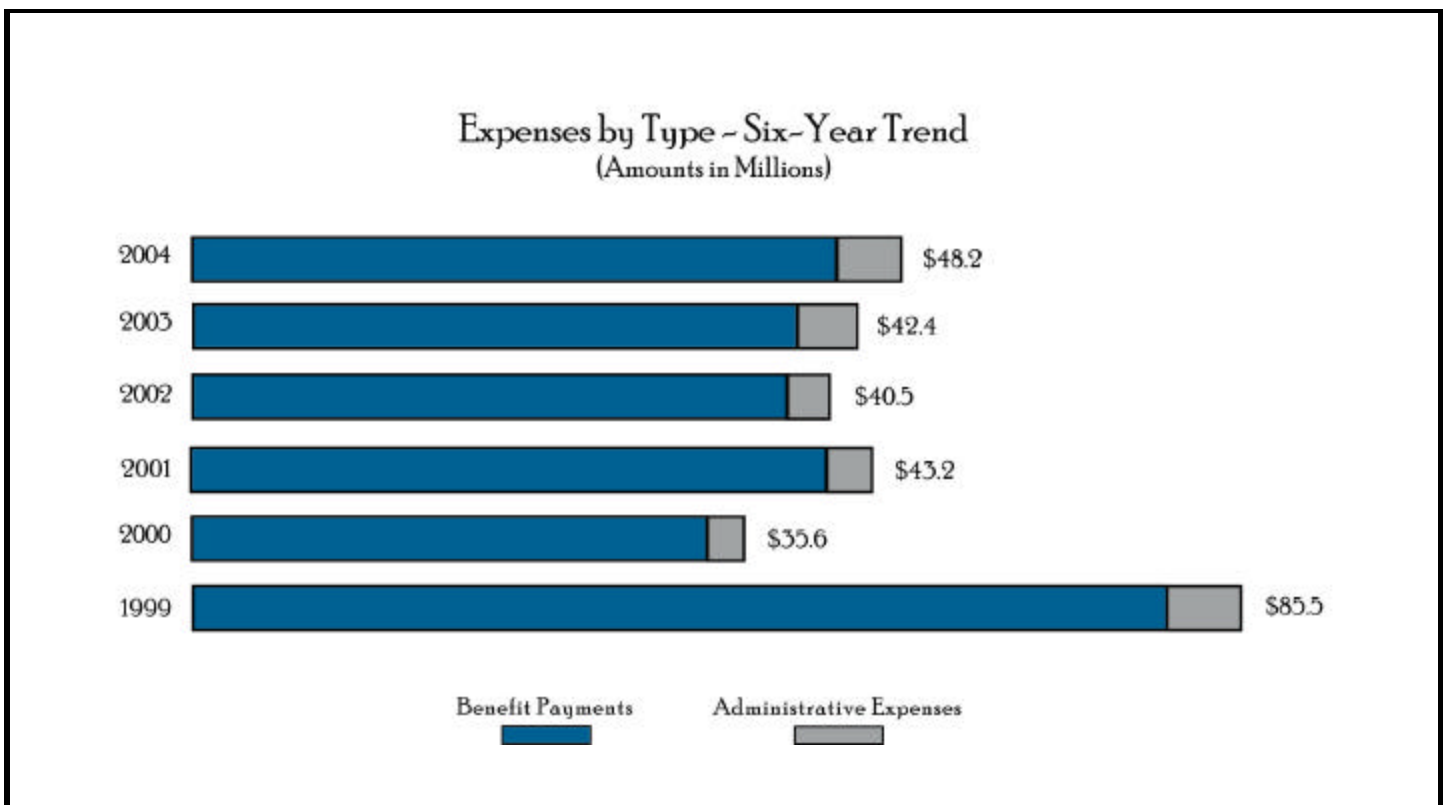
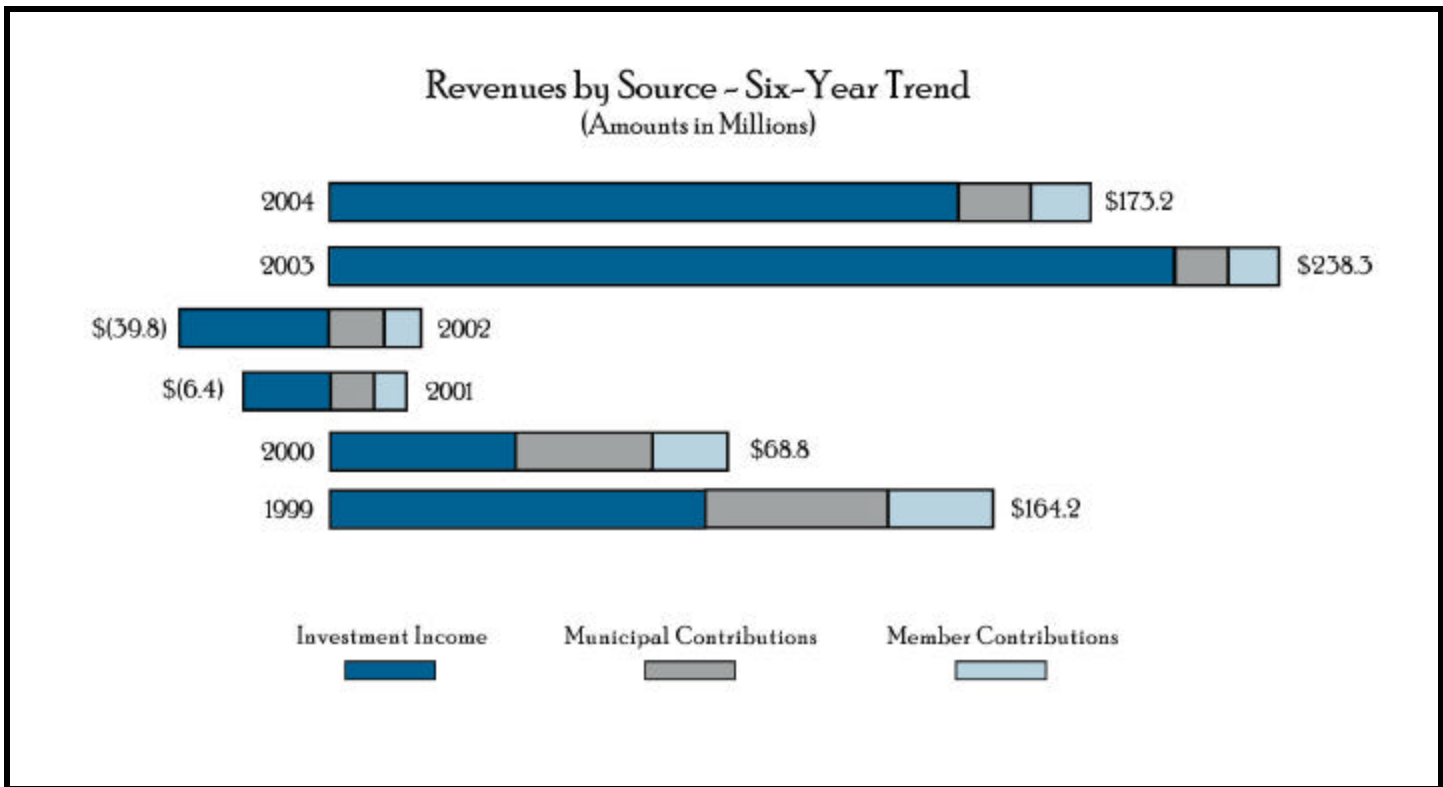
Revenues by Source and Expenses by Type for Last Six Years

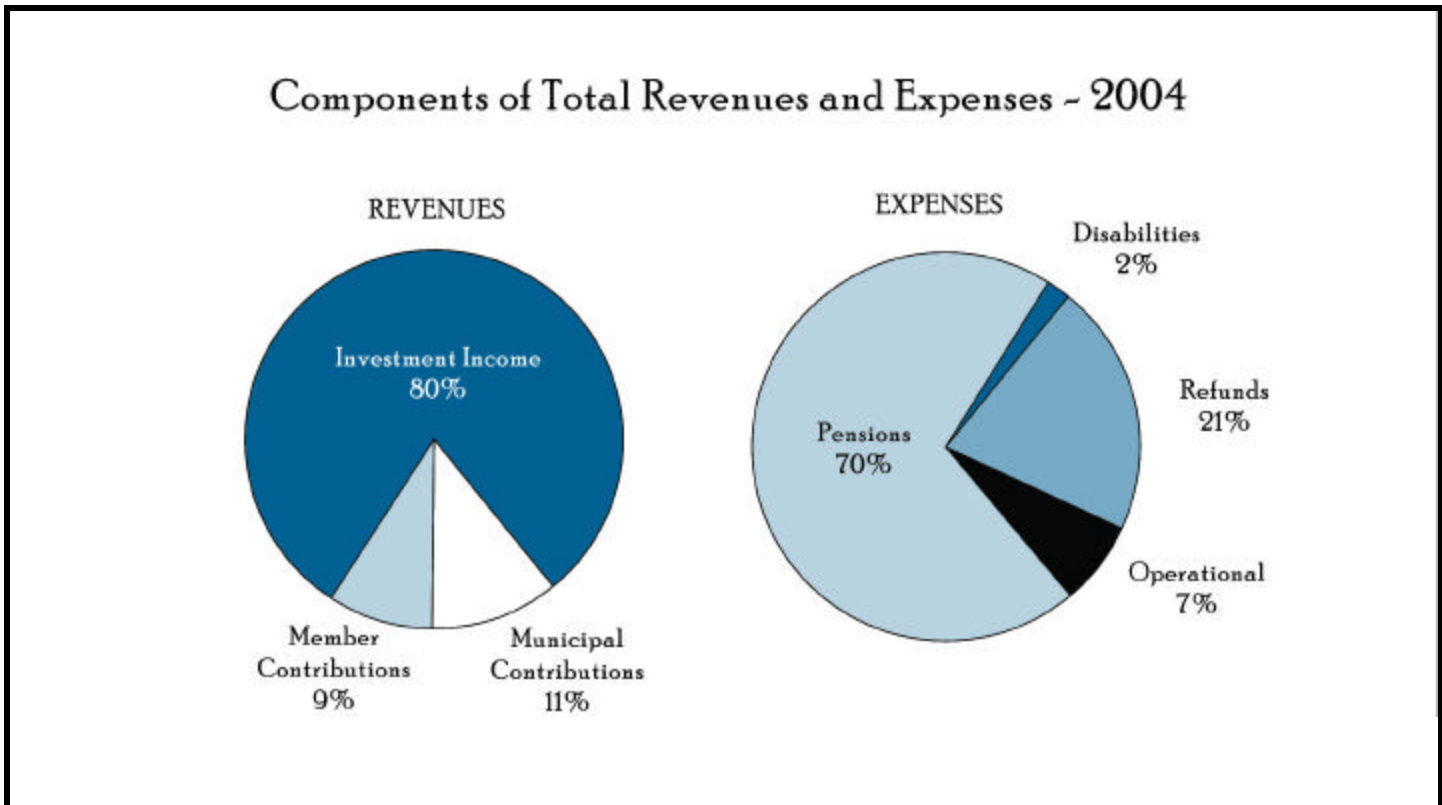
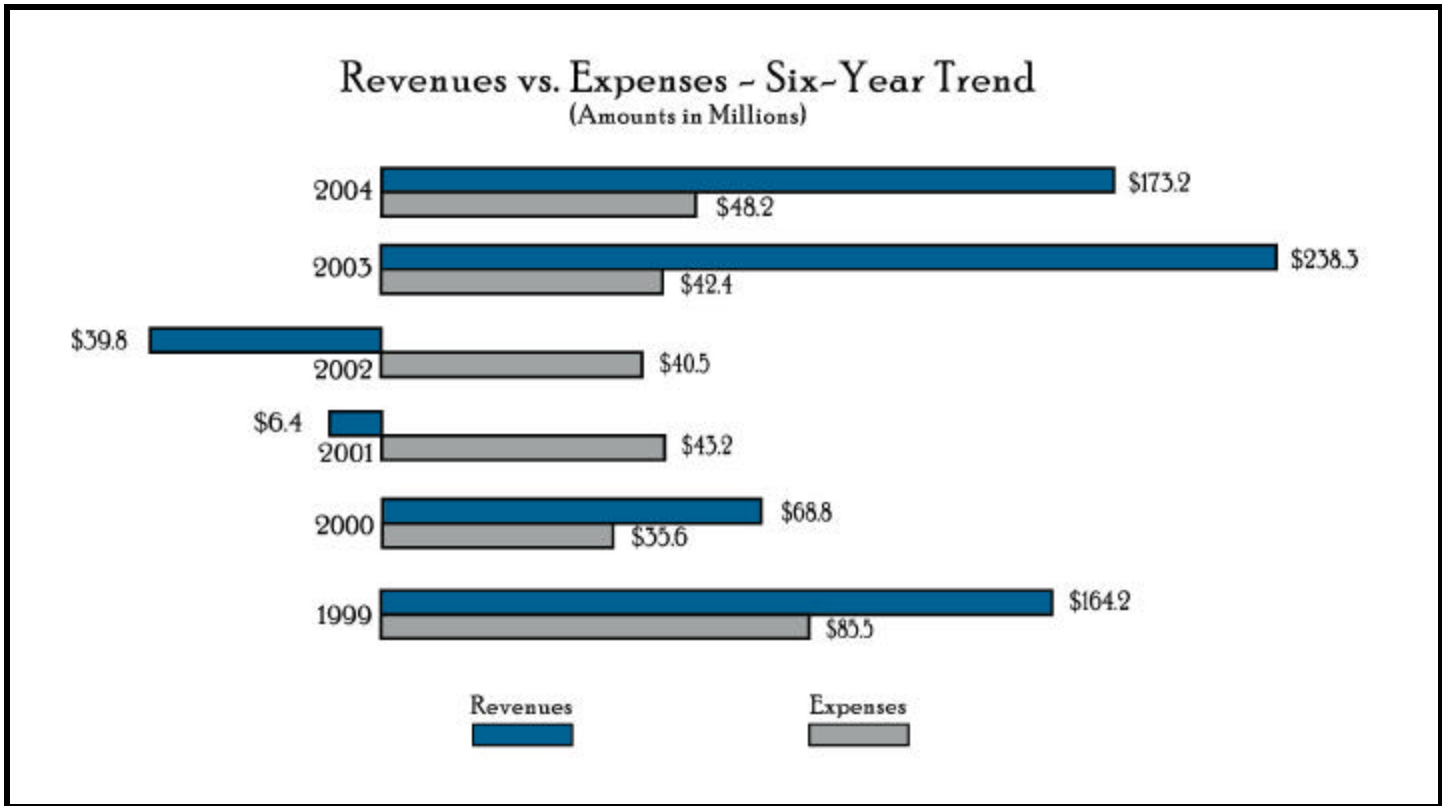
Revenues by Source					
Fiscal Year	Member Contributions	Municipal Contributions ⁽¹⁾	Municipal Assessments ⁽²⁾	Investment Income	Total Revenue
2004	\$15,821,360	\$17,041,418	\$263,401	\$140,070,192	\$173,196,371
2003	14,760,323	14,696,210	270,140	208,542,292	238,268,965
2002	13,639,485	28,836,362	260,020	(82,539,549)	(39,803,682)
2001	13,007,863	21,010,322	248,960	(40,673,724)	(6,406,579)
2000	12,180,952	22,932,542	245,740	33,429,407	68,788,641
1999	11,456,483	20,054,018	233,905	132,452,017	164,196,423

Expenses by Type					
Fiscal Year	BENEFIT EXPENSES			Administrative Expenses	Total Expenses
	Annuity	Disability	Termination		
2004	\$33,640,514	\$1,089,729	\$10,318,197	\$3,127,096	\$48,175,536
2003	31,239,450	972,741	7,578,995	2,610,839	42,402,025
2002	28,674,963	900,762	8,502,709	2,406,732	40,485,166
2001	28,035,208	906,591	11,686,001	2,555,114	43,182,914
2000	22,617,449	905,621	9,949,213	2,134,593	35,606,876
1999	20,260,700	826,591	62,536,769	1,919,161	85,543,221

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

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

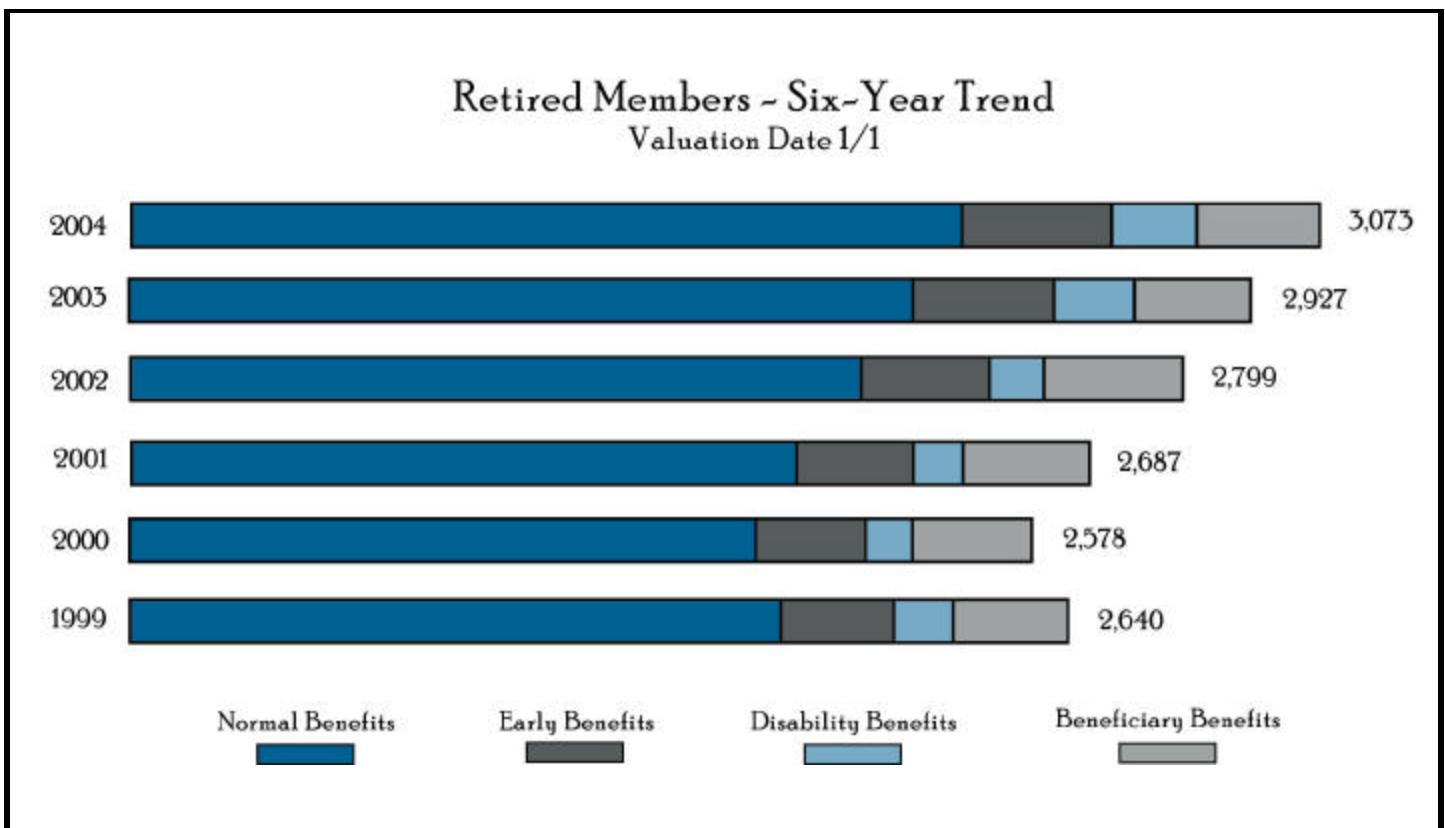
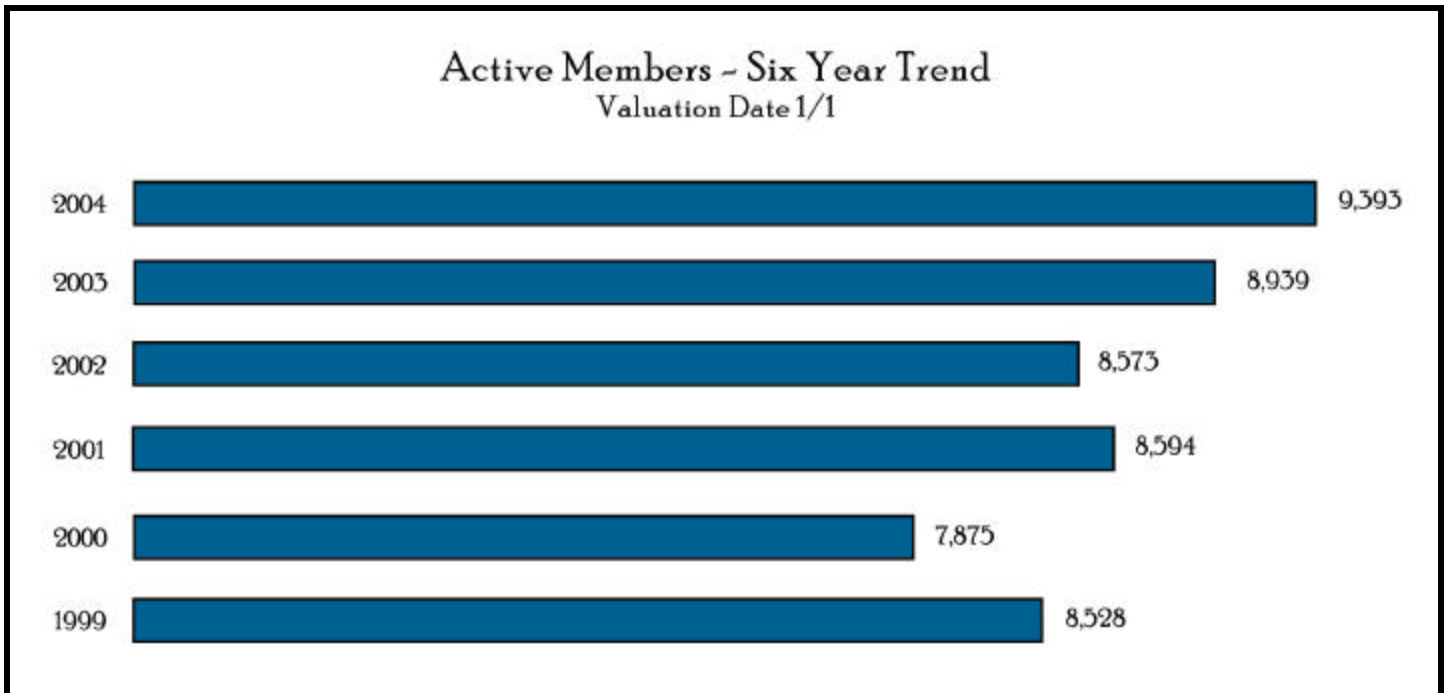




Total Investments - Six-Year Trend
(Fair Value - Amounts in Millions)



Part II - Membership



Pensions in Payment Status on January 1, 2004 by Type and by Monthly Amount

Monthly amount	Total	Type of Pension				
		Normal	Involuntary early	Voluntary early	Service disability	Non-service disability
Total	2534	2055	248	141	20	70
Under \$100	99	76	8	12	1	2
\$100 - \$199	172	121	18	32	1	--
200 - 299	221	171	21	26	--	3
300 - 399	201	165	20	12	1	3
400 - 499	177	138	24	8	2	5
500 - 599	191	150	23	9	1	8
600 - 699	166	129	16	11	--	10
700 - 799	158	118	22	5	--	13
800 - 899	149	113	21	4	2	9
900 - 999	135	111	13	8	2	1
1,000 - 1,199	241	195	23	7	5	11
1200 - 1299	152	130	16	2	1	3
1400 - 1599	135	123	6	3	3	--
1600 - 1799	78	75	2	--	1	--
1800 - 1999	65	60	3	--	--	2
2000 - 2199	53	49	4	--	--	--
2200 - 2399	40	37	3	--	--	--
2400 - 2599	25	23	2	--	--	--
2600 - 2799	28	27	--	1	--	--
2800 - 2999	14	13	1	--	--	--
3000 - 3499	15	13	2	--	--	--
3500 - 3999	11	10	--	1	--	--
4000 and over	8	8	--	--	--	--

Pensions Awarded Each of the Last Ten Years by Type and Amount

Year ended January 1:	Type of Pension									
	Total		Normal		Involuntary early		Voluntary early		Disability	
	Sum	AMA ⁽¹⁾	Sum	AMA	Sum	AMA	Sum	AMA	Sum ⁽²⁾	AMA
2004	214	1,199	171	1,226	26	1,206	8	609	9(4)	1,199
2003	199	1,087	170	1,121	17	974	5	670	7(2)	837
2002	246	1,277	206	1,346	30	957	6	945	4(0)	655
2001	185	954	147	1,028	25	736	8	423	5(1)	702
2000	179	869	152	912	22	647	3	345	2(0)	850
1999	152	939	122	1,006	13	785	6	347	11(2)	698
1998	169	782	142	831	10	594	9	337	8(4)	647
1997	165	819	133	811	15	877	6	144	11(4)	1,194
1996	182	727	141	757	19	648	12	395	10(2)	855
1995	162	734	139	736	12	831	4	275	7(3)	780

Schedule of Total Membership - Six Year Trend

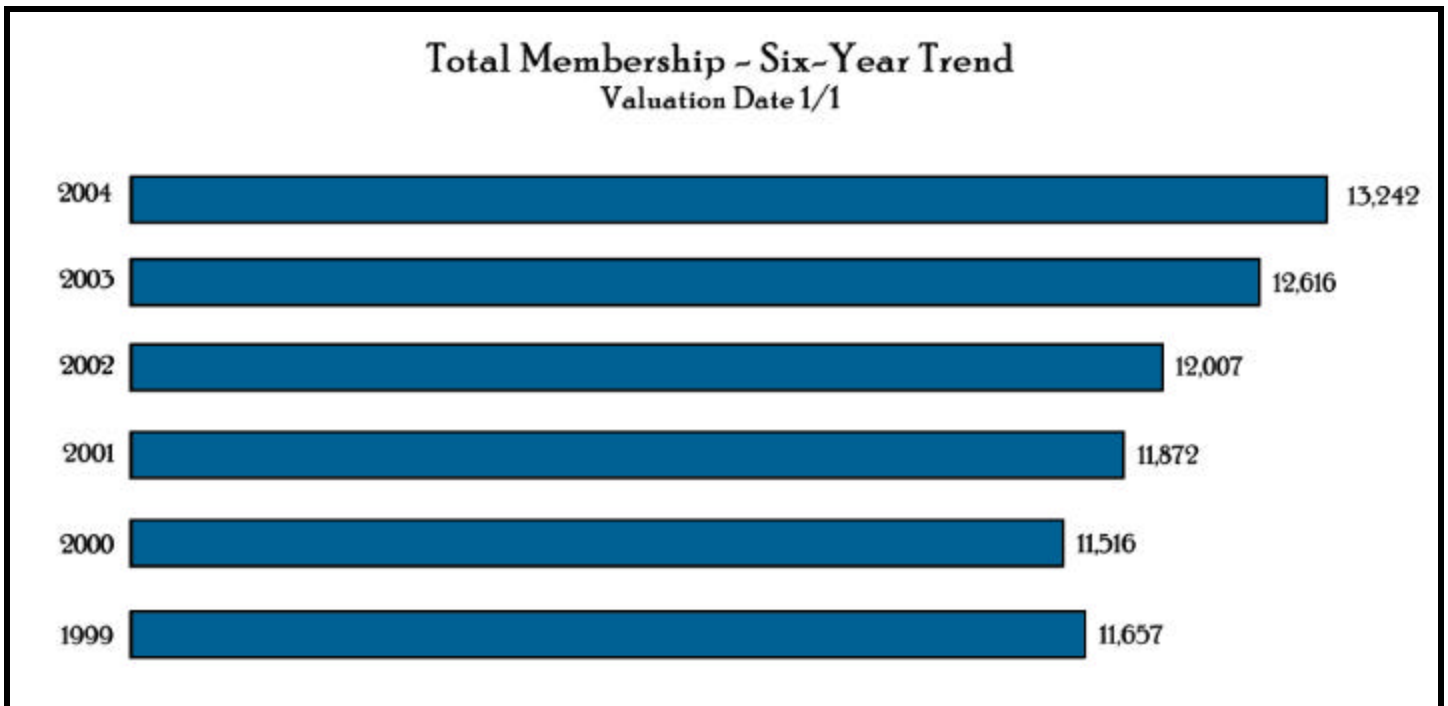
Valuation Date 1/1	Active Members Defined Benefit Plans	Active Members Defined Contribution Plans	Retirees	Beneficiaries	Deferred Pensions ⁽³⁾	Inactive Members ⁽⁴⁾	Total
2004	8,491	902	2,657	416	546	230	13,242
2003	8,142	797	2,534	393	573	177	12,616
2002	7,834	739	2,428	371	453	182	12,007
2001	7,911	683	2,324	363	433	158	11,872
2000	7,875	626	2,228	350	386	51	11,516
1999	7,933	595	2,253	387	344	145	11,657

⁽¹⁾ Average Monthly Amount

⁽²⁾ Number of service-related disability pensions are shown in parentheses.

⁽³⁾ Inactive participants with rights to deferred pension (vested)

⁽⁴⁾ Inactive participants with rights to return of contributions (nonvested)



Schedule of Active Member Valuation Data for Last Six 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
2004	8,491	4.3%	662	1.0%	\$316,703,000	7.9%	\$37,299	3.5%
2003	8,142	3.9	656	1.9	293,400,000	7.9	36,034	3.8
2002	7,834	(1.0)	644	2.2	272,000,000	2.9	34,720	3.9
2001	7,911	0.5	630	3.1	264,346,000	4.4	33,415	3.9
2000	7,875	(0.7)	611	1.8	253,300,000	0.4	32,163	1.1
1999	7,933	0.7	600	2.0	252,438,000	3.9	31,821	3.1

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
2004	902	13.2%	175	7.4%	\$25,291,000	17.9%	\$28,038	4.1%
2003	797	7.8	163	5.8	21,459,000	12.2	26,925	4.0
2002	739	8.2	154	10.8	19,128,300	7.7	25,884	(0.5)
2001	683	9.1	139	12.1	17,767,000	11.2	26,014	1.9
2000	626	5.2	124	6.9	15,974,000	8.7	25,518	3.3
1999	595	9.0	116	11.5	14,696,600	14.4	24,700	5.0

Schedule of Participating Pension Plans ⁽¹⁾ as of Decembr 31, 2004

COUNTIES

Adams

Adams-Green Acres

Forest

Jefferson

CITIES

Allentown (Lehigh)	Farrell (Mercer)	Lower Burrell (Westmoreland)
Bethlehem (Northampton)	Greensburg (Westmoreland)	Nanticoke City (Luzerne)
Clairton (Allegheny)	Harrisburg City (Dauphin)	New Kensington (Westmoreland)
Connellsville (Fayette)	Hermitage (Mercer)	Sharon (Mercer)
DuBois (Clearfield)	Jeannette (Westmoreland)	Sunbury (Northumberland)
Easton (Northampton)	Lebanon (Lebanon)	Uniontown (Fayette)

BOROUGHES

Adamstown (Lancaster)	Collingdale (Delaware)	Hollidaysburg (Blair)
Ashland (Schuylkill)	Conneautville (Crawford)	Homer City (Indiana)
Atglen (Chester)	Conshohocken (Montgomery)	Hughestown (Luzerne)
Avonmore (Westmoreland)	Conway (Beaver)	Hummelstown (Dauphin)
Bally (Berks)	Coopersburg (Lehigh)	Huntingdon (Huntingdon)
Bangor (Northampton)	Cressona (Schuylkill)	Hyndman (Bedford)
Bedford (Bedford)	Dalton (Lackawanna)	Jim Thorpe (Carbon)
Bellefonte (Centre)	Delmont (Westmoreland)	Johnsonburg (Elk)
Bellwood (Blair)	Derry (Westmoreland)	Kenhorst (Berks)
Bentleyville (Washington)	Doylestown (Bucks)	Kennett Square (Chester)
Berlin (Somerset)	Dravosburg (Allegheny)	Kittanning (Armstrong)
Big Beaver (Beaver)	Dublin (Bucks)	Knox (Clarion)
Biglerville (Adams)	Duboistown (Lycoming)	Kulpmont (Northumberland)
Bloomfield (Perry)	Duncannon (Perry)	Kutztown (Berks)
Bowmanstown (Carbon)	East Berlin (Adams)	Latrobe (Westmoreland)
Brackenridge (Allegheny)	East Rochester (Beaver)	Lehighton (Carbon)
Bridgeville (Allegheny)	East Stroudsburg (Monroe)	Lewistown (Mifflin)
Brockway (Jefferson)	East Washington (Washington)	Lykens (Dauphin)
Brookville (Jefferson)	Emlenton (Venango)	Marcus Hook (Delaware)
California (Washington)	Emporium (Cameron)	Martinsburg (Blair)
Cambridge Springs (Crawford)	Etna (Allegheny)	Marysville (Perry)
Camp Hill (Cumberland)	Everett (Bedford)	Matamoras (Pike)
Carnegie (Allegheny)	Falls Creek (Jefferson)	Mayfield (Lackawanna)
Carroll Valley (Adams)	Ferndale (Cambria)	Mercer (Mercer)
Castle Shannon (Allegheny)	Forest City (Susquehanna)	Meyersdale (Somerset)
Centerville (Indiana)	Fountain Hill (Lehigh)	Middleburg (Snyder)
Central City (Somerset)	Franklin (Cambria)	Middletown (Dauphin)
Charleroi (Washington)	Franklintown (York)	Millersburg (Dauphin)
Claysville (Washington)	Freeburg (Snyder)	Millerstown (Perry)
Clymer (Indiana)	Freedom (Beaver)	Minersville (Schuylkill)
Cochranton (Crawford)	Freeland (Luzerne)	Monaca (Beaver)
Collegetown (Montgomery)	Greenville (Mercer)	Monroeville Municipality (Allegheny)

⁽¹⁾ County names are in parentheses.

BOROUGHS (CONTINUED)

Mont Alto (Franklin)	Pine Grove (Schuylkill)	Southmont (Cambria)
Montrose (Susquehanna)	Portage (Cambria)	Springdale (Allegheny)
Moosic (Lackawanna)	Pottstown (Montgomery)	Stewartstown (York)
Morrisville (Bucks)	Prospect Park (Delaware)	Summit Hill (Carbon)
Mount Gretna (Lebanon)	Ridley Park (Delaware)	Tarentum (Allegheny)
Mount Jewett (McKean)	Roaring Spring (Blair)	Telford (Montgomery)
Mount Pleasant (Westmoreland)	Rochester (Beaver)	Topton (Berks)
Mount Union (Huntingdon)	Rouseville (Venango)	Trainer (Delaware)
Nanty-Glo (Cambria)	Royersford (Montgomery)	Turbotville (Northumberland)
Narberth (Montgomery)	Rural Valley (Armstrong)	Turtle Creek (Allegheny)
Nesquehoning (Carbon)	Salisbury (Somerset)	Verona (Allegheny)
New Eagle (Washington)	Sandy Lake (Mercer)	Versailles (Allegheny)
New Stanton (Westmoreland)	Saxton (Bedford)	Waterford (Erie)
Newport (Perry)	Schuylkill Haven (Schuylkill)	Waynesburg (Greene)
Newtown (Bucks)	Selinsgrove (Snyder)	West Grove (Chester)
Norristown (Montgomery)	Sellersville (Bucks)	West Middlesex (Mercer)
North East (Erie)	Shamokin Dam (Snyder)	West Newton (Westmoreland)
Northumberland (Northumberland)	Sharpsburg (Allegheny)	Wheatland (Mercer)
Orwigsburg (Schuylkill)	Sharpsville (Mercer)	White Haven (Luzerne)
Palmerton (Carbon)	Shenandoah (Schuylkill)	Williamstown (Dauphin)
Pen Argyl (Northampton)	Slippery Rock (Butler)	Wilmerding (Allegheny)
Pennsburg (Montgomery)	Souderton (Montgomery)	Wilson (Northampton)
Perkasie (Bucks)	South Waverly (Bradford)	Windsor (York)

TOWNSHIPS OF THE FIRST CLASS

Butler (Butler)	Hopewell (Beaver)	Swatara (Dauphin)
Caln (Chester)	North Huntingdon (Westmoreland)	Upper Moreland (Montgomery)
Collier (Allegheny)	North Versailles (Allegheny)	Vanport (Beaver)
Crescent (Allegheny)	Ridley (Delaware)	West Pottsgrove (Montgomery)
East Deer (Allegheny)	Rochester (Beaver)	Whitehall (Lehigh)
Elizabeth (Allegheny)	Salisbury (Lehigh)	Wilkins (Allegheny)
Harrison (Allegheny)	Springdale (Allegheny)	

TOWNSHIPS OF THE SECOND CLASS

Allegheny (Westmoreland)	Briar Creek (Columbia)	Center (Snyder)
Antrim (Franklin)	Brighton (Beaver)	Centre (Berks)
Athens (Crawford)	Broad Top (Bedford)	Centre (Perry)
Bald Eagle (Clinton)	Brown (Mifflin)	Cherrytree (Venango)
Bedminster (Bucks)	Buckingham (Bucks)	Clarion (Clarion)
Bell (Westmoreland)	Buffalo (Washington)	Clearfield (Cambria)
Bethel (Armstrong)	Burnside (Clearfield)	Columbus Township (Warren)
Black Creek (Luzerne)	Burrell (Indiana)	Concord (Delaware)
Blair (Blair)	Caernarvon (Lancaster)	Conemaugh (Indiana)
Bloomfield (Crawford)	Cambria (Cambria)	Conewago (Dauphin)
Blooming Grove (Pike)	Cambridge (Crawford)	Corydon (McKean)
Boggs (Centre)	Canton (Washington)	Covington (Lackawanna)
Boggs (Clearfield)	Center (Greene)	Cranberry (Venango)
Brecknock (Lancaster)	Center (Indiana)	Cross Creek (Washington)

Schedule of Participating Pension Plans (continued)

TOWNSHIPS OF THE SECOND CLASS (CONTINUED)

Darlington (Beaver)	Hopewell (Cumberland)	North Buffalo (Armstrong)
Delaware (Mercer)	Hopewell (Washington)	North Coventry (Chester)
Derry - Defined Benefit (Dauphin)	Hopewell (York)	North Franklin (Washington)
Derry - Defined Contribution (Dauphin)	Horsham (Montgomery)	North Strabane (Washington)
Derry (Mifflin)	Howe (Forest)	Nottingham (Washington)
Derry (Westmoreland)	Hunlock (Luzerne)	Oakland (Venango)
Dickinson (Cumberland)	Huntington (Luzerne)	Oil Creek (Crawford)
Dingman (Pike)	Huston (Clearfield)	Oil Creek (Venango)
Donegal (Washington)	Jackson (Greene)	Old Lycoming (Lycoming)
Donegal (Westmoreland)	Jackson (Lebanon)	Oliver (Mifflin)
Dorrance (Luzerne)	Jackson (Luzerne)	Paradise (Monroe)
Douglass (Montgomery)	Jackson (Snyder)	Pennsbury (Chester)
East Allen (Northampton)	Jackson (Susquehanna)	Perry (Snyder)
East Coventry (Chester)	Jenks (Forest)	Pike (Berks)
East Fallowfield (Chester)	Jenner (Somerset)	Pine Grove (Schuylkill)
East Finley (Washington)	Jones (Elk)	Pittsfield (Warren)
East Hanover (Dauphin)	Keating (McKean)	Pleasant (Warren)
East Huntingdon (Westmoreland)	Kennett (Chester)	Plum Creek (Armstrong)
East Manchester (York)	Lancaster (Butler)	Plumstead (Bucks)
East Marlborough (Chester)	Lancaster (Lancaster)	Pocopson (Chester)
East Rockhill (Bucks)	Latimore (Adams)	Point (Northumberland)
Eldred (Jefferson)	LeBoeuf (Erie)	Portage (Cambria)
Eldred (Monroe)	Lehman (Pike)	Price (Monroe)
Eldred (Warren)	Liberty (McKean)	Providence (Lancaster)
Elizabeth (Lancaster)	Limestone (Lycoming)	Pulaski (Lawrence)
Elk (Warren)	Limestone (Union)	Pymatuning (Mercer)
Elk Creek (Erie)	Lincoln (Somerset)	Raccoon (Beaver)
Fairfield (Westmoreland)	Liverpool (Perry)	Rice (Luzerne)
Fairview (Erie)	London Grove (Chester)	Richhill (Greene)
Farmington (Clarion)	Lower Mahanoy (Northumberland)	Richland (Bucks)
Forks (Northampton)	Lower Towamensing (Carbon)	Ridgway (Elk)
Forward (Allegheny)	Lower Yoder (Cambria)	Rome (Crawford)
Franklin (Beaver)	Loyalhanna (Westmoreland)	Rutland (Tioga)
Franklin (Butler)	Mahoning (Montour)	Scott (Columbia)
Franklin (Carbon)	Manchester (York)	Sewickley (Westmoreland)
Franklin (Greene)	Mead (Warren)	Shade (Somerset)
Freedom (Blair)	Middle Smithfield (Monroe)	Sheffield (Warren)
Freehold (Warren)	Middlesex (Cumberland)	Shippensburg (Cumberland)
Frenchcreek (Venango)	Milford (Bucks)	Slippery Rock (Butler)
Girard (Clearfield)	Millcreek (Lebanon)	Solebury (Bucks)
Glade (Warren)	Monongahela (Greene)	South Abington (Lackawanna)
Greene (Beaver)	Monroe (Wyoming)	South Beaver (Beaver)
Greenfield (Blair)	Morris (Greene)	South Bend (Armstrong)
Greenfield (Erie)	Morris (Washington)	South Franklin (Washington)
Hamilton (Monroe)	Mount Joy (Lancaster)	South Huntingdon (Westmoreland)
Hanover (Lehigh)	Mount Pleasant (Westmoreland)	South Manheim (Schuylkill)
Haycock (Bucks)	Muncy Creek (Lycoming)	South Middleton (Cumberland)
Hemlock (Columbia)	New Garden (Chester)	South Pymatuning (Mercer)
Hilltown (Bucks)	Nockamixon (Bucks)	South Strabane (Washington)

TOWNSHIPS OF THE SECOND CLASS (CONTINUED)

Southampton (Cumberland)	Warrington (York)	West Pennsboro (Cumberland)
Southwest (Warren)	Warsaw (Jefferson)	West Rockhill (Bucks)
Spring Creek (Warren)	Warwick (Lancaster)	West Salem (Mercer)
Springfield (York)	Washington (Berks)	West Wheatfield (Indiana)
Sugar Grove (Warren)	Washington (Dauphin)	Westtown (Chester)
Sullivan (Tioga)	Washington (Erie)	Wetmore (McKean)
Summit (Butler)	Washington (Fayette)	Whiteley (Greene)
Tinicum (Bucks)	Washington (Greene)	Wiconisco (Dauphin)
Towamensing (Carbon)	Washington (Northampton)	Williams (Northampton)
Tredyffrin (Chester)	Washington (Schuylkill)	Windsor (York)
Tunkhannock (Wyoming)	Washington (Wyoming)	Woodward (Clinton)
Union (Berks)	West Bradford (Chester)	Wright (Luzerne)
Union (Lebanon)	West Brunswick (Schuylkill)	Wrightstown (Bucks)
Union (Snyder)	West Caln (Chester)	Zerbe (Northumberland)
Unity (Westmoreland)	West Carroll (Cambria)	
Wallace (Chester)	West Lampeter (Lancaster)	

AUTHORITIES AND OTHER UNITS

Allegheny Valley Joint Sewer Authority (Allegheny)	Catawissa Borough Municipal Water Authority (Columbia)
Armstrong Conservation District (Armstrong)	Centerville Borough Sanitary Authority (Washington)
Ambridge Borough Municipal Authority (Beaver)	Central Indiana County Joint Sanitary Authority (Indiana)
Avonmore Borough Municipal Authority (Westmoreland)	Centre County Library & Historical Museum (Centre)
BARTA (Berks)	Clarion County Housing Authority (Clarion)
Bedford Borough Water Authority (Bedford)	Coaldale-Lansford-Summit Hill Sewer Authority (Carbon)
Bedford Municipal Authority (Bedford)	Columbia County Conservation District (Columbia)
Belle Vernon Municipal Authority (Fayette)	Concord Township Sewer Authority (Delaware)
Bethlehem Authority (Northampton)	Connellsville Municipal Authority (Fayette)
Bethlehem City Redevelopment Authority (Northampton)	Connellsville Redevelopment Authority (Fayette)
Bloomfield Township Sewer Authority (Crawford)	Conshohocken Borough Authority (Montgomery)
Bradford City Water Authority (McKean)	Coplay-Whitehall Sewer Authority (Lehigh)
Bradford Regional Airport Authority (McKean)	Crescent South Heights Municipal Authority (Allegheny)
Brighton Township Municipal Authority (Beaver)	Cressona Borough Authority (Schuylkill)
Brighton Township Sewer Authority (Beaver)	Creswell Heights Joint Authority (Beaver)
Bristol Township Authority (Bucks)	Curwensville Municipal Authority (Clearfield)
Brockway Area Sewage Authority (Jefferson)	Delaware Valley Municipal Management Association (Montgomery)
Brockway Borough Municipal Authority (Jefferson)	Derry Township Municipal Authority (Westmoreland)
Brookville Municipal Authority (Jefferson)	DuBois City Redevelopment Authority (Clearfield)
Bucks County Redevelopment Authority (Bucks)	East Norriton-Plymouth-Whitpain Joint Sewer Authority (Montgomery)
Bucks County Water & Sewer Authority (Bucks)	Eastern Regional Communications Center (Allegheny)
Burrell Township Sewage Authority (Indiana)	Eastern Snyder County Regional Authority (Snyder)
Butler Area Public Library (Butler)	Economy Borough Municipal Authority (Beaver)
Cambria County Conservation and Recreation Authority (Cambria)	Elizabeth Borough Municipal Authority (Allegheny)
Cambria Township Sewer Authority (Cambria)	Elizabeth Township Sanitary Authority (Allegheny)
Cambria Township Water Authority (Cambria)	Emlenton Area Municipal Authority (Venango)
Carbon County Conservation District (Carbon)	Erie County Housing Authority (Erie)
Carmichaels-Cumberland Joint Sewer Authority (Greene)	Everett Area Municipal Authority (Bedford)
Carroll Township Authority (Washington)	

Schedule of Participating Pension Plans (continued)

AUTHORITIES AND OTHER UNITS (CONTINUED)

Falls Township Authority (Bucks)	Manor Township Joint Municipal Authority (Armstrong)
Fawn Township Sewage Authority (Allegheny)	Mary Meuser Memorial Library (Monroe)
Fawn-Frazer Joint Water Authority (Allegheny)	Matamoras Municipal Authority (Pike)
Fayette County Conservation District (Fayette)	McKean County Solid Waste Authority (McKean)
Forward Township Municipal Authority (Allegheny)	Mercer County Regional Planning Commission (Mercer)
Franklin City Housing Authority (Venango)	Mid Mon Valley Water Authority (Washington)
Franklin Township Municipal Sanitary Authority (Westmoreland)	Middlesex Township Municipal Authority (Cumberland)
Franklin Township Sewer Authority (Greene)	Middletown Township Sewer Authority (Delaware)
Frazer Transportation Authority (Allegheny)	Mifflin County Regional (Mifflin)
Fredericksburg Sewer & Water Authority (Lebanon)	Mifflintown Municipal Authority (Juniata)
Freeland Borough Municipal Authority (Luzerne)	Milford Water Authority (Pike)
Greater Lebanon Refuse Authority (Lebanon)	Millcreek-Richland Joint Sewer Authority (Lebanon)
Greenville Municipal Authority (Mercer)	Millersburg Area Authority (Dauphin)
Guilford Township Authority (Franklin)	Mon Valley Sewer Authority (Washington)
Guilford Water Authority (Franklin)	Monroe County Control Center (Monroe)
Harrison Township Water Authority (Allegheny)	Montgomery County Sewer Authority (Montgomery)
Hawley Area Authority (Wayne)	Montour County Conservation District (Montour)
Hazleton Transit Authority (Luzerne)	Moon Township Municipal Authority (Allegheny)
Hellertown Borough Authority (Northampton)	Morrisville Borough Municipal Authority (Bucks)
Hilltown Township Water & Sewer Authority (Bucks)	Mount Jewett Borough Authority (McKean)
Horsham Township Sewer Authority (Montgomery)	Mount Joy Township Authority (Lancaster)
Hughesville-Wolf Township Joint Municipal Authority (Lycoming)	Mount Lebanon Parking Authority (Allegheny)
Indiana County Conservation District (Indiana)	Mount Pocono Municipal Authority (Monroe)
Indiana County Solid Waste Authority (Indiana)	Myerstown Community Library Association (Lebanon)
Jackson Township Water Authority (Cambria)	Myerstown Water Authority (Lebanon)
Jeannette Municipal Authority (Westmoreland)	Nanty-Glo Sanitary Sewer Authority (Cambria)
Johnsonburg Municipal Authority (Elk)	Nanty-Glo Water Authority (Cambria)
Juniata County Conservation District (Juniata)	Nesquehoning Borough Authority (Carbon)
Kiskiminetas Township Municipal Authority (Armstrong)	New Kensington Municipal Sanitary Authority (Westmoreland)
Kittanning Suburban Joint Water Authority (Armstrong)	New Kensington Redevelopment Authority (Westmoreland)
Kulpmont-Marion Heights Joint Municipal Authority (Northumberland)	Newport Borough Water Authority (Perry)
Lancaster City Parking Authority (Lancaster)	Norristown Municipal Waste Authority (Montgomery)
Lansford-Coaldale Joint Water Authority (Carbon)	North & South Shenango Joint Municipal Authority (Crawford)
Lebanon Community Library (Lebanon)	North Coventry Municipal Authority (Chester)
Leetsdale Borough Municipal Authority (Allegheny)	North Huntingdon Township Municipal Authority (Westmoreland)
Lehigh County Authority (Lehigh)	North Middleton Authority (Cumberland)
Lehighon Water Authority (Carbon)	North Strabane Township Municipal Authority (Washington)
Lower Bucks County Joint Municipal Authority (Bucks)	Northampton Borough Municipal Authority (Northampton)
Lower Bucks County Joint Municipal Authority Supervisors (Bucks)	Northeastern Regional Police (York)
Lower Indiana County Municipal Authority (Indiana)	Northern Lancaster County Authority (Lancaster)
Lower Providence Township Sewer Authority (Montgomery)	Northern York County Regional (York)
Luzerne Conservation District (Luzerne)	Northumberland Sewer Authority (Northumberland)
Lycoming Sanitary Committee (Lycoming)	Northwest Regional Lancaster County Police Commission
Lykens Borough Authority (Dauphin)	Oil City Housing Authority (Venango)
Mahanoy Township Authority (Schuylkill)	PA League of Cities (Dauphin)
Mahoning Township Authority (Montour)	Parks Township Municipal Authority (Armstrong)
Maidencreek Township Authority (Berks)	Penn Township Sewage Authority (Westmoreland)
	Penridge Regional (Bucks)

AUTHORITIES AND OTHER UNITS (CONTINUED)

Pennridge Waste Treatment Authority (Bucks)	Twin Boroughs Sanitary Authority (Juniata)
Perkasie Borough Authority (Bucks)	Upper Allegheny Joint Sanitation Authority (Allegheny)
Peters Creek Sanitary Authority (Washington)	Upper Montgomery Joint Authority (Montgomery)
Peters Township Municipal Authority (Franklin)	Upper Southampton Municipal Authority (Bucks)
Portage Area Sewer Authority (Cambria)	Upper Southampton Sewer Authority (Bucks)
Portage Borough Municipal Authority (Cambria)	Vanport Township Municipal Authority (Beaver)
Possum Valley Municipal Authority (Adams)	Vernon Township Water Authority (Crawford)
Reynoldsville Water Authority (Jefferson)	Warren County Housing Authority (Warren)
Riverview Sanitary Authority (Allegheny)	Warren County Solid Waste Authority (Warren)
Robesonia-Wernersville Municipal Authority (Berks)	Warrington Township Municipal Authority (Bucks)
Robinson Township Municipal Authority (Allegheny)	Warwick Township Municipal Authority (Lancaster)
Rochester Area Joint Sewer Authority (Beaver)	Washington Area Council of Governments (Washington)
Rostraver Township Sewer Authority (Westmoreland)	Washington Township Municipal Authority (Berks)
Seward/St. Clair Township Sanitary Authority (Westmoreland)	Washington Township Municipal Authority (Fayette)
St. Marys Area Joint Water Authority (Elk)	Waterford Borough Municipal Authority (Erie)
Shamokin City Redevelopment Authority (Northumberland)	Wayne County Redevelopment Authority (Wayne)
Shannock Valley General Services Authority (Armstrong)	Wernersville Municipal Authority (Berks)
Sheffield Township Municipal Authority (Warren)	West Carroll Township Water & Sewer Authority (Cambria)
Slippery Rock Municipal Authority (Butler)	Western Butler County Authority (Butler)
South Fayette Township Municipal Authority (Allegheny)	Western Clinton County Municipal Authority (Clinton)
Southern Police Commission Municipal (York)	Western Westmoreland Municipal Authority (Westmoreland)
Southwestern PA Water Authority (Greene)	Westmoreland-Fayette Municipal Sewer Authority (Westmoreland)
Southwest Regional Dispatch Center (Allegheny)	White Run Regional Municipal Authority (Adams)
Stroudsburg Municipal Authority (Monroe)	Whitehall Township Authority (Lehigh)
Sunbury Municipal Authority (Northumberland)	Williamstown Borough Authority (Dauphin)
Susquehanna Township Authority (Dauphin)	Womelsdorf-Robeson Joint Authority (Berks)
Tower City Borough Authority (Schuylkill)	York County Planning Commission (York)
Tri-County Joint Municipal Authority (Washington)	

POLICE

Ashley Borough (Luzerne)	Camp Hill Borough (Cumberland)	Dravosburg Borough (Allegheny)
Bally Borough (Berks)	Carroll Township Police (York)	Dublin Borough (Bucks)
Barrett Township (Monroe)	Carroll Valley Borough (Adams)	Duboistown Borough (Lycoming)
Bedminster Township (Bucks)	Central City Borough (Somerset)	Dunbar Borough (Fayette)
Bellwood Borough (Blair)	Centre Township (Berks)	Duncannon Borough (Perry)
Bentleyville Borough (Washington)	Clairton City (Allegheny)	East Bangor Borough (Northampton)
Berks-Lehigh Regional (Berks)	Clymer Borough (Indiana)	East Berlin Borough (Adams)
Big Beaver Borough (Beaver)	Cochranton Borough Police (Crawford)	East Coventry Township (Chester)
Biglerville Borough (Adams)	Colebrookdale Township (Berks)	East Deer Township (Allegheny)
Birmingham Township (Chester)	Conneaut Lake Regional (Crawford)	East Fallowfield Township (Chester)
Blair Township (Blair)	Coopersburg Borough (Lehigh)	East Pennsboro Township (Cumberland)
Brecknock Township (Lancaster)	Covington Township (Lackawanna)	East Washington Borough (Washington)
Briar Creek Township (Columbia)	Crescent Township (Allegheny)	Elizabeth Township (Allegheny)
Brockway Borough (Jefferson)	Danville Borough (Montour)	Ell-Co Regional (Washington)
Buckingham Township (Bucks)	Darlington Township (Beaver)	Emlenton Borough (Venango)
Caernarvon Township (Lancaster)	Delmont Borough (Westmoreland)	Emporium Borough (Cameron)
California Borough (Washington)	Donegal Township (Washington)	Everett Borough (Bedford)
Cambria Township (Cambria)	Douglass Township (Berks)	Factoryville Borough (Wyoming)
Cambridge Springs Borough (Crawford)	Douglass Township (Montgomery)	Fairview Township (Erie)

Schedule of Participating Pension Plans (continued)

POLICE (CONTINUED)

Falls Creek Borough (Jefferson)	Mount Jewett Borough (McKean)	Scottdale Borough (Westmoreland)
Forest City Borough (Susquehanna)	Mount Pleasant Borough (Westmoreland)	Selinsgrove Borough (Snyder)
Forward Township (Allegheny)	Mount Union Borough (Huntingdon)	Shade Township (Somerset)
Franklin Borough (Cambria)	New Garden Township (Chester)	Shamokin Dam Borough (Snyder)
Franklin Township (Beaver)	New Wilmington Borough (Lawrence)	Sheffield Township (Warren)
Freedom Township (Blair)	Newport Borough (Perry)	Shippingport Borough (Beaver)
Gilpin Township (Armstrong)	Newtown Borough (Bucks)	Shiremanstown Borough (Cumberland)
Greenfield Township (Blair)	Nicholson Borough (Wyoming)	Sinking Spring Borough (Berks)
Greenville Borough (Mercer)	Nockamixon Township (Bucks)	Souderton Borough (Montgomery)
Harveys Lake Borough (Luzerne)	North Coventry Township (Chester)	South Beaver Township (Beaver)
Heidelberg Township (York)	North Huntingdon Township (Westmoreland)	South Centre Township (Columbia)
Hellam Township (York)	North Middleton Township (Cumberland)	South Pymatuning Township (Mercer)
Hemlock Township (Columbia)	North Sewickley Township (Beaver)	South Waverly Borough (Bradford)
Hilltown Township (Bucks)	Northeastern Regional (York)	South Williamsport Borough (Lycoming)
Hummelstown Borough (Dauphin)	Northern Cambria Regional (Cambria)	Southern Police Commission (York)
Hyndman Borough (Bedford)	Northumberland Borough (Northumberland)	Springdale Township (Allegheny)
Independence Township (Beaver)	Northwest Lawrence Regional. Pol. Comm (Lawrence)	Stewartstown Borough (York)
Jackson Township (Luzerne)	Ohio Township (Allegheny)	Summit Hill Borough (Carbon)
Johnsonburg Borough (Elk)	Old Lycoming Township (Lycoming)	Telford Borough (Montgomery)
Knox Borough (Clarion)	Orangeville Area Police Board (Columbia)	Tinicum Township (Bucks)
Lancaster Township (Butler)	Orangeville Borough (Columbia)	Tulpehocken Township (Berks)
Larksville Borough (Luzerne)	Orwigsburg Borough (Schuylkill)	Tunkhannock Township (Wyoming)
Liberty Borough (Allegheny)	Paxtang Borough (Dauphin)	Upper Uwchlan Township (Chester)
Linesville Borough (Crawford)	Penbrook Borough (Dauphin)	Vanport Township (Beaver)
Locust Township (Columbia)	Pennridge Regional (Bucks)	Versailles Borough (Allegheny)
Lower Windsor Township (York)	Perkasie Borough (Bucks)	Washington Township (Fayette)
Lower Yoder Township (Cambria)	Pine Grove Borough (Schuylkill)	West Grove Borough (Chester)
Lykens Borough (Dauphin)	Plumstead Township (Bucks)	West Lampeter Township (Lancaster)
Mahoning Township (Montour)	Point Township (Northumberland)	West Middlesex Borough (Mercer)
Manor Borough (Westmoreland)	Pulaski Township (Lawrence)	West Pikeland Township (Chester)
Martinsburg Borough (Blair)	Pymatuning Township (Mercer)	West Pottsgrove Township (Montgomery)
Marysville Borough (Perry)	Red Lion (York)	West Sadsbury (Chester)
Mayfield Borough (Lackawanna)	Richland Township (Bucks)	West Vincent Township (Chester)
Mead Township (Warren)	Roaring Spring Borough (Blair)	Westfield Borough (Tioga)
Mercer Borough (Mercer)	Rochester Township (Beaver)	Wheatland Borough (Mercer)
Middleburg Borough (Snyder)	Rye Township (Perry)	White Haven Borough (Luzerne)
Middlesex Township (Cumberland)	Sandy Lake Borough (Mercer)	Wiconisco Township (Dauphin)
Millcreek Township (Lebanon)	Saxton Borough (Bedford)	Williamstown Borough (Dauphin)
Millersburg Borough (Dauphin)	Schuylkill Township (Schuylkill)	Windsor Borough (York)
Montour Township (Columbia)	Schwenksville Borough (Montgomery)	Windsor Township (York)
Moore Township (Northampton)	Scott Township (Columbia)	Wrightstown Township (Bucks)
Moosic Borough (Lackawanna)		Youngwood Borough (Westmoreland)
Morrisville Borough (Bucks)		
Moscow Borough (Lackawanna)		

FIREFIIGHTERS

Clairton City (Allegheny)	Harrisburg City (Dauphin)	New Garden Township (Chester)
Easton City (Northampton)	Larksville Borough (Luzerne)	Upper Moreland Township (Montgomery)
Greenville Borough (Mercer)	Manchester Township (York)	Wilson Borough (Northampton)

NOTES

NOTES

Pennsylvania Municipal Retirement System

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