# Pennsylvania

## Municipal Retirement System

2007

Comprehensive Annual Financial Report
For the Year Ended December 31, 2007

# The PMRS

## 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.

## &

## Vision

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

# The Pennsylvania Municipal Retirement System

Comprehensive Annual Financial Report
For the Fiscal Year Ended
December 31, 2007

**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**

# Contents

# Introduction

**"Please know that I will continue to expand upon the merits and benefits of PMRS to any and all who will listen."**

*Douglas Bowen, Pennsylvania Municipal Retirement Board Chairman*
*speaking on his retirement to the board*
*January 2008*

Pennsylvania Municipal Retirement System
Commonwealth of Pennsylvania
P.O. Box 1165, Harrisburg PA 17108-1165
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June 30, 2008

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, 2007. 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 records as of December 31, 2007, 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 January 1, 2007 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 2007, plan requirements ranged from no employee contribution to as high as 7.5% of earnings.

## 2007 CAFR

The 2007 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's discussion and analysis on page 17, 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, Cheiron, 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

In our letter of transmittal for the 2006 annual report, we used the oft quoted description of the 2006 economy – the "Goldilocks" economy – not too hot, not too cold, but just right. More by accident than insight we asked, "With the 'Goldilocks' economy in place… what would knock the economy off course?" We received the first indication in August 2007 when we expanded our vocabulary to include the term "subprime." By December, the country knew the economy was no longer "just right."

Growth during the first three quarters of the year remained strong. Job creation resulted in a rise in personal incomes and consumer spending. The weakening U.S. dollar supported growth in exports. U.S. equities hit all-time highs in October, continuing a seemingly-endless run for the bull market. The Federal Reserve maintained a restrictive bias through early August, holding the Fed fund rate at 5.25%. The markets' expansion continued to evolve through 2007. No longer driven by residential investment, it gathered strength from exports and fixed investments by business.

This evolution, however, became the early indicator of the economy's eventual deterioration. The continuing slump in U.S. housing, which began in late 2006, eventually led to disruptions in the credit markets. In September, the Federal Reserve judged that credit market conditions had weakened significantly. Banks and securities firms suffered mounting losses in the subprime mortgage arena resulting in a lower risk appetite and a flight to the relative safety of government debt during the fourth quarter. The Federal Reserve responded in the fourth quarter by lowering the policy rate by a percentage point.

While the core Consumer Price Index (excluding food and energy) and the price index for Gross Domestic Product (covering everything produced in the U.S.) suggested that inflation had moved lower and into a moderate range by the end of 2007, food price inflation began to appear and energy prices skyrocketed. At year's end, these developments, while not significantly affecting the non-financial economy, hinted that the U.S. economy would be hard-pressed to see solid growth in the year 2008.

## FINANCIAL INFORMATION

The System's financial statements were prepared in accordance with generally accepted accounting principles of the United States of America. 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, 37, 40, and 50 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 $1,564,773,702 as of December 31, 2007. In 2007, the System's net assets increased by $108,904,808. Investment-related gains increased the portfolio by $114,838,806 and contributions added an additional $46,833,548. Benefit payments and administrative expenses reduced the total assets by $52,767,546. Additional information 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 2007 administrative budget was adopted in September 2006 and set at $3.31 million exclusive of investment fees. Expenditures (exclusive of investment fees) in 2007 amounted to $2,862,482. 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, 2007, and also shows the amount and percentage of increases and decreases in relation to December 31, 2006 revenues.

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 2007 fiscal year, the fair value of the System's investment portfolio increased from $1,533,433,404 to $1,657,942,560. 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, 2007, and shows the percentage of increases and decreases in relation to December 31, 2006 amounts.

The major expense-related items for 2007 were payment of benefits, refunds of withdrawing plans, refunds of contributions due to termination or death, and administrative expenses.

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 year 2007 was not only an active year for the markets but also a very active year for the System and its investment managers. During the year, the PMRS

### Revenues

| Additions to Plan Net Assets | 2007 Amounts | Percent of Total | 2006 Amounts | Increase (Decrease) from 2006 | Percent of Increase (Decrease) |
|---|---|---|---|---|---|
| Member Contributions | $ 17,491,672 | 10.82% | $ 16,316,197 | $ 1,175,475 | 7.20% |
| Municipal Contributions | 29,059,248 | 17.97 | 21,148,089 | 7,911,159 | 37.41 |
| Assessments | 282,628 | 0.17 | 284,820 | (2,192) | (0.77) |
| Investment Income | 114,838,806 | 71.03 | 161,140,029 | (46,301,223) | (28.73) |
| **Total** | **$161,672,354** | **100.00%** | **$198,889,135** | **$(37,216,781)** | **(18.71)** |

### Expenses

| Deductions from Plan Net Assets | 2007 Amounts | Percent of Total | 2006 Amounts | Increase (Decrease) from 2006 | Percent of Increase (Decrease) |
|---|---|---|---|---|---|
| Annuity benefits | $42,898,882 | 81.30% | $44,136,795 | $ (1,237,913) | (2.80)% |
| Terminations | 7,006,182 | 13.28 | 18,354,567 | (11,348,385) | (61.83) |
| Administrative | 2,862,482 | 5.42 | 2,920,868 | (58,386) | (2.00) |
| **Total** | **$52,767,546** | **100.00%** | **$65,412,230** | **$(12,644,684)** | **(19.33)** |

Board terminated two investment managers and funded three new managers. New to the portfolio were Denver Investment Advisors LLC, a small cap value equity manager; and Globe-Flex Capital, LP, and Wentworth, Hauser & Violich, both of whom were funded with an international equity growth mandate. An existing manager, Prudential Real Estate Investors, received a new allocation for participation in the PRISA II Fund. And finally, by year's end, contract arrangements were finalized with TIAA-CREF Global Real Estate for a commitment to a domestic core real estate fund.

In terms of the System's performance, the portfolio performed well with an annualized return for the year of 8.2%. The five-year numbers yielded an annualized return of 13.1% per year. Both figures were in excess of the System's actuarial assumed rate of return. As to the asset classes, in terms of numerical yields for the year, the real estate managers produced the highest annualized rate of return at 15.2%. Next were the international equities at 14.8% followed by large cap domestic equities at 8.6% and fixed income at 6.9%. The small cap domestic equities allocation was the weakest performing asset class returning a negative 2.2%.

In relative terms, the portfolio's results ranked in the 46th percentile of the Independent Consultants Cooperative (ICC) Universe. The five-year annualized return of 13.1% placed the portfolio in the 28th percentile. Measured against the System's indexed benchmark, the returns were 1.5% and 0.4%, respectively, above the bogeys.

The year ended with the PMRS Board receiving a new asset allocation study prepared by Dahab Associates. This exercise is conducted in three-year cycles and examines the Board's risk tolerance to various asset classes. The Board is expected to continue the examination of the options presented in early 2008. The System's targeted and actual allocations were: Large Cap Domestic Equity - 35.0% (35.4%); Small Cap Equity – 15% (14.1%); International Equity – 15% (16.2%); Real Estate – 15% (9.4%); Fixed Income - 20.0% (22.5%); and Cash - 0.0% (2.4%).Ignoring a slight hiccup in the second quarter of the year, the domestic markets enjoyed a fourth year of very positive returns. The System's portfolio had a return of 8.2%. Leading the asset classes was the international equities portfolio with a 14.8% return. The developed international markets, as measured by the S&P BMI Ex-US Index, saw a return of over 12.7% for the year. The real estate portfolio experienced the next strongest return at 15.2%. The relative performance was weaker than the market performance as measured by the NCREIF which turned in a 16.9% return.

## 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. Increase in net assets for the 2007 fiscal year was $108,904,808. This represents an increase in the fund balance of 7.5% over the 2006 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, 2007. 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

The year 2007 was devoted in large measure to the implementation of several previously adopted Board initiatives. The year began with transitioning to a new consulting actuarial firm, Cheiron Inc. For the first time in over twenty-five years, the System utilized the services of a new consultant. The timing of the transition was made all the more critical as the new actuary would be charged with the immediate preparation of the System's January 1, 2007, Actuarial Valuation Report. Even more critical to our member municipalities, was the preparation, review and filing of individual Act 205 Actuarial Valuation Reports for 679 defined benefit plans. While a demanding set of tasks, it is with a great deal of satisfaction that we are able to report all projects were completed in a timely fashion. The System is deeply appreciative of the efforts from the Cheiron team and the leadership provided by Kenneth A. Kent.

The System also fully accepted the new pension administration software developed by CPAS, Inc. A two-year work-in-progress, the new platform was put in place in late 2006 while running on parallel systems through March 2007, at which time a full cutover took place. Many man-hours were spent ensuring that the calculations, data, and processes were accurately migrated and working as intended. The initiative was undertaken for three reasons – 1) to upgrade the security of the product (user security was vastly enhanced and member data made much more secure); 2) to integrate calculations with the System's accounting system so that processes were seamlessly melded and accounting and member information could be stored on the same computer platform; and, 3) the System wanted to make the software available to our plan sponsors and individual members via the Internet. While this last goal was not achieved within the year, it is anticipated that Internet access of key information will be available by the end of 2008.

The investment initiatives were addressed in more detail in the Investment Highlights section, but it should be noted again that three managers were hired, two managers were terminated and an asset allocation study all took place during 2007. Additionally, the Board reviewed and adopted new Policy Statements 07-1 (Proxy Voting Guidelines), 07-2 (Right To Know Policy), 07-3 (Investment Guidelines), 07-4 (Actuarial Tables), and 07-5 (Disability Reserve Funding). Operationally, the staff worked diligently on these initiatives and, it should be noted, they did so at a reduced man-power level. Due to retirements and staff turnover, the System had, on average, three less staff positions filled in 2007 than in 2006.

## PROFESSIONAL SERVICES

The financial information in this report has been audited by the independent accounting firm of Clifton Gunderson LLP, which is completing year two of a five-year contract. The actuarial information was prepared with the help of K. Kent, consulting actuary from Cheiron. Cheiron has completed year one 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 three 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.

## INTERNAL CONTROLS

The management of the System is responsible for and has implemented systems of internal accounting controls. These controls are designed to assure the safeguarding of assets and the reliability of financial records. We believe that the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

## ACKNOWLEDGMENTS

Many individuals are involved with the System's operations in a number of different and important ways. No one is more important than another, but sometimes the efforts of one may seem to set higher standards for others involved. These individuals establish a level of commitment and dedication that others strive to meet. They are truly leaders that we have come to rely upon in our everyday efforts to serve our members. Douglas K. Bowen has been one of these individuals for more than fifteen years. Doug has served diligently and without regard to personal gain or prestige as a board member and Chairman of the Board during this time. As 2007 ended, Doug elected to pass the gavel on to others so that they too can share their experiences and expertise. We will truly miss his questioning: "Can it be done better? Can it be done more efficiently?" And always, always, always, "Is this in the best interest of the members?" On behalf of all who served with him and worked for him, we thank you Douglas K. Bowen.

A few of the many others who deserve special acknowledgement for their assistance in helping us run the System and prepare this report are the Board and staff of PMRS, who epitomize the best in public service. The accounting firm of Clifton Gunderson, the actuarial firm of Cheiron Inc, and the investment-consulting firm of Dahab Associates are such an integral part of the team that services the System that it would be impossible to operate without them. We are sincerely appreciative of their support.

The most important people to the System, though, are you - our members. The support and trust you offer by allowing us to meet your pension needs is not unappreciated. Indeed, we recognize that without your confidence we would not exist. Thank you for giving us the opportunity to be of service.Ultimately though, the most sincere and heartfelt acknowledgement remains for those who have given their trust and support and have allowed PMRS to administer their pension plans - our members. We recognize your support and confidence and dedicate our efforts to not just meeting, but indeed exceeding your expectations. Thank you for giving us the opportunity to be of service.

James B. Allen
Secretary

Reynold E. Witmer
Chief of Accounting

# GFOA Certificate of Achievement

# Pennsylvania Municipal Retirement Board
as of December 31, 2007











VACANT

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**1 Douglas K. Bowen**
**Chairman**

Represents Pennsylvania Municipal Authorities Association

**2 John A. Haiko**
**Vice-Chairman**

Represents Pennsylvania State Association of Township Supervisors

**3 Victor Cicero**

Represents Pennsylvania Municipal Retirement System retired members

**4 Paul Corbin**

Represents Pennsylvania State Association of County Commissioners

**5 Pedro A. Cortés**

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

**6 Dawn C. Knapp**

Represents Pennsylvania State Firefighter's Association

**7 Anthony Spagnolo**

Represents First Class Township Commissioners

**8 Charles Staso**

Represents Active Police Officers enrolled in PMRS

**9 Robert T. Umstead**

Represents Pennsylvania State Association of Boroughs

**10 Robin Wiessmann**

State Treasurer (ex-officio) represented by Leo Pandeladis

**11 Vacant**

Represents Pennsylvania League of Cities

# Staff, Consultants, & Managers
as of December 31, 2007

## Administrative Staff

### Secretary
James B. Allen

### Assistant Secretary
Kristine M. Gibboney

### Accounting Division Chief
Reynold E. Witmer

### Information Technology Office Chief
Michael G. Mortimer

### Membership Services Division Chief
Diane L. Castner

### Municipal Services Division Chief
Benjamin F. Mader

### Operations Division Chief
Vacant

## Professional Consultants

### Actuary
Cheiron
McLean, VA
Kenneth Kent, FSA, FCA, MAAA, EA

### Auditor
Clifton Gunderson LLP
Timonium, MD
William F. Blair, CPA, Partner

### Comptroller
Commonwealth of Pennsylvania
Harrisburg, PA
Joseph Natoli, Central Services

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

### Legal Counsel
Commonwealth of Pennsylvania
Harrisburg, PA
Gerald Gornish, Chief Counsel

### Master Custodian
BNY Mellon
Pittsburgh, PA

## Investment Managers[1]

### Century Capital Management
Boston, MA
Paul E. Berg, Managing Director

### Chase Investment Counsel Corporation
Charlottesville, VA
Derwood S. Chase, Jr., President

### CIGNA Realty Investors
Hartford, CT
John Eisele, Managing Director

### Denver Investment Advisors, LLC.
Denver, CO
Dean Graves, Partner

### DePrince, Race, & Zollo
Winter Park, FL
Richard Wells, Director of Marketing

### Emerald Advisers, Inc.
Lancaster, PA
Kenneth G. Mertz II, President

### Forest Investment Associates, Inc.
Atlanta, GA
Charles Tarver, President

### GlobeFlex
San Diego, CA
Robert Anslow, Chief Investment Officer

### LSV Asset Management
Norwalk, CT
Christopher LaCroix, Managing Director

### Mercator Asset Management, L.P.
Boca Raton, FL
James E. Chaney, President, JXC Corp.

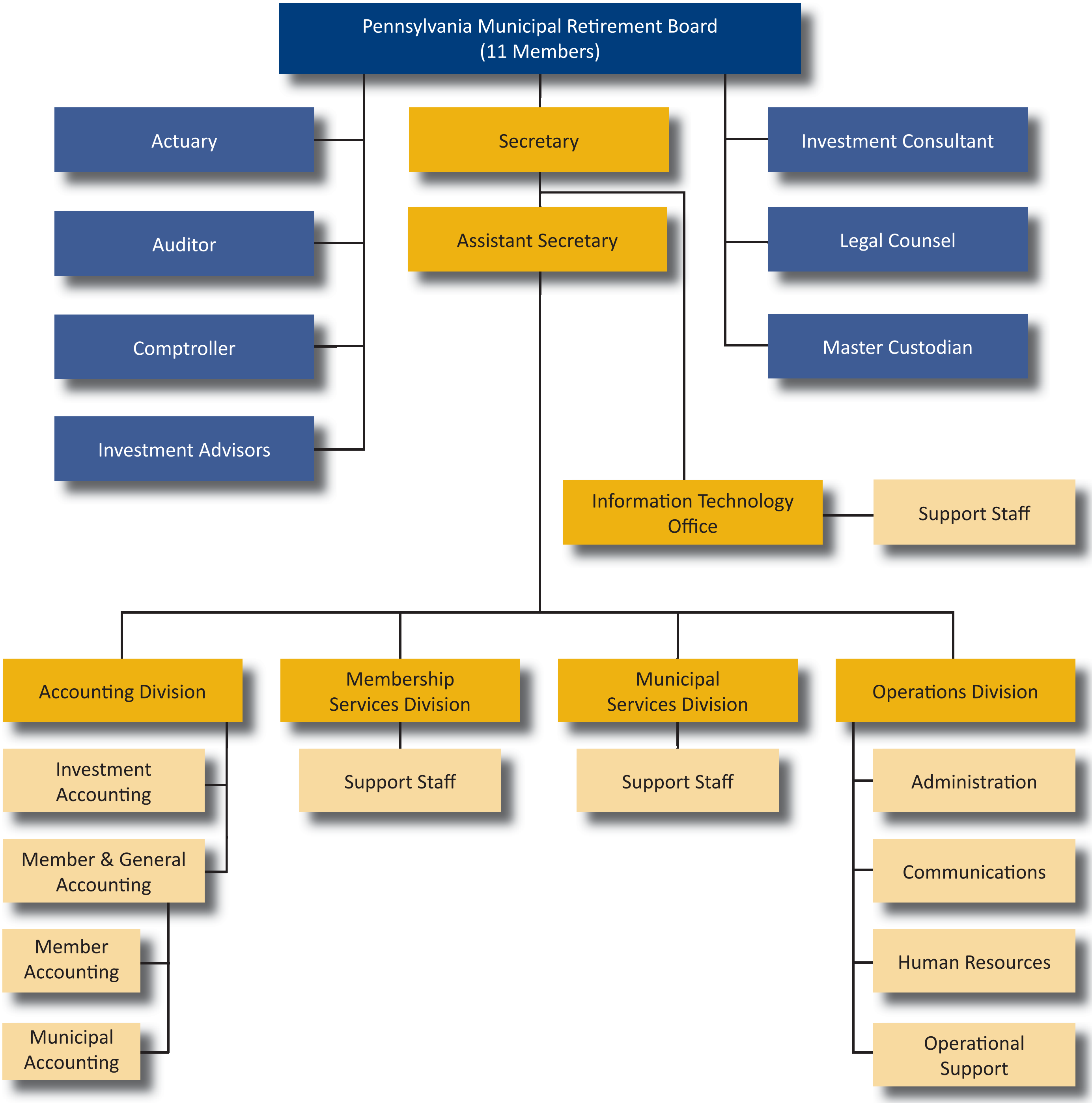
### Prudential Real Estate Investors (PRISA)
Parsippany, NJ
Lester F. Lockwood, President

### State Street Global Advisors
Boston, MA
James Thorsen, CFA

### Wentworth, Hauser and Violich
San Francisco, CA
Richard Hirayama, Managing Director

[1] Manages the long-term portfolio of investments reported on the Statement of Plan Net Assets. All information in the Investment Section pertains to the activity of these investment managers.

# Organization Chart



Pennsylvania Municipal Retirement System
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www.pmrs.state.pa.us ra-staff@state.pa.us

June 30, 2008

Dear members:

I am very pleased to be able to present the 2007 Comprehensive Annual Financial Report of the Pennsylvania Municipal Retirement System (PMRS or the System) which details the System's strong financial standing. It is offered to you with the board's full commitment to financial disclosure. As board members of the Pennsylvania Municipal Retirement System, we take our responsibility very seriously. It is our duty to safeguard and manage the financial security of over 850 municipal pension plans for you, our 14,000 members. Our staff, along with our independent auditors, Clifton Gunderson; investment consultant, Dahab Associates; and actuarial consultant, Cheiron Inc., assisted with the completion of this document. We are delighted to be able to share it with you.

Over the past sixteen years, I have been fortunate to serve on the PMRS board with many great people. I would be remiss if I did not take this opportunity, the presentation of the last annual report prepared under my guidance, to express my deepest appreciation and thanks to my fellow board members and to the staff for their support, cooperation, and many considerations over the years.

While it is sometimes very difficult for me to believe so much time has passed since my appointment in 1991 by Governor Casey, the many years I did spend in service on the board were made easy due to the professionalism and skill of the PMRS staff. I leave the board knowing that it is in the best of hands.

Douglas K. Bowen, Chairman, Pennsylvania Municipal Retirement Board

I would not be honest if I said that my resignation from the board was without sadness. As I have said many times over the years, it is always about the people. You should know that PMRS has some of the finest people associated with it that I have ever had the privilege to work with during my professional career.

Please know that I will continue to expand upon the merits and benefits of PMRS to any and all who will listen. I will always make myself available should the staff, the board, or you, our members, think I may be of service. It is a privilege to share this report with you and to be able to thank you for allowing me to be a part of the System's legacy.

Respectfully,

Douglas K. Bowen,
Chairman

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 non-service 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 non-service 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 twelve-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 6.0%. 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

**"As a member of the plan, I personally feel the Board's responsibility is to do the absolute best it can possibly do with the money the members are contributing to the Fund.  In other words, the members of PMRS expect the Board to give them the 'biggest bang for their buck' and not to worry about non-economic issues, as they would be addressed by the members through their various organizations and personal actions."**

*Nick Balzano, City of Allentown Union President*
*speaking on the board's changes to the Proxy Voting Policy*
*January 2007*

Clifton Gunderson LLP
Certified Public Accountants & Consultants

## Independent Auditor's Report

Pennsylvania Municipal Retirement Board
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, 2007 and 2006, 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, 2007 and 2006, 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) and Actuarial Methods and Significant Assumptions 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 Introduction, Investments, 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 subjected 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
June 18, 2008

Offices in 17 states and Washington, DC

Member of HLB International

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, 2007 and 2006. 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, 2007, 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, 2007 to December 31, 2007, 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 $109 million from $1,456 million at December 31, 2006 to $1,565 million at December 31, 2007. The System's plan net assets increased by $134 million from $1,322 million at December 31, 2005 to $1,456 million at December 31, 2006. These increases are primarily attributable to a net gain on investments.

- The funded ratio decreased from 105.6% at January 1, 2005 to 104.2% as of the last valuation date of January 1, 2007. The decrease is due to actuarial experience losses. The January 1, 2006 actuarial valuation was derived from the four defined benefit plans required to redetermine contribution levels as of January 1, 2006. The January 1, 2006 funded ratio for these plans was 109.8%, a decrease from the January 1, 2004 funded ratio of 118.5%.

- The rate of return for the year ended December 31, 2007 was a net gain of 8.2% compared to a net gain of 12.6% and 8.6% for the years ended December 31, 2006 and 2005, respectively.

- Total employee and employer contributions increased from $37.7 million in 2006 to $46.8 million in 2007. Total employee and employer contributions increased from $36.2 million in 2005 to $37.7 million in 2006.

- Total pension plan benefit payouts decreased by 19.9% from $62.5 million during 2006 to $49.9 million during 2007. Total pension plan benefit payouts increased by 28.8% from $48.5 million during 2005 to $62.5 million during 2006 primarily due to seven plan withdrawals.

- Administrative expenses remained basically unchanged at $2.9 million for 2007. Expenses decreased by 6.4% from $3.1 million for 2005 to $2.9 million for 2006 and remained basically unchanged at $3.1 million for 2005. 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 104.2% funded as of January 1, 2007.

### Summary of Plan Net Assets

as of December 31, 2007, 2006, and 2005

| Analysis of Plan Assets | 2007 | 2006 | 2005 |
|---|---|---|---|
| Assets | | (In Thousands) | |
| Receivables | $ 16,338 | $ 6,759 | $ 5,353 |
| Investments | 1,561,067 | 1,453,099 | 1,322,156 |
| Securities lending collateral pool | 96,876 | 80,335 | 43,379 |
| Capital assets | 224 | 282 | 351 |
| **Total assets** | 1,674,505 | 1,540,475 | 1,371,239 |
| Liabilities | 109,731 | 84,606 | 48,847 |
| **Total plan assets** | **$1,564,774** | **$1,455,869** | **$1,322,392** |

### Summary of Changes in Plan Net Assets

as of December 31, 2007, 2006, and 2005

| Analysis of Plan Assets | 2007 | 2006 | 2005 |
|---|---|---|---|
| Additions | | (In Thousands) | |
| Contributions | $ 46,833 | $ 37,749 | $36,215 |
| Net investment gain | 114,839 | 161,140 | 100,262 |
| **Total additions** | 161,672 | 198,889 | 136,477 |
| Deductions | | | |
| Benefit payments and terminations | 49,905 | 62,491 | 48,538 |
| Administrative expenses | 2,862 | 2,921 | 3,108 |
| **Total deductions** | 52,767 | 65,412 | 51,646 |
| **Total changes in plan net assets** | **$108,905** | **$133,477** | **$84,831** |

## 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 2007, the System's rate of return on investments was a net gain of 8.2%, 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, 2007 was 9.8% and 13.1%, respectively. The Fund's long-term actuarial investment return assumption is 6.0%.

The asset distribution of the System's investment portfolio at December 31, 2007, 2006, and 2005 at fair market value is listed on the chart on page 19.

## FIXED INCOME

Fixed income increased approximately $23 million from December 31, 2006 to December 31, 2007, primarily due to asset allocation rebalancing, as well as income earned during 2007. Fixed income increased approximately $14 million from December 31, 2005 to December 31, 2006, primarily due to income earned during 2006, as well as asset allocation rebalancing.

## COMMON AND PREFERRED STOCK

Common and preferred stock including international stock increased approximately $17 million from December 31, 2006 to December 31, 2007, and increased approximately $118 million from December 31, 2005 to December 2006, primarily due to appreciation in the domestic and international equity markets.

## REAL ESTATE EQUITY

Real estate equity increased approximately $49 million from December 31, 2006 to December 31, 2007. The increase was the result of additional allocations of real estate properties as well as market appreciation in fair values. Real estate equity increased approximately $12 million from December 31, 2005 to December 31, 2006 as a result of market appreciation in fair value.

## CONTRIBUTIONS AND INVESTMENT INCOME

During 2007, contributions from employers and members totaled $46.8 million compared to $37.7 million during 2006 and $36.2 million during 2005. Net investment gains during 2007 were $115 million compared to net investment gains of $161 million during 2006 and net investment gains of $100 million during 2005. Investment gains were primarily attributable to appreciation in fair values in the domestic and international equity markets as well as real estate equity during the last two years. Investment expenses increased $0.5 million from $5.1 million during 2006 to $5.6 million during 2007 and $0.8 million from $4.3 million during 2005 to $5.1 million during 2006 based on the increase in fair value of investments under management.

## PENSION PLAN BENEFITS AND EXPENSES

The primary source of expense during 2007 was for payment of pension benefits totaling $49.9 million compared to $62.5 million during 2006 and $48.5 million during 2005. Pension benefits decreased by $12.5 million from 2006 to 2007 due to additional municipality terminations in 2006. Pension benefits increased by $14.0 from 2005 to 2006 due to new annuitants receiving greater monthly benefits. Administrative expenses totaled $2.9 million in 2007 as compared to $2.9 million during 2006 and $3.1 million during 2005.

## 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.

### Asset Distribution at Fair Market Value

| | 2007 | % | 2006 | % | 2005 | % |
|---|---|---|---|---|---|---|
| Asset Class | | | (In Thousands) | | | |
| Short term | $ 40,116 | 2.6% | $ 20,978 | 1.4% | $ 33,655 | 2.5% |
| Fixed income | 350,661 | 22.5 | 328,004 | 22.6 | 314,390 | 23.8 |
| Common preferred stock | 771,519 | 49.4 | 747,162 | 51.4 | 670,717 | 50.7 |
| International stock | 252,249 | 16.1 | 259,930 | 17.9 | 218,056 | 16.5 |
| Real estate equity | 146,522 | 9.4 | 97,025 | 6.7 | 85,338 | 6.5 |
| **Total** | **$1,561,067** | **100.0%** | **$1,453,099** | **100.0%** | **$1,322,156** | **100.0%** |

## Statements of Plan Net Assets

As of December 31, 2007 and 2006

| Assets | 2007 | 2006 |
|---|---|---|
| **Receivables** | | |
| Plan members | $ 2,339,058 | $ 2,434,329 |
| Municipal employers | 3,554,246 | 988,968 |
| Accrued investment income | 1,597,596 | 1,259,110 |
| Investment sales receivable | 8,847,217 | 2,076,866 |
| **Total receivables** | 16,338,117 | 6,759,273 |
| **Investments, at fair value** | | |
| Short-term and other investments | 40,116,013 | 20,978,253 |
| U.S. Government bonds | 249,635,372 | 234,949,007 |
| Corporate bonds | 101,025,356 | 93,054,632 |
| Common stocks | 771,518,535 | 747,161,813 |
| Real estate equity | 146,522,406 | 97,025,119 |
| International equities | 252,249,203 | 259,929,899 |
| **Total investments** | **1,561,066,885** | **1,453,098,723** |
| Securities lending collateral pool | 96,875,675 | 80,334,681 |
| Capital assets (net of accumulated depreciation of $242,167 and $432,455, respectively) | 223,890 | 281,989 |
| **Total assets** | **$1,674,504,567** | **$1,540,474,666** |
| **Liabilities** | | |
| Accounts payable and accrued expenses | 1,891,877 | 1,829,333 |
| Investment purchases payable | 10,963,313 | 2,441,758 |
| Collateral held under securities lending program | 96,875,675 | 80,334,681 |
| **Total liabilities** | **109,730,865** | **84,605,772** |
| **Net Assets Held in Trust For Pension Benefits** | **$1,564,773,702** | **$1,455,868,894** |

(A schedule of funding progress is presented in the Required Supplementary Information section.)
The accompanying notes are an integral part of the financial statements.

# Statements of Changes in Plan Net Assets

Years Ended December 31, 2007 and 2006

| Additions | 2007 | 2006 |
|---|---|---|
| **Contributions** | | |
| Plan members | $ 17,491,672 | $ 16,316,197 |
| Municipal employers | 29,059,248 | 21,148,089 |
| Assessments | 282,628 | 284,820 |
| **Total contributions** | **46,833,548** | **37,749,106** |
| **Investment income** | | |
| From investing activities: | | |
| Net appreciation in fair value of investments | 96,708,126 | 141,876,207 |
| Short-term and other investments | 1,909,544 | 1,864,658 |
| Common stocks | 10,388,051 | 11,905,906 |
| Real estate equity | 5,745,768 | 4,887,199 |
| International equities | 4,274,010 | 4,776,376 |
| Miscellaneous | 325,643 | 370,669 |
| Less investment expenses | (5,599,795) | (5,106,351) |
| **Total investing activities income** | **113,751,347** | **160,574,664** |
| **Securities lending activity** | | |
| Securities lending income | 5,959,496 | 4,080,122 |
| Less: Securities lending expenses | (4,872,037) | (3,514,757) |
| **Net securities lending activity** | **1,087,459** | **565,365** |
| **Net investment income** | **114,838,806** | **161,140,029** |
| **Total additions** | **161,672,354** | **198,889,135** |
| **Deductions** | | |
| Annuity benefits | 42,898,882 | 44,136,795 |
| Terminations | 7,006,182 | 18,354,567 |
| Administrative expenses | 2,862,482 | 2,920,868 |
| **Total deductions** | **52,767,546** | **65,412,230** |
| **Net increase** | **108,904,808** | **133,476,905** |
| **Net assets held in trust for pension benefits** | | |
| **Balance, beginning of year** | **1,455,868,894** | **1,322,391,989** |
| **Balance, end of year** | **$1,564,773,702** | **$1,455,868,894** |

(A schedule of funding progress is presented in the Required Supplementary Information section.)
The accompanying notes are an integral part of the 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, 2007, there were 683 municipalities with defined benefits and 177 with defined contributions. The tables (below) reflect membership and individual membership.

### Participating Local Government Employers

| | Defined Benefits | Defined Contributions |
|---|---|---|
| Counties | 4 | 0 |
| Cities | 19 | 0 |
| Boroughs | 145 | 23 |
| Townships of the First Class | 18 | 1 |
| Townships of the Second Class | 150 | 98 |
| Authorities and Other Units | 167 | 49 |
| Police | 172 | 6 |
| Firefighters | 8 | 0 |
| **Total** | **683** | **177** |

### Individual Membership

| | |
|---|---|
| Active Members | |
| Defined Benefit Plans | |
| Municipal | 7,443 |
| Police | 735 |
| Firefighters | 136 |
| **Total** | **8,314** |
| Defined Contributions Plans | |
| Municipal | 911 |
| Police | 7 |
| Firefighters | 0 |
| **Total** | **918** |
| **Total active members** | **9,232** |
| Retirees and Beneficiaries | |
| Retirees | 2,965 |
| Beneficiaries | 494 |
| **Total retirees and beneficiaries** | **3,459** |
| Inactive Participants with Rights to Deferred Pension (Vested) | |
| Defined benefit | 561 |
| Defined contributions | 162 |
| **Total vested** | **723** |
| Defined benefit | 33 |
| Defined contribution | 0 |
| **Total non-vested** | **33** |
| **Total individual memberships** | **13,447** |

### 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.

### FEDERAL INCOME TAXES

Management believes the System meets the definition of a Governmental Plan. In the System's communications with the Internal Revenue Service (IRS), it has been treated as a qualified plan, and is, therefore, considered exempt from federal income taxes. Therefore, the System has not requested a determination letter from the IRS relating to the status of the System under the Internal Revenue Code.

## (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, 2007 and 2006 consisted of the following:

| | 2007 | 2006 |
|---|---|---|
| Municipality normal cost | $36,594,509 | $26,164,012 |
| Amortization of unfunded actuarial accrued liability | (9,476,074) | (8,981,779) |
| **Total** [(1)] | **$27,118,435** | **$17,182,233** |

Total contributions to the System during 2007 amounted to $46,833,548 of which $17,491,672 and $29,059,248 were made by its members and municipalities, respectively and $282,628 were from assessments.

Total contributions to the System during 2006 were $37,749,106 of which $16,316,197 and $21,148,089 were made by its members and municipalities, respectively and $284,820 were from assessments.

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. The remaining costs of administering the plan are financed by investment income.

### 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 Actuarial Cost Method to determine plan liabilities and normal cost. Under this method, a normal cost is calculated that would fund each employee's benefits during the employee's career as a level percent of pay.

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

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

1. a. 30 years with respect to the initial liability as of January 1, 1985 (or first valuation);

   b. 20 years with respect to changes due to plan provisions and actuarial assumptions;

   c. 10 years with respect to changes in benefits for current retired members;

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

d. 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 6.0% a year (net of investment and certain administrative expenses) compounded annually, (b) projected salary increases of 3.0% a year compounded annually for inflation, with an additional age-based component to reflect merit/seniority, (c) postretirement cost-of-living increases of 3.0% per annum until the maximum is reached (optional in contracts), and (d) pre- and post-retirement mortality based on the 1994 Group Annuity Mortality Static Table for males and 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 6.0%.

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, 2007 and 2006, the balance in the Members' Reserve Account was $351,521,038 and $322,229,279, 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 6.0%.

As of December 31, 2007 and 2006, the balance in the Municipal Reserve Account was $653,176,044 and $593,509,509, 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 6.0%.

As of December 31, 2007 and 2006, the balance in the Retired Members' Reserve Account was $450,043,306 and $421,667,014, 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, 2007 and 2006, the balance in the Disability Reserve Account was $33,254 and $(126,426), respectively. The account is fully funded as of December 31, 2007.

### 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 approved the distribution of excess interest at a rate of 3.12% during 2007 and 0.58% during 2006. The calculation of excess interest was prepared in accordance with the Board approved formula and was based on the actuarial value (fair value) of the System's assets as of December 31, 2006 and the cash flows of the System for 2007. The December 31, 2007 distribution amounted to $41,652,000. The December 31, 2006 distribution amount was $7,096,000.

As of December 31, 2007 and 2006 the Undistributed Earnings Designation Account had a balance of $110,000,060 and $118,589,518, 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 are allowable if (a) collateralized by United States Government Obligations deemed acceptable by the Treasury Department prior to the transaction; (b) the market value of collateral shall equal at least 102% of the principal and accrued interest; and (c) the collateral is delivered to the Treasury's bank account. For tri-party agreements, collateral shall be delivered to the Treasury's account with an independent third party subcustodian (either a money center bank or a nationally recognized non-bank financial institution).

### CUSTODIAL CREDIT RISK

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, 2007, 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.

## Custodial Credit Risk by Quality

**2007**

| Investments (Fair Value) | Category 1 | Not Categorized | Total |
|---|---|---|---|
| U.S. government bonds | $ 0 | $249,635,372 | $ 249,635,372 |
| Corporate bonds | 0 | 101,025,356 | 101,025,356 |
| Common and preferred stocks | 885,744,946 | 138,022,792 | 1,023,767,738 |
| Real estate equity | 0 | 146,522,406 | 146,522,406 |
| State Treasury short-term investment fund | 0 | 40,116,013 | 40,116,013 |
| Securities lending collateral | 0 | 96,875,675 | 96,875,675 |
| **Grand Total** | **$885,744,946** | **$772,197,614** | **$1,657,942,560** |

**2006**

| Investments (Fair Value) | Category 1 | Not Categorized | Total |
|---|---|---|---|
| U.S. government bonds | $ 0 | $234,949,007 | $234,949,007 |
| Corporate bonds | 0 | 93,054,632 | 93,054,632 |
| Common and preferred stocks | 820,659,339 | 186,432,373 | 1,007,091,712 |
| Real estate equity | 0 | 97,025,119 | 97,025,119 |
| State Treasury short-term investment fund | 0 | 20,978,253 | 20,978,253 |
| Securities lending collateral | 0 | 80,334,681 | 80,334,681 |
| **Grand Total** | **$820,659,339** | **$712,774,065** | **$1,533,433,404** |

## CREDIT RISK CONCENTRATION

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, 2007 and 2006 were:

## Credit Risk Concentration

| Security | Fair Value |
|---|---|
| 2007 | |
| State Street Index Fund | $488,683,520 |
| Prudential Property Investment Separate Account (PRISA) | $117,910,339 |
| 2006 | |
| State Street Index Fund | $514,436,012 |
| Prudential Property Investment Separate Account (PRISA) | $81,148,547 |

## INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. The System had no actively managed long-term fixed income investments. The fixed-income portfolio consists of the following:

### 2007 Interest Rate Risk

| Security | Quality Rating | Modified-Adjusted Duration | Fair Value |
|---|---|---|---|
| Lehman Brothers Aggregate Fund | AA | 4.4 | $350,660,728 |
| Short-Term Investment Fund | NR | 0.1 | $ 39,078,782 |

### 2006 Interest Rate Risk

| Security | Quality Rating | Modified-Adjusted Duration | Fair Value |
|---|---|---|---|
| Lehman Brothers Aggregate Fund | AA | 4.4 | $328,003,639 |
| Short-Term Investment Fund | NR | 0.1 | $ 20,978,253 |

## FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As part of the System's program of diversification, the System invests in non-U.S. markets. At December 31, 2007, the System had the following non-U.S. currency exposure.

### 2007 Foreign Currency Risk

| Currency | Equity | Short-Term | Total |
|---|---|---|---|
| Euro Currency Unit | $66,538,962 | $8,131 | $66,547,093 |
| British Pound Sterling | 46,201,442 | 191,877 | 46,393,319 |
| Japanese Yen | 36,557,389 | 160,352 | 36,717,741 |
| Swiss Franc | 18,000,537 | 187,396 | 18,187,933 |
| Australian Dollar | 9,468,069 | 318,465 | 9,786,534 |
| Canadian Dollar | 7,756,839 | 328,862 | 8,085,701 |
| Singapore Dollar | 6,990,351 | 13,135 | 7,003,486 |
| Norwegian Krone | 5,528,957 | 225 | 5,529,182 |
| South Korean Won | 4,785,753 | 0 | 4,785,753 |
| Hong Kong Dollar | 4,702,407 | 3,811 | 4,706,218 |
| Swedish Krona | 3,953,366 | 1,750 | 3,955,116 |
| Non-U.S. Currencies | 0 | 6,229 | 6,229 |

### 2006 Foreign Currency Risk

| Currency | Equity | Short-Term | Total |
|---|---|---|---|
| Euro Currency Unit | $72,901,397 | $1,067 | $72,902,464 |
| Japanese Yen | 46,907,598 | 0 | 46,907,598 |
| British Pound Sterling | 42,709,448 | 54 | 42,709,502 |
| Swiss Franc | 25,640,604 | 0 | 25,640,604 |
| Singapore Dollar | 7,663,992 | 0 | 7,663,992 |
| Swedish Krona | 4,897,536 | 14 | 4,897,550 |
| Hong Kong Dollar | 4,623,311 | 0 | 4,623,311 |
| Australian Dollar | 3,045,660 | 254 | 3,045,914 |
| Canadian Dollar | 2,167,826 | 1,591 | 2,169,417 |
| Non-U.S. Currencies | 1,853,950 | 25 | 1,853,975 |

## (5) Securities Lending

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, 2007 and December 31, 2006, the System's carrying value and fair value of lent securities was $92,110,192 and $77,019,810, respectively. The fair value of associated collateral was $96,875,675 as of December 31, 2007 and $80,334,681 as of December 31, 2006. The System's income, net of expenses, from securities lending was $1,087,459 for 2007 and $565,365 for 2006.

The System had $96,875,675 and $80,334,681 of cash collateral invested in the custodial agent's short-term collateral investment pool as of December 31, 2007 and 2006, respectively.

## (6) Pension Plan for Employees of the System

The System contributes to the Commonwealth's State Employee's Retirement System (SERS), a cost-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 3.28% at July 1, 2007, 3.23% at July 1, 2006, and 2.37% at July 1, 2006. The System's annual required contributions to SERS for the years ending December 31, 2007 and December 31, 2006 were $40,075 and $35,990 respectively.

## (7) 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 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, the active police officers, and the active firefighters. 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.

## (8) 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.

## (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.

The System's implementation policy is to allow contracted external managers to decide what action to take regarding their respective portfolio's foreign currency exposures. The System has no specific policies for interest rate risk and foreign currency risk.

## (10) Commitments and Contingencies

PMRS leases office facilities under an operating lease that expires November 2008. Future minimum lease payments under this lease are $95,568 for 2008.

Total rental expenses for the years ended December 31, 2007 and 2006 were $106,337 and $104,419, respectively.

## (11) Additional Plan Disclosures as Mandated by GASB 50

### (a) Plan Description

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. The System issues a publicly available financial report that includes financial statements and required supplementary information.

The System's investments are reported at fair value as discussed in Note 2 Summary of Significant Accounting Policies. The annual required contribution (ARC) is actuarially determined. The System's actuary used the Entry Age Normal Cost Actuarial 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.

### (b) Funding Status and Funding Progress

As of January 1, 2007, the most recent actuarial valuation date, the plan was 104.2 % funded. The actuarial accrued liability for benefits was $1,282,021,998, and the actuarial value of assets was $1,336,009,295, resulting in an unfunded actuarial accrued liability (UAAL) of ($53,987,297). The covered payroll (annual payroll of active employees covered by the plan) was $386,904,315, and the ratio of the UAAL to the covered payroll was (15.1%) percent.

The schedule of funding progress, presented in the actuarial section, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### (c) Actuarial Methods and Assumptions

In the December 31, 2007 actuarial valuation, 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 was used. The actuarial assumptions included (a) 6.0 % investment rate of return and, (b) projected salary increases ranging from 3.0 to 7.8 % with an average increase of 5.0 %, including a 3.0 % rate of inflation. The assumptions did not include a cost-of-living adjustment. The remaining amortization period at December 31, 2007, was 10-30 years.

## 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) |
|---|---|---|---|---|---|---|
| 1/1/2007 | $1,336,009,295 | $1,282,021,998 | $(53,987,297) | 104.2% | $358,690,830 | (15.1)% |
| 1/1/2005 | 1,219,130,000 | 1,154,858,200 | (64,271,800) | 105.6 | 319,004,918 | (20.1) |
| 1/1/2003 | 1,084,828,900 | 955,259,400 | (129,569,500) | 113.6 | 293,388,800 | (44.2) |
| 1/1/2001 | 976,868,000 | 812,645,100 | (164,222,900) | 120.2 | 282,113,600 | (58.2) |

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) [2] | Actual Employer Contribution | Percentage Contributed [3] |
|---|---|---|---|
| 2007 | $27,118,435 | $29,059,248 | 107% |
| 2006 | 17,182,233 | 21,148,089 | 123 |
| 2005 | 16,235,077 | 19,890,494 | 123 |
| 2004 | 13,390,022 | 17,041,418 | 127 |
| 2003 | 12,656,513 | 14,696,210 | 116 |
| 2002 | 27,435,886 | 28,836,362 | 105 |

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, 2006, January 1, 2004, or January 1, 2002, except for those plans required to redetermine contribution requirements.

All information provided in the Actuarial Section has been certified by the Agency's actuary. The data presented in this schedule has been drawn by the Agency's staff from Funded Status of Actuarial Accrued Liabilities, found in the Actuarial Section.

(2) The Annual Required Contribution is calculated using the actuary's determined Normal Cost percentage for each plan and the employer' anticipated payroll for each participation plan. It also may include the amortization payment calculated by the actuary or the over-funding credit required under Pennsylvania state law, Act 205 of 1984. The composite figure is assembled by the Agency's staff.

(3) 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).

## 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, 2007 |
| 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)<br><br>- 20 years with respect to changes due to plan provisions and actuarial assumptions<br><br>- 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<br><br>- 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 | 6.0% compounded annually (net of investment and certain administration expenses) |
| Projected salary increases | 3.0% inflation and age-related scale for merit/seniority (ex., age 30 - 5.9%; age 40 - 4.5%; age 50 - 4.1%) |
| Inflation at | 3.0% |
| Post-retirement cost-of-living adjustments | 3.0% per annum until maximum is reached (optional in contracts) |

## Schedule 3 - Administrative Expenses

Comparative Two-Year Schedule

| | 2007 | 2006 |
|---|---|---|
| PERSONNEL COSTS | | |
| Salaries and wages | $1,281,414 | $1,281,510 |
| Social security contributions | 92,397 | 97,469 |
| Retirement contributions | 40,075 | 35,990 |
| Insurance contributions | 379,718 | 409,367 |
| Other employee benefits | 8,341 | 4,317 |
| **Total personnel costs** | **1,801,945** | **1,828,653** |
| PROFESSIONAL COSTS | | |
| Performance evaluation | 109,158 | 108,755 |
| Actuarial | 242,159 | 332,700 |
| Data processing | 13,034 | 14,657 |
| Audit | 90,600 | 86,325 |
| Legal | 94,614 | 91,279 |
| Miscellaneous professional | 97,679 | 54,788 |
| **Total professional costs** | **647,244** | **688,504** |
| COMMUNICATION COSTS | | |
| Printing | 11,157 | 17,711 |
| Telephone | 12,671 | 12,441 |
| Postage | 38,646 | 47,690 |
| Travel | 20,085 | 29,407 |
| Advertising | 3,778 | 3,643 |
| **Total communication costs** | **86,337** | **110,892** |
| OTHER SERVICES AND CHARGES | | |
| Contracted EDP services | 67,518 | 24,076 |
| Office space rental | 106,337 | 104,419 |
| Equipment leasing | 4,527 | 4,500 |
| Supplies | 25,329 | 28,746 |
| Maintenance | 29,088 | 28,153 |
| Bonding and insurance | 1,888 | 1,663 |
| Dues and subscriptions | 2,705 | 2,631 |
| **Total other services and charges** | **237,392** | **194,188** |
| DEPRECIATION | **89,564** | **98,631** |
| **Total administrative expenses** | **$2,862,482** | **$2,920,868** |

## Schedule 4 - Investment Expenses

Comparative Two-Year Schedule

| | 2007 | 2006 |
|---|---|---|
| Investment management fees | $5,591,833 | $ 5,099,753 |
| Custodial fees | 7,962 | 6,598 |
| **Total investment expenses** | **$5,599,795** | **$5,106,351** |

## Schedule 5 - Payments to Consultants

Comparative Two-Year Schedule
Years Ended December 31, 2007 and 2006

| Firm Name | Nature of Service | 2007 | 2006 |
|---|---|---|---|
| Clifton Gunderson, LLP | Auditor | $ 90,600 | $ 86,325 |
| Dahab Associates, Inc. | Investment Consultant | 109,158 | 108,755 |
| The Segal Company | Actuary | 40,740 | 332,700 |
| Cheiron | Actuary | 201,419 | 0 |
| **Total** | | **$441,917** | **$527,780** |

# Investments

**"The System's asset allocation is the most important investment decision the board can make.  Simply put, the decision helps to assess risk among the asset classes and measures a fund's risk tolerance."**

*Richard Dahab, Dahab Associates, Investment Consultant*
*speaking on the review of the PMRS portfolio asset allocation*
*September 2007*

## INVESTMENT RETURN

On December 31st, 2007, the Pennsylvania Municipal Retirement Board's investment portfolio was valued at $1,560,084,000, which was an increase of $106,520,000 over the December 2006 ending valuation of $1,453,564,000. During the calendar year of 2007, the System recorded aggregate net withdrawals of $12,056,537 and a net investment return of $118,576,537.

For the period between January 1, 2003 and December 31, 2007, the System recorded net withdrawals totaling $84,992,470 and a net investment return of $739,962,700. If the fund had earned an annualized compounded rate of 6.0% during that period, it would have been worth $1,113.6 million, or $446,510,000 less than the actual value at the end of the year.

## ECONOMIC ENVIRONMENT

The year opened up strong, with investors shrugging off a loss of jobs in the housing industry and early indications of the sub-prime mortgage market getting ready to collapse. By the third quarter however, signs of a correction were strong, represented by very large swings in the Dow Jones Industrial Index. By December, with oil prices over $90 per barrel and unemployment creeping up to 5.0%, the market began to waver.

The GDP growth rate continued to be positive in spite of the uncertainty surrounding the economy. The GDP has now grown for 25 consecutive quarters, and averaged 2.2% for the year. However, many economists expect the current growth cycle to end soon.

So far, over $100 billion in sub-prime assets have been written down, with economists predicting that several times that number will be written down in the next two years. Beginning with the collapse of American Home Mortgage Investment Corp., which filed for bankruptcy in early August, the sub-prime crisis has permeated into nearly every corner of our economy.

After holding the Fed Funds Rate steady for the first two quarters of 2007, citing inflation fears, the Federal Reserve cut rates on three separate occasions in an effort to stimulate the economy. On the 18th of September, the Fed surprised investors by cutting the rate by 50 basis points. Then on October 31st and again on December 11th the Fed cut the rate an additional 0.25%, ending the year at 4.25%, the same as it was at the end of 2005.

Industrial capacity utilization ended the year at 81.4%, just above the long-term average of 81.0%. Overall industrial capacity rose by 1.8% for the year. Mining continues to be the most "overheated" part of the economy, strained in part by a growing demand by the Chinese for raw materials.

Inflation for the year was up an alarming 4.1%, driven by the rising costs of food and energy. This is well above the Fed's target rate of 2.0% per year. Energy costs alone were up 17.4% since the end of last year, leading to decreased consumer spending, which furthered analysts' concerns about a coming recession.

The dollar grew weaker with every quarter, closing the year at $1.46/euro. The weak dollar did aid the economy however, with US exports becoming very competitive on the world market. The US trade deficit fell by $10 billion from the previous year, but still came in at $62.12 billion.

## EQUITY MARKET

The market went through a lot of turbulence during the year of 2007. Following a low of 11,926.79 on March 14th, the Dow Jones Industrial Index set a record of 14,121.04 on July 19th. By the 16th of August the Dow had fallen back to 12,455.92 before setting another record of 14,198.10 on October 11th. Eventually the index closed the year at 13,264.82.

Note: The System's investment assets reported in the Investment Section are presented on the same basis of accounting as described in Note 1 of the Notes to Financial Statements with the following exceptions: 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.

The Financial sector led the decline beginning late July. As measured by the S&P 500, the sector fell 10.8% in the fourth quarter. Struggling companies like American Home Mortgage and Countrywide Financial caused a panic among sub-prime mortgage owners. Banks which had a large investment in these mortgages, like Citigroup or Bank of America, ended up writing down billions.

The broad large cap indices, the S&P 500 and the Russell 1000, returned 5.5% and 5.8%, respectively for the year. Large Cap Growth was the place to be during the year, with the Russell 1000 Growth beating the Russell 1000 Value 11.8% to −0.2%.

Small cap stocks produced a broad range of returns, but in general did far worse than their larger cap cousins. In the small cap world, growth stocks again beat value stocks, with the Russell 2000 Growth beating the Russell 2000 Value 7.1% to −9.8%.

At the end of the year the average yield for the S&P 500 was 1.8%, equal to the average yield at the end of 2006. The average P/E was 20.4, slightly less than last year's value of 21.4, but still higher than its historically normal range of 14-16. The S&P 500 had 8.8% of its assets into small/mid cap stocks (market caps less than $10 billion), while the rest went to larger cap stocks.

## INTERNATIONAL EQUITIES

Emerging markets continued to lead the global economy by a wide margin, returning 39.7% for the year. Over the last five years, the MSCI Emerging Markets index returned an astonishing 34.7% per annum, nearly tripling the S&P 500's 12.8% per annum return.

Peru returned an incredible 94.7% in 2007 and led the undeveloped market's rapid growth. Brazil came in second with a return for the year of 80.0%. India and China also came in the top five with returns of 73.1% and 66.2%, respectively.

Developed markets, represented by the MSCI EAFE index returned a relatively tame 11.6% for the year. Though less explosive than its developing markets cousin, the EAFE still has returned a very respectable 22.1% per annum for the last five years.

Among the developed markets, Finland returned the highest for 2007 at 50.1%. Hong Kong (a surrogate for China) was not far behind returning 41.2% for the year. The Pacific region, excluding Japan, returned the most among the regions with a 31.7% return for the year. Japan itself was one of the few countries to post losses for the year with a −4.1% return.

On an equal-weighted basis, the MSCI EAFE index was up 18.3% for the year. The MSCI Emerging markets index, equally weighted, was up 37.2% over the same time period.

## BOND MARKET

The bond market experienced a fair amount of volatility during the year. Initially, concerns about the sub-prime mortgage market gave corporate bond holdings a slight boost. Eventually as the sub-prime market began to collapse with default rates climbing, investors began to flock to higher quality treasury and corporate bonds, staying away from the high yield, or junk bonds.

The last 4 months of the year saw the Federal Reserve cut the Fed Funds rate a full 100 basis points, to end at 4.25%. This lowered treasury yields across the board, adding value to previously issued notes.

Yields on short-term treasury notes dropped the most, with three-month treasuries falling 1.7% to 3.4%. Intermediate-term yields, as represented by five-year notes fell 1.25%, to 3.5%. Long-term yields, as represented by thirty-year treasuries, fell just 36 basis points to 4.5%. The yield curve at the end of the year was neither inverted nor very steep.

The Lehman Aggregate Index returned 7.0% for the year, with high-grade bonds beating out junk bonds by a wide margin. This is partly due to the collapse of the sub-prime bubble and skyrocketing default rates on sub-prime mortgages; home foreclosure filings for 2007 were up 75% from last year. The Lehman Brothers High Yield index returned 1.9% for the year.

At the end of the year, the average maturity of the Lehman Aggregate index was 7.1 years. The interest rate sensitivity (duration) was 4.4 years (adjusted) and the average yield closed at 4.9%.

## RELATIVE PERFORMANCE

### Total Fund

For the full year of 2007 our total portfolio returned 8.2%, ranking in the 46th percentile relative to other Trust Funds. Annualized over the last 5 years, we earned 13.1%, ranking in the 28th percentile.

### Equities

Our portfolio's large cap equity segment gained 8.6% over the trailing year. This ranked in the 35th percentile of the large cap universe and beat the S&P 500 Index's return of 5.5%. The trailing five-year return of the large cap segment was 14.3% annualized, ranking in the 47th percentile. The S&P 500 returned 12.8% annualized over the same period.

### Small Cap

Our small cap equities returned −2.2% for the year and ranked in the 73rd percentile of the small cap universe. This segment returned 15.4% annualized over the previous 5 years, ranking in the 82nd percentile. The Russell 2000 returned −1.6% and 16.2% respectively for the trailing year and trailing 5 years.

### International Equities

The international equity portion of the portfolio returned 14.8% over the trailing year, ranking in the 40th percentile of the international equity universe. The S&P BMI Ex-US index returned 12.7% over the same period. For the trailing 5 years, the portfolio returned 22.4%, ranking in the 64th percentile, and falling short of the benchmark's 23.6% return.

### Fixed Income

The fixed income portion of the portfolio (bonds) returned 6.9% for the trailing year and 4.3% for the trailing five-year period, ranking, respectively, in the 51st and 80th percentiles of the core fixed income universe. The Lehman Aggregate returned 7.0% and 4.4% over the same periods.

### Real Estate

Real estate for the portfolio returned 15.2% for the year and 15.1% annualized for the last 5 years. This fell below the NCREIF Property index's one-year return of 16.9%, but beat the index's five-year return of 14.7%.

### Asset Allocation

On December 31, 2007, the allocation of assets was as follows:

| | | |
|---|---|---|
| Large cap equities | 35.4% | $551,962,758 |
| Small cap equities | 14.1% | $220,220,953 |
| International equities | 16.2% | $252,674,272 |
| **Total equities** | 65.7% | $1,024,857,983 |
| Fixed income | 22.5% | $350,660,728 |
| Real estate | 9.4% | $146,944,095 |
| Cash and equivalents | 2.4% | $37,621,612 |
| **Total portfolio** | 100.0% | $1,560,084,418 |

Report prepared by DAHAB ASSOCIATES, INC.

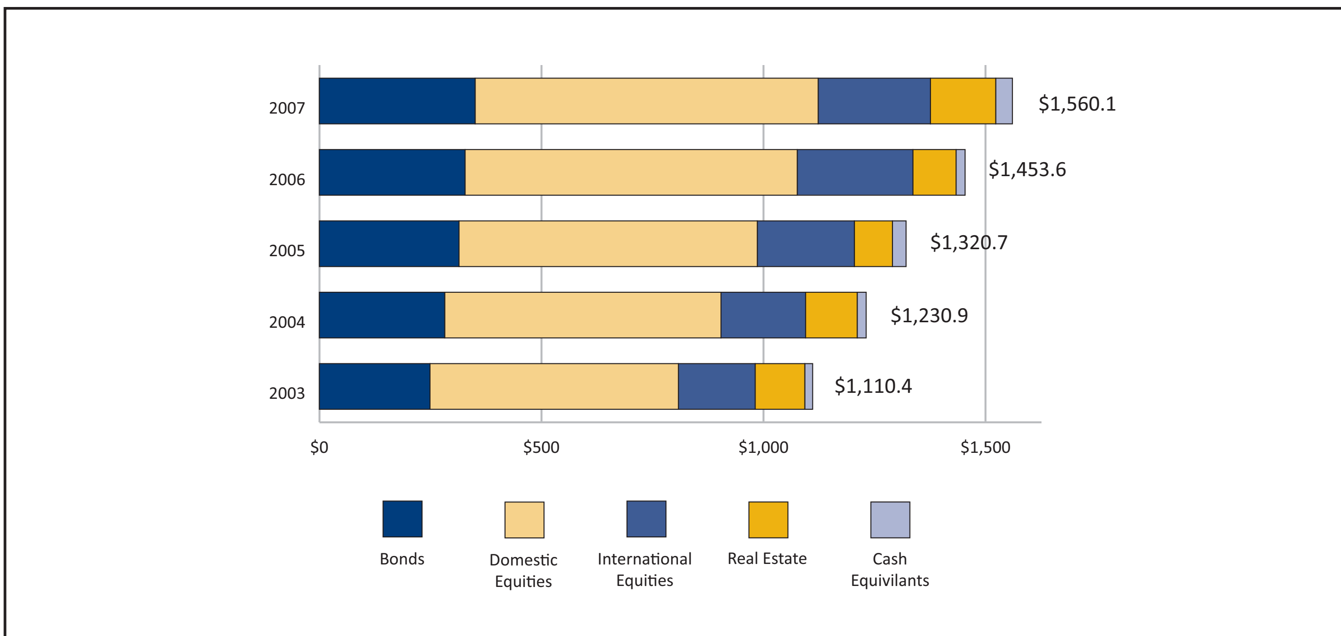
On December 31, 2007, the System's investment assets were valued at $1,560,084,000,[1] an increase in value of $103,520,000 over the December 31, 2006 valuation of $1,453,564,000.

During the last five years, the System has increased from $1,110.4 million to $1,560.1 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 by using rates of return using a time-weighted rate of return methodology based upon market values. The Investment Section includes only those investments 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 difference noted above represents the difference between the investment balance of $1,561,067,000 presented in the Financial Section and the balance of $1,560,084,000 reported in this section.

## Portfolio Distribution - Five-Year Trend

(Fair Value - Amounts in Millions)




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

## Asset Allocation

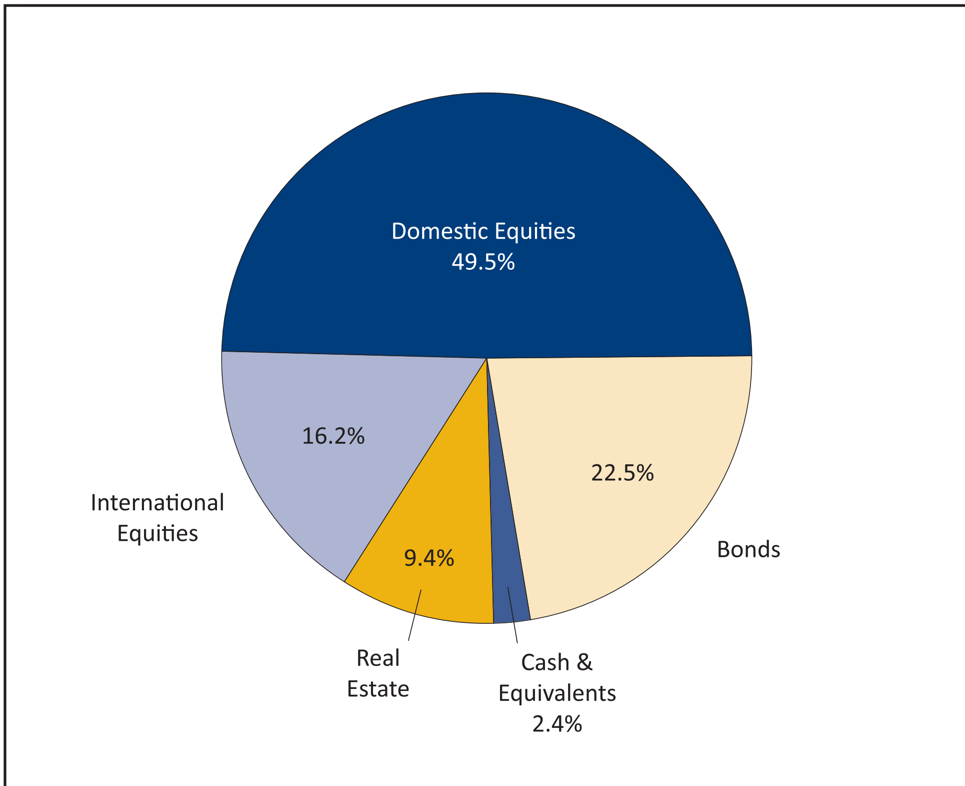
The System's asset allocation as of December 31, 2007 was $772.2 million committed to domestic equities, $252.7 million to international equities, $350.7 million to bonds, $146.9 million to real estate, and $37.6 million to cash equivalents. The percentage distribution is illustrated below.

The time-weighted rate of return for the System's investments during the fiscal year ended December 31, 2007 was 8.2%, ranking near the median in the 46th percentile of all balanced funds. This performance level was above the median balanced fund's return of 6.7%. The cumulative five-year return for December 2002 through December 2007 of 13.1% annualized ranked in the 28th percentile.

For the year ended December 31, 2007, equities gained 8.6% and ranked in the 35th percentile, performing 3.1% above the Standard and Poor's 500 return of 5.5%. For the last five years, the System's stock return of 14.3% annualized ranked in the 47th percentile, 1.5% per year above the Standard and Poor's 500 return of 12.8% for the same time period.

Fixed income returned 6.9% for the year, ranking in the 51st percentile, barely trailing the Lehman Aggregate bond index return of 7.0%. For the five-year period, the cumulative bond return of 4.3% annualized ranked in the 80th percentile, performing 0.1% below the Lehman Aggregate bond index return of 4.4% for the same period.

The real estate segment of the portfolio earned 15.2% for the fiscal year. For the cumulative five-year period, the real estate portfolio earned 15.1% annualized.



## Portfolio Summary

As of December 31, 2007

| Type of Investment | Par Value | Cost Value | Fair Value | % of Total Fair Value |
|---|---|---|---|---|
| Corporate and government bonds | | | | |
| U.S. government bonds | $ 189,800,000 | $ 189,800,000 | $ 249,600,000 | 16% |
| Corporate bonds | 76,800,000 | 76,800,000 | 101,000,000 | 6 |
| **Total** | **266,600,000** | **266,600,000** | **350,600,000** | **22** |
| Common stock | | | | |
| Domestic | 674,500,000 | 674,500,000 | 771,500,000 | 50 |
| International | 210,200,000 | 210,200,000 | 252,300,000 | 16 |
| **Total** | **884,700,000** | **884,700,000** | **1,023,800,000** | **66** |
| Other investments | | | | |
| Real estate equity | 113,000,000 | 113,000,000 | 146,500,000 | 9 |
| Cash equivalents | 40,100,000 | 40,100,000 | 40,100,000 | 3 |
| **Total** | **153,100,000** | **153,100,000** | **186,600,000** | **12** |
| **Grand total** | **$1,304,400,000** | **$1,304,400,000** | **$1,561,000,000** | **100%** |

## Portfolio Quality

Two-Year Comparative Analysis
Years Ended December 31, 2007 and 2006

| Bond Rating | Fair Value | % of Total Fair Value | % of Total Carrying Value |
|---|---|---|---|
| **December 31, 2007** | | | |
| AAA | 249,600,000 | 71% | 71% |
| AA | 101,000,000 | 29 | 29 |
| A | 0 | 0 | 0 |
| **Total bonds** | 350,600,000 | 100% | 100% |
| **December 31, 2006** | | | |
| AAA | $234,900,000 | 72% | 72% |
| AA | 93,100,000 | 28 | 28 |
| A | 0 | 0 | 0 |
| **Total bonds** | $328,000,000 | 100% | 100% |

## Portfolio Rates of Return [1]

Last 5 Years

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. The System's returns have been competitive with other professionally managed funds.

| Rates of Return (Dollar Weighted) | Year Ended 12/31/2007 | Period from 1/1/05 to 12/31/07 (Annualized) | Period From 1/1/03 to 12/31/07 (Annualized) |
|---|---|---|---|
| Total | 8.2% | 9.8% | 13.1% |
| (Rank) [2] | (46) | (37) | (28) |
| Large Cap Equities | 8.6 | 10.1 | 14.3 |
| (Rank) [3] | (35) | (34) | (47) |
| Fixed Income | 6.9 | 4.5 | 4.3 |
| (Rank) [4] | (51) | (64) | (80) |
| Real Estate | 15.2 | 15.7 | 15.1 |
| International | 14.8 | 17.8 | 22.4 |
| (Rank) | (40) | (54) | (64) |
| Small Cap Equities | -2.2 | 6.1 | 15.4 |
| (Rank) | (73) | (78) | (82) |
| Inflation Rate | | | |
| Consumer Price Index | 4.1 | 3.3 | 3.0 |
| Market Indicators | | | |
| Standard and Poor's 500 | 5.5 | 8.6 | 12.8 |
| Russell 2000 | -1.6 | 6.8 | 16.2 |
| Lehman Aggregate Bond Index | 7.0 | 4.6 | 4.4 |
| S & P BMI Ex-US | 12.7 | 18.5 | 23.6 |
| 91-day Treasury Bills | 4.4 | 4.1 | 3 |
| NCREIF Property Index | 16.9 | 17.9 | 14.7 |
| Shadow Index [5] | 6.7 | 9.6 | 12.7 |

(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 shadow index is a customized index created by the System's investment consultant. It is constructed at the asset class level with corresponding benchmark allocations matching the portfolio on a quarterly basis. The following asset classes and corresponding benchmarks have been utilized: Large Cap Equity -- S&P 500; Fixed Income -- Lehman Aggregate Index; Cash & Equivalent -- 90-Day T Bills; Real Estate -- NCREIF Property Index; International Equity -- S&P/Citigroup BMI Ex-US Index; Small Cap Equity -- Russell 2000.

## Ten Largest Common Stock Holdings

As of December 31, 2007 (Fair Value)

| Stock | Shares | Fair Value | % of Stock Portfolio |
|---|---|---|---|
| Deere & Co. | 140,800 | $13,115,673 | 1.70% |
| Hewlett-Packard Co. | 244,470 | 12,351,295 | 1.60% |
| McDonald's Corp. | 196,500 | 11,577,406 | 1.50% |
| Microsoft Corp. | 323,000 | 11,499,084 | 1.49% |
| Lockheed Martin Corp. | 108,400 | 11,414,921 | 1.48% |
| Nokia Corp. | 274,200 | 10,526,538 | 1.36% |
| Coca-Cola Co. | 167,600 | 10,288,619 | 1.33% |
| Johnson & Johnson | 149,000 | 9,938,833 | 1.29% |
| United Technologies Corp. | 127,800 | 9,782,348 | 1.27% |
| Mobile Telesystems | 91,000 | 9,262,890 | 1.20% |

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

## Summary of Investment Expenses

Comparative Two-Year Schedule
Years ended December 31, 2007 & 2006

| Firm Name | 2007 | 2006 |
|---|---|---|
| Blackrock Financial Management | $ 111,410 | $ 422,773 |
| Century Capital Management | 373,784 | 330,305 |
| Chase Investment Counsel Corporation | 983,115 | 903,934 |
| Denver Investment Advisors | 102,914 | 0 |
| DePrince, Race & Zollo, Inc. | 340,932 | 297,812 |
| Emerald Advisors | 215,883 | 199,337 |
| Forest Investment Associates | 224,688 | 138,418 |
| GlobeFlex Capital | 276,781 | 0 |
| LSV Asset Management | 757,474 | 680,320 |
| Mercator Asset Management | 823,024 | 703,203 |
| Prudential Investments | 771,606 | 672,048 |
| State Street Global Advisors | 214,142 | 207,723 |
| Waddell & Reed Investment Management | 97,328 | 543,880 |
| Wentworth, Hauser and Violich | 298,752 | 0 |
| **Total Investment Management Fees** | **5,591,833** | **5,099,753** |
| Custodial Fees - BNY Mellon | 7,962 | 6,598 |
| **Total Investment Expenses** | **$5,599,795** | **$5,106,351** |

## Summary of Commissions Paid to Brokers

Year Ended December 31, 2007

| Broker Name | Commissions Paid |
|---|---|
| ABG Securities, Oslo | $4,589 |
| ABN AMRO Securities LLC, New York | 5,296 |
| Assent LLC, Hoboken | 11 |
| Avondale Partners LLC, Nashville | 4,056 |
| B Trade Services LLC, New York | 18,868 |
| Baird, Robert W. & Co. Inc., Milwaukee | 4,423 |
| Banc of America Securities LLC, Charlotte | 9,330 |
| Banco Bilbao Vizcaya, Madrid | 584 |
| Banco Santander, New York | 2,618 |
| Banque Paribas, Paris | 2,689 |
| Bear Stearns & Co. Inc., New York | 29,287 |
| Bear Stearns London | 64 |
| Bear Stearns Securities Corp., Brooklyn | 1,145 |
| Bernstein Sanford C. & Co., New York | 2,209 |
| BNP Paribas Peregrine Sec. LTD, Hong Kong | 3,246 |
| BNY Convergex, New York | 5,557 |
| Brean Murray Foster Inc., New York | 576 |
| Brockhouse and Cooper, Montreal | 14 |
| Calyon, Madrid | 785 |
| Canaccord Adams Inc., Boston | 1,536 |
| Cantor Fitzgerald & Co. Inc., New York | 4,975 |
| Cantor Fitzgerald & Co., New York | 3,080 |
| CAP Institutional Services Inc.-Equities, Dallas | 7,627 |
| Caris & Company Inc., Jersey City | 1,251 |
| Carnegie ASA, Oslo | 2,125 |
| Cazenove & Co., London | 232 |
| CI Nordic Securities AB, Stockholm | 287 |
| CIBC World Markets Corp., New York | 8,481 |
| Citibank LTD, Melbourne | 87 |
| Citibank NA, London | 84 |
| Cicibank, Milan | 35 |
| Citigroup GBL Markets Inc., New York | 16,364 |
| Citigroup GBL Markets/Salomon, New York | 13,048 |
| Citigroup Global Markets LTD, London | 1,097 |
| Clearstream Banking AG, Frankfurt | 2,987 |
| Cochran Caronia Securities LLC, Jersey City | 580 |
| Cowen and Company LLC, New York | 2,331 |
| Craig Hallum, Minneapolis | 2,937 |
| Credit Agricole Cheuvreux, Courbevoie | 9,009 |
| Credit Agricole Securities, NY | 1,577 |
| Credit Lyonnais Securities, Seoul | 1,644 |

| Broker Name | Commissions Paid |
|---|---|
| Credit Lyonnais Securities (Asia), Hong Kong | 1,218 |
| Credit Lyonnais Securities, Singapore | 4,356 |
| Credit Research & Trading LLC, Jersey | 928 |
| Credit Suisse (Europe), London | 1,601 |
| Credit Suisse, New York | 19,464 |
| D Carnegie AB, Stockholm | 2,593 |
| Dahlman Rose & Co. LLC, Jersey City | 856 |
| Daiwa Securities America Inc., New York | 5,527 |
| Davenport & Co. of Virginia, Richmond | 292 |
| DBS Securities, Singapore | 311 |
| Deutsche Bank AG, Frankfurt | 1,751 |
| Deutsche Bank Securities Inc., NY | 13,534 |
| Dougherty Company, Brooklyn | 4,865 |
| Dowling & Partners, Jersey City | 1,748 |
| Dresdner Kleinwort Securities LTD | 9,800 |
| Dresdner Kleinwort Wasserstein, New York | - |
| E Trade Securities Inc., Palo Alto | 2,031 |
| EMP Research Partners LLC, Brooklyn | 484 |
| Enskidla Securities AB, London | 5,879 |
| Exane, New York | 2,200 |
| Exane, Paris (EXANFRPP) | 1,414 |
| First Analysis Securities Corp., Chicago | 102 |
| First Clearing LLC, Richmond | 40 |
| Fortis Bank Nederland, Amesterdam 101 | 3,345 |
| Fox Pitt Kelton Inc., New York | 1,859 |
| Fox Pitt Kelton LTD, London | 2,450 |
| Friedman Billings, Washington DC | 8,328 |
| Futuretrade Securities LLC, Brooklyn | 479 |
| Goldman Sachs & Co., NY | 22,265 |
| Goldman Sachs Execution & Clearing, NY | 517 |
| Green Street Advisors, Jersey City | 484 |
| Gunnallen Financial, Jersey City | 1,206 |
| Hibernia Southcoast Cap. Inc., Jersey City | 993 |
| Howard Weil Incorporated, New Orleans | 497 |
| Instinet Corp., London | 257 |
| Instinet Corp., New York | 3,076 |
| Instinet Corp., NY | 2,700 |
| Instinet, Paris | 341 |
| Intermonte Sec. CIM, Milan | 1,646 |
| Intersecurities Inc., Jersey City | 375 |
| Investment Technology Groups, New York | 145,301 |
| ISI Group Inc., NY | 270 |
| ITG (Europe) LTD, Dublin | 720 |

| Broker Name | Commissions Paid |
|---|---|
| ITG Canada Corp., Toronto | 18 |
| J P Morgan Sec. LTD/Stock Lending, London | 5,330 |
| J P Morgan Sec., Sydney | 413 |
| J P Morgan Secs. LTD, London | 2,746 |
| Janney Montgomery Scott, Philadelphia | 3,030 |
| Jefferies & Co. Inc., New York | 15,822 |
| JMP Securities, San Francisco | 5,298 |
| Johnson Rice & Co., New Orlelans | 713 |
| Jones & Associates Inc., Westlake Village | 141 |
| JonesTrading Instl. Svcs. LLC, Westlake | 1,800 |
| JP Morgan Securities Asia Pacific, Hong Kong | 4,540 |
| Keefe Bruyette and Woods, Jersey City | 7,786 |
| Keybanc Capital Markets Inc., New York | 1,206 |
| King (CL) & Associates, Albany | 1,162 |
| Knight Sec. Broadcort, Jersey City | 7,529 |
| Leerink Swann & Co., Jersey City | 5,824 |
| Lehman Bros. Inc., New York | 13,994 |
| Lehman Bros. Intl., London | 428 |
| Liquidnet Inc., Brooklyn | 16,546 |
| MacQuaire Equities LTD, Sydney | 3,867 |
| Mainfirst Bank AG, Frankfurt | 3,734 |
| Merrill Lynch Intl. London Equities | 7,200 |
| Merrill Lynch Pierce Fenner Smith Inc., NY | 11,092 |
| Merrill Lynch Pierce Fenner, Wilmington | 4,945 |
| Merrill Lynch Professional Clrg. Purchase | 4,464 |
| Merriman Curhan Ford, Jersey City | 4,169 |
| Midwest Research Securities, Jersey City | 394 |
| Mizuho Securities USA Inc., New York | 2,482 |
| Morgan J P Securities Inc., New York | 17,616 |
| Morgan Keegan & Co. Inc., Memphis | 1,445 |
| Morgan Stanley & Co. Inc., New York | 21,987 |
| Morgan Stanley Hong Kong Sec. LTD | 2,666 |
| Natexis Bleichroeder Inc., New York | 1,678 |
| National Financial Services Corp., New York | 2,091 |
| Needham & Co., New York | 6,495 |
| Nomura Securities Intl. Inc., New York | 14,010 |
| Non-Broker Corp. Actions, Boston | 84 |
| NZB NEUE Zuercher Bank, Zurich | 2,195 |
| Oppenheimer & Co. Inc., New York | 1,811 |
| Pacific Crest Securities, Portland | 2,879 |
| Penson Financial Services Inc., Dallas | 3,053 |
| Pershing Division of DLJ, NY | 871 |
| Pershing LLC, Jersey City | 1,479 |

| Broker Name | Commissions Paid |
|---|---|
| Pershing Securities LTD, London | 296 |
| Pickering Energy Partners, Houston | 790 |
| Pipeline Trading Systems LLC, New York | 1,103 |
| Piper Jaffray & Co., Minneapolis | 13,265 |
| Prudential Equity Group, New York | 10,301 |
| Pulse Trading LLC, Boston | 9,649 |
| Punk, Ziegel & Knoell, New York | 454 |
| Raymond James & Assoc. Inc., St. Petersburg | 10,358 |
| RBC Capital Markets Corp., New York | 2,947 |
| RBC Dain Rauscher Inc., Minneapolis | 92 |
| Roth Capital Partners LLC, Irvine | 236 |
| Royal Bank of Canada, Toronto (RBCT) | 389 |
| S G Cowen & Co. LLC, New York | 346 |
| Sandler O'Neill & Partners, New York | 1,241 |
| Sanford C. Bernstein & Co. Inc., London | 5,990 |
| Scotia McLeod (USA) Inc., New York | 200 |
| Scott Stringfellow Inc., Richmond | 2,021 |
| SG Americas Securities LLC, New York | 860 |
| Sidoti & Co. LLC, New York | 3,894 |
| SIS Segaintersettle AG, Zurich | 5,474 |
| State Street Bank Asset Mgmt. Div., Boston | 6,504 |
| State Street Bank & Trust Co. (SEC), London | 51,909 |
| State Street Brokerage SVCS., Boston | 86,160 |
| Stephens Inc., Little Rock | 556 |
| Sterne Agee & Leach Inc. | 1,546 |
| Stifel Nicolaus | 6,348 |
| Suntrust Capital Markets Inc., Atlanta | 10,257 |
| Thinkequity Partners LLC, Minneapolis | 996 |
| Thomas Weisel Partners, San Francisco | 3,283 |
| UBS Equities, London | 8,464 |
| UBS Securities Hong Kong LTD, Hong Kong | 2,909 |
| UBS Securities LLC, Stamford | 32,919 |
| UBS Warburg Asia LTD, Hong Kong | 1,676 |
| UBS Warburg Australia Equities, Sydney | 490 |
| Union Bank Switzerland Securities, London | 4,882 |
| Wachovia Capital Markets LLC, Charlotte | 3,937 |
| Wachovia Securities LLC, New York | 1,596 |
| Wedbush Morgan Securities Inc., Los Angeles | 3,717 |
| Weeden & Co., New York | 657,988 |
| Westdeutsche Landesbank, London | 226 |
| William Blair & Co., Chicago | 5,861 |
| WR Hambrecht & Co., San Francisco | 587 |
| **Total Brokerage Commissions Paid** | **$1,634,567** |

## INTRODUCTION

The following represents highlights from the Board's investment guidelines adopted on January 26, 2006. 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 daily management of the System's assets.

## BACKGROUND

The System is currently experiencing a positive cash flow, however, it is expected that this will gradually decline in the future. The System currently meets routine benefit payments 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 as well as current market trends, the Board established its allocation goals as follows:

| | |
|---|---|
| Equities (large capitalized firms) | 35% |
| Equities (small capitalized firms) | 15% |
| Equities (non-US domiciled firms) | 15% |
| Fixed income | 20% |
| Real estate | 15% |

## OBJECTIVE

The Board's investment objective is to benefit PMRS 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 managers' performance measures rely on other characteristics that 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 manager 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, in turn, invests 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 manager other than a U.S. government bond is to account for more than 5% of the fair value of an investment manager'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 issuance, 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 sector 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 for all of that manager's clients shall account for no more than 5% of the outstanding voting common stock of a 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 manager'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 future 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 managers.

Investment managers are directed to execute orders on the best net execution/price basis. Transactional costs and the rate of turnover are monitored. Active equity managers 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 managers 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 managers. Reports required of investment managers 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. Active equity managers are required to report on a quarterly basis the average commission price per share traded during the quarter. In addition to the written reports, the investment managers are obligated to make periodic personal appearances before the Board as specifically spelled out in the investment manager's contract.

Investment managers' fees are paid in hard dollars. The cost for each investment manager is based on the fair value of the firm's assets in the System's portfolio at the end of each quarter.

### Monitoring

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

# Actuarial

**"In utilizing the System's previously adopted formula for considering the funding of the System, the System's assets are sufficient to provide an award of excess interest at a rate of 3.12% of plan assets."**

*Kenneth Kent, Cheiron Inc., Actuarial Consultant*
*speaking on the board's ability to award excess interest in 2007*
*September 2007*

# Actuary's Certification Letter

CHEIRON Classic Values, Innovative Advice

May 28, 2008

Pennsylvania Municipal Retirement Board of the
Pennsylvania Municipal Retirement System
c/o James B. Allen, Secretary
P.O. Box 1165
Harrisburg, PA 17108-1165

Dear Members of the Board:
At your request, we have conducted the annual actuarial valuation of the Pennsylvania Municipal Retirement System (the System) as of January 1, 2007.

This report contains information on System assets, as well as analyses which combine asset and liability performance and projections. As a single retirement system made up of plans for participating municipalities and counties in which assets and liabilities are separately accounted for, this report reflects aggregate valuation results for the System which is considered a multiple employer plan. The report provides statistics on employer contribution levels for the defined benefit portion of the municipal plans participating in the system as of the valuation date as well as required disclosures under the Governmental Accounting Standards Board Statement #25 for the entire System.

In preparing our report, we relied without audit, on information (some oral and some written) supplied by the Office of System's staff. This information includes, but is not limited to, plan provisions, employee data, and financial information.

The actuarial assumptions reflect our understanding of the likely future experience of the System and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the System could vary from our results.

The comments with respect to the data and actuarial assumptions are the basis for our certification that this report is complete and accurate to the best of our knowledge and belief. The results of this report are only applicable for the defined benefit municipal plans which were reported to the State for the Act 205 2007 System Year and rely on future System experience conforming to the underlying assumptions. To the extent that actual System experience deviates from the underlying assumptions, the results would vary accordingly.

We hereby certify that, to the best of our knowledge, our report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. The undersigned as Members of the American Academy of Actuaries and/or Society of Actuaries, meet the Qualification Standards to render the opinions contained herein.

Sincerely,
Cheiron

Kenneth A. Kent, FSA, FCA
Consulting Actuary

Katie Dobbs, ASA
Actuary

8200 Greensboro Drive, Suite 1125, McLean, VA 22102 Tel: 877 CHEIRON (243.4766) Fax: 703.893.2006 www.cheiron.us

## Solvency Test

Aggregate Accrued Liabilities for

| Valuation Date January 1, | Active Member Contributions (1) [1] | Retirees & Beneficiaries (2) | Active Member Employer Financed Contributions (3) | Actuarial Value of Reported Assets | Portion of Accrued Liabilities Covered by Reported Assets (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| 2007 | $293,593,948 | $471,770,821 | $516,657,229 | $1,336,009,295 | 100% | 100% | 110% |
| 2005 | 231,122,200 | 395,061,900 | 528,674,100 | 1,219,130,000 | 100% | 100% | 112% |
| 2003 | 213,174,400 | 329,766,100 | 412,318,900 | 1,084,828,900 | 100% | 100% | 131% |
| 2001 | 201,814,300 | 263,171,300 | 347,659,500 | 976,868,000 | 100% | 100% | 147% |
| 1999 | 170,495,100 | 224,089,800 | 297,499,500 | 773,062,000 | 100% | 100% | 127% |

## Funded Status of Actuarial Liabilities

GASB Statement No. 25 Disclosure

| Valuation Date January 1, | Actuarial Value of Assets (A) | Actuarial Liability (AL) Entry Age (B) | Unfunded AL (Surplus) (B-A) | Funded Ratio (A/B) |
|---|---|---|---|---|
| 2007 | 1,336,009,295 | 1,282,021,998 | (53,987,297) | 104.2% |
| 2006 | 60,678,307 | 55,251,080 | (5,427,227) | 109.8% |
| 2005 | 1,219,130,000 | 1,154,858,200 | (64,271,800) | 105.6% |
| 2004 | 54,024,249 | 45,580,670 | (8,443,579) | 118.5% |
| 2003 | 1,084,828,900 | 955,259,400 | (129,569,500) | 113.6% |
| 2002 | 242,905,700 | 196,473,500 | (46,432,200) | 123.6% |

The actuarial assumptions as of January 1, 2007 are shown in the assumptions and methods section. The above information was derived from the following membership data, as provided by the System, regarding:

- ♦ 683 defined benefit county and non-county plans and 177 defined contribution only plans as of January 1, 2007;
- ♦ 4 defined benefit plans required to re-determine contribution levels as of January 1, 2006;
- ♦ 678 defined benefit county and non-county plans and 169 defined contribution only plans as of January 1, 2005;
- ♦ 4 defined benefit plans required to re-determine contribution levels as of January 1, 2004;
- ♦ 656 defined benefit county and non-county plans and 163 defined contribution only plans as of January 1, 2003;
- ♦ 14 defined benefit plans required to re-determine contribution levels as of January 1, 2002.

[1] This includes the sum of the active member employee contribution balances, the member separate annuity account balances, the municipal for separate annuity account balances, and the excess interest allocations.

## Note to Required Supplementary Information

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, 2007 |
| Actuarial cost method | Entry age |
| Amortization method | Level dollar for Plan Bases and open for Aggregate Gain/Loss |
| Actuarial assumptions: | |
| Investment rate of return [1] | 6.0% |
| Projected salary increases [1] | 3.0% - 7.8% |
| [1] Includes inflation at | 3.0% |
| Cost-of-living adjustments | ad hoc |

The rate of employer contributions to the System is composed of the normal cost, amortization of the unfunded actuarial liability and an allowance for administrative expenses. The normal cost is a level percent of payroll cost which, along with member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability. The allowance for administrative expenses is based upon the System's actual administrative expenses.

### Schedule of Retirees and Beneficiaries

Added to and Removed from Rolls in Last Six Years

| Valuation Date January 1, | Added to Roll | Average Annual Annuities Added | Deleted from Roll | Average Annual Annuities Removed | Number on Roll | Annual Annuities | Percentage Increase in Annuities | Average Annual Annuities | Percentage Increase in Average Annual Annuities |
|---|---|---|---|---|---|---|---|---|---|
| 2007 | 252 | 12,828 | 170 | N/A | 3,459 | 39,870,509 | 5.1% | 11,527 | 2.6% |
| 2006 | 268 | N/A | 83 | N/A | 3,377 | 37,943,181 | 9.4 | 11,236 | 3.4 |
| 2005 | 251 | N/A | 116 | N/A | 3,192 | 34,691,928 | 8.4 | 10,868 | 3.8 |
| 2004 | 214 | N/A | 84 | N/A | 3,057 | 32,010,035 | 7.4 | 10,471 | 2.8 |
| 2003 | 199 | N/A | 71 | N/A | 2,927 | 29,816,676 | 8.2 | 10,187 | 3.4 |
| 2002 | 250 | N/A | 138 | N/A | 2,799 | 27,566,700 | 11.4 | 9,849 | 6.9 |

[1] The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board based on the most recent review of the System's experience completed in 2003.

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## Schedule of Total Membership

Six Year Trend

| Valuation Date January 1, | Active Members Defined Benefit Plans | Active Members Defined Contribution Plans | Retirees | Beneficiaries | Deferred Pensions | Inactive Members | Total |
|---|---|---|---|---|---|---|---|
| 2007 | 8,314 | 918 | 2,965 | 494 | 723 | 33 | 13,447 |
| 2006 | 8,374 | 896 | 2,941 | 436 | 675 | 66 | 13,388 |
| 2005 | 8,341 | 867 | 2,768 | 424 | 602 | 165 | 13,167 |
| 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 |

## Funded Status of Actuarial Liabilities

Schedule of Total Membership Over Last Four Years

| | As of January 1[1] | | | |
|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 |
| a. Retirees currently receiving benefits | 2,965 | 218 | 2,768 | 194 |
| b. Beneficiaries currently receiving benefits | 494 | 8 | 424 | 8 |
| c. Terminated vested employees entitled to future benefits from DB plans | 561 | 53 | 464 | 37 |
| d. Terminated non-vested employees entitled to contribution refunds from DB plans | 33 | 7 | 165 | 4 |
| e. Active employees in defined benefit plans | 8,314 | 717 | 8,341 | 731 |
| i. Aggregate salary [2] | $358,690,830 | $23,905,899 | $319,004,918 | $22,249,329 |
| ii. Vested | 4,430 | 358 | 4,603 | 259 |
| iii. Non-vested | 3,884 | 359 | 3,738 | 472 |
| f. Participants in defined contribution-only plans | 1,080 | -- | 1,005 | -- |
| i. Aggregate salary [3] | $28,213,485 | -- | $26,807,519 | -- |
| ii. Active | 918 | -- | 867 | -- |
| iii. Inactive | 162 | -- | 138 | -- |

[1] The odd years include defined benefit non-county plans, defined benefit county plans, and defined contribution only plans. The even years are for defined benefit county plans only.

[2] Projected salary for actives under the latest retirement age for year following valuation date.

[3] Actual salary for preceding valuation date.

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# Actuarial Assumptions and Methods

## Actuarial Assumptions

The current PMRS actuarial assumptions used in this study are as follows.

**A. Healthy Life Mortality rates:** Sample rates are:

| Healthy Life Mortality Rates | | | | |
|---|---|---|---|---|
| | Retirees Prior to January 1, 2005 (1983 GAM Males; females setback 6 years) | | New Retirees on or after January 1, 2005 (1994 GAM) | |
| Age | Male | Female | Male | Female |
| 50 | 0.39% | 0.19% | 0.26% | 0.14% |
| 55 | 0.61 | 0.35 | 0.44 | 0.23 |
| 60 | 0.92 | 0.57 | 0.80 | 0.44 |
| 65 | 1.56 | 0.84 | 1.45 | 0.86 |
| 70 | 2.75 | 1.39 | 2.37 | 1.37 |
| 75 | 4.46 | 2.48 | 3.72 | 2.27 |
| 80 | 7.41 | 4.04 | 6.20 | 3.94 |
| 85 | 11.48 | 6.71 | 9.72 | 6.77 |

(a) Type of Death:

(i) 15% of mortality is assumed to be service related for municipal plans, and

(ii) 50% of mortalities are assumed to be service related for uniform plans.

**B. Disabled Life Mortality Rates:** Mortality under healthy life table for a life 10 years older.

**C. 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 where such percentage equals 100 percent less 5 percent x (25 – number of members); for municipalities with 5 or fewer members, no terminations were assumed.

| Termination Rates Before Retirement | | | |
|---|---|---|---|
| | Current Valuation Rate [1] | | |
| | Uniformed | Municipal | |
| Years of Service | M&F | Male | Female |
| Less than 1 | 13% | 13% | 16% |
| 1 but less than 2 | 10 | 12 | 15 |
| 2 but less than 3 | 7 | 10 | 13 |
| 3 but less than 4 | 7 | 9 | 11 |
| 4 but less than 5 | 6 | 6 | 9 |
| 5 but less than 6 | 5 | 6 | 8 |
| 6 but less than 7 | 4 | 6 | 7 |
| 7 but less than 8 | 3 | 5 | 7 |
| 8 but less than 9 | 3 | 4 | 6 |
| 9 but less than 10 | 3 | 3 | 5 |
| 10 or more | 3 | 2 | 4 |

**D. Disability Incidence Rates:**

Municipal - 40% of 1964 OASDI (Social Security) Experience for Males. Sample rates are:

Municipal Rates

| Age | Current Valuation Rate (%) |
|---|---|
| 25 | 0.034% |
| 35 | 0.059 |
| 45 | 0.144 |
| 55 | 0.404 |
| 65 | 0.928 |

Uniformed plans - 60% of 1964 OASDI (Social Security) Experience for Males. Sample rates are:

Uniformed Rates

| Age | Current Valuation Rate (%) |
|---|---|
| 25 | 0.051% |
| 35 | 0.088 |
| 45 | 0.216 |
| 55 | 0.605 |
| 65 | 1.393 |

Type of disability:

(i) 15% of disablements are assumed to be service related for municipal plans

(ii) 50% of disablements are assumed to be service related for uniform plans.

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

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

**F. Salary Scale:** Three year select rates include 3.0% inflation and age-related scale for merit/seniority based on sample rates as shown at right plus 2% during the select period only then reverting to inflation and merit/seniority thereafter. Final actual salary plans assume an additional 6% at retirement.

Sample rates are:

Sample Salary Rates

| Age | Total Rate (%) [1] (including inflation) |
|---|---|
| 25 | 7.8% |
| 30 | 5.9 |
| 35 | 5.1 |
| 40 | 4.5 |
| 45 | 4.2 |
| 50 | 4.1 |
| 55 | 3.9 |
| 60 | 3.7 |
| 65 | 3.0 |

**G. Retirement age:** The age at which unreduced benefits are available. No early retirement is assumed. Specific assumptions regarding retirement age are:

a) 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.

b) Municipal Members:
   Members are assumed to retire over a range of ages as shown at right:

Retirement Assumptions

| Age | Current Rate of Normal Retirement [2] |
|---|---|
| Under 46 | 5% |
| 46 - 54 | 15 |
| 55 - 59 | 10 |
| 60 - 61 | 10 |
| 62 | 30 |
| 63 - 64 | 20 |
| 65 | 35 |
| 66 - 74 | 15 |
| 75 | 100 |

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

**H. Marital Status and Spouse's Age [3]:** 85 percent of members will be married at time of retirement and females are four years younger than their spouses.

**I. Social Security Projections [3]:**

a) The Social Security Taxable Wage Base will increase by 3.5% compounded annually;
b) The Consumer Price Index will increase by 3.0% compounded annually;
c) The Average Total Wages of All Workers will increase by 3.5% compounded annually.

**J. Post-Retirement Cost of Living Increases [3]:**
3.0% per year, subject to plan limitations.

**K. Net Investment Return:**
6.0% compounded annually (net of investment and certain administration expenses) for funding purposes.

**L. Administrative Expenses:**
The reserve for non-investment related expenses of the system, net the $20 per participant annual assessment is based on expected expenses for the current year. The amount allocated for 2007 is $3,050,000 compared to $2,900,000 for 2006.

## Actuarial Methods

Contribution requirements are individually determined for each participating municipality, on an actuarial basis as described on the next page, at least biannually. The frequency of actuarial valuation is determined by applicable Commonwealth statute

(1) Add 2% for each of the first 3 years of service.
(2) Rates indicated are adjusted by adding 5% (and 10% for ages 60-62 under current rate assumptions) for the year in which the member is first eligible for normal retirement.
(3) If applicable.

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(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:

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

Each year, municipalities 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 is used to allocate the new surplus. Generally, depending on the relative size of surplus to fair market value, between 10 percent and 90 percent of the new surplus will become excess interest.

## 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 lesser than the previously determined actuarial level, are reflected by decreases (or increases) in the unfunded actuarial liability. Under Act 205 of 1984, the unfunded actuarial liability is amortized as a level dollar amount over the lesser of:

a) i. 30 years, with respect to the initial liability as of 1/1/85 (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 [1].

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

1) Retired and disabled members are paid monthly benefits from the System's Retired 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 with the System. (However, this procedure does not apply to the legislated ad-hoc adjustments effective January 1, 1989.)

2) A disabled member's pension is met in part 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 the accumulated municipal contributions to the Disability Reserve Account is determined on the one year term cost basis, i.e. the expected cost of disabilities in the coming year.

[1] If there are no active employees, the unfunded liability is amortized one year after the liability was established.

## Notes to Actuarial Section

### ASSUMPTION ANALYSIS

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. An actuarial experience study covering the period 1/1/1998 to 1/1/2003 was used by the Board as the basis to adopt (with the actuary's recommendation) several changes in assumptions that were implemented with the January 1, 2005 actuarial valuation.

# Statistical

**"The excess interest award is 'the icing on the cake' for those plans that held true to the belief that the System's diversified approach to portfolio management was the key to long term performance. Though past performance is not necessarily an indicator of future performance, the System was over 104% funded as of January 1, 2007. This reserve not only protects participating plans in the event of disappointing financial markets, it makes it easier to award excess interest in the future if the markets remain robust."**

*James Allen, Pennsylvania Municipal Retirement System Secretary*
*speaking on the benefits of PMRS*
*September 2007*

## Introduction

The objectives of the statistical section are to provide additional historical perspective, context, and relevant details to assist readers in using information in the financial statements, notes to the financial statements, and required supplementary information in order to understand and assess the System's overall financial condition. In support of these objectives, the System has implemented GASB Statement No. 44, Economic Condition Reporting: The Statistical Section. This statement establishes standardized reporting requirements relative to the supplementary information provided in this section.

The schedules beginning on page 61 compare the revenues versus expenses of the System and include total investments of the System for the past six years. The schedules also show operating information. The operating information is intended to provide contextual information about the System's operations to assist in assessing the System's economic condition. These schedules provide detailed information about the trends of key sources of additions and deductions to the System's assets, which assist in providing a context framing how the System's financial position has changed over time.

The schedules beginning on page 64 provide information relative to membership. The schedules and graphs reflect changes in active and retired members of the System. The information is intended to provide contextual information about the System's membership and framework for the ratio of funding versus obligations. The schedules beginning on page 66 provide information relative to pension payments and pensions awarded. The information is intended to provide contextual information about payment trends of the System.

All non-accounting data is derived from the System's internal sources.

Data presented in the statistical section is not available prior to 2001.

## Number of Members Per Plan

(Plans with 100 or more members)

| Plan | Members |
|---|---|
| Allentown City | 729 |
| Bethlehem City | 602 |
| Adams County | 534 |
| Harrisburg City | 534 |
| Jefferson County | 242 |
| Adams County - Green Acres | 198 |
| Harrisburg Fire | 196 |
| Monroeville Municipality | 184 |
| Lebanon City | 158 |
| Easton City | 148 |
| Bucks County Water & Sewer Authority | 135 |
| Pottstown Borough | 134 |
| Whitehall Township | 110 |
| Tredyffrin Township | 109 |
| Upper Moreland Township | 109 |

## Revenues by Source and Expenses by Type

Last Seven Years

| Fiscal Year | Revenues by Source | | | | |
|---|---|---|---|---|---|
| | Member Contributions | Municipal Contributions [1] | Municipal Assessments [2] | Investment Income | Total Revenue |
| 2007 | $17,491,672 | $29,059,248 | $282,628 | $114,838,806 | $161,672,354 |
| 2006 | 16,316,197 | 21,148,089 | 284,820 | 161,140,029 | 198,889,135 |
| 2005 | 16,046,984 | 19,890,494 | 277,640 | 100,261,568 | 136,476,686 |
| 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) |

| Fiscal Year | Expenses by Type | | | |
|---|---|---|---|---|
| | Benefit Expenses | | Administrative Expenses | Total Expenses |
| | Annuity | Termination | | |
| 2007 | $42,898,882 | $ 7,006,182 | $2,862,482 | $52,767,546 |
| 2006 | 44,136,795 | 18,354,567 | 2,920,868 | 65,412,230 |
| 2005 | 38,206,205 | 10,331,707 | 3,108,239 | 51,646,151 |
| 2004 | 34,730,243 | 10,318,197 | 3,127,096 | 48,175,536 |
| 2003 | 32,212,191 | 7,578,995 | 2,610,839 | 42,402,025 |
| 2002 | 29,575,725 | 8,502,709 | 2,406,732 | 40,485,166 |
| 2001 | 28,941,799 | 11,686,001 | 2,555,114 | 43,182,914 |

## Changes in Net Assets

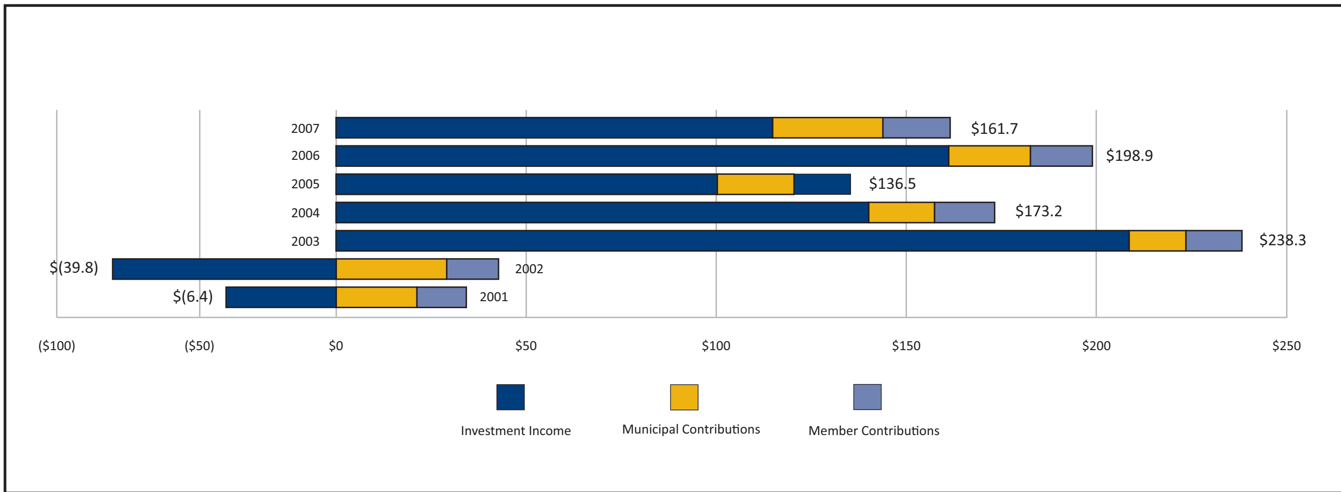
| Fiscal Year | Contributions | Investment Income | Benefit Expenses | Administrative Expenses | Change in Net Assets |
|---|---|---|---|---|---|
| 2007 | $46,833,548 | $114,838,806 | $49,905,064 | $2,862,482 | $108,904,808 |
| 2006 | 37,749,106 | 161,140,029 | 62,491,362 | 2,920,868 | 133,476,905 |
| 2005 | 36,215,118 | 100,261,568 | 48,537,912 | 3,108,239 | 84,830,535 |
| 2004 | 33,126,179 | 140,070,192 | 45,048,440 | 3,127,096 | 125,020,835 |
| 2003 | 29,726,673 | 208,542,292 | 39,791,186 | 2,610,839 | 195,866,940 |
| 2002 | 42,735,867 | (82,539,549) | 38,078,434 | 2,406,732 | (80,288,848) |
| 2001 | 34,267,145 | (40,673,724) | 40,627,800 | 2,555,114 | (49,589,493) |

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

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

## Revenues by Source - Seven-Year Trend

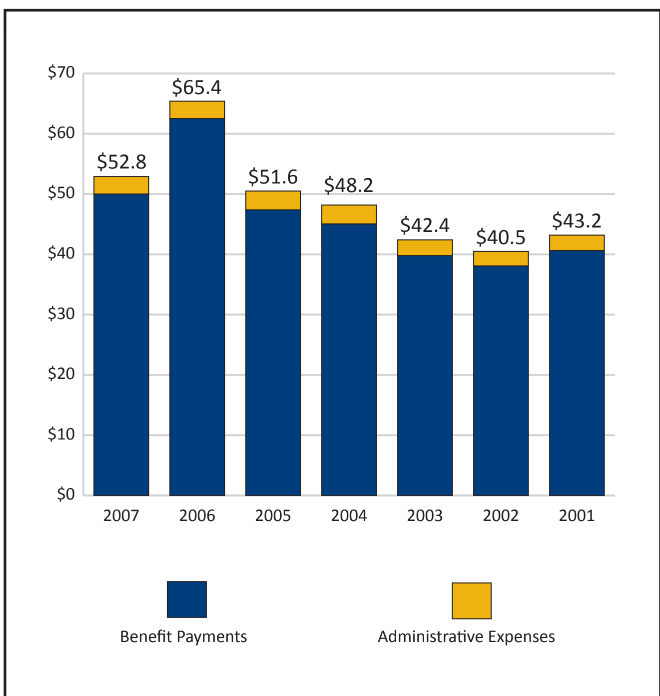
(Amounts in Millions)




## Expenses by Type

Seven-Year Trend

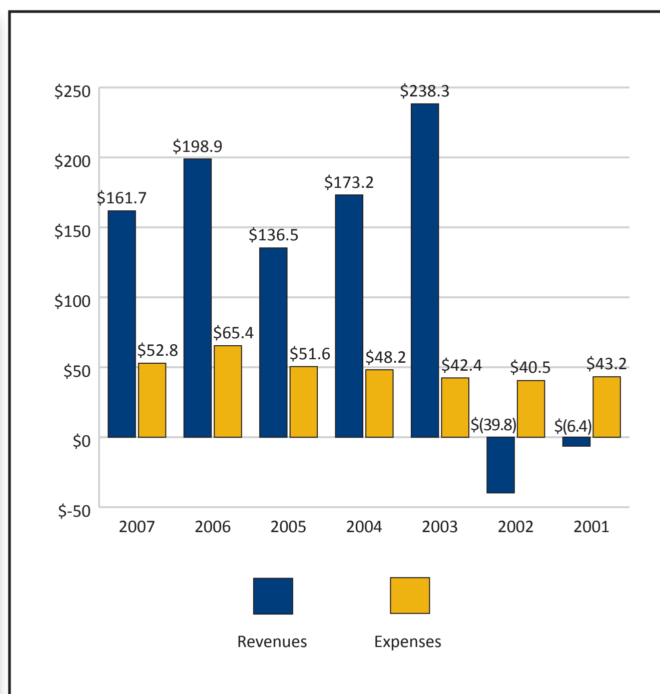
(Amounts in Millions)



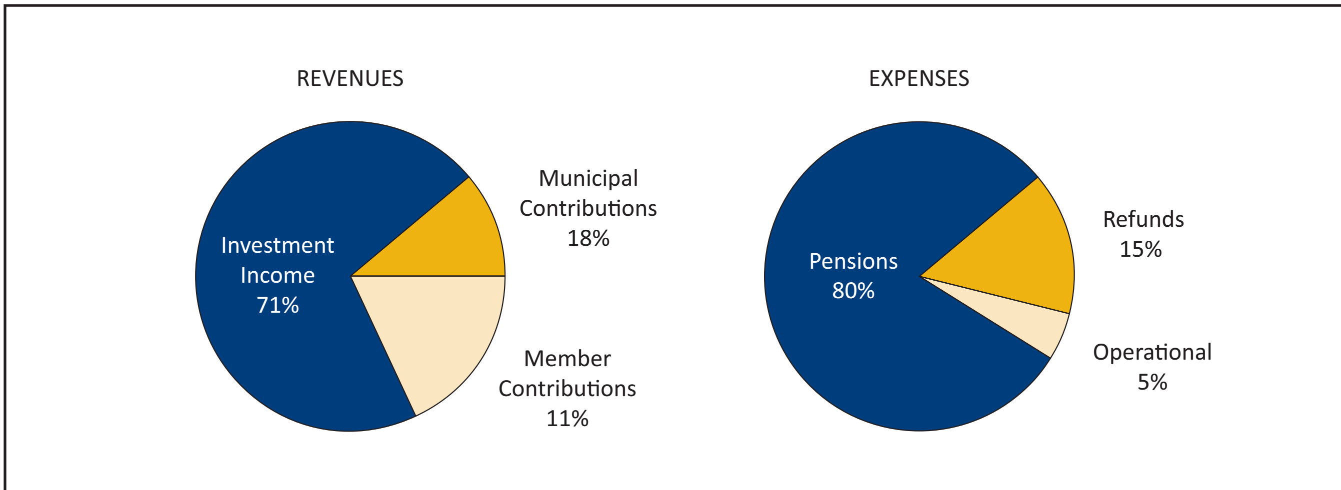

## Revenues vs. Expenses

Seven-Year Trend

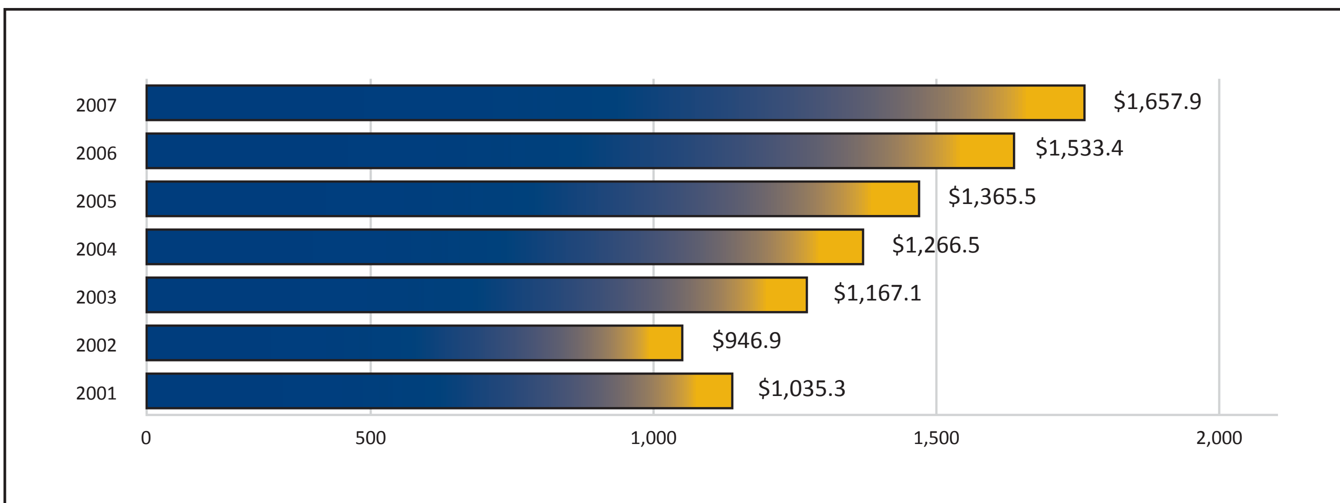
(Amounts in Millions)



## Revenues and Expenses
(Amounts in Millions)

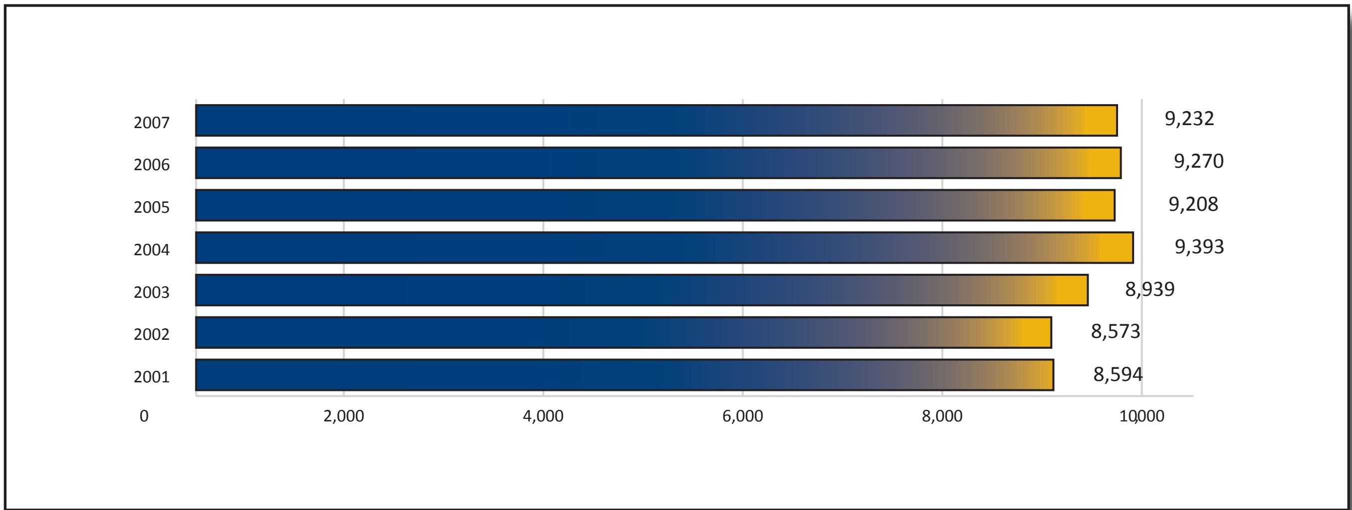



## Total Investments - Seven-Year Trend
(Fair Value - Amounts in Millions)



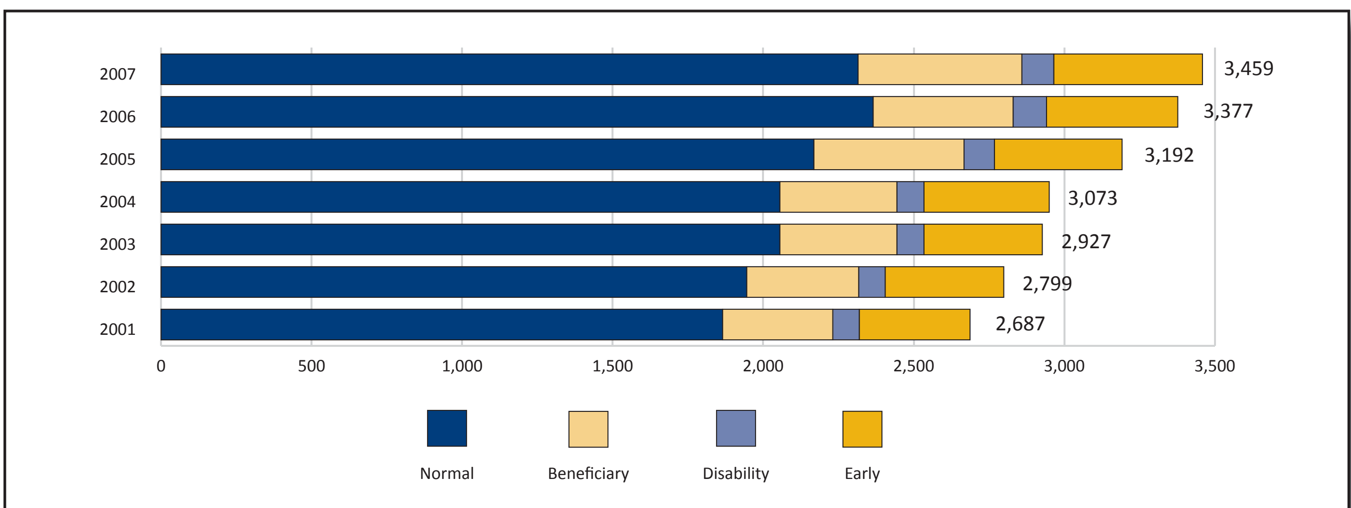
## Active Members - Seven-Year Trend

Valuation Date 1/1




## Retired Members - Seven-Year Trend

Valuation Date 1/1



## Distribution of Active Members

by Age and Service as of January 1, 2007

| Counts by Age/Service | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Age | 1 year or less | 1 to 2 | 2 to 3 | 3 to 5 | 5 to 10 | 10 to 15 | 15 to 20 | 20 to 25 | 25 to 30 | 30 & up | Total |
| Under 20 | 8 | 3 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 12 |
| 20 -24 | 78 | 56 | 23 | 30 | 6 | 0 | 0 | 0 | 0 | 0 | 193 |
| 25 - 29 | 139 | 95 | 58 | 152 | 103 | 3 | 0 | 0 | 0 | 0 | 550 |
| 30 - 34 | 88 | 86 | 41 | 137 | 265 | 68 | 1 | 0 | 0 | 0 | 686 |
| 35 - 39 | 88 | 92 | 71 | 146 | 317 | 203 | 116 | 3 | 0 | 0 | 1,036 |
| 40 - 44 | 99 | 87 | 79 | 149 | 316 | 224 | 244 | 96 | 15 | 0 | 1,309 |
| 45 - 49 | 100 | 65 | 92 | 153 | 308 | 242 | 278 | 198 | 185 | 19 | 1,640 |
| 50 - 54 | 87 | 63 | 79 | 130 | 291 | 231 | 290 | 158 | 200 | 175 | 1,704 |
| 55 - 59 | 49 | 40 | 49 | 75 | 203 | 162 | 228 | 116 | 116 | 164 | 1,202 |
| 60 - 64 | 18 | 14 | 30 | 42 | 111 | 116 | 111 | 58 | 62 | 79 | 641 |
| 65 & up | 12 | 1 | 13 | 21 | 43 | 42 | 46 | 24 | 22 | 35 | 259 |
| Total | 766 | 602 | 535 | 1,036 | 1,963 | 1,291 | 1,314 | 653 | 600 | 472 | 9,232 |

## Distribution of Active Members

by Age and Service as of January 1, 2007

| Average Salary by Age/Service | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Age | 1 year or less | 1 to 2 | 2 to 3 | 3 to 5 | 5 to 10 | 10 to 15 | 15 to 20 | 20 to 25 | 25 to 30 | 30 & up | Total |
| Under 20 | $16,826 | $30,761 | $0 | $1,794 | $0 | $0 | $0 | $0 | $0 | $0 | $19,057 |
| 20 -24 | $27,404 | $31,049 | $31,641 | $36,062 | $33,835 | $0 | $0 | $0 | $0 | $0 | $30,512 |
| 25 - 29 | $29,714 | $33,368 | $36,825 | $40,896 | $39,518 | $34,482 | $0 | $0 | $0 | $0 | $36,047 |
| 30 - 34 | $27,394 | $35,240 | $34,955 | $39,152 | $43,286 | $43,228 | $35,483 | $0 | $0 | $0 | $38,898 |
| 35 - 39 | $30,595 | $36,216 | $36,152 | $38,470 | $42,529 | $44,593 | $48,315 | $45,978 | $0 | $0 | $41,008 |
| 40 - 44 | $32,152 | $32,801 | $35,087 | $36,896 | $38,221 | $44,013 | $47,878 | $46,762 | $44,172 | $0 | $40,548 |
| 45 - 49 | $33,923 | $32,851 | $34,207 | $37,871 | $39,375 | $40,819 | $45,456 | $48,274 | $45,901 | $46,998 | $41,497 |
| 50 - 54 | $30,201 | $32,158 | $30,420 | $37,075 | $37,674 | $39,692 | $43,003 | $46,672 | $49,223 | $49,286 | $41,269 |
| 55 - 59 | $32,535 | $36,209 | $34,268 | $34,393 | $36,931 | $38,948 | $41,632 | $44,261 | $47,220 | $54,930 | $41,780 |
| 60 - 64 | $26,388 | $29,702 | $28,617 | $33,447 | $36,304 | $36,686 | $38,519 | $42,039 | $48,385 | $45,813 | $38,646 |
| 65 & up | $18,801 | $29,770 | $20,601 | $23,486 | $25,577 | $33,800 | $32,001 | $37,500 | $41,607 | $44,573 | $32,368 |
| Total | $30,030 | $33,675 | $33,628 | $37,519 | $39,236 | $41,043 | $43,889 | $45,991 | $47,320 | $50,224 | $40,072 |

## Pensions in Payment Status on January 1, 2007
by Type and by Monthly Amount

| Monthly amount | Total | Type of Pension | | | | |
|---|---|---|---|---|---|---|
| | | Normal | Involuntary early | Voluntary early | Service disability | Non-service disability |
| Total | 3,459 | 2,809 | 183 | 361 | 31 | 75 |
| Under $100 | 166 | 142 | 11 | 11 | 1 | 1 |
| $100 - $199 | 220 | 166 | 34 | 18 | 2 | 0 |
| 200 - 299 | 260 | 201 | 32 | 26 | 0 | 1 |
| 300 - 399 | 259 | 210 | 21 | 27 | 0 | 1 |
| 400 - 499 | 209 | 162 | 13 | 27 | 3 | 4 |
| 500 - 599 | 261 | 210 | 17 | 26 | 0 | 8 |
| 600 - 699 | 213 | 164 | 13 | 27 | 0 | 9 |
| 700 - 799 | 202 | 152 | 7 | 31 | 0 | 12 |
| 800 - 899 | 193 | 150 | 6 | 24 | 2 | 11 |
| 900 - 999 | 177 | 142 | 8 | 17 | 3 | 7 |
| 1,000 - 1,199 | 323 | 253 | 8 | 46 | 4 | 12 |
| 1,200 - 1,399 | 193 | 158 | 5 | 23 | 4 | 3 |
| 1,400 - 1,599 | 187 | 159 | 4 | 17 | 6 | 1 |
| 1,600 - 1,799 | 134 | 120 | 2 | 10 | 2 | 0 |
| 1,800 - 1,999 | 114 | 100 | 2 | 9 | 0 | 3 |
| 2,000 - 2,199 | 76 | 68 | 0 | 7 | 1 | 0 |
| 2,200 - 2,399 | 57 | 54 | 0 | 3 | 0 | 0 |
| 2,400 - 2,599 | 57 | 50 | 0 | 5 | 1 | 1 |
| 2,600 - 2,799 | 46 | 45 | 0 | 0 | 1 | 0 |
| 2,800 - 2,999 | 29 | 26 | 0 | 2 | 0 | 1 |
| 3,000 - 3,499 | 42 | 38 | 0 | 3 | 1 | 0 |
| 3,500 - 3,999 | 24 | 22 | 0 | 2 | 0 | 0 |
| 4,000 and over | 17 | 17 | 0 | 0 | 0 | 0 |

## Pensions Awarded Each of the Last Ten Years

by Type and Amount

| Year ended January 1: | Type of Pension | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total | | Normal | | Voluntary early | | Involuntary early | | Disability | |
| | Count | AMA [(1)] | Sum | AMA | Sum | AMA | Sum | AMA | Sum [(2)] | AMA |
| 2007 | 252 | 1,069 | 192 | 1,082 | 32 | 1,196 | 19 | 572 | 9(2) | 1,373 |
| 2006 | 264 | 1,270 | 217 | 1,290 | 11 | 639 | 23 | 1,257 | 13(4) | 1,493 |
| 2005 | 247 | 1,126 | 189 | 1,185 | 13 | 653 | 35 | 994 | 10(1) | 1,100 |
| 2004 | 214 | 1,199 | 171 | 1,226 | 8 | 609 | 26 | 1,206 | 9(4) | 1,199 |
| 2003 | 199 | 1,087 | 170 | 1,121 | 5 | 670 | 17 | 974 | 7(2) | 837 |
| 2002 | 246 | 1,277 | 206 | 1,346 | 6 | 945 | 30 | 957 | 4(0) | 655 |
| 2001 | 185 | 954 | 147 | 1,028 | 8 | 423 | 25 | 736 | 5(1) | 702 |
| 2000 | 179 | 869 | 152 | 912 | 3 | 345 | 22 | 647 | 2(0) | 850 |
| 1999 | 152 | 939 | 122 | 1,006 | 6 | 347 | 13 | 785 | 11(2) | 698 |
| 1998 | 169 | 782 | 142 | 831 | 9 | 337 | 10 | 594 | 8(4) | 647 |

## Schedule of Total Membership - Seven 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 |
|---|---|---|---|---|---|---|---|
| 2007 | 8,314 | 918 | 2,965 | 494 | 723 | 33 | 13,447 |
| 2006 | 8,374 | 896 | 2,941 | 436 | 675 | 66 | 13,388 |
| 2005 | 8,341 | 867 | 2,768 | 424 | 602 | 165 | 13,167 |
| 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 |

[(1)] Average Monthly Amount

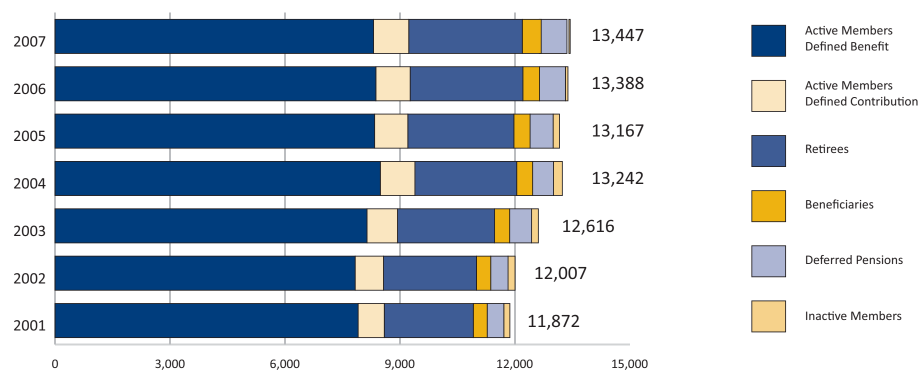
[(2)] Number of service-related disability pensions are shown in parentheses.

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

[(4)] Inactive participants with rights to return of contributions (non-vested)

## Total Membership - Seven-Year Trend

Valuation Date 1/1




## Schedule of Active Member Valuation Data

Last Seven Years

| 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 |
|---|---|---|---|---|---|---|---|---|
| | Defined Benefit Plans | | | | | | | |
| 2007 | 8,314 | (0.1) | 683 | 0.0 | 358,691,000 | 7.6 | 43,143 | 8.4 |
| 2006 | 8,374 | 0.4 | 683 | 0.9 | 333,300,000 | 4.5 | 39,807 | 4.1 |
| 2005 | 8,341 | (1.8) | 678 | 2.4 | 319,005,000 | 0.7 | 38,245 | 2.5 |
| 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 |
| | 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 |
| 2007 | 918 | 2.5 | 177 | 2.9 | 28,213,000 | 1.0 | 30,734 | (1.6) |
| 2006 | 896 | 3.3 | 172 | 1.8 | 27,970,000 | 4.3 | 31,218 | 1.0 |
| 2005 | 867 | (3.8) | 169 | (3.4) | 26,808,000 | 6.0 | 30,920 | 10.3 |
| 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 |

## Schedule of Average New Monthly Benefit Payments from Defined Benefit Plans [1]

Three Years Ended January 1, 2007

| Retirement Effective Dates | Years Credited Service | | | | | | |
|---|---|---|---|---|---|---|---|
| | < 5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
| **Period 1/2/06 to 1/1/07** | | | | | | | |
| Average monthly benefit | $376 | 458 | 707 | 928 | 1,331 | 1,864 | 2,443 |
| Average final average salary | $38,487 | 38,257 | 31,807 | 43,304 | 40,141 | 45,548 | 50,429 |
| Number of retired members | 11 | 21 | 35 | 45 | 39 | 36 | 30 |
| **Period 1/2/05 to 1/1/06** | | | | | | | |
| Average monthly benefit | $686 | 386 | 661 | 1,052 | 1,330 | 1,912 | 2,292 |
| Average final average salary | $38,368 | 27,580 | 33,166 | 37,380 | 37,914 | 46,427 | 45,614 |
| Number of retired members | 11 | 27 | 37 | 44 | 36 | 44 | 60 |
| **Period 1/2/04 to 1/1/06** | | | | | | | |
| Average monthly benefit | $90 | 401 | 640 | 926 | 1,364 | 1,740 | 2,050 |
| Average final average salary | $27,628 | 35,862 | 27,960 | 36,563 | 37,558 | 41,400 | 40,845 |
| Number of retired members | 8 | 16 | 30 | 51 | 42 | 42 | 45 |

[1] Includes Normal Retirement, Early Retirement and Disability Benefits for new retirees in the years listed (excluding new retirees in Defined Contribution plans).

# Schedule of Participating Pension Plans
as of January 1, 2007

### COUNTIES
Adams County
Adams County-Green Acres
Forest County
Jefferson County

### CITIES
Allentown
Bethlehem City
Clairton
Connellsville
Dubois
Easton
Farrell
Greensburg
Harrisburg
Hermitage
Jeannette
Latrobe
Lebanon
Lower Burrell
Nanticoke
New Kensington
Sharon
Sunbury
Uniontown

### BOROUGHS
Adamstown
Ashland
Atglen
Avonmore
Bally
Bangor
Bedford
Bellefonte
Bellwood
Bentleyville
Berlin
Big Beaver
Biglerville
Bloomfield
Bowmanstown
Brackenridge
Bridgeville
Brockway
Brookville
California
Cambridge Springs
Camp Hill
Carnegie
Carroll Valley
Carrolltown
Castle Shannon
Centerville
Central City
Charleroi
Claysville
Clymer
Coaldale
Cochranton
Collegeville
Collingdale
Conneautville
Conshohocken
Conway
Coopersburg
Cressona
Dalton
Delmont
Derry
Doylestown
Dravosburg
Dublin
Duboistown
Duncannon
East Berlin
East Rochester
East Stroudsburg
East Washington
Emlenton
Emporium
Etna
Everett
Falls Creek
Ferndale
Forest City
Fountain Hill
Franklin
Franklintown
Freeburg
Freedom
Freeland
Greenville
Hollidaysburg
Homer City
Hughestown
Hummelstown
Huntingdon
Hyndman
Jim Thorpe
Johnsonburg
Kenhorst
Kennett Square
Kittanning
Knox
Kulpmont
Kutztown
Lehighton
Lewistown
Lykens
Marcus Hook
Martinsburg
Marysville
Matamoras
Mayfield
Mercer
Meyersdale
Middleburg
Millersburg
Millerstown
Minersville
Monaca
Monroeville Municipality
Mont Alto
Montrose

(1) County names are in parentheses.

Moosic
Morrisville
Mount Jewett
Mount Pleasant
Mount Union
Mt. Gretna
Nanty-Glo
Narberth
Nesquehoning
New Eagle
New Stanton
Newport
Newtown
Norristown
North East
Northumberland
Orwigsburg
Palmerton
Pen Argyl
Pennsburg
Perkasie
Pine Grove
Portage
Pottstown
Prospect Park
Ridley Park
Roaring Spring
Rochester
Rouseville
Royersford
Rural Valley
Salisbury
Sandy Lake
Saxton
Schuylkill Haven
Selinsgrove
Sellersville
Shamokin Dam
Sharpsburg
Sharpsville
Shenandoah
Slippery Rock
Souderton
South Waverly
Southmont
Springdale
Stewartstown
Summit Hill
Tarentum
Telford
Topton
Trainer
Turbotville
Turtle Creek
Verona
Versailles
Waterford
Waynesburg
West Grove
West Middlesex
West Newton
Wheatland
White Haven
Williamstown
Wilmerding
Wilson
Windsor
Yoe
York Springs
Youngwood

### TOWNSHIPS OF THE FIRST CLASS

Caln
Collier
Crescent
East Deer
Elizabeth
Harrison
Hopewell
North Huntingdon
North Versailles
Ridley
Rochester
Salisbury
Springdale
Swatara
Upper Moreland
Vanport
West Pottsgrove
Whitehall
Wilkins

### TOWNSHIPS OF THE SECOND CLASS

Allegheny (Venango County)
Allegheny (Westmoreland County)
Antrim
Athens
Bald Eagle
Bedminster
Bell
Bethel
Black Creek
Blair
Bloomfield
Blooming Grove
Boggs (Centre County)
Boggs (Clearfield County)
Brecknock
Briar Creek
Brighton
Broad Top
Brothersvalley
Brown
Buckingham
Buffalo
Burnside
Burrell
Caernarvon
Cambria
Cambridge
Canton
Cass
Center (Berks County)
Center (Greene County)
Center (Indiana County)
Centre (Perry County)
Centre (Snyder County)
Cherrytree
Clarion

Clearfield
Columbus
Concord
Conemaugh
Conewago
Corydon
Covington
Cranberry
Cross Creek
Darlington
Delaware
Derry (Dauphin County)
Derry DC Plan (Dauphin County)
Derry (Mifflin County)
Derry (Westmoreland County)
Dickinson
Dingman
Donegal (Washington County)
Donegal (Westmoreland County)
Dorrance
Douglass
East Allen
East Coventry
East Fallowfield
East Finley
East Hanover
East Huntingdon
East Manchester
East Marlborough
East Rockhill
Eldred (Jefferson County)
Eldred (Monroe County)
Eldred (Warren County)
Elizabeth
Elk Creek
Elk
Fairfield
Fairview
Farmington
Forks
Forward
Franklin (Beaver County)
Franklin (Butler County)
Franklin (Carbon County)
Franklin (Greene County)
Freedom
Freehold
Frenchcreek
Girard
Glade
Greene
Greenfield (Blair County)
Greenfield (Erie County)
Greenfield (Lackawanna County)
Hamilton
Hanover
Haycock
Hemlock
Henderson
Hilltown
Hopewell (Cumberland County)
Hopewell (Washington County)
Hopewell (York County)
Horsham
Howe
Hunlock
Huntington
Huston
Jackson (Greene County)
Jackson (Lebanon County)
Jackson (Luzerne County)
Jackson (Snyder County)
Jackson (Susquehanna County)
Jefferson
Jenks
Jenner
Jones
Keating
Kennett
Lancaster (Butler County)
Lancaster (Lancaster County)
Latimore
LeBoeuf
Lehman
Liberty
Limestone (Lycoming County)
Limestone (Union County)
Lincoln
Liverpool
London Britain
London Grove
Lower Mahanoy
Lower Towamensing
Lower Yoder
Loyalhanna
Mahoning
Manchester
Mead
Middle Smithfield
Middlesex
Milford
Millcreek
Monongahela
Monroe
Morris (Greene County)
Morris (Washington County)
Mount Joy
Mount Pleasant
Muncy Creek
New Garden
New Sewickley
Nockamixon
North Buffalo
North Coventry
North Franklin
North Strabane
Nottingham
Oakland
Oil Creek (Crawford County)
Oil Creek (Venango County)
Old Lycoming
Oliver
Paradise
Pennsbury
Perry
Pike
Pine Creek
Pine Grove
Pittsfield

Pleasant
Plum Creek
Plumstead
Pocopson
Point
Portage
Preston
Price
Providence
Pulaski
Pymatuning
Raccoon
Rice
Richhill
Richland
Ridgway
Rome
Rose
Rutland
Rye
Scott
Sewickley
Shade
Sheffield
Shippensburg
Shrewsbury
Slippery Rock
Solebury
South Abington
South Beaver
South Bend
South Franklin
South Huntingdon
South Manheim
South Middleton
South Pymatuning
South Strabane
Southampton
Southwest
Spring Creek
Springfield
Sugar Grove
Sullivan

Summit
Tinicum
Towamensing
Tredyffrin
Tunkhannock
Union (Berks County)
Union (Lebanon County)
Union (Snyder County)
Unity
Wallace
Warrington
Warsaw
Warwick
Washington (Berks County)
Washington (Dauphin County)
Washington (Erie County)
Washington (Fayette County)
Washington (Greene County)
Washington (Northampton County)
Washington (Schuylkill County)
Washington (Wyoming County)
West Bradford
West Brunswick
West Caln
West Carroll
West Lampeter
West Pennsboro
West Rockhill
West Salem
West Wheatfield
Westtown
Wetmore
Whiteley
Wiconisco
Williams
Windsor
Woodward
Wright
Wrightstown
Zerbe
York County Planning Commission

**POLICE**

Ashley Borough
Bally Borough
Barrett Township
Bedminster Township
Bellwood Borough
Bentleyville Borough
Berks-Lehigh Regional
Big Beaver Borough
Biglerville Borough
Birmingham Township
Blair Township
Brecknock Township
Briar Creek Township
Buckingham Township
Caernarvon Township
California Borough
Cambria Township
Cambridge Springs Borough
Camp Hill Borough
Carroll Township
Carroll Valley Borough
Central City Borough
Centre Township
Clairton City
Clymer Borough
Cochranton Borough
Colebrookdale Township
Conneaut Lake Regional
Coopersburg Borough
Covington Township
Crescent Township
Danville Borough
Darlington Township
Delmont Borough
Donegal Township
Douglass Township (Berks County)
Douglass Township (Montgomery County)
Dravosburg Borough
Dublin Borough
Duboistown Borough
Dunbar Borough
Duncannon Borough

East Bangor Borough
East Berlin Borough
East Coventry Township
East Deer Township
East Fallowfield Township
East Marlborough Township
East Pennsboro Township
East Washington Borough
Elizabeth Township
Ell-Co Regional
Emlenton Borough
Emporium Borough
Everett Borough
Factoryville Borough
Fairview Township
Falls Creek Borough
Forest City Borough
Forward Township
Franklin Borough
Franklin Township
Freedom Township
Gilpin Township
Greenfield Township
Greenville Borough
Harveys Lake Borough
Heidelberg Township
Hellam Township
Hemlock Township
Hilltown Township
Hummelstown Borough
Hyndman Borough
Independence Township
Jackson Township
Johnsonburg Borough
Knox Borough
Lancaster Township
Larksville Borough
Liberty Borough
Linesville Borough
Locust Township
Lower Windsor Township
Lower Yoder Township
Lykens Borough
Mahoning Township
Manor Borough
Martinsburg Borough
Marysville Borough
Mayfield Borough
Mead Township
Mercer Borough
Middleburg Borough
Middlesex Township
Millcreek Township
Millersburg Borough
Montour Township
Moore Township
Moosic Borough
Morrisville Borough
Moscow Borough
Mount Jewett Borough
Mount Union Borough
Mt. Pleasant Borough
New Garden Township
New Wilmington Borough
Newport Borough
Newtown Borough
Nockamixon Township
North Coventry Township
North Huntingdon Township
North Middleton Township
North Sewickley Township
Northeastern Regional
Northumberland Borough
Northwest Lawrence County Regional
Ohio Township
Old Lycoming Township
Orangeville Area
Orwigsburg Borough
Paxtang Borough
Penbrook Borough
Pennridge Regional
Perkasie Borough
Pine Grove Borough
Point Township
Pymatuning Township
Red Lion Borough
Richland Township
Roaring Spring Borough
Rochester Township
Rye Township
Sandy Lake Borough
Saxton Borough
Schuylkill Township
Schwenksville Borough
Scott Township
Scottdale Borough
Selinsgrove Borough
Shade Township
Shamokin Dam Borough
Sheffield Township
Shippingport Borough
Shiremanstown Borough
Sinking Spring Borough
Souderton Borough
South Beaver Township
South Centre Township
South Pymatuning Township
South Waverly Borough
South Williamsport Borough
Southern Police Commission
Springdale Township
Stewartstown Borough
Summit Hill Borough
Telford Borough
Tinicum Township
Tulpehocken Township
Tunkhannock Township
Vanport Township
Versailles Borough
Washington Township
West Grove Borough
West Lampeter Township
West Middlesex Borough
West Pikeland Township
West Pottsgrove Township
West Sadsbury Township
West Vincent Township
Westfield Borough
Wheatland Borough

White Haven Borough
Wiconisco Township
Williamstown Borough
Windsor Borough
Windsor Township
Wrightstown Township
Youngwood Borough

**FIREFIGHTERS**

Clairton City
Greenville Borough
Harrisburg City
Larksville Borough
Manchester Township
South Strabane Township
Upper Moreland Township
Wilson Borough

**AUTHORITIES & OTHER UNITS**

Allegheny Valley Joint Sewer
Ambridge Borough Municipal
Armstrong Conservation District
Avonmore Borough Municipal
B.A.R.T.A.
Bedford Borough Water
Bedford Municipal
Bedminster Municipal
Belle Vernon Municipal
Berks-Lehigh Regional Police (NU)
Bethlehem
Bethlehem City Redevelopment
Bloomfield Township Sewer
Bradford City Water
Bradford Regional Airport
Brighton Township Municipal
Brighton Township Sewer
Bristol Township
Brockway Area Sewage
Brockway Borough Municipal
Brodhead Creek Regional
Brookville Municipal
Bucks County Redevelopment
Bucks County Water & Sewer
Burrell Township Sewage
Butler Area Public Library
Cambria County Conservation & Recreation
Cambria Township Sewer
Cambria Township Water
Carbon County Conservation District
Carmichaels-Cumberland Joint Sewer
Carroll Township
Catawissa Borough Municipal Water
Centerville Borough Sanitary
Central Carbon Municipal
Central Indiana County Joint Sanitary
Centre County Library & Historical Museum
Clarion County Housing
Coaldale - Lansford - Sumit Hill Sewer
Columbia County Conservation District
Concord Township Sewer
Connellsville Municipal
Connellsville Redevelopment
Conshohocken Borough
Coplay-Whitehall Sewer
Cressona Borough
Creswell Heights Joint
Curwensville Municipal
Delaware Valley Municipal Management Association
Derry Township Municipal
Derry Township Sanitary Sewer
DuBois City Redevelopment
East Norriton-Plymouth-Whitpain Joint Sewer
Eastern Snyder County Regional
Economy Borough Municipal
Elizabeth Borough Municipal
Elizabeth Township Sanitary
Emlenton Area Municipal
Erie County Housing
Everett Area Municipal
Falls Township
Fawn Township Sewage
Fawn-Frazer Joint Water
Fayette County Conservation District
Forward Township Municipal

Franklin City Housing
Franklin Township Municipal Sanitary
Franklin Township Sewer
Frazer Transportation
Fredericksburg Sewer & Water
Freeland Borough Municipal
Greater Lebanon Refuse
Greenville Municipal
Guilford Township
Guilford Water
Harrison Township Water
Hawley Area
Hazleton Transit
Hellertown Borough
Hilltown Township Water & Sewer
Horsham Township Sewer
Hughesville-Wolf Township Joint Municipal
Indiana County Conservation District
Indiana County Solid Waste
Jackson Township Water
Jeannette Municipal
Jefferson Conservation District
Johnsonburg Municipal
Juniata County Conservation District
Kiskiminetas Township Municipal
Kittanning Suburban Joint Water
Kulpmont-Marion Heights Joint Municipal
Lancaster City Parking
Lansford Coaldale Joint Water
Lebanon City
Lebanon Community Library
Leetsdale Borough Municipal
Lehigh County
Lehighton Water
Lower Bucks County Joint Municipal
Lower Bucks County Joint Municipal (SPVR)
Lower Indiana County Municipal
Lower Providence Township Sewer
Luzerne Conservation District
Lycoming Sanitary Committee
Mahanoy Township
Mahoning Township
Maidencreek Township
Manor Township Joint Municipal
Mary Meuser Memorial Library
Matamoras Municipal
McKean County Solid Waste
Mercer County Regional Planning Commission
Mid Mon Valley Water
Middlesex Township Municipal
Middletown Township Sewer
Mifflin County Regional Police (NU)
Mifflintown Municipal
Milford Water
Millcreek-Richland Joint
Millersburg Area
Mon Valley Sewer
Monroe County Control Center
Montgomery County Sewer
Montour County Conservation District
Montrose Municipal
Moon Township Municipal
Morrisville Borough Municipal
Mount Joy Township
Mount Pocono Municipal
Mt. Jewett Borough
Mt. Lebanon Parking
Myerstown Community Library Association
Myerstown Water
Nanty Glo Sanitary Sewer
Nanty Glo Water
Nesquehoning Borough
New Kensington Municipal Sanitary
New Kensington Redevelopment
Newport Borough Water
Norristown Municipal Waste
North & South Shenango Joint Municipal
North Coventry Municipal
North Huntingdon Township Municipal
North Middleton
North Strabane Township Municipal
Northampton Borough Municipal
Northampton Borough Municipal (DC)
Northeastern Regional Police (NU)
Northern Lancaster County
Northern York County Regional Police (NU)

Northumberland Sewer
Northwest Regional Lancaster County Police (NU)
Oil City Housing
Pa. League Of Cities
Parks Township Municipal
Penn Township Sewage
Pennridge Regional Police (NU)
Pennridge Waste Treatment
Perkasie Borough
Peters Creek Sanitary
Peters Township Municipal
Portage Area Sewer
Portage Borough Municipal
Possum Valley Municipal
Reynoldsville Water
Riverview Sanitary
Robesonia-Wernersville Municipal
Robinson Township Municipal
Rochester Area Joint Sewer
Rostraver Township Sewer
Seward/St. Clair Township Sanitary
Shamokin City Redevelopment
Shannock Valley General Services
Sheffield Township Municipal
Slippery Rock Municipal
Somerset Conservation District
South Fayette Township Municipal
Southern Police Commission (NU)
Southwest Regional Dispatch Center
Southwestern Pennsylvania Water
St. Marys Area Joint Water
Sunbury Municipal
Susquehanna Township
Swatara Township
Tower City Borough
Tri-County COG IBC
Tri-County Joint Municipal
Twin Boroughs Sanitary
Upper Allegheny Joint Sanitary
Upper Montgomery Joint
Upper Southampton Municipal
Upper Southampton Sewer
Vanport Township Municipal
Vernon Township Sanitary
Vernon Township Water
Warren County Housing
Warren County Solid Waste
Warrington Township Municipal
Warwick Township Municipal
Washington Area COG
Washington Township Municipal (Berks County)
Washington Township Municipal (Fayette County)
Waterford Borough Municipal
Wayne County Redevelopment
Wernersville Municipal
West Carroll Township Water & Sewer
Western Butler County
Western Clinton County Municipal
Western Westmoreland Municipal
Westmoreland-Fayette Municipal Sewer
White Run Regional Municipal
Whitehall Township
Williamstown Borough
Womelsdorf-Robesonia Joint
York County Planning Commission

pmrs pennsylvania
MUNICIPAL RETIREMENT SYSTEM

P.O. Box 1165
Harrisburg, PA 17108-1165

Telephone: 717-787-2065; 1-800-622-7968
Fax: 717-783-8363

Website: www.pmrs.state.pa.us
E-Mail: ra-staff@state.pa.us