Pennsylvania
Municipal Retirement System

2008

Comprehensive Annual Financial Report
For the Year Ended December 31, 2008

The PMRS

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

Vision

&

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.

Mission

The Pennsylvania Municipal Retirement System

Comprehensive Annual Financial Report
For the Fiscal Year Ended
December 31, 2008

John A. Haiko, Chairman
Pennsylvania Municipal Retirement Board

James B. Allen, Secretary
Pennsylvania Municipal Retirement System

Office Location
Eastgate Center
1010 North 7th Street, Suite 301
Harrisburg, Pennsylvania 17102-1400

Mailing Address
P. O. Box 1165
Harrisburg, Pennsylvania 17108-1165

Web Address
www.pmrs.state.pa.us

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

Contents

Introduction

Pennsylvania Municipal Retirement System
Commonwealth of Pennsylvania
P.O. Box 1165, Harrisburg PA 17108-1165
Phone: (717) 787-2065 (800) 622-7968
Fax: (717) 783-8363
www.pmrs.state.pa.us ra-staff@state.pa.us

June 30, 2009

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, 2008. 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, 2008, 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, 2008, 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 2008, plan requirements ranged from no employee contribution to as high as 7.5% of earnings.

2008 CAFR

The 2008 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

To characterize the year 2008's economic environment as "dismal" would not be misleading; but, it also would not fully capture the spirit of the 2008 economic atmosphere. Terms like "shell-shocked," "panicked," and "traumatized" probably better define the state of the United States' and the world's economies. The average consumer began 2008 by trying to understand financial terms like "subprime" and "slowdown." By year's end, that same consumer was struggling with a brand new set of economic terms to comprehend. Revelation after revelation brought not only the American consumer but the world's economy to a stand still. What did "leverage," "swaps," and "crisis of confidence" have to do with the economy? The answer was revealed in the fourth quarter of the year. The American consumer and taxpayer defined the economic environment of 2008 using the dual-meaning word "bailout;" from the consumer's point of view– to evacuate, to leave before you get caught-up in a disaster; and, from the taxpayer's point of view – to spend billions of tax dollars to rescue mega financial institutions too big to fail.

The year began with the nation's economic growth merely slowing down. Weaknesses in consumer spending were associated with a gradual realization that the housing market's foundation was starting to show cracks due to the amount of leverage used to build the house of cards. In the second and third quarters, foreclosures in the housing markets began to rise at rates unseen since the Great Depression. The slowdown in home buying spread to the other sectors of the economy as car sales dropped and industrial capacity utilization also declined. By the second half of the year, economic growth was no longer a reality. The nation saw the economy shrink in the third and fourth quarters by 0.3% and 3.8%, respectively. Economists define a recession as two consecutive quarters of negative GDP growth. The question on everyone's mind as the year ended was not whether the nation was in a recession; but, rather, whether the nation was leading the world's economies into a depression.

The United States' economic psyche was broken by the failure of Lehman Brothers on September 15th, which followed closely in the footsteps of the federal government's $85 billion takeover of AIG. The financial markets began a drop which some characterized as the largest panic since the 1930's. GDP changed by -3.8% for the year. During 2008, a total of 2.6 million jobs were lost, with 1.9 million of them disappearing in the last 4 months of the year. Real GDP decreased 0.8% (measured from the fourth quarter of 2007 to the fourth quarter of 2008). For the year, the adjusted Consumer Price Index (Urban Markets) rose only 0.1%.

Politicians began responding to the economic problems and the country's financial woes with knee-jerk reactions. At first, there was unity in the call for creating a new stimulus package to create new jobs; but, that quickly deteriorated into the old debate of a government spending stimulus versus tax cuts to encourage industrial and consumer spending. The question was, "would anything work?" Industrial capacity utilization decreased dramatically falling to 73.6% in December – well below the long-term average of 81.0%. Retailers had the worst Christmas season in recent memory. Few economists offered any hope for a near-term recovery as 2008 came to a close.

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 $1,170,631,824 as of December 31, 2008. In 2008, the System's net assets decreased by $394,141,878. Investment-related losses decreased the portfolio by $387,077,602 and contributions added $49,693,605. Benefit payments and administrative expenses reduced the total assets by $56,757,881. 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 bi-monthly Board reviews. The 2008 administrative budget was adopted in September 2007 and set at $3.37 million exclusive of investment fees. Expenditures (exclusive of investment fees) in 2008 amounted to $2,986,656. 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, 2008, and also shows the amount and percentage of increases and decreases in relation to December 31, 2007, 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 2008 fiscal year, the fair value of the System's investment portfolio decreased from $1,657,942,560 to $1,165,032,957. The largest portions of the investment revenue decrease 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.

Eight-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, 2008, and shows the percentage of increases and decreases in relation to December 31, 2007, amounts.

The major expense-related items for 2008 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 eight-year historical trend information is presented in Part I of the Statistical Section of this report.

Revenues

Additions to Plan Net Assets	2008 Amounts	Percent of Total	2007 Amounts	Increase (Decrease) from 2007	Percent of Increase (Decrease)
Member Contributions	$ 17,870,426	(5.30)%	$ 17,491,672	$ 378,754	2.17%
Municipal Contributions	31,532,859	(9.35)	29,059,248	2,473,611	8.51
Assessments	290,320	(0.09)	282,628	7,692	2.72
Investment Income/(loss)	(387,077,602)	114.73	114,838,806	(501,916,408)	(437.06)
Total	**$(337,383,997)**	**100.00%**	**$161,672,354**	**$(499,056,351)**	**(308.68)**

Expenses

Deductions from Plan Net Assets	2008 Amounts	Percent of Total	2007 Amounts	Increase (Decrease) from 2007	Percent of Increase (Decrease)
Annuity benefits	$46,173,544	81.35%	$42,898,882	$ 3,274,662	7.63%
Terminations	7,597,681	13.39	7,006,182	591,499	8.44
Administrative	2,986,656	5.26	2,862,482	124,174	4.34
Total	**$56,757,881**	**100.00%**	**$52,767,546**	**$3,990,335**	**7.56**

INVESTMENT HIGHLIGHTS

Because of the economic crisis that unfolded in 2008, perhaps the most important investment decision the Pennsylvania Municipal Retirement Board made during the year was to exit the securities lending market in August. Lending a portfolio's securities used to be one of the more esoteric and obscure ways major investors added income to their accounts. Thought to be "risk free," the process involved an investor lending a security from their portfolio to a broker, for a fee, and the broker returning the security after several days when the broker obtained ownership of the security out-right or was done borrowing it.

The investor received money from the broker for the borrowing of the security; but, the investor also got to hold as collateral other securities owned by the broker / borrower plus a portion of the income those other securities generated. The problem that arose in the third quarter of 2008 was that the value of the collateral, usually bonds, sank faster than the value the investor anticipated. This drop occurred in September with the bankruptcy of AIG and the collapse of Lehman Brothers. Many investors who had their securities out on loan never got the securities back and the value of the securities held as collateral evaporated in some cases. The Pennsylvania Municipal Retirement Board (Board)'s decision in the first week of August to stop lending the fund's securities and to call back all those on loan avoided the loss of millions of dollars that befell other investors.

The year also saw a new asset allocation study completed and a new asset allocation program put in place. The Board decreased the fund's allocation to domestic, large capitalized equities from thirty-five percent (35%) of the portfolio to twenty-five percent (25%) with the other ten percent (10%) allocated to emerging market equities. The commitment was funded in the fall of 2008 with the selection of State Street Global Advisors, Inc. as the index manager to handle the award. The Board also refined the commitment of fifteen percent (15%) of the portfolio to real estate so that ten percent (10%) was designated for core commercial real estate and five percent (5%) was designated for timberland investments.

In hindsight, the Board's commitment to diversification and avoidance of risk served the fund well. While no investor weathered the turmoil of the financial markets' implosion in 2008, the System ended the year better off than many retirement plans and clearly in a position to approach 2009 with a "business as usual" approach. Any retrospection undertaken left the Board and the staff comforted and confident that the investment policy in place, the discipline of the investment approach adopted, and the quality of the investment advisors and consultants retained served the System, our plans, and our members well. Losses had been incurred; but, fundamental integrity was well-grounded.

The year's performance can not be sugar-coated. The numbers were stark reminders that the markets have risk associated with them. The annualized return of -24.8% for the year placed the System's portfolio in the 56th percentile of the Independent Consultants Cooperative (ICC) Universe. The five-year average annualized rate of return was 2.4% and ranked in the universe's 35th percentile which was relatively good, but admittedly short of the System's actuarial assumed rate of 6.0%. This is a concern that the PMRS Board is monitoring.

The returns by asset class line up in descending order as follows: Fixed Income at 5.4%; Real Estate at -4.6%; Small Cap Domestic Equity at -35.4%; Large Cap Domestic Equity at -37.2%; and, International Equity at -43.5%. Like the rest of the investment world, PMRS had nowhere to park the investments when the turmoil gripped the markets.

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. Decrease in net assets for the 2008 fiscal year was $394,141,878. This represents a decrease in the fund balance of 25.2% over the 2007 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, 2008. 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 Board and the System staff spent most of 2008 monitoring the turmoil that entered the financial markets in mid-year and then the ultimate collapse in investor confidence that overtook the markets in the fourth quarter. Some initiatives were discussed earlier under the "Investment Highlights" section of this transmittal letter – the exiting of the securities lending market and the implementation of a new asset allocation policy; but, practical initiatives were put in place to reassure the plans' sponsors and the membership. A key initiative was the utilization of the System's website to explain the steps the System had taken to mitigate the impact of the collapse of AIG, the bankruptcy of Lehman Brothers, and the impact of the largest federal intervention into the financial markets since the Great Depression.

Procedurally, the agency's Accounting and Membership Services Divisions continued to refine and fine tune the new computer software installed in late 2006. Significant advancements in the accounting module led to the earliest distribution of the plans' financial statements ever. The staff's comfort level with the accuracy and completeness of the computer-generated calculations and posting allowed for additional customer service initiatives. The Operations Division staff teamed with the System's Information Technology staff to advance the implementation of a disaster recovery program that was long overdue for a revamping. The Board adopted in July a very comprehensive Disaster Recovery Plan. Yet to be finalized is an off-site recovery location. An interagency agreement was in the pipeline at year's end, but still not quite finalized.

In terms of System policy initiatives, the Board began what is intended to be a three-step program to obtain official qualification of the Pennsylvania Municipal Retirement System as an Internal Revenue Service tax-qualified pension plan. Like many, many other public pension plans around the state and the country, PMRS has operated as a tax-qualified pension plan. The IRS announced early in 2008 that "governmental plans have been 'underserved by IRS' and that the agency now intends to look systematically at such plans." PMRS joined with our sister state pension plans, the Public School Employees Retirement System, and the Pennsylvania State Employees Retirement System, to retain outside legal counsel to undertake a review of the three Systems and to identify potential issues associated with the ultimate goal of obtaining favorable tax-qualified rulings.

The Board also adopted four policy statements in 2008. Two policy statements related to revisions in the Investment Policy, the third related to the Proxy Voting Policy and the fourth initiative was a new policy relating to how the System would handle "Over Payments." Over payments occur when a former member, annuitant, beneficiary or survivor annuitant is paid a benefit exceeding his or her entitlement. The new policy documents the collection procedure.

PROFESSIONAL SERVICES

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

The preparation of this Comprehensive Annual Financial Report could not have been completed without the dedication of staff and a devoted team of consultants. As to staff, the Accounting Division team and the writers and technicians in the Operations Division make the document cohesive and comprehensive. The hours and hours of data gathering, assembling and proofing are reflected in this product. We appreciate their efforts and support. As to the consultants, the accounting firm of Clifton Gunderson, the actuarial firm of Cheiron Inc, and the investment-consulting firm of Dahab Associates, Inc. are indispensable contributors not just to the System's operations, but also to this publication. We would not be able to compile such a thorough set of data without their input. We are sincerely appreciative of their support.

Key to the success of any organization is the leadership that is exhibited at the top. The new year, with all its turmoil, also saw a new Chairman lead PMRS – John Haiko. John is a professional in the business world, a devoted husband and family man, an extraordinary public servant, and still he has found time to guide the System. His quiet leadership style was just the approach that was needed in 2008 – a steady hand at the wheel. Much appreciation is extended to him and his fellow Board members.

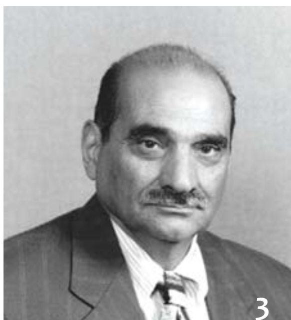
The most important individuals to recognize though remain our members. The support and confidence you have given to us does not go unrecognized nor is it unappreciated. The growth of the System is evidence that our vision is a clear one – we remain committed to striving to be "Pennsylvania local governments' pension administrator *of choice*." We thank you for choosing to use our services.

James B. Allen
Secretary

Reynold E. Witmer
Chief of Accounting

GFOA Certificate of Achievement

Pennsylvania Municipal Retirement Board
as of December 31, 2008



1 John A. Haiko
Chairman

Represents Pennsylvania State Association of Township Supervisors

2 Robert T. Umstead
Vice-Chairman

Represents Pennsylvania State Association of Boroughs

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 Thomas J. Weaver, Deputy Secretary for Administration

6 Duane L. Filchner

Represents Pennsylvania Municipal Authorities Association

7 Dawn C. Knapp

Represents Pennsylvania Professional Fire Fighter's Association

8 Anthony Spagnolo

Represents First Class Township Commissioners

9 Charles Staso

Represents Active Police Officers enrolled in PMRS

10 Trish Ward

Represents Pennsylvania League of Cities

11 Robin Wiessmann

State Treasurer (ex-officio) represented by Leo Pandeladis

Staff, Consultants, & Managers
as of December 31, 2008

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

Wanita J. Hoke

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
David B. Scott, Senior Vice-President

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
John V. Thompson, Senior Vice-President

Forest Investment Associates, Inc.

Atlanta, GA
V. Scott Bond, Director of Marketing

GlobeFlex

San Diego, CA
Jerre Bridges, Vice-President

LSV Asset Management

Chicago, IL
Keith Bruch, Director, Client Portfolio Services

Mercator Asset Management, L.P.

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

Prudential Real Estate Investors (PRISA)

Parsippany, NJ
Lester F. Lockwood, Principal

State Street Global Advisors

Boston, MA
James Thorsen, Vice-President and Principal

TIAA-CREF Global Real Estate

New York, NY
Susan L. Amato, Managing Director

Wentworth, Hauser and Violich

San Francisco, CA
Miriam E. Ballert, Vice-President

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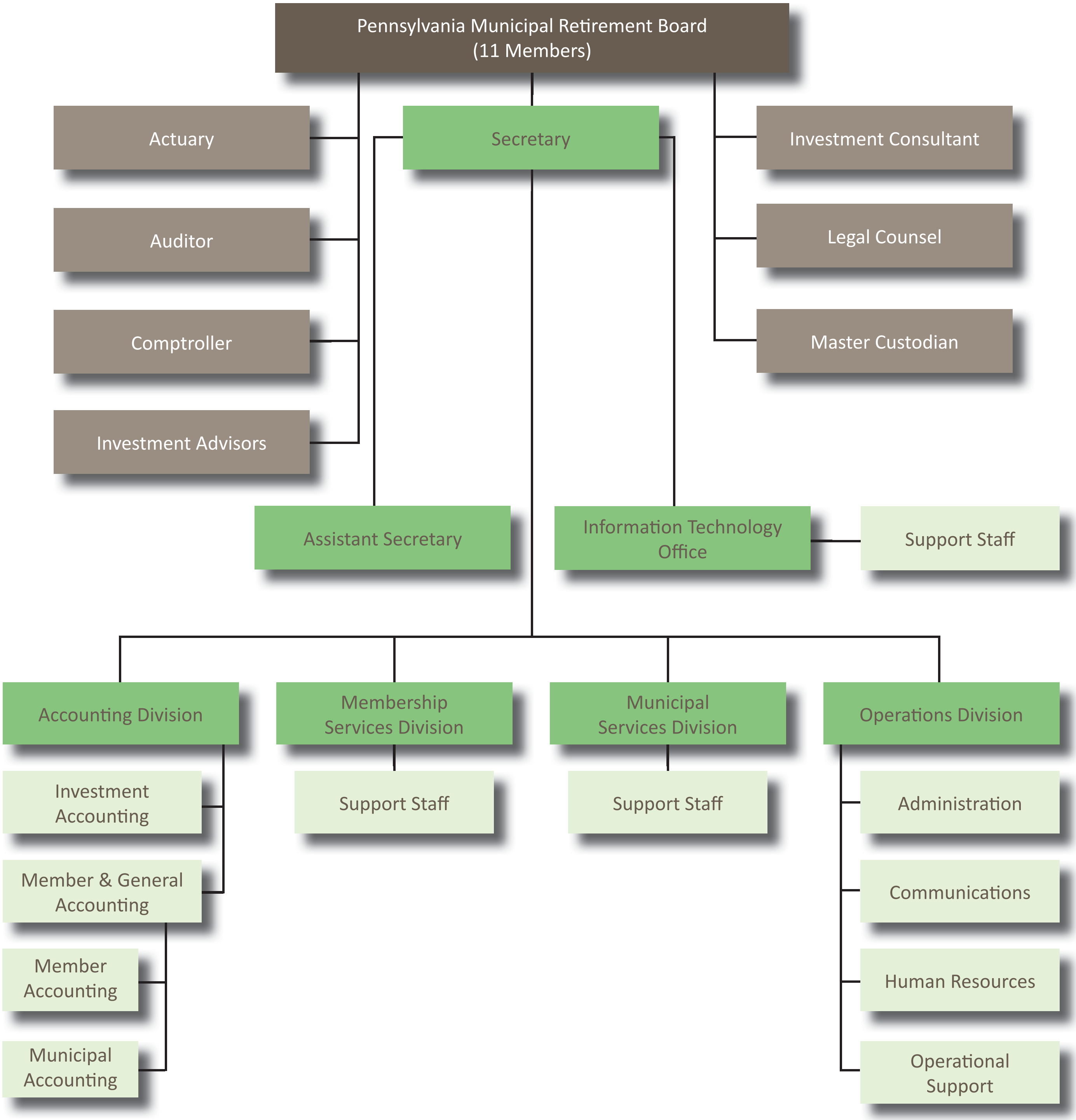
[1] Manages the long-term portfolio of investments reported on the Statement of Plan Net Assets. All information in the Investment Section pertains to the activity of these investment managers.

Organization Chart



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Phone: (717) 787-2065 (800) 622-7968
Fax: (717) 783-8363
www.pmrs.state.pa.us ra-staff@state.pa.us

June 15, 2009

Dear Members:

It is my privilege to be a part of this process, the presentation of the Pennsylvania Municipal Retirement System's 2008 Comprehensive Annual Financial Report (CAFR). Continuing our agency's tradition and my fellow Board members' commitment to full public disclosure, this document provides you with the System's financial standing as of December 31, 2008. It details the year's financial activities and the steps we have taken to ensure your retirement future. The year was not one we would like to see repeated soon. Indeed, many are labeling it the worst year for the financial markets since the Great Depression. This may be a little exaggerated; but, if so, it is not too far from the truth. I am pleased to be able to report that the numbers and figures you will find reported in this CAFR tell a story of commitment and confidence. The Board, which I have been honored to chair in 2008, worked hard and remains committed to the financial integrity of the System, regardless of the directions in which the markets move.

In addition to recognizing my fellow Board members and their commitment to your pension's security, it is important that you know that the staff and consulting team who work for us, and more importantly for you, have taken many steps to guide the System through the troubled financial markets. I can point to several actions that underscore this fact; but none provides more insight than the recommendation they made to the Board in late July. Based upon their reading of the bond markets and their understanding of the Board's risk tolerance, they advised us to stop lending our securities. This suggestion involved over $100 million dollars' worth of investments that, year-to-date, had added over a half million dollars in additional income. After participation in two telephonic conferences within a week's time, the Board voted in early August to exit the securities lending program. That decision literally saved the System from millions of dollars in losses.

John A. Haiko, Chairman, Pennsylvania Municipal Retirement Board

While we cannot claim to make the "right" decision every time we are asked to take an action, I can guarantee you that the decision reached will always be fully vetted, researched, and evaluated with your retirement future in mind. That approach has helped me, along with my fellow Board members, to serve you. We assure you that the privilege to serve as your fiduciary is recognized as just that – a privilege. I would ask you to review the material set forth in this CAFR and to call upon us with any questions it may raise. As always, PMRS appreciates the opportunity to serve as your pension administrator.

Yours truly,

John A. Haiko,
Chairman

INTRODUCTION

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

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[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

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, 2008 and 2007, 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, 2008 and 2007, 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 26, 2009

Offices in 17 states and Washington, DC

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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, 2008, and 2007. 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, 2008, 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, 2008, to December 31, 2008, 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 decreased by $394 million from $1,565 million at December 31, 2007, to $1,171 million at December 31, 2008. 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. These changes are primarily attributable to a net gain of loss on investments.

- The funded ratio increased from 104.2% as of January 1, 2007, to 105.9% as of the last valuation date of January 1, 2008. In aggregate, the System has been in a surplus where the actuarial value of assets exceeds the actuarial liability. That surplus has increased from $54.0 million as of January 1, 2007, to $81.6 million as of January 1, 2008.

- The rate of return for the year ended December 31, 2008, was a net loss of 24.8% compared to a net gain of 8.2% and 12.6% for the years ended December 31, 2007, and 2006, respectively.

- Total employee and employer contributions increased from $46.8 million in 2007 to $49.7 million in 2008. Total employee and employer contributions increased from $37.7 million in 2006 to $46.8 million in 2007.

- Total pension plan benefit payouts increased by 7.8% from $49.9 million during 2007 to $53.8 million during 2008. Total pension plan benefit payouts decreased by 19.9% from $62.5 million during 2006 to $49.9 million during 2007 primarily due to seven plan withdrawals.

- Administrative expenses increased by $0.1 million to $3.0 million for 2008. Expenses remained basically unchanged at $2.9 million for 2007 and 2006. 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. The System has historically chosen to have actuarial valuations performed bi-annually. 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. A January 1, 2008, actuarial valuation was performed. The January 1, 2008, actuarial valuation was derived from actual values for the four defined benefit plans that are required to redetermine contribution levels bi-annually on even years and actuarial adjustments to the January 1, 2007, liabilities for those municipalities required to redetermine contribution levels bi-annually on odd years. The January 1, 2007, liabilities were adjusted to reflect January 1, 2008, actual active counts to estimate the liabilities for these plans to provide an overall measure of the funded status of the System. 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 105.9% funded as of January 1, 2008.

Summary of Plan Net Assets

as of December 31, 2008, 2007, and 2006

Analysis of Plan Assets	2008	2007	2006
Assets		(In Thousands)	
Receivables	$ 12,389	$ 16,338	$ 6,759
Investments	1,165,033	1,561,067	1,453,099
Securities lending collateral pool	-	96,876	80,335
Capital assets	229	224	282
Total assets	1,177,651	1,674,505	1,540,475
Liabilities	7,019	109,731	84,606
Total plan assets	**$1,170,632**	**$1,564,774**	**$1,455,869**

Summary of Changes in Plan Net Assets

as of December 31, 2008, 2007, and 2006

Analysis of Plan Assets	2008	2007	2006
Additions		(In Thousands)	
Contributions	$ 49,694	$ 46,833	$ 37,749
Net investment gain/(loss)	(387,078)	114,839	161,140
Total additions	(337,384)	161,672	198,889
Deductions			
Benefit payments and terminations	53,771	49,905	62,491
Administrative expenses	2,987	2,862	2,921
Total deductions	56,758	52,767	65,412
Total changes in plan net assets	**$(394,142)**	**$108,905**	**$133,477**

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 2008, the System's rate of return on investments was a net loss of 24.8%, which is primarily attributable to the negative returns in the domestic and international equity markets. The annualized rate of return over the past three and five years ended December 31, 2008, was -2.9% and 2.4%, 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, 2008, 2007, and 2006 at fair market value is listed on the chart on page 20.

FIXED INCOME

Fixed income decreased approximately $88 million from December 31, 2007, to December 31, 2008, primarily due to asset allocation rebalancing. Fixed income increased approximately $23 million from December 31, 2006, to December 31, 2007, primarily due to income earned during 2007, as well as asset allocation rebalancing.

COMMON AND PREFERRED STOCK

Common and preferred stock including international stock decreased approximately $326 million from December 31, 2007, to December 31, 2008, due to depreciation in domestic and international markets as well as asset allocation rebalancing, and increased approximately $17 million from December 31, 2006, to December 2007, primarily due to appreciation in the domestic and international equity markets.

SECURITIES LENDING

In early August 2008, the Board decided to exit the Securities Lending Program. The System had $0 and $96,875,675 of cash collateral invested in the custodial agent's short-term collateral investment pool as of December 31, 2008, and 2007, respectively.

REAL ESTATE EQUITY

Real estate equity increased approximately $27 million from December 31, 2007, to December 31, 2008. The increase was the result of additional allocations of real estate properties. Real estate equity increased approximately $49 million from December 31, 2006, to December 31, 2007, as a result of market appreciation in fair value.

CONTRIBUTIONS AND INVESTMENT INCOME

During 2008, contributions from employers and members totaled $49.7 million compared to $46.8 million during 2007 and $37.7 million during 2006. Net investment losses during 2008 were $387 million compared to net investment gains of $115 million during 2007 and net investment gains of $161 million during 2006. Investment gains/losses were primarily attributable to appreciation/depreciation 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 $5.6 million during 2007 to $6.1 million during 2008 and $0.5 million from $5.1 million during 2006 to $5.6 million during 2007 based on the increase in fair value of investments under management.

PENSION PLAN BENEFITS AND EXPENSES

The primary source of expense during 2008 was for payment of pension benefits totaling $53.8 million compared to $49.9 million during 2007 and $62.5 million during 2006. Pension benefits increased by $3.8 million from 2007 to 2008. Pension benefits decreased by $12.6 from 2006 to 2007. Administrative expenses increased by $0.1 million to $3.0 million for 2008. Expenses remained basically unchanged at $2.9 million for 2007 and 2006. Administrative expenses were within PMRS' budgeted amounts for all three years.

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

Asset Distribution at Fair Market Value

	2008	%	2007	%	2006	%
Asset Class			(In Thousands)			
Short term	$ 31,696	2.7%	$ 40,116	2.6%	$ 20,978	1.4%
Fixed income	263,054	22.6	350,661	22.5	328,004	22.6
Common preferred stock	503,506	43.2	771,519	49.4	747,162	51.4
International stock	193,729	16.6	252,249	16.1	259,930	17.9
Real estate equity	173,048	14.9	146,522	9.4	97,025	6.7
Total	**$1,165,033**	**100.0%**	**$1,561,067**	**100.0%**	**$1,453,099**	**100.0%**

Statements of Plan Net Assets

As of December 31, 2008,and 2007

Assets	2008	2007
Receivables		
Plan members	$ 1,924,719	$ 2,339,058
Municipal employers	2,904,762	3,554,246
Accrued investment income	4,371,362	1,597,596
Investment sales receivable	3,188,463	8,847,217
Total receivables	12,389,306	16,338,117
Investments, at fair value		
Short-term and other investments	31,696,129	40,116,013
U.S. Government bonds	193,660,279	249,635,372
Corporate bonds	69,393,618	101,025,356
Common and Preferred stocks	503,506,353	771,518,535
Real estate equity	173,048,076	146,522,406
International equities	193,728,502	252,249,203
Total investments	**1,165,032,957**	**1,561,066,885**
Securities lending collateral pool	-	96,875,675
Capital assets (net of accumulated depreciation of $204,391.35 and $242,167 respectively)	228,671	223,890
Total assets	**$1,177,650,934**	**$1,674,504,567**
Liabilities		
Accounts payable and accrued expenses	1,604,180	1,891,877
Investment purchases payable	5,414,930	10,963,313
Collateral held under securities lending program	-	96,875,675
Total liabilities	**7,019,110**	**109,730,865**
Net Assets Held in Trust For Pension Benefits	**$1,170,631,824**	**$1,564,773,702**

(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, 2008, and 2007

Additions	2008	2007
Contributions		
Plan members	$ 17,870,426	$ 17,491,672
Municipal employers	31,532,859	29,059,248
Assessments	290,320	282,628
Total contributions	**49,693,605**	**46,833,548**
Investment income/(loss)		
From investing activities:		
Net appreciation/(depreciation) in fair value of investments	(407,656,237)	96,708,126
Short-term and other investments	674,503	1,909,544
Common and Preferred stocks	12,093,339	10,388,051
Real estate equity	7,927,482	5,745,768
International equities	4,458,381	4,274,010
Miscellaneous income	107,122	325,643
Less investment expenses	(6,128,828)	(5,599,795)
Total investing activities income/(loss)	**(388,524,238)**	**113,751,347**
Securities lending activity		
Securities lending income/(loss)	2,894,813	5,959,496
Less: Securities lending expenses	(1,448,177)	(4,872,037)
Net securities lending activity	**1,446,636**	**1,087,459**
Net investment income/(loss)	**(387,077,602)**	**114,838,806**
Total additions	**(337,383,997)**	**161,672,354**
Deductions		
Annuity benefits	46,173,544	42,898,882
Terminations	7,597,681	7,006,182
Administrative expenses	2,986,656	2,862,482
Total deductions	**56,757,881**	**52,767,546**
Net increase/(decrease)	**(394,141,878)**	**108,904,808**
Net assets held in trust for pension benefits		
Balance, beginning of year	**1,564,773,702**	**1,455,868,894**
Balance, end of year	**$1,170,631,824**	**$1,564,773,702**

(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, 2008, there were 692 municipalities with defined benefits and 183 with defined contributions. The tables (at right) reflect municipal membership and individual membership.

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,

Participating Local Government Employers

	Defined Benefits	Defined Contributions
Counties	4	0
Cities	19	0
Boroughs	146	24
Townships of the First Class	18	1
Townships of the Second Class	154	99
Authorities and Other Units	169	51
Police	174	8
Firefighters	8	0
Total	**692**	**183**

Individual Membership

Active Members	
Defined Benefit Plans	
Municipal	7,496
Police	752
Firefighters	135
Total	**8,383**
Defined Contributions Plans	
Municipal	941
Police	9
Firefighters	0
Total	**950**
Total active members	**9,333**
Retirees and Beneficiaries	
Retirees	3,173
Beneficiaries	425
Total retirees and beneficiaries	**3,598**
Inactive Participants with Rights to Deferred Pension (Vested)	
Defined benefit	570
Defined contributions	174
Total vested	**744**
Defined benefit	7
Defined contribution	0
Total non-vested	**7**
Total individual memberships	**13,682**

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 estimated current values and independent appraisals performed 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 reviewed by the investment manager and adjusted to reflect estimated fair values. Real estate property purchased by the System within twelve months of the year-end is generally reported at the purchase price, plus any costs capitalized since the purchase, which is deemed to approximate the real estate property's fair value. Purchases and sales of investments are recorded on a trade-date basis.

CAPITAL ASSETS

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

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. Additionally, the System has retained legal counsel to assist in preparing an explanation of any possible compliance issue in association with the tax qualification status of the plan.

(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 2008 consisted of the following:

	2008	2007
Municipality normal cost	$36,584,175	$36,594,509
Amortization of unfunded actuarial accrued liability	(7,283,797)	(9,476,074)
Total [(1)]	**$29,300,378**	**$27,118,435**

Total contributions to the System during 2008 amounted to $49,693,605 of which $17,870,426 and $31,532,859 were made by its members and municipalities, respectively and $290,320 was from assessments.

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

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

crued 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;

   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, 2008, and 2007, the balance in the Members' Reserve Account was $368,673,298 and $351,521,038, 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, 2008, and 2007, the balance in the Municipal Reserve Account was $688,576,068 and $653,176,044, 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, 2008, and 2007, the balance in the Retired Members' Reserve Account was $479,026,087 and $450,043,306, 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, 2008, and 2007, the balance in the Disability Reserve Account was $502,489 and $33,254, respectively. The account is fully funded.

Undistributed Earnings Designation

In addition to regular interest, the System may also award excess interest. Excess interest is investment earnings on the System's assets in excess of that required for allocation to regular interest and administrative expenses. Rates for excess interest are determined annually by the Board with advice from the System's actuary. The excess interest is distributed to the member accounts, the municipal accounts, and the retiree accounts as directed by the municipality.

The System did not distribute excess interest in 2008. The System approved the distribution of excess interest at a rate of 3.12% during 2007. 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.

As of December 31, 2008, and 2007, the Undistributed Earnings Designation Account had a balance of $(366,146,118) and $110,000,060, 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, direct real estate, 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 may participate 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, 2008, the System had no credit risk exposure to borrowers because participation in the program was temporarily halted in 2008.

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, 2008, and 2007 were:

Credit Risk Concentration

Security	Fair Value
2008	
State Street Index Fund	$407,174,039
Prudential Property Investment Separate Account (PRISA)	$83,260,183
Forest Investment Associates	$59,296,728
2007	
State Street Index Fund	$488,683,520
Prudential Property Investment Separate Account (PRISA)	$117,910,339

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:

2008 Interest Rate Risk

Security	Quality Rating*	Modified-Adjusted Duration	Fair Value
Barclays Capital US Aggregate Fund	AA	3.7	$263,053,898
Short-Term Investment Fund	NR	0.1	$ 27,795,229

* Index is not rated as a security but the average rating of the securities held in the index is AA2

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

* Index is not rated as a security but the average rating of the securities held in the index is AA2

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, 2008, the System had the following non-U.S. currency exposure.

2008 Foreign Currency Risk

Currency	Equity	Short-Term	Total
Euro Currency Unit	$36,658,079	$282,678	$36,940,757
Japanese Yen	26,581,626	56,370	26,637,996
British Pound Sterling	22,535,940	230,705	22,766,645
Swiss Franc	15,761,079	501,479	16,262,558
Canadian Dollar	4,736,610	7,960	4,744,570
Singapore Dollar	3,457,810	37,227	3,495,037
Australian Dollar	3,187,682	273	3,187,955
Norwegian Krone	3,181,918	3,811	3,185,729
Swedish Krona	2,496,498	2,979	2,499,477
Non-U.S. Currencies	2,587,523	179,820	2,767,343

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
Non-U.S. Currencies	8,655,773	11,790	8,667,563

(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, 2008, and December 31, 2007, the System's carrying value and fair value of lent securities was $0 and $92,110,192, respectively. The fair value of associated collateral was $0 as of December 31, 2008, and $96,875,675 as of December 31, 2007. The System's income, net of expenses, from securities lending was $1,446,336 for 2008 and $1,087,459 for 2007.

The System had $0 and $96,875,675 of cash collateral invested in the custodial agent's short-term collateral investment pool as of December 31, 2008, and 2007, 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 3.29% at July 1, 2008, 3.28% at July 1, 2007, and 3.23% at July 1, 2006. The System's annual required contributions to SERS for the years ending December 31, 2008, and December 31, 2007, were $42,638 and $40,075 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 2011. Future minimum lease payments under this lease are as follows:

2009	-	$108,750
2010	-	108,750
2011	-	99,688

Total rental expenses for the years ended December 31, 2008, and 2007 were $107,169 and $106,337, respectively.

The System has remained committed to fund a real estate investment of approximately $65.7 million at December 31, 2008. The System had no commitments as of December 31, 2007. The expected funding date for this commitment extends through 2017, with two one-year extensions, if needed.

(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, 2008, the most recent actuarial valuation date, the plan was 105.9 % funded. The actuarial accrued liability for benefits was $1,376,536,031, and the actuarial value of assets was $1,458,148,442, resulting in an unfunded actuarial accrued liability (UAAL) of ($81,612,411). The covered payroll (annual payroll of active employees covered by the plan) was $364,865,185, and the ratio of the UAAL to the covered payroll was (22.4%) 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 most recent 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 January 1, 2008, was 10-30 years.

(12) Risk and Uncertainties

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of investment securities may occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Schedule 1

Schedule of Funding Progress [1]

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/1/2008	$1,458,148,442	$1,376,536,031	$(81,612,411)	105.9% [2]	$364,865,185	(22.4)%
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) [3]	Actual Employer Contribution	Percentage Contributed [4]
2008	$29,300,378	$31,532,859	108%
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

See accompanying notes to required supplementary schedules.

(1) The System has historically chosen to have actuarial valuations performed bi-annually 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. A January 1, 2008, actuarial valuation was performed. The January 1, 2008, actuarial valuation was derived from actual values for the four defined benefit plans that are required to redetermine contribution levels bi-annually for even years, and actuarial adjustments to the January 1, 2007, liabilities for those municipalities required to redetermine contribution levels bi-annually for odd years. The January 1, 2007, liabilities were adjusted to reflect January 1, 2008, actual active counts to estimate the liabilities for these plans to provide an overall measure of the funded status of the System.

(2) During the year ended December 31, 2008, the System experienced an investment loss of 24.8%. The impact of the current year loss on the schedules of funding progress is likely to significantly impact the ratio of valuation assets to the actuarial accrued liabilities. While this ratio was 105.9% at January 1, 2008, it is probable that the funding ratio will be below 100% when the January 1, 2009, actuarial valuation is completed. We note here that the impact of the investment loss during the year ended December 31, 2008, on the future actuarial valuation of assets has not been determined and could have a significant impact on the ratio of the assets to actuarial accrued liabilities for the System in future years.

(3) 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.

(4) 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, 2008
Actuarial cost method	Entry age normal
Amortization method	Level dollar open
Remaining amortization period	- 30 years with respect to the initial liability as of January 1, 1985 (or first valuation) - 20 years with respect to changes due to plan provisions and actuarial assumptions - 15 years with respect to actuarial gains and losses, or the average assumed working lifetime of active employees as of the date the liability was established - 10 years with respect to changes in benefits for currently retired members
Asset valuation method	sum of all audited reserve accounts plus any additional investment income to be distributed as excess interest
ACTUARIAL ASSUMPTIONS	
Investment rate of return	6.0% 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

	2008	2007
PERSONNEL COSTS		
Salaries and wages	$1,335,559	$1,281,414
Social security contributions	98,045	92,397
Retirement contributions	42,638	40,075
Insurance contributions	438,964	379,718
Other employee benefits	5,818	8,341
Total personnel costs	**1,921,024**	**1,801,945**
PROFESSIONAL COSTS		
Performance evaluation	109,000	109,158
Actuarial	275,043	242,159
Data processing	13,665	13,034
Audit	95,100	90,600
Legal	94,383	94,614
Miscellaneous professional	80,051	97,679
Total professional costs	**667,242**	**647,244**
COMMUNICATION COSTS		
Printing	18,686	11,157
Telephone	20,458	12,671
Postage	47,577	38,646
Travel	25,042	20,085
Advertising	3,525	3,778
Total communication costs	**115,288**	**86,337**
OTHER SERVICES AND CHARGES		
Contracted EDP services	73,242	67,518
Office space rental	107,169	106,337
Equipment leasing	4,613	4,527
Supplies	26,705	25,329
Maintenance	9,469	29,088
Bonding and insurance	1,834	1,888
Dues and subscriptions	2,795	2,705
Total other services and charges	**225,827**	**237,392**
DEPRECIATION	**57,275**	**89,564**
Total administrative expenses	**$2,986,656**	**$2,862,482**

Schedule 4 - Investment Expenses
Comparative Two-Year Schedule

	2008	2007
Investment management fees	$6,120,345	$5,591,833
Custodial fees	8,483	7,962
Total investment expenses	**$6,128,828**	**$5,599,795**

Schedule 5 - Payments to Consultants
Comparative Two-Year Schedule
Years Ended December 31, 2008, and 2007

Firm Name	Nature of Service	2008	2007
Clifton Gunderson, LLP	Auditor	$ 95,100	$ 90,600
Dahab Associates, Inc.	Investment Consultant	109,000	109,158
The Segal Company	Actuary	0	40,740
Cheiron	Actuary	275,043	201,419
Total		**$479,143**	**$441,917**

Investments

INVESTMENT RETURN

On December 31st, 2008, the Pennsylvania Municipal Retirement Board's investment portfolio was valued at $1,163,626,000, which was a decrease of $396,216,000 from the December 2007 ending valuation of $1,559,842,000. During the calendar year of 2008, the System recorded aggregate net withdrawals of $10,953,877 and a net investment return of $(385,262,123).

For the period between January 1, 2004, and December 31, 2008, the System recorded net withdrawals totaling $87,948,338 and a net investment return of $143,199,338. If the fund had earned an annualized compounded rate of 6.0% during that period, it would have been worth $1,379,519,000, or $215,893,000 more than the actual value at the end of the year.

ECONOMIC ENVIRONMENT

The economic environment through 2008 can perhaps be best described as an economic "ice age." The corrections seen towards the end of 2007 have evolved into a global pandemic; governments everywhere are trying figure out how to cope with the worst economic downturn since the Great Depression. From multibillion dollar stimulus packages to slashed interest rates, nothing is off the table to help stem the current freefall seen in the market.

Financial institutions, domestic and abroad, led the decline. As fallout from the sub-prime mortgage crises continued to spread, credit froze up and corporations and small business alike struggled to find liquidity. It was very quickly realized that many of the risky investments and leveraging involved in major institutions' portfolios were coming back to haunt them. When these toxic assets started failing, banks, hedge funds, and worried investors started buying up any liquid assets left to find. Many of these institutions were unable to recover and were forced into bankruptcy, including the demise of Lehman Brothers in September.

The lack of capital contributed to a massive slowdown of the economy. Consumers, many of whom had lost their jobs and many others sensing the instability in the market, started spending far less than previously. Retailers experienced the worst Christmas sales in recent memory, automobile sales plummeted leaving American auto manufacturers scrambling to stay afloat, and oil demand dropped for the first time in years.

Unemployment rose dramatically, to 7.2%, representing a loss of 2.6 million jobs. Workers are being laid off in nearly every sector of the economy, from computer manufacturers to government employees to the hundreds of thousands of workers at auto manufacturing plants.

Industrial capacity fell well below norms as well, falling to 73.6% at the end of the year. This was a 7.8% drop for the year. Most of the drop came from the manufacturing industry, which ended the year at 70.2% capacity.

Inflation was one of a few positive points for the year; for the year, the CPI-U rose only 0.1%. That figure hides the fact though, that only the fourth quarter's 3.4% drop kept that figure so low. The large drop was significantly influenced by the price of oil, which went from a high of about $147 a barrel in July to settle in the $40 range.

The US dollar made gains against most major currencies, ending the year at $1.36/euro after touching a high of $1.25/euro. This figure reflects the relative interest rates between US Treasuries and European banks.

The US trade deficit also fell despite a significant decline in exports of goods and services. The reason for this is that imports fell faster than exports, led by large decreases in demand from American consumers. The effect of this helped to slightly dampen the downward spiral the economy was experiencing.

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.

EQUITY MARKET

Domestic equities of all styles and market caps experienced the worst period in decades. The fourth quarter made it clear that we are in a major economic recession. Bankruptcy was the main concern on investors' minds; major institutions and corporations suddenly found themselves in possession of billions of dollars in "toxic" assets and no way to raise enough capital to stay afloat.

Investment bank Bear Stearns' collapse, and later, Lehman Brothers' bankruptcy filing, started a panic that added fuel to the fire. Consumer confidence plummeted, and investors fought to sell off their risky assets. The response was a federal bailout package worth hundreds of billions of dollars. AIG alone received $85 billion in TARP money to try and stay afloat. Automakers Chrysler, GM, and Ford appeared in Congress asking the government for money, warning they would be forced into bankruptcy without immediate assistance. Public frustration with the economy was evident in the members of Congress' harsh criticism of the CEO's of those companies for flying into Washington on their corporate jets.

For the year, the broad large cap indices, the S&P 500 and the Russell 1000 returned -37.0% and -37.6%, respectively. Value stocks and growth stocks essentially performed the same, with the Russell 1000 Value and Russell 1000 Growth returning -36.8 and -38.4, respectively.

Small cap stocks did slightly better, although the Russell 2000 still dropped 33.8% for the year. There was a considerable difference between value and growth in small cap stocks though. The Russell 2000 Value returned -28.9% for the year, while the Russell 2000 Growth returned -38.6% for the year.

At the end of the year the average yield for the S&P 500 was 2.4%, and the average growth rate was 19.8%. The average P/E was 13.2, which is slightly lower than the historical normal range of 14 to 16. The S&P 500 had 16.6% of its assets in small/mid cap equities (equities with market caps less than $10 billion), while the rest was in large cap equities.

INTERNATIONAL EQUITIES

International equities as a whole fared worse than the domestic markets. Both the MSCI EAFE and the MSCI Emerging Markets indices fell more than the S&P 500; the MSCI EAFE was off 43.1% for the year and the MSCI Emerging markets index was off 53.2% for the year.

Among the developed markets, Japan had the best return, returning -30.0% for the year. Ireland did the worst, losing a whopping 75.2% for the year. The Far East did the best among the regions, returning -33.8%. Europe did particularly poorly, losing 48.2%.

For the emerging markets, Israel posted the best return for the year of -23.8%. Of note, Peru, which gained 94.7% in 2007, gave most of that back in 2008, losing 44.5%. Hungary posted the worst return of -68.1% for the year.

On an equal-weighted basis, the MSCI EAFE returned -51.1% for the year. The equal-weighted MSCI Emerging Markets index returned -46.0% for the year.

BOND MARKET

Since the Lehman Brothers bankruptcy, the indices owned by them have been taken over by Barclays Capital, and are hence known as the Barclays Indices.

The collapse of major financial institutions and dropping consumer confidence resulted in a major freeze in the credit market. Most investors wanted nothing to do with any corporate bonds, and would only put their money into bonds backed by the full faith of the US government. For all practical purposes, corporate bonds were considered to be toxic assets.

With the huge flight to quality by investors, government treasuries soared 10.2% for the year and corporate bonds fell 11.2%, illustrating a 21.4% spread between the two types of bonds. High-yield bonds were avoided by most investors, as illustrated by the Barclays US Corporate High Yield index, which returned -26.2% for the year.

The Fed Funds rate was cut multiple times to just over 0% in an effort to encourage lending between banks. This only had a minimal impact however, since banks were hesitant to lend out any stable capital they had left. Any bonds issued by many banks were reduced to a BBB rating at best, placing them in the high-yield or "junk" bond status.

Treasury yields were down across the board. Short-term notes briefly traded at a negative interest rate, the first time in history for that to occur. At the end of the year, 3-month treasuries had fallen 3.15% from last year to 0.11%. 3-year treasuries fell to 1.00%, and 30-year treasuries fell to 2.69%. The yield curve maintained a normal curve.

The Barclays Aggregate Index returned 5.2% for the year. The average maturity was 5.5 years, much shorter than the 7.1 year maturity at the end of 2007. The interest rate sensitivity (duration) was 3.7 years (adjusted), less than last year's duration of 4.4 years. The average yield for the index was 4.0%, less than last year's 4.9% average yield.

RELATIVE PERFORMANCE

Total Fund

For the full year of 2008 our total portfolio returned -24.8%, ranking in the 56th percentile relative to other Trust Funds. Annualized over the last 5 years, we earned 2.4%, ranking in the 35th percentile.

Large Cap Equities

Our portfolio's large cap equity segment lost 37.2% over the trailing year. This ranked in the 47th percentile of the large cap universe and fell just short of the S&P 500 Index's return of -37.0%. The trailing 5-year return of the large cap segment was -0.7% annualized, ranking in the 30th percentile. The S&P 500 returned -2.2% annualized over the same period.

Small Cap Equities

Our small cap equities returned -35.4% for the year and ranked in the 46th percentile of the small cap universe. This segment returned -2.5% annualized over the previous 5 years, ranking in the 77th percentile. The Russell 2000 returned -33.8% and -0.9% respectively for the trailing year and trailing 5 years.

International Equities

The international equity portion of the portfolio returned -43.5% over the trailing year, ranking in the 60th percentile of the international equity universe. The S&P BMI Ex-US index returned -44.2% over the same period. For the trailing 5 years, the portfolio returned 2.1%, ranking in the 77th percentile, and falling short of the benchmark's 2.6% return.

Fixed Income

The fixed income portion of the portfolio (bonds) returned 5.4% for the trailing year and 4.7% annualized for the trailing 5-year period, ranking, respectively, in the 18th and 32nd percentiles of the core fixed income universe. The Barclays Aggregate Index returned 5.2% and 4.6% annualized over the same periods.

Real Estate

Real estate for the portfolio returned -4.6% for the year and 11.7% annualized for the last 5 years. This beat the NCREIF Property Index's 1-year return of -6.5%, and was equal to the Index's 5-year return.

Asset Allocation

On December 31, 2008, the allocation of assets was as follows:

Large cap equities	30.9%	$359,885,919
Small cap equities	12.4%	$144,499,571
International equities	16.7%	$194,278,919
Total equities	60.0%	$698,664,409
Fixed income	22.6%	$263,053,898
Real estate	14.9%	$173,827,945
Cash and equivalents	2.4%	$28,080,057
Total portfolio	100.0%	$1,163,626,309

Report prepared by DAHAB ASSOCIATES, INC.

Basis of Presentation

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.

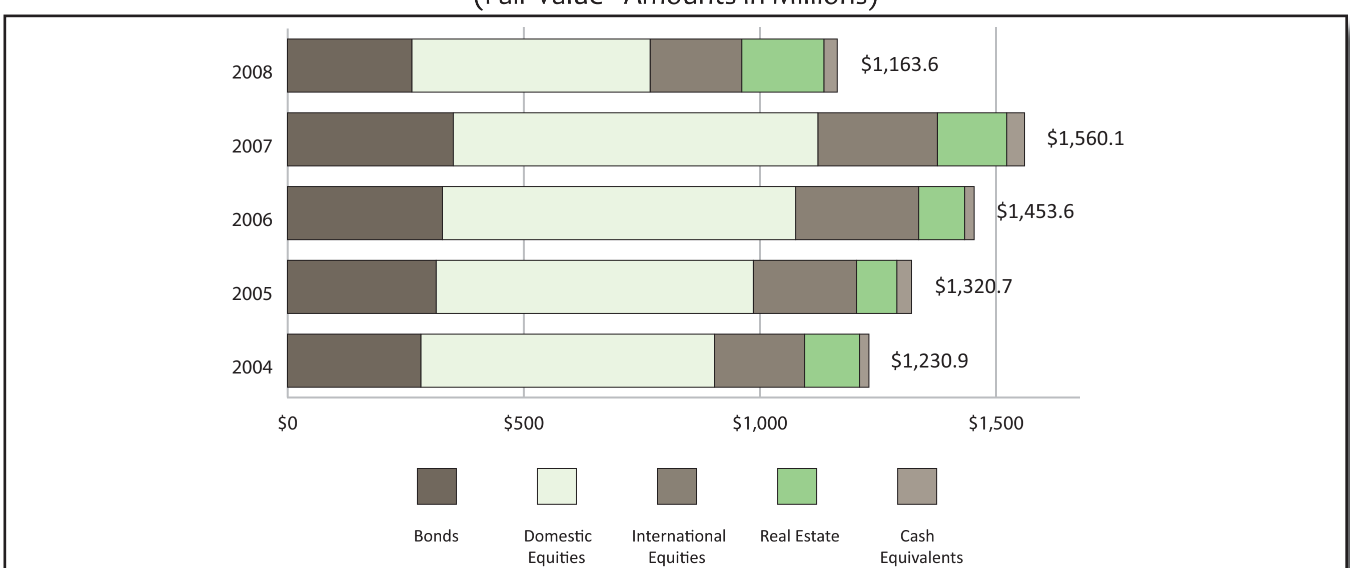
Returns for actively-managed funds presented throughout the Investment Section are gross of external manager fees; returns for passively managed funds are net of external manager fees. Overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities are deducted and are not included in the calculation of returns. In addition, the securities lending money market returns are net of custodial fees, transfer agent expenses and professional fees.

On December 31, 2008, the System's investment assets were valued at $1,163,626,000,[1] a decrease in value of $396,458,000 over the December 31, 2007, valuation of $1,559,842,000. During the last five years, the System has decreased from $1,230.9 million to $1,163.6 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.

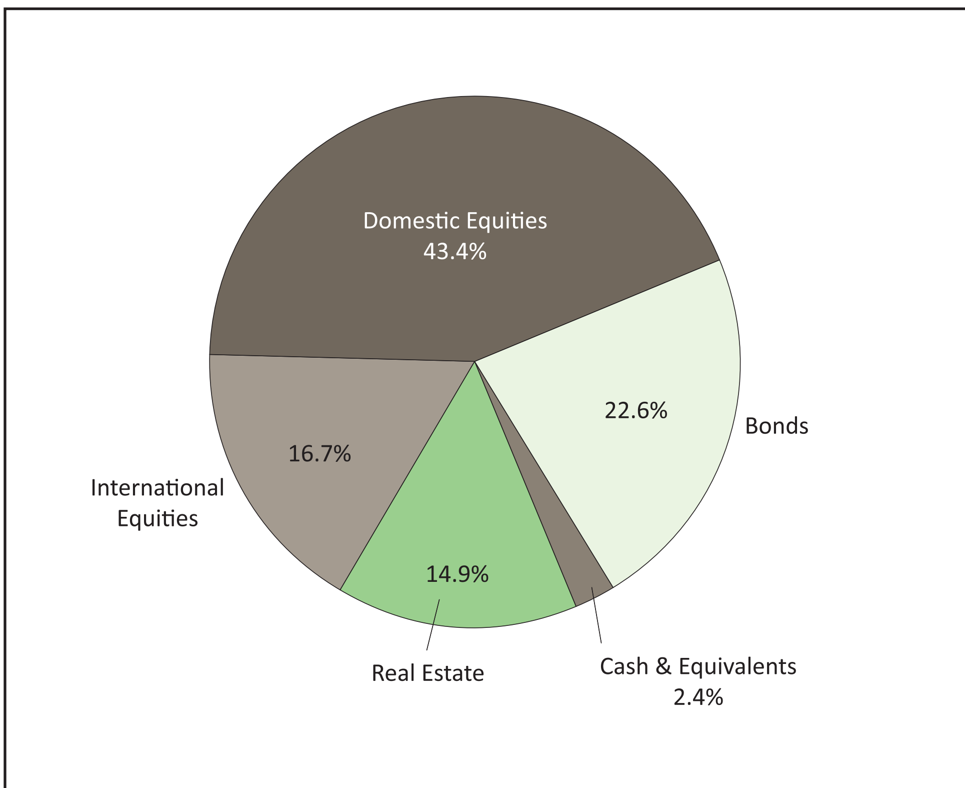
Asset Allocation

The System's asset allocation as of December 31, 2008, was $504.4 million committed to domestic equities, $194.3 million to international equities, $263 million to bonds, $173.8 million to real estate, and $28 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, 2008, was -24.8%, ranking near the median in the 56th percentile of all balanced funds. This performance level was below the median balanced fund's return of -23.8%. The cumulative five-year return for December 2003 through December 2008 of 2.4% annualized ranked in the 35th percentile.

For the year ended December 31, 2008, large cap equities lost 37.2% and ranked in the 47th percentile, performing just below the S&P 500 Index return of -37.0%. For the last five years, the System's large cap equities return was -0.7% annualized and ranked in the 30th percentile. The Standard and Poor's 500 return was -2.2% for the same time period. The small cap equities lost 35.4% for the year and ranked in the 46th percentile, just below the Russell 2000 return of -33.8. For the five year period, the cumulative return was -2.5% annualized and ranked in the 77th percentile. For the year ending December 31, 2008, the international equities lost 43.5% and ranked in the 60th percentile. The S&P/Citigroup BMI lost 44.2 over the same period.

Fixed income returned 5.4% for the year, ranking in the 18th percentile performing above the Barclays Aggregate Index return of 5.2%. For the five-year period, the cumulative bond return of 4.7% annualized ranked in the 32nd percentile. The real estate segment of the portfolio lost 4.6% for the fiscal year. For the cumulative five-year period, the real estate portfolio earned 11.7% annualized.



Portfolio Summary

As of December 31, 2008

Type of Investment	Par Value	Cost Value	Fair Value	% of Total Fair Value
Corporate and government bonds				
U.S. Government bonds	$ 140,000,000	$ 140,000,000	$ 193,600,000	17%
Corporate bonds	50,000,000	50,000,000	69,400,000	6
Total	**190,000,000**	**190,000,000**	**263,000,000**	**23**
Common stock				
Domestic	625,800,000	625,800,000	503,500,000	43
International	260,000,000	260,000,000	193,700,000	16
Total	**885,800,000**	**885,800,000**	**697,200,000**	**59**
Other investments				
Real estate equity	160,200,000	160,200,000	173,100,000	15
Cash equivalents	31,700,000	31,700,000	31,700,000	3
Total	**191,900,000**	**191,900,000**	**204,800,000**	**18**
Grand total	**$1,267,700,000**	**$1,267,700,000**	**$1,165,000,000**	**100%**

Portfolio Quality

Two-Year Comparative Analysis
Years Ended December 31, 2008, and 2007

Bond Rating	Fair Value	% of Total Fair Value	% of Total Carrying Value
December 31, 2008			
AAA	$193,600,000	74%	74%
AA	69,400,000	26	26
A	0	0	0
Total bonds	263,000,000	100%	100%
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%

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 12/31/2008	Period from 1/1/06 to 12/31/08 (Annualized)	Period From 1/1/04 to 12/31/08 (Annualized)
Total	-24.8%	-2.9%	2.4%
(Rank) [2]	(56)	(56)	(35)
Large Cap Equities	-37.2	-8.6	-0.7
(Rank) [3]	(47)	(53)	(30)
Fixed Income	5.4	5.5	4.7
(Rank) [4]	(18)	(30)	(32)
Real Estate	-4.6	7.9	11.7
International	-43.5	-6.9	2.1
(Rank)	(60)	(65)	(77)
Small Cap Equities	-35.4	-10.1	-2.5
(Rank)	(46)	(63)	(77)
Inflation Rate			
Consumer Price Index	0.1	2.2	2.7
Market Indicators			
Standard and Poor's 500	-37.0	-8.4	-2.2
Russell 2000	-33.8	-8.3	-0.9
Barclays Aggregate	5.2	5.5	4.6
S & P/Citigroup BMI Ex-US	-44.2	-7.5	2.6
91-day Treasury Bills	1.4	3.5	3.1
NCREIF Property Index	-6.5	8.1	11.7
Shadow Index [5]	-25.2	-2.9	2.0

(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 -- Barclays 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; Emerging Market -- MSCI Emerging Markets.

Ten Largest Common Stock Holdings

As of December 31, 2008 (Fair Value)

Stock	Shares	Fair Value	% of Stock Portfolio
McDonald's Corp.	196,400	$12,214,116	1.75%
Exxon Mobil Corp.	149,100	11,902,653	1.70%
Wal-Mart Stores Inc.	190,700	10,690,642	1.53%
Amgen	162,400	9,378,600	1.34%
Teva Pharmaceutical - Sp ADR	210,800	8,973,756	1.28%
Johnson & Johnson	136,200	8,148,846	1.17%
Procter & Gamble Co.	120,800	7,467,856	1.07%
Accenture LTD	215,500	7,066,245	1.01%
Waste Management Inc.	192,700	6,386,078	0.91%
Wells Fargo & Co.	203,600	6,002,128	0.86%

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

Summary of Investment Expenses

Comparative Two-Year Schedule
Years ended December 31, 2008, and 2007

Firm Name	2008	2007
Blackrock Financial Management	$ 0	$ 111,410
Century Capital Management	325,006	373,784
Chase Investment Counsel Corporation	922,964	983,115
Denver Investment Advisors	394,094	102,914
DePrince, Race & Zollo, Inc.	271,736	340,932
Emerald Advisors	176,282	215,883
Forest Investment Associates	691,849	224,688
GlobeFlex Capital	312,715	276,781
LSV Asset Management	636,048	757,474
Mercator Asset Management	701,431	823,024
Prudential Investments	881,509	771,606
State Street Global Advisors	169,916	214,142
TIAA-CREF Global Real Estate	225,139	0
Waddell & Reed Investment Management	0	97,328
Wentworth, Hauser and Violich	411,656	298,752
Total Investment Management Fees	**6,120,345**	**5,591,833**
Custodial Fees - BNY Mellon	8,483	7,962
Total Investment Expenses	**$6,128,828**	**$5,599,795**

Summary of Commissions Paid to Brokers

Year Ended December 31, 2008

Broker Name	Commissions Paid
Abel Noser Corp, New York	$63,188
ABG Securities, Oslo	648
ABN AMRO Bk Nv (Secs Trading), Hong Kong	1,249
ABN AMRO Securities LLC, New York	1,159
American Technology Research Inc., Dallas	339
Avondale Partners LLC, Nashville	3,708
Baird, Robert W. & Co. Inc., Milwaukee	8,609
Banc of America Securities LLC, Charlotte	5,235
Banco Santander, New York	1,006
Barkleys Capital LE, Jersey City	491
Bear Sterns Securities Corp., Brooklyn	1,160
Bernstein Sanford C. & Co., New York	3,105
Bloomberg Tradebook LLC, New York	18,602
BMO Capital Markets Corp., New York	949
BNP Paribas Peregrine Sec. LTD, Hong Kong	3,497
BNP Paribas Sec. Svcs., London (PARBGB2L)	955
BNY Convergex / LJR, Houston	160
BNY Convergex, New York	42,338
Boenning & Scattergood, W. Conshohocken	940
Brockhouse and Cooper, Montreal	876
Buckingham Research Grp. Inc., Brooklyn	666
Calyon, Madrid	553
Canaccord Adams Inc., Boston	2,955
Cantor Fitzgerald & Co. Inc., New York	999
Cantor Fitzgerald & Co., New York	491
CAP Institutional Services Inc.-Equities, Dallas	14,180
Caris & Company Inc., Jersey City	4,220
Carnegie ASA, Oslo	784
Carnegie Fondcommon, New York	1,460
CI Nordic Securities AB, Stockholm	285
CIBC World Markets Corp., New York	1,515
Citigroup Global Markets Inc., New York	15,479
Citigroup Global Markets/Salomon, New York	495
Citigroup Global Markets LTD, London	3,301
CJS Securities, Brooklyn	382
Coker Palmer Phillips & Muller, Jersey	92
Collins Steward Inc., New York	8,339
Cowen and Company LLC, New York	7,130
Craig Hallum, Minneapolis	1,654
Credit Agricole Cheuvreux, Courbevoie	19,476
Credit Agricole Indosuez Chx, Milano	1,019

Broker Name	Commissions Paid
Credit Lyonnais Securities, Seoul	1,144
Credit Lyonnais Securities (Asia), Hong Kong	1,662
Credit Lyonnais Securities, Singapore	4,020
Credit Research & Trading LLC, Jersey	528
Credit Suisse (Europe), London	1,753
Credit Suisse, New York (CSFBUS33XXX)	42,618
Dahlman Rose & Co. LLC, Jersey City	4,182
Daiwa Securities America Inc., New York	2,371
Davis Mendel & Regenstein Inc., Atlanta	507
DBS Securities, Singapore	3,425
Deutsche Bank Securities Inc., NY (NWSCUS33)	8,422
Dexia Bank (Formerly Kempen), Amsterdam	8
Dougherty Company, Brooklyn	3,677
Dowling & Partners, Jersey City	3,989
EMP Research Partners LLC, Brooklyn	870
Exane, Paris (EXANFRPP)	588
First Analysis Securities Corp., Chicago	547
Fox Pitt Kelton Inc., New York	5,190
Friedman Billings, Washington DC	7,087
Goldman Sachs & Co., NY	15,725
Goldman Sachs Execution & Clearing, NY	3,056
Green Street Advisors, Jersey City	8,506
Greentree Brokerage Services, Jersey City	1,231
Gunnallen Financial, Jersey City	1,130
Hibernia Southcoast Cap. Inc., Jersey City	1,569
Howard Weil Incorporated, New Orleans	868
Instinet Corp., NY	352
Instinet Europe Limited, London	2,974
Instinet, Paris	622
Intermonte Sec. CIM, Milan	1,363
Investment Technology Groups, New York	10,101
ITG (Europe) LTD, Dublin	84
J P Morgan Securities, Sydney	1,877
J P Morgan Securities LTD, London	5,604
J P Morgan Securities Inc., New York	22,300
Janney Montgomery Scott, Philadelphia	833
Jefferies & Co. Inc., New York	26,469
JMP Securities, San Francisco	5,971
Johnson Rice & Co., New Orleans	890
Jonestrading Instl. Services LLC, Westlake	11,599
JP Morgan Securities (Far East) LTD, Seoul	26
JP Morgan Securities Asia Pacific, Hong Kong	1,796
Keefe Bruyette and Woods, Jersey City	11,299

Broker Name	Commissions Paid
Kelly & Christensen Inc., Jersey City	1,368
Kepler Equities, Zurich	31
Kepler Equities, Sucursal En Espana, Madrid	24
Keybanc Capital Markets Inc., New York	2,427
King (CL) & Associates, Albany	1,805
Knight Securities Broadcort, Jersey City	20,350
Ladenburg Thalman & Co., Weehawken	1,547
Lazard Capital Markets LLC, New York	472
Leerink Swann & Co., Jersey City	8,306
Lehman Bros. Inc., New York	10,718
Lehman Bros. Intl., London	260
Liquidnet Inc., Brooklyn	10,305
Longbow Securities LLC, Jersey City	1,579
MacQuarie Equities LTD, Sidney	5,046
MacQuarie Securities (USA) Inc., Jersey City	409
Melvin Securities LLC, Chicago	1,466
Merrill Lynch Intl. (KSI), London	70
Merrill Lynch Intl London Equities	29
Merrill Lynch Pierce Fenner Smith Inc., NY	16,364
Merrill Lynch Pierce Fenner, Wilmington	1,675
Merrill Lynch Professional Clearing, Purchase	1,616
Merriman Curhan Ford, Jersey City	830
Mizuho Securities USA Inc., New York	5,042
MKM Partners, Greenwich	158
Morgan J P Securities Inc., New York	18,736
Morgan Joseph & Co. Inc., Brooklyn	254
Morgan Keegan & Co. Inc., Memphis	4,505
Morgan Stanley & Co. Inc., NY	20,566
Natexis Bleichroeder Inc., New York	410
National Financial Services Corp., New York	2,112
Needham & Co., New York	4,403
Nomura Securities Intl. Inc., New York	16,382
O’Connor & Co. LLC Retail, Chicago	674
O’Neil William & Co. Inc./BCC, Los Angeles	4,414
Oppenheimer & Co. Inc., New York	9,915
Opstock Securities, Helsinki (OPSEFIH1)	15
Pacific American Securities LLC, San Diego	108
Pacific Crest Securities, Portland	3,667
Pipeline Trading Systems LLC, New York	229
Piper Jaffray & Co., Minneapolis	15,914
Pritchard Capital Partners, Jersey City	1,008
Punk, Ziegel & Knoell, New York	1,012
Raymond James & Assoc. Inc., St. Petersburg	11,493

Broker Name	Commissions Paid
RBC Capital Markets Corp., Minneapolis	8,815
RBC Dominion Securities Inc., Toronto (DOMA)	944
Ridge Clearing & Outsourcing, New York	403
Rodman & Renshaw/Equities, New York	172
Roth Capital Partners LLC, Irvine	406
Sandler O'Neill & Partners, New York	118
Sanford C. Bernstein & Co. Inc., London	4,090
SBK-Brooks Investment Corp., Cleveland	232
Scotia Capital Markets, Toronto	6,148
Scotia McLeod (USA) Inc., New York	368
Scott Stringfellow Inc., Richmond	2,349
SG Securities (London) LTD, London	5,238
Sidoti & Co. LLC, New York	5,416
SIS Segaintersettle AG, Zurich	1,399
Skandinaviska Enskilda Banken, London	1,416
Soleil Securities Corp., New Jersey	1,028
Stanford Group Company, New Jersey	889
Stephens Inc., Little Rock	652
Sterne Agee & Leach Inc.	1,213
Stifel Nicholaus	9,234
Suntrust Capital Markets Inc., Atlanta	8,700
Svenska Handelsbanken, New York	767
Thinkequity Partners LLC, Minneapolis	554
Thomas Weisel Partners, San Francisco	5,636
Toronto Dominion Securities, Toronto	1,584
UBS Equities, London	2,780
UBS Securities LLC, Stamford	24,980
UBS Warburg Asia LTD, Hong Kong	203
Union Bank Switzerland Securities, London	7,777
Wachovia Capital Markets LLC, Charlotte	2,895
Wedbush Morgan Securities Inc., Los Angeles	4,949
Weeden & Co., New York	243,167
Westminster Securities Corp., New York	182
William Blair & Co., Chicago	8,736
Total Brokerage Commissions Paid	**$1,043,671**

INTRODUCTION
The following represents highlights from the Board's investment guidelines adopted on May 15, 2008. 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 2007 asset allocation study as well as current market trends, the Board established its allocation goals as follows:

Equities (large capitalized firms)	25%
Equities (small capitalized firms)	15%
Equities (non-US domiciled firms)	15%
Equities (Emerging Markets)	10%
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. Generally, no single sector should 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 The Bank of New York Mellon as a master custodian and the Pennsylvania State Treasury as the depository.

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

Actuary's Certification Letter

CHEIRON Classic Values, Innovative Advice

May 15, 2009

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, 2008. This report includes the valuation of the four county plans and reflects a roll forward of all other plans administered by the System. The results of the valuation are contained in this report. The purpose of the valuation is discussed in the Foreword.

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.

Your attention is called to the Foreword in which we refer to the general approach employed in the preparation of this report. We also comment on the sources and reliability of both the data and the actuarial assumptions on which our findings are based. Those comments are the basis for our certification that this report is complete and accurate to the best of our knowledge and belief. All municipalities that were required to file an Act 205 form as of January 1, 2007, had their liabilities actuarially adjusted and included in this report to maintain a true valuation of the System from year to year. All county plans reported to the State for the Act 293 2008 System Year are the actual values. Additionally, we 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, this 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, and that Kenneth A. Kent, as a Member of the American Academy of Actuaries, meets the Qualification Standards to render the opinions contained in this report.

Sincerely,
Cheiron

Kenneth A. Kent, FSA, FCA
Consulting Actuary

Anthony J. Bucci, Jr.
Actuarial Analyst

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

PENNSYLVANIA MUNICIPAL RETIREMENT SYSTEM

FOREWORD

Cheiron has performed the actuarial valuation of the Pennsylvania Municipal Retirement System (System) as of January 1, 2008. The purpose of this report is to:

1) **Measure and disclose,** as of the valuation date, the financial condition of the System;

2) **Indicate trends** in the financial progress of the System;

3) **Determine the average contribution rate** to be paid by the System's individual municipalities; and

4) **Provide specific information** and documentation required by the Governmental Accounting Standards Board (GASB)

An actuarial valuation establishes and analyzes System assets and liabilities on a consistent basis and traces the progress of both from one year to the next. It includes measurement of the System's investment performance as well as an analysis of actuarial liability gains and losses.

Section I presents a summary containing our findings and disclosing important trends experienced by the System in recent years.

Section II contains details on various asset measures, together with pertinent performance measurements.

Section III shows similar information on System liabilities, measured for actuarial, accounting, and government reporting purposes.

Section IV shows the distribution of the municipalities' contribution rates by component.

Section V includes the required disclosures under GASB Statement Number 25.

The appendices to this report contain a summary of the System's membership at the valuation date, and the actuarial methods and assumptions used in the valuations.

As this System is a multiple employer plan in which each of the participating municipalities are entitled to define and submit to the Board for amendment the benefit provisions for their respective employees, the actual plan provisions are not included in this report. We based our results on the plan provisions defined and submitted to the State under the 2007 Act 205 filings and 2008 Act 293 filings in preparing this valuation. Because the System is bound by Act 205 to complete a biennial valuation for each employer, we have developed liabilities for 2008 for all county plans required to submit a valuation as of January 1, 2008, using the 2007 information. For the municipalities valued as of January 1, 2007, we used the 2007 results and current active counts to estimate the liabilities for these plans to provide an overall measure of the funded status of the System. This method is referred to as a "roll forward" and is used throughout this report in all 2008 calculations for the municipalities to reduce the appearance of volatility in results.

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.

CHEIRON

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.

Finally, in preparing this report, we have conformed to generally 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.

CHEIRON

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)
2008	$321,567,969	$461,965,617	$593,002,445	$1,458,148,442	100%	100%	114%
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)
2008	1,458,148,442	1,376,536,031	(81,612,411)	105.9%
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%

The actuarial assumptions as of January 1, 2008, are shown in the assumptions and methods section. The above information was derived from the following membership data, as provided by the System, regarding:

- 4 defined benefit plans required to re-determine contribution levels as of January 1, 2008;
- 679 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;

[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.

CHEIRON

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, 2008
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[2]	Deleted from Roll	Average Annual Annuities Removed[2]	Number on Roll	Annual Annuities	Percentage Increase in Annuities	Average Annual Annuities	Percentage Increase in Average Annual Annuities
2008	236	12,780	97	8,921	3,598	42,895,559	7.6%	11,922	3.4%
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

(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.

(2) The System contracted a new actuary and implemented a computer software package. Historical information is not available.

CHEIRON

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
2008	8,383	950	3,173	425	744	7	13,682
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

Funded Status of Actuarial Liabilities

Schedule of Total Membership Over Last Four Years

	As of January 1[1]			
	2008	2007	2006	2005
a. Retirees currently receiving benefits	3,173	2,965	218	2,768
b. Beneficiaries currently receiving benefits	425	494	8	424
c. Terminated vested employees entitled to future benefits from DB plans	570	561	53	464
d. Terminated non-vested employees entitled to contribution refunds from DB plans	7	33	7	165
e. Active employees in defined benefit plans	8,383	8,314	717	8,341
i. Aggregate salary [2]	$364,865,185	$358,690,830	$23,905,899	$319,004,918
ii. Vested	4,913	4,430	358	4,603
iii. Non-vested	3,470	3,884	359	3,738
f. Participants in defined contribution-only plans	1,124	1,080	--	1,005
i. Aggregate salary [3]	$31,107,136	$28,213,485	--	$26,807,519
ii. Active	950	918	--	867
iii. Inactive	174	162	--	138

(1) Years 2005, 2007, and 2008 include defined benefit non-county plans, defined benefit county plans, and defined contribution only plans. 2006 includes 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.

CHEIRON

Schedule of Active Member Valuation Data

Last Six 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								
2008	8,383	0.8	692	1.3	364,865,000	1.7	43,524	0.9
2007	8,314	(0.7)	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
Defined Contribution Plans								
2008	950	3.5	183	3.4	31,107,000	10.3	32,744	6.5
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

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:

(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.

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

CHEIRON

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.

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 (%) [2] (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

Retirement Assumptions

Age	Current Rate of Normal Retirement [3]
Under 46	5%
46 - 54	15
55 - 59	10
60 - 61	10
62	30
63 - 64	20
65	35
66 - 74	15
75	100

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

(2) Add 2% for each of the first 3 years of service

(3) 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.

(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:

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

H. Marital Status and Spouse's Age [1]**:** 85 percent of members will be married at time of retirement and females are four years younger than their spouses.

I. Social Security Projections [1]**:**

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 [1]**:**

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 2008 is $3,375,000 compared to $3,050,000 for 2007.

[1] If applicable.

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 (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

CHEIRON

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.

CHEIRON

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

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 63 compare the revenues versus expenses of the System and include total investments of the System for the past eight 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 66 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 68 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	808
Bethlehem City	630
Adams County	567
Harrisburg City	512
Jefferson County	259
Harrisburg Fire	194
Monroeville Municipality	193
Adams County - Green Acres	190
Easton City	166
Bucks County Water & Sewer Authority	135
Pottstown Borough	137
Tredyffrin Township	113
Upper Moreland Township	113
Whitehall Township	109

Revenues by Source and Expenses by Type

Last Eight Years

Fiscal Year	Revenues by Source				
	Member Contributions	Municipal Contributions [1]	Municipal Assessments [2]	Investment Income	Total Revenue
2008	$17,870,426	$31,532,859	$290,320	$(387,077,602)	$(337,383,997)
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		
2008	$46,173,544	$7,597,681	$2, 986,656	$56,757,881
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

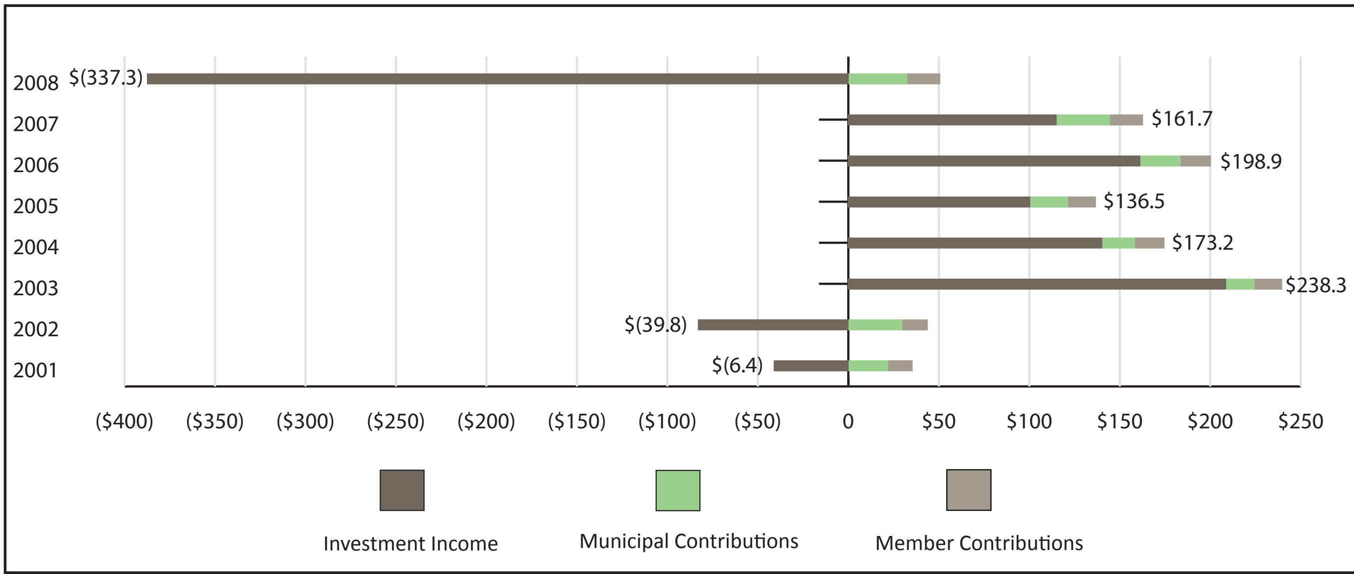
Fiscal Year	Contributions	Investment Income	Benefit Expenses	Administrative Expenses	Change in Net Assets
2008	$49,693,605	$(387,077,602)	$53,771,225	$2,986,656	$(394,141,878)
2007	46,833,548	114,838,806	49,905,064	2,862,482	108,904,808
2006	37,749,106	161,140,029	62,491,362	2,920,868	133,476,905
2005	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 - Eight-Year Trend

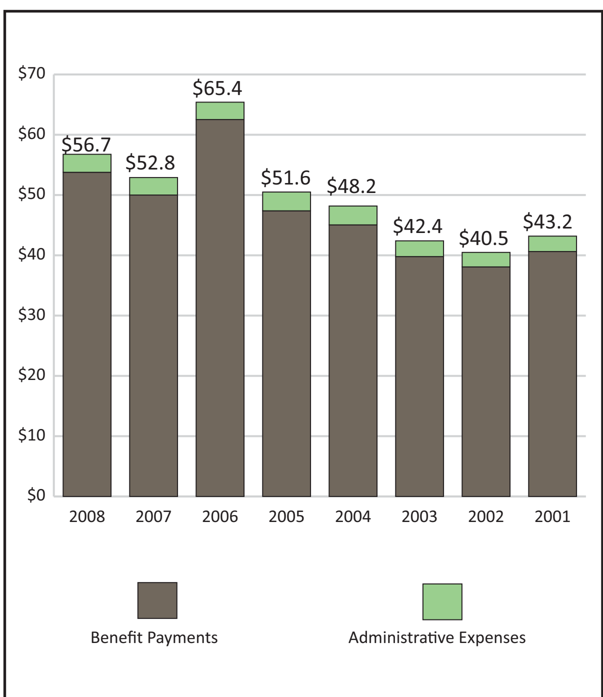
(Amounts in Millions)



Expenses by Type

Eight-Year Trend

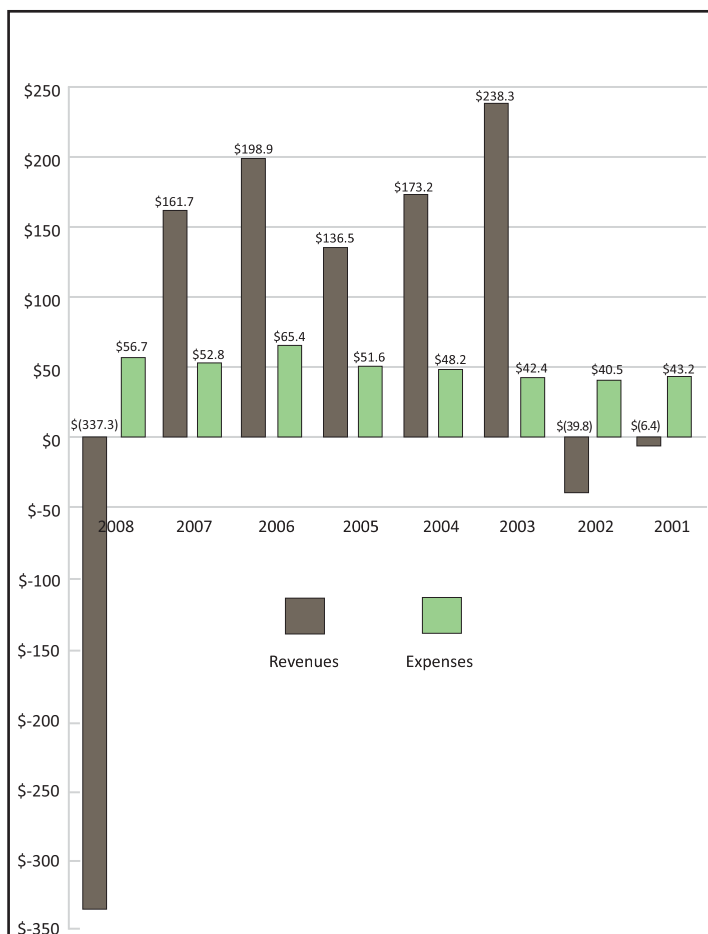
(Amounts in Millions)



Revenues vs. Expenses

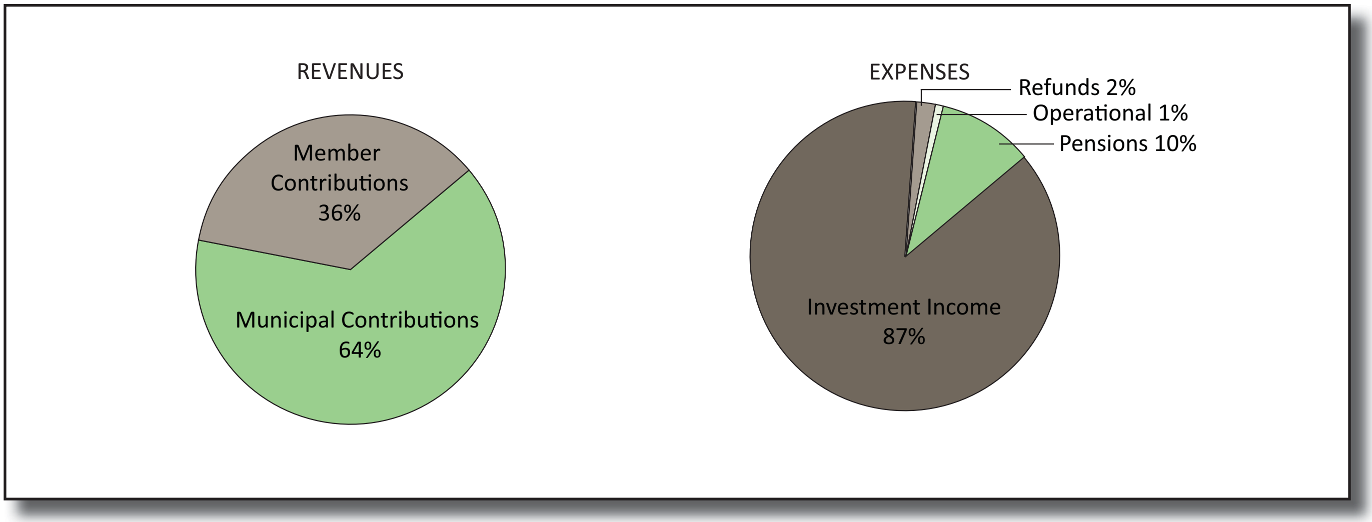
Eight-Year Trend

(Amounts in Millions)



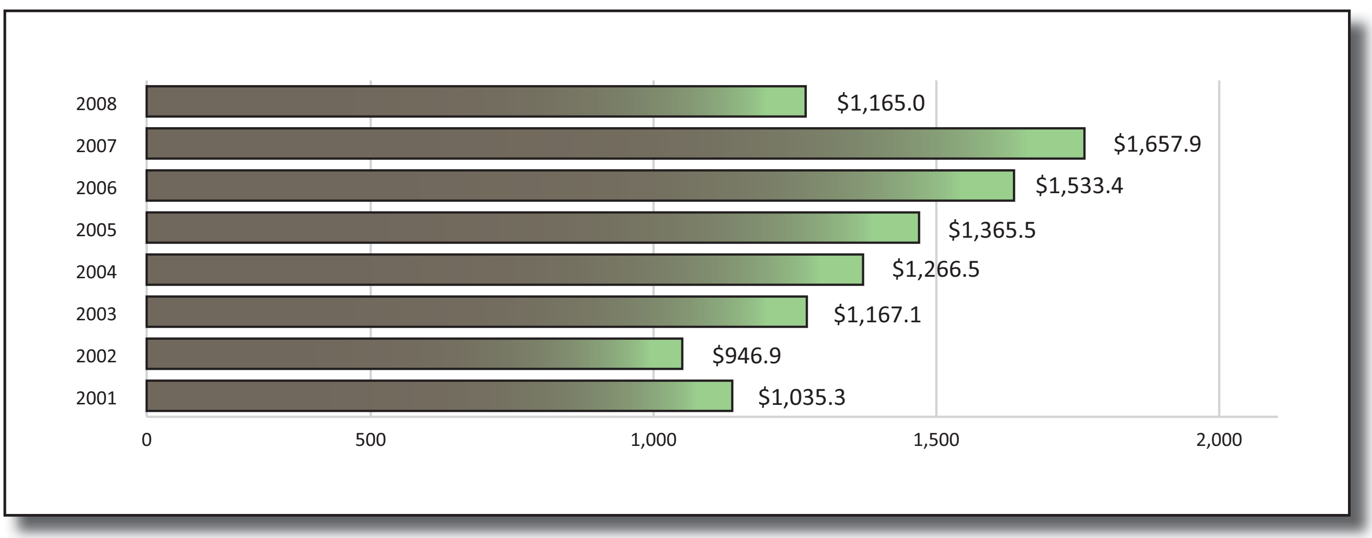
Revenues and Expenses

(Amounts in Millions)



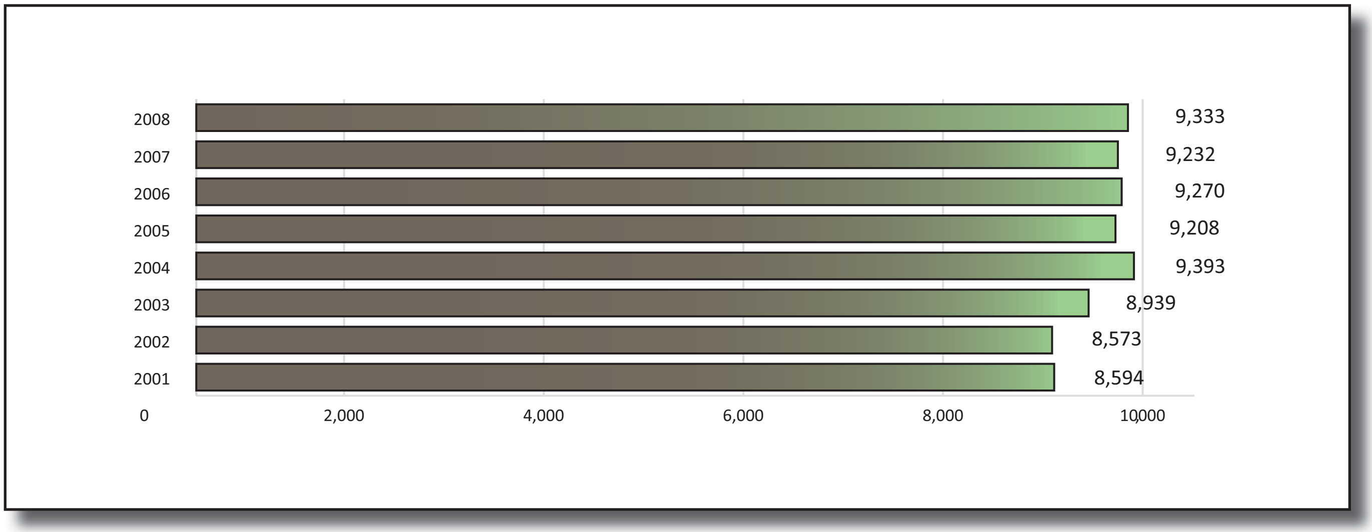
Total Investments - Eight-Year Trend

(Fair Value - Amounts in Millions)



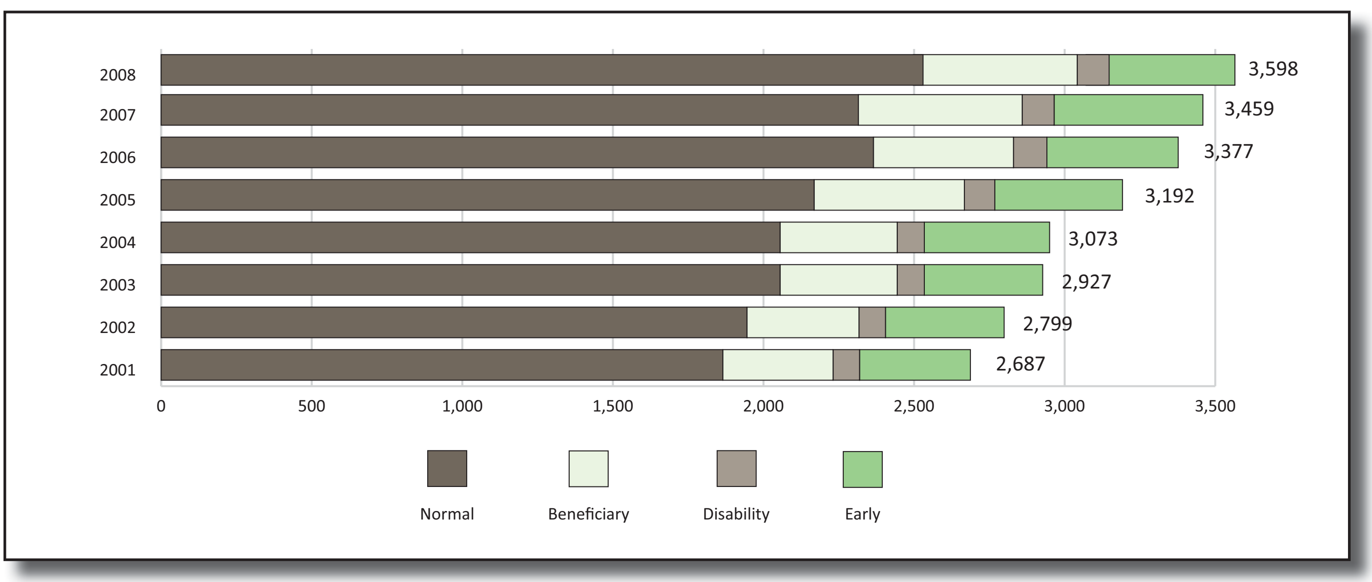
Active Members - Eight-Year Trend

Valuation Date 1/1



Retired Members - Eight-Year Trend

Valuation Date 1/1



Distribution of Active Members
by Age and Service as of January 1, 2008

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	9	3	0	0	0	0	0	0	0	0	12
20 -24	108	57	36	20	6	0	0	0	0	0	227
25 - 29	107	104	80	115	130	2	0	0	0	0	538
30 - 34	84	75	73	109	263	60	1	0	0	0	665
35 - 39	86	75	70	131	327	189	99	6	0	0	983
40 - 44	102	90	76	137	321	229	232	87	11	0	1,285
45 - 49	76	88	66	155	331	249	281	189	165	20	1,620
50 - 54	61	93	55	135	301	248	258	177	209	163	1,700
55 - 59	41	48	49	91	199	176	229	144	122	222	1,321
60 - 64	17	24	15	50	133	101	141	77	62	79	699
65 & up	12	8	0	25	53	41	52	21	27	44	283
Total	703	665	520	968	2,064	1,295	1,293	701	596	528	9,333

Distribution of Active Members
by Age and Service as of January 1, 2008

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	$8,153	$24,982	$0	$0	$0	$0	$0	$0	$0	$0	$12,360
20 -24	$18,259	$34,232	$34,386	$38,157	$31,832	$0	$0	$0	$0	$0	$26,939
25 - 29	$17,318	$33,708	$37,120	$40,587	$42,529	$47,000	$0	$0	$0	$0	$34,607
30 - 34	$19,106	$34,971	$39,197	$40,371	$44,763	$43,898	$53,552	$0	$0	$0	$39,022
35 - 39	$20,739	$34,317	$40,533	$39,519	$43,964	$47,636	$48,735	$49,145	$0	$0	$41,578
40 - 44	$19,227	$34,761	$34,658	$37,915	$41,004	$45,782	$50,038	$50,199	$42,973	$0	$41,256
45 - 49	$18,445	$33,330	$37,419	$38,319	$40,336	$42,107	$46,656	$50,801	$47,937	$49,752	$42,096
50 - 54	$22,554	$33,686	$34,290	$33,183	$39,354	$40,683	$44,211	$47,425	$49,771	$49,423	$41,805
55 - 59	$23,829	$35,373	$35,527	$37,152	$36,138	$41,507	$43,241	$47,006	$48,984	$54,222	$43,132
60 - 64	$20,796	$30,413	$34,087	$31,772	$37,262	$36,809	$39,767	$43,542	$48,278	$49,631	$39,672
65 & up	$19,378	$26,554	$0	$24,298	$28,648	$36,304	$32,608	$43,383	$39,779	$49,310	$35,016
Total	$19,330	$33,929	$36,823	$37,395	$40,646	$42,703	$45,018	$48,061	$48,369	$51,475	$40,565

Pensions in Payment Status on January 1, 2008
by Type and by Monthly Amount

Monthly amount	Total	Type of Pension: Normal	Involuntary early	Voluntary early	Service disability	Non-service disability
Total	3,598	2,963	181	351	31	72
Under $100	169	146	11	10	1	1
$100 - $199	225	174	30	19	2	0
200 - 299	260	205	29	26	0	0
300 - 399	261	212	24	24	0	1
400 - 499	212	168	13	25	2	4
500 - 599	257	211	14	24	1	7
600 - 699	213	174	11	21	0	7
700 - 799	208	159	10	30	0	9
800 - 899	197	154	7	22	2	12
900 - 999	193	152	10	22	2	7
1,000 - 1,199	325	261	6	41	5	12
1,200 - 1,399	219	180	6	25	4	4
1,400 - 1,599	193	166	5	15	5	2
1,600 - 1,799	141	121	2	15	3	0
1,800 - 1,999	121	105	2	10	0	4
2,000 - 2,199	97	89	0	7	1	0
2,200 - 2,399	57	54	0	3	0	0
2,400 - 2,599	64	58	0	4	1	1
2,600 - 2,799	49	46	1	1	1	0
2,800 - 2,999	29	27	0	1	0	1
3,000 - 3,499	54	49	0	4	1	0
3,500 - 3,999	33	31	0	2	0	0
4,000 and over	21	21	0	0	0	0

Pensions Awarded Each of the Last Ten Years

by Type and Amount

Valuation Date 1/1	Type of Pension									
	Total		Normal		Voluntary early		Involuntary early		Disability	
	Count	AMA [1]	Sum	AMA	Sum	AMA	Sum	AMA	Sum [2]	AMA
2008	236	1,065	227	1,056	0	0	6	1,259	3(0)	1,350
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

Schedule of Total Membership - Eight 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
2008	8,383	950	3,173	425	744	7	13,682
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

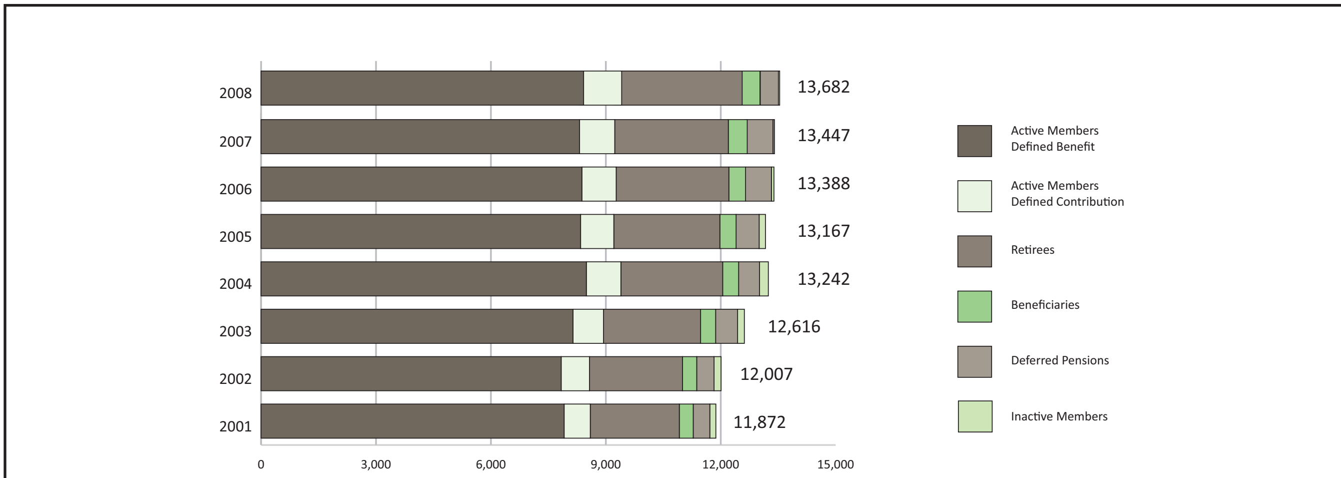
(2) Number of service-related disability pensions are shown in parentheses.

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

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

Total Membership - Eight-Year Trend

Valuation Date 1/1



Schedule of Active Member Valuation Data

Last Eight 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							
2008	8,383	0.8	692	1.3	364,865,000	1.7	43,524	0.9
2007	8,314	(0.7)	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

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 Contribution Plans							
2008	950	3.5	183	3.4	31,107,000	10.3	32,744	6.5
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]

Four Years Ended January 1, 2008

	Years Credited Service						
Retirement Effective Dates	< 5	5-10	10-15	15-20	20-25	25-30	30+
Period 1/2/07 to 1/1/08							
Average monthly benefit	$179	374	685	999	1,338	1,739	2,530
Average final average salary	$34,031	32,597	35,004	35,358	35,290	41,102	51,424
Number of retired members	11	34	45	43	33	32	38
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 1/1/05							
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, 2008

COUNTIES

Adams County
Adams County-Green Acres
Forest County
Jefferson County

CITIES

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

BOROUGHS

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

(1) County names are in parentheses.

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

TOWNSHIPS OF THE FIRST CLASS

Caln Township
Collier Township
Crescent Township
East Deer Township
Elizabeth Township (Allegheny County)
Harrison Township
Hopewell Township (Beaver County)
North Huntingdon Township
North Versailles Township
Ridley Township
Rochester Township
Salisbury Township
Springdale Township
Swatara Township
Upper Moreland Township
Vanport Township
West Pottsgrove Township
Whitehall Township
Wilkins Township

TOWNSHIPS OF THE SECOND CLASS

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

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

Oliver Township
Paradise Township
Pennsbury Township
Perry Township
Pike Township
Pine Creek Township
Pine Grove Township (Schuylkill County)
Pine Grove Township (Warren County)
Pittsfield Township
Pleasant Township
Plumcreek Township
Plumstead Township
Pocopson Township
Point Township
Portage Township
Preston Township
Price Township
Providence Township
Pulaski Township
Pymatuning Township
Raccoon Township
Rice Township
Richhill Township
Richland Township
Ridgway Township
Rome Township
Rose Township
Rutland Township
Rye Township
Scott Township
Sewickley Township
Shade Township
Sheffield Township
Shippensburg Township
Shrewsbury Township
Slippery Rock Township
Solebury Township
South Abington Township
South Beaver Township
South Bend Township
South Franklin Township
South Huntingdon Township
South Manheim Township
South Middleton Township
South Pymatuning Township
South Strabane Township
Southampton Township
Southwest Township
Spring Creek Township
Springfield Township
Sugar Grove Township
Sullivan Township
Summit Township
Tinicum Township
Towamensing Township
Tredyffrin Township
Tunkhannock Township
Union Township (Berks County)
Union Township (Lebanon County)
Union Township (Snyder County)
Unity Township
Wallace Township
Warrington Township
Warsaw Township
Warwick Township
Washington Township (Berks County)
Washington Township (Dauphin County)
Washington Township (Erie County)
Washington Township (Fayette County)
Washington Township (Greene County)
Washington Township (Northampton County)
Washington Township (Schuylkill County)
Washington Township (Wyoming County)
West Bradford Township
West Brunswick Township
West Caln Township
West Carroll Township
West Fallowfield Township
West Lampeter Township
West Pennsboro Township
West Rockhill Township
West Salem Township
West Wheatfield Township
Westtown Township
Wetmore Township
Whiteley Township
Wiconisco Township
Williams Township
Windsor Township
Woodward Township
Wright Township
Wrightstown Township
Zerbe Township

POLICE

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

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

Washington Township Police (Fayette County)
West Caln Township Police
West Fallowfield Township Police
West Grove Borough Police
West Lampeter Township Police
West Middlesex Borough Police
West Pikeland Township Police
West Pottsgrove Township Police
West Sadsbury Township Police
West Vincent Township Police
Westfield Borough Police
Wheatland Borough Police
White Haven Borough Police
Wiconisco Township Police
Williamstown Borough Police
Windsor Borough Police
Windsor Township Police
Wrightstown Township Police
Youngwood Borough Police

FIREFIGHTERS

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

AUTHORITIES & OTHER UNITS

Allegheny Valley Joint Sewer Authority
Ambridge Borough Municipal Authority
Armstrong Conservation District
Avonmore Borough Municipal Authority
B.A.R.T.A.
Bedford Borough Water Authority
Bedford Municipal Authority
Bedminster Municipal Authority
Belle Vernon Municipal Authority
Berks-Lehigh Regional Police NU
Bethlehem Authority
Bethlehem City Redevelopment Authority
Bloomfield Township Sewer Authority
Bradford City Water Authority
Bradford Regional Airport Authority
Brighton Township Municipal Authority
Brighton Township Sewer Authority
Bristol Township Authority
Brockway Area Sewage Authority
Brockway Borough Municipal Authority
Brodhead Creek Regional Authority
Brookville Municipal Authority
Bucks County Redevelopment Authority
Bucks County Water & Sewer Authority
Burrell Township Sewage Authority
Butler Area Public Library
Cambria County Conservation & Recreation Authority
Cambria Township Sewer Authority
Cambria Township Water Authority
Carbon County Conservation District
Carmichaels-Cumberland Joint Sewer
Carroll Township Authority
Catawissa Borough Municipal Water Authority
Centerville Borough Sanitary Authority
Central Carbon Municipal Authority
Central Indiana County Joint Sanitary Authority
Centre County Library & Historical Museum
Clarion County Housing Authority
Coaldale-Lansford-Summit Hill Sewer Authority
Columbia County Conservation District
Concord Township Sewer Authority
Connellsville Municipal Authority
Connellsville Redevelopment Authority
Conshohocken Borough Authority
Coplay-Whitehall Sewer Authority
Cressona Borough Authority
Creswell Heights Joint Authority
Cumberland-Franklin Joint Municipal Authority
Curwensville Municipal Authority

Delaware Valley Municipal Management Association
Derry Township Municipal Authority
Derry Township Sanitary Sewer Authority
DuBois City Redevelopment Authority
East Norriton-Plymouth-Whitpain Joint Sewer Authority
Eastern Snyder County Regional Authority
Economy Borough Municipal Authority
Elizabeth Borough Municipal Authority
Elizabeth Township Sanitary Authority
Emlenton Area Municipal Authority
Erie County Housing Authority
Everett Area Municipal Authority
Fawn Township Sewage Authority
Fawn-Frazer Joint Water Authority
Fayette County Conservation District
Forward Township Municipal Authority
Franklin City Housing Authority
Franklin Township Municipal Sanitary Authority
Franklin Township Sewer Authority
Frazer Transportation Authority
Fredericksburg Sewer & Water Authority
Freeland Borough Municipal Authority
Greater Lebanon Refuse Authority
Greenville Municipal Authority
Guilford Township Authority
Guilford Water Authority
Harrison Township Water Authority
Hawley Area Authority
Hazleton Transit Authority
Hellertown Borough Authority
Hilltown Township Water & Sewer Authority
Horsham Township Sewer Authority
Hughesville-Wolf Township Joint Municipal Authority
Indiana County Conservation District
Indiana County Solid Waste Authority
Jackson Township Water Authority
Jeannette Municipal Authority
Jefferson Conservation District
Johnsonburg Municipal Authority
Juniata County Conservation District
Kiskiminetas Township Municipal Authority
Kittanning Suburban Joint Water Authority
Kulpmont-Marion Heights JMA
Lancaster City Parking Authority
Lansford - Coaldale Joint Water Authority
Lebanon City Authority
Lebanon Community Library
Leetsdale Borough Municipal Authority
Lehigh County Authority
Lehighton Water Authority
Lower Bucks County Joint Municipal Authority
Lower Bucks County Joint Municipal Authority Supervisors
Lower Indiana County Municipal Authority
Lower Providence Township Sewer Authority
Luzerne Conservation District
Lycoming Sanitary Committee
Mahanoy Township Authority
Mahoning Township Authority
Maidencreek Township Authority
Manor Township Joint Municipal Authority
Mary Meuser Memorial Library
Matamoras Municipal Authority
McKean County Solid Waste Authority
Mercer County Regional Planning Commission
Mid Mon Valley Water Authority
Middlesex Township Municipal Authority
Middletown Township Sewer Authority
Mifflin County Regional Police NU
Mifflintown Municipal Authority
Milford Water Authority
Millcreek - Richland Joint Authority
Millersburg Area Authority
Mon Valley Sewage Authority
Monroe County Control Center
Montgomery County Sewer Authority
Montour County Conservation District
Montrose Municipal Authority
Moon Township Municipal Authority
Morrisville Borough Municipal Authority
Mount Joy Township Authority
Mount Pocono Municipal Authority
Mt. Jewett Borough Authority
Mt. Lebanon Parking Authority
Myerstown Community Library Association
Myerstown Water Authority
Nanty Glo Sanitary Sewer Authority

Nanty Glo Water Authority
Nesquehoning Borough Authority
New Kensington Municipal Sanitary Authority
New Kensington Redevelopment Authority
Newport Borough Water Authority
Norristown Municipal Waste Authority
North & South Shenango Joint Municipal Authority
North Coventry Municipal Authority
North Huntingdon Township Municipal Authority
North Middleton Authority
North Strabane Township Municipal Authority
Northampton Borough Municipal Authority
Northampton Borough Municipal Authority - DC Plan
Northeastern Regional Police NU
Northern Lancaster County Authority
Northern York County Regional Police NU
Northumberland Sewer Authority
Northwest Regional Lancaster County Police NU
Oil City Housing Authority
PA League Of Cities & Municipalities
Parks Township Municipal Authority
Penn Township Sewage Authority
Pennridge Regional Police NU
Pennridge Waste Treatment Authority
Perkasie Borough Authority
Peters Creek Sanitary Authority
Peters Township Municipal Authority
Portage Area Sewer Authority
Portage Borough Municipal Auth
Possum Valley Municipal Authority
Reynoldsville Water Authority
Riverview Sanitary Authority
Robesonia-Wernersville Municipal Authority
Robinson Township Municipal Authority
Rochester Area Joint Sewer Authority
Rostraver Township Sewer Authority
Seward/St. Clair Township Sanitary Authority
Shamokin City Redevelopment Authority
Shannock Valley General Services Authority
Sheffield Township Municipal Authority
Slippery Rock Municipal Authority
Smithton Borough Municipal Authority
Somerset Conservation District
South Fayette Township Municipal Authority
Southern Police Commission NU
Southwest Regional Dispatch Center
Southwestern Pa Water Authority
Southwestern Regional Police NU
St. Marys Area Water Authority
Sunbury Municipal Authority
Susquehanna Township Authority
Swatara Township Authority
Tower City Borough Authority
Township of Falls Authority
Tri-County COG IBC
Tri-County Joint Municipal Authority
Twin Boroughs Sanitary Authority
Upper Allegheny Joint Sanitary Authority
Upper Montgomery Joint Authority
Upper Southampton Municipal Authority
Upper Southampton Sewer Authority
Vanport Township Municipal Authority
Vernon Township Sanitary Authority
Vernon Township Water Authority
Warren County Housing Authority
Warren County Solid Waste Authority
Warrington Township Municipal Authority
Warwick Township Municipal Authority
Washington Area COG
Washington Township Municipal Authority (Berks County)
Washington Township Municipal Authority (Fayette County)
Waterford Borough Municipal Authority
Wayne County Redevelopment Authority
Wernersville Municipal Authority
West Carroll Township Water & Sewer Authority
Western Butler County Authority
Western Clinton County Municipal Authority
Western Westmoreland Municipal Authority
Westmoreland-Fayette Municipal San Authority
White Run Regional Municipal Authority
Whitehall Township Authority
Williamstown Borough Authority
Womelsdorf-Robesonia Joint Authority
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

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