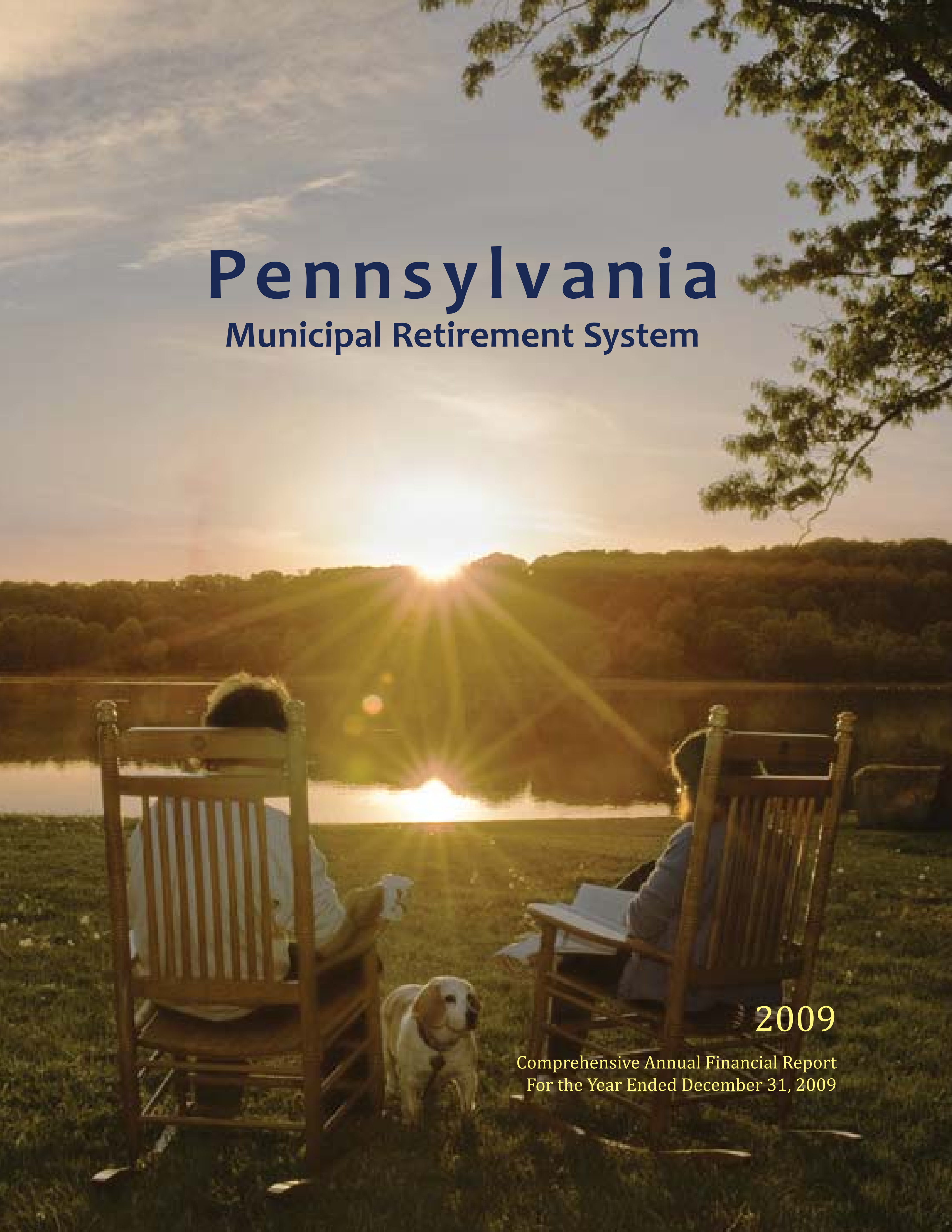

Pennsylvania
Municipal Retirement System

2009

Comprehensive Annual Financial Report
For the Year Ended December 31, 2009

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, 2009

John A. Haiko, Chairman
Pennsylvania Municipal Retirement Board

James B. Allen, Secretary
Pennsylvania Municipal Retirement System

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

Mailing Address
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Harrisburg, Pennsylvania 17108-1165

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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
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June 23, 2010

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, 2009. 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, 2009, 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, 2009, are listed in the Statistical Section of this report.

The System offers various plan designs: defined benefit, cash balance, 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 2009, plan requirements ranged from no employee contribution to as high as 7.5% of earnings.

2009 CAFR

The 2009 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

It requires a brief discussion of two mathematical / financial concepts to understand the 2009 economic environment of the United States and the world. Probably the most referenced concept utilized in defining the year was volatility. We suspect that the most appreciated precept was "reversion to the mean." Before we expand upon these two concepts, allow us first to reflect upon the 2008 economic situation in the domestic and world markets. Words like "shell-shocked," "panicked," and "traumatized" were the terms we used in our 2008 narrative. The economic debate was whether it was appropriate to characterize the malaise the world had been experiencing as the "Great Recession," thus signifying its historic ranking as second only to the "Great Depression," the handle given to the economic decline experienced between 1929 and 1933. If the nickname survives, and it appears that it will, the referenced "Great Recession" will be defined as the economic decline seen in the world's economic markets between the summer of 2008 and the spring of 2009. Thank goodness for the concept "reversion to the mean."

Reversion to the mean, at its simplest, argues that over time things (economic activity) will go above and below the mean (average) but that it will almost always come back to average (normal). Volatility is a statistical measure of the dispersion of things from their average. Volatility, usually measured as standard deviation, is used here to discuss how wide the arc of economic activity has swung in the last several years. From the high set in the third quarter of 2007 with growth of 4.9%, to the decline of 5.5% seen in the first quarter of 2009, the United States economy as measured by Gross Domestic Product (GDP) has seen the biggest shift since the swing experienced during the Great Depression. The issue being discussed as we entered 2009 was whether the volatility being seen was greater than what should be expected (yes!) and would there be a reversion to the mean? Fortunately, the second part of the question was answered by year's end and it, too, was yes. A very appreciated yes.

Whether it was record government borrowing and spending on economic stimuli or simply the return of the consumer's previous spending habits, the pundits can debate; but, the investor will just be thankful. As the 2009 year ended, investors could finally take a deep breath. After one of the worst Januarys on record for an investor, March saw the beginning of a recovery. 2009 will be remembered, in contrast to the preceding year, as a year in which all asset classes posted gains, except for Treasuries. The efforts of the central banks and the establishment by the Federal Reserve of an interest rate policy at near zero levels coaxed investors to start borrowing again. While many argue they used those borrowed funds to buy the riskier assets, most sectors did post impressive returns. Inflation, while appearing to be on every economist's and consultant's most feared lists, was nowhere to be seen in 2009.

December of 2009 was not only the end of a year; it marked the passing of the first decade of the twenty-first century. The 2000's produced six "up" years for equities and four "down" years, but the down years left their mark on the decade with the 10-year annualized return for the S&P 500 of -1.0%. It was the worst decade ever for the index surpassing the losses of the depression decade of the 1930's which produced -0.1% annualized returns. Fixed income, oft-described as the "boring" asset class, even outperformed stocks and returned 6.8% during the decade. Some economic statisticians noted that the historic 10-year rolling average return on the S&P 500 is over 10%, arguing that the numbers in 2010 should be much better if we see a reversion to the mean.

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, 31, 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 $1,366,586,498 as of December 31, 2009. In 2009, the System's net assets increased by $195,954,674. Investment-related gains increased the portfolio by $210,272,809 and contributions added $54,933,975. Benefit payments and administrative expenses reduced the total assets by $69,252,110. Additional information is detailed in the Financial Section ("Statements of Plan Net Assets" and "Statements of Changes in Plan Net Assets").

The System has established internal computerized control policies and procedures for the review and verification of all receipts and payments made to and from the fund. In addition, the System's staff prepares a yearly budget which must be adopted by the Board. The budget is also presented to and reviewed by the Local Government Committees of the Pennsylvania House and Senate at least two months prior to the beginning of the fiscal year. The committees can approve the budget, reject it, or take no action by the end of the year in which case the proposed budget becomes final. Budgetary controls include monthly review and presentation by management with bimonthly Board reviews. The 2009 administrative budget was adopted in September 2008 and set at $3.63 million exclusive of investment fees. Expenditures (exclusive of investment fees) in 2009 amounted to $3,203,478. 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, 2009, and also shows the amount and percentage of increases and decreases in relation to December 31, 2008, 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.

Revenues

Additions to Plan Net Assets	2009 Amounts	Percent of Total	2008 Amounts	Increase (Decrease) from 2008	Percent of Increase (Decrease)
Member Contributions	$ 19,331,869	7.29%	$ 17,870,426	$ 1,461,443	8.18%
Municipal Contributions	35,309,446	13.31	31,532,859	3,776,587	11.98
Assessments	292,660	0.11	290,320	2,340	0.81
Investment Income/(loss)	210,272,809	79.29	(387,077,602)	597,350,411	154.32
Total	**$265,206,784**	**100.00%**	**$(337,383,997)**	**$602,590,781**	**178.61**

Expenses

Deductions from Plan Net Assets	2009 Amounts	Percent of Total	2008 Amounts	Increase (Decrease) from 2008	Percent of Increase (Decrease)
Annuity benefits	$52,267,003	75.46%	$46,173,544	$ 6,093,459	13.20%
Terminations	13,781,629	19.90	7,597,681	6,183,948	81.39
Administrative	3,203,478	4.64	2,986,656	226,822	7.59
Total	**$69,252,110**	**100.00%**	**$56,757,881**	**$12,504,229**	**22.01**

Investment revenues are a combination of earnings from bonds, equities, real estate, and a short-term cash management fund. During the 2009 fiscal year, the fair value of the System's investment portfolio increased from $1,165,032,957 to $1,364,327,670. 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.

Nine-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, 2009, and shows the percentage of increases and decreases in relation to December 31, 2008, amounts.

The major expense-related items for 2009 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 nine-year historical trend information is presented in Part I of the Statistical Section of this report.

INVESTMENT HIGHLIGHTS

The PMRS Board, investment advisors, consultants, and staff started 2009 nursing the headache caused by the dizzying ride of the markets in 2008. While the new year began where 2008 left off, with plunging prices and asset values, the markets began their bounce-back in the second quarter and continued right though December. Year-over-year numbers saw the PMRS portfolio return 18.8%. This placed the System's portfolio in the 47th percentile of the Independent Consultants Cooperative (ICC) Universe.

There were no changes in the money managers under contract to the System during the year and, at their November meeting, the Board elected to retain the System's current investment consulting firm, Dahab Associates, with the lead investment consultant, Rich Dahab, committing to work with the Board under a new five-year contract.

In 2008, almost no asset class escaped the wrath of the markets. In 2009, the reverse was true. Only real estate suffered the leftover consequences of the decade's earlier borrowing indulgences thus proving once again that diversification is a key component of any strategy that seeks long-term consistency. There should be no misunderstanding though; the bounce back was not complete. The Board's commitment to diversification served the fund well. There does remain a concern that the long-term investment return numbers are not meeting the System's actuarial assumed rate of 6.0%. During the last ten years, the annualized return was 3.9%. The Board continues to monitor this problem.

The returns by asset class and their weighting in the portfolio as of year-end are as follows: Large Cap Domestic Equity returned 25.6% (Class as percentage of portfolio - 25.8%); Fixed Income produced a return of 5.9% (19.1%); Small Cap Domestic Equity yielded a return of 27.8% (15.7%); International Equity produced a return of 39.1% (15.0%); Real Estate had a negative return of 22.8% (11.2); and, the International Emerging Markets asset class had an annualized return of 77.8% (10.7)%. At year-end, the portfolio had a commitment in cash equivalents representing 2.5% of the portfolio.

FUNDING

The System's level of funding is based on the actuarial reserve method. Funds are derived from the excess of revenues over expenses and are accumulated by the System in order to meet current and future benefit obligations to retirees and beneficiaries. As the funding level increases, the assets accumulate and strengthen the investment income potential. Increase in net assets for the 2009 fiscal year was $195,954,674. This represents an increase in the fund balance of 16.7% over the 2008 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, 2009. 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

It has been a very busy year and an extremely unusual one. The most time-demanding activity for the Board and management staff involved the numerous and momentous legislative initiatives that involved PMRS. Unveiled as legislation assisting distressed municipal pensions, the most controversial and far-reaching proposal would have designated PMRS as the administrator of those municipal pension plans in the Commonwealth that were to be deemed severely distressed (those that fell below 50% funded.) Days and days of discussions and meetings, dozens and dozens of amendments, and hours and hours of legislative debate yielded far less dramatic changes than what were suggested. PMRS may have to assume management of the city of Pittsburgh's pension plans in September of 2011 if the city is not able to increase the plans' collective funding level to at least 50%.

However, distressed municipalities were not the only topic that received the Pennsylvania General Assembly's attention. In addition to short-term funding relief, Act 44 of 2009 also provided a new set of contracting requirements for pension plans contracting for professional services (including PMRS) and it authorized the institution of a Deferred Retirement Option Plan (DROP) for PMRS-enrolled plans.

At their November meeting, the Board addressed a project that has been ongoing for at least two years. The Board authorized independent legal counsel from the firm Duane Morris LLP to file an application with the IRS to participate in their Employee Plans Compliance Resolution System (EPCRS). One action taken in 2009 toward compliance was the redesignation of "defined contribution" plans to "cash balance" plans.

This effort to bring about voluntary compliance with the IRS's tax-qualification rules is a major initiative that will continue to receive Board and staff attention in 2010.

The Board also continued the practice of adopting policy statements to reflect and document the way the System operates. There were three new or revised statements adopted in 2009. The first was a new policy relating to how the System handles required signatures on various documents. Policy Statement 09-1 – "Designating Signatories" was adopted in January. Two other policies updated during the year related to the Board's Investment Policy and the state "Right-To-Know" law relating to public documents.

While not a new initiative, 2009 saw a large increase in interest from a number of municipalities seeking to have PMRS administer their pension plans. Over two dozen new plans joined PMRS during the year. Clearly the turmoil in the financial markets caught many municipal pension plan officials unprepared. With PMRS staff reassuring existing member plans of the unique structure of the System that insulates the pension plans from much of the market volatility, our services were clearly being investigated and sought after by a number of municipalities.

Additionally, William J. Junkin III was appointed as a new Board member. Bill, an active firefighter from the city of Harrisburg, was appointed to represent the Pennsylvania Professional Firefighters Association. By the end of 2009, the Board had said good bye to three more Board members. Gubernatorial appointments for vacancies representing the active police officers enrolled in PMRS, the representative for PMRS retired members, and the Pennsylvania State Association of Boroughs' representative are all expected to be named in the very near future and to be sworn in early in 2010.

PROFESSIONAL SERVICES

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

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 a dedicated staff and a devoted team of consultants. New to the process this year is Ms. Donna Miller who assumed responsibility as Chief of the Accounting Division in February of 2010 – just as the data gathering, assembling, writing and proofing for this document kicked into high gear. She and the staff from the Operations Division made this document a cohesive and comprehensive report. We not only acknowledge their efforts but also salute them. We also must pause to recognize the team of committed individuals who are associated with the accounting firm of Clifton Gunderson, the actuarial firm of Cheiron Inc, and the investment-consulting firm of Dahab Associates, Inc. Their professionalism has been invaluable in assisting the Board and staff of PMRS in the day-to-day functioning of the agency. We believe it is clearly reflected in the pages of this report as well. Any project or program has to be supported by a team of individuals focused on the program's mission in order to be successful. We are truly blessed to have such a team working for and with our agency.

It must be equally acknowledged that an operation has to have a clear goal or mission to attain success. Key to PMRS's mission is the leadership that guides and paces the team – the ladies and gentlemen of the Pennsylvania Municipal Retirement Board. We must also credit them for guiding the PMRS team during these past several years. Led by Chairman John Haiko, the Board has remained unselfishly vigilant in fulfilling their fiduciary obligations. They have accepted the task of guiding the organization, as well as the responsibility of insuring for our membership's retirements, for no compensation and very little recognition. Allow us this tip of the hat to John and his fellow Board members.

Our final acknowledgement, though, is reserved for our most important supporters – our members. We try to never forget that the System exists because our members have elected to use our services. There are few state agencies we know of whose very existence is determined by the clients and "customers" they serve. The support and confidence you have given us remains our number one motivator. The continued growth of the System is evidence that our vision is a clear one and, allow us to reassure you, one to which we remain deeply committed: to be "Pennsylvania local governments' pension administrator of choice." We very much appreciate you for choosing to use our services.

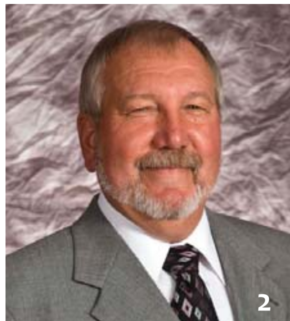
James B. Allen Donna L. Miller

James B. Allen Secretary	Donna L. Miller Chief of Accounting

GFOA Certificate of Achievement

Pennsylvania Municipal Retirement Board

as of December 31, 2009



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 William J. Junkin III

Represents Pennsylvania Professional Fire Fighters Association

8 Robert M. McCord

State Treasurer (ex-officio) represented by Sandy Leopold

9 Anthony Spagnolo

Represents First Class Township Commissioners

10 Trish M. Ward

Represents Pennsylvania League of Cities

11 Vacant

Represents Active Police Officers enrolled in PMRS

Staff, Consultants, & Managers
as of December 31, 2009

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
Tina M. Eisenhart

Operations Division Chief
Wanita J. Hoke

Professional Consultants

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

Auditor
Clifton Gunderson LLP
Timonium, MD
Thomas G. Heseltine, 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
Peter Tuz, 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 Capital, L.P.
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.

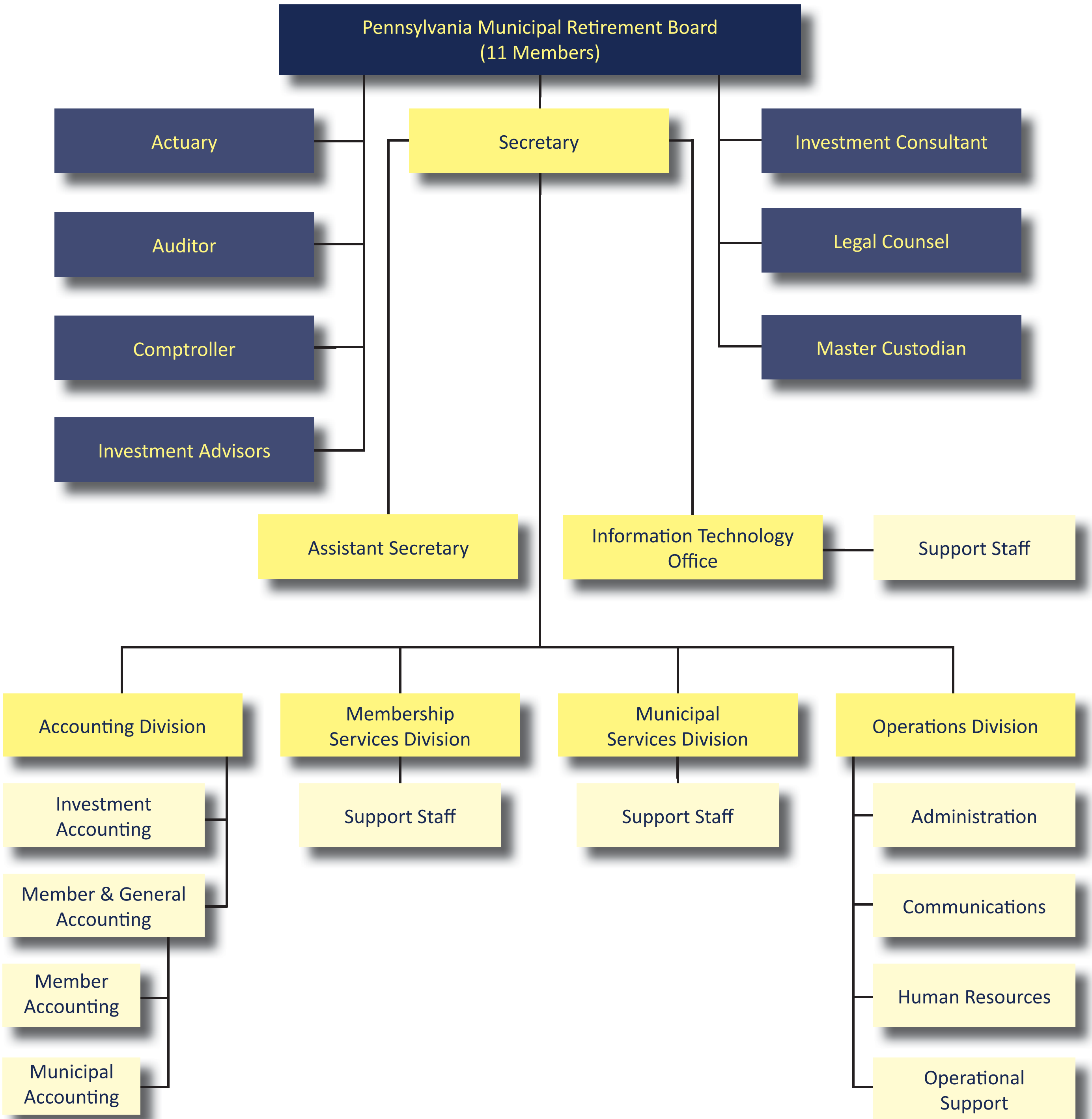
Prudential Real Estate Investors
Parsippany, NJ
Lester F. Lockwood, Principal

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

(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.



Pennsylvania Municipal Retirement Board (11 Members)
Actuary
Auditor
Comptroller
Investment Advisors
Secretary
Investment Consultant
Legal Counsel
Master Custodian
Assistant Secretary
Information Technology Office
Support Staff
Accounting Division
Investment Accounting
Member & General Accounting
Member Accounting
Municipal Accounting
Membership Services Division
Support Staff
Municipal Services Division
Support Staff
Operations Division
Administration
Communications
Human Resources
Operational Support

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

June 23, 2010

Dear Members:

It is my distinct honor to present you with the Pennsylvania Municipal Retirement System (PMRS)'s 2009 Comprehensive Annual Financial Report (CAFR). I am proud to be able to share that the Board has remained focused on our fiduciary duties to you and your fellow PMRS participants. After suffering through one of the worst years ever for the financial markets, 2009 provided us with a nice bounce-back. In last year's report I spoke of the need to stay committed and confident. While not fully recovered, we are just as confident and committed as we were in 2008. The story contained herein reflects the fruits of those labors.

A review of this document should convince any reader of the agency's commitment to full public disclosure. The CAFR details the System's financial standing as of December 31, 2009. It also provides the particulars of the year's financial activities.

It is important that our members know that those who work for the Board, and more importantly for our members, have toiled to secure the System's financial future. In 2009, the Board was reminded of the staff's and consulting team's commitment time and again. We were a party to several discussions regarding the possibility of PMRS assuming responsibility for the Commonwealth's distressed municipal plans. There was no wavering by anyone on the Board – the message was clear. Any proposal that would jeopardize the tax qualification of the System or that would put our existing enrolled plans' assets at risk would be strongly opposed.

John A. Haiko, Chairman, Pennsylvania Municipal Retirement Board

As we continue to face more volatile financial markets, more economic stress, and perhaps even more legislative tinkering with our plans, we will utilize every reasonable resource at our disposal to ensure that the stability you seek in your retirement years will be there. If that stability is there, we will have successfully done our job.

Let me close with a heartfelt thank-you for the privilege that has been given us to serve as the trustees of your pension plan. Please do review the data contained in this CAFR and contact us with any questions you may have.

Yours truly,

John A Haiko

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 cash balance approach, the benefit accrues based on the level of contributions and the investment earnings credited to the fund. The defined benefit approach depends upon the individual's age, years of credited service, and an actual benefit formula which usually includes a salary factor.

DISABILITY ANNUITY ELIGIBILITY BENEFITS

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

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

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

VESTING ANNUITY ELIGIBILITY BENEFITS

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

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

BENEFIT PAYMENT OPTIONS

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

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

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

DEATH BENEFIT ELIGIBILITY

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

TERMINATION OF SERVICE

A member always receives the accumulated deductions and interest earned at the regular rate of interest, currently 6.0%. Depending upon the municipality's contract structure, the member might also receive excess investment monies upon withdrawal.

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

Financial

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, 2009 and 2008, 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, 2009 and 2008, 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, as listed on the table of contents, 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 23, 2010

Offices in 17 states and Washington, DC

Member of HLB International

This section presents management's discussion and analysis of the Pennsylvania Municipal Retirement System's (PMRS, the System) financial performance for the fiscal years ended December 31, 2009 and 2008. 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, 2009, 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, 2009 to December 31, 2009, including comparative amounts for the prior year.

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

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

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

FINANCIAL HIGHLIGHTS

- The System's plan net assets increased by $196 million from $1,171 million at December 31, 2008 to $1,367 million at December 31, 2009. 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. These changes are primarily attributable to a net gain or loss on investments.

- The funded ratio increased from 105.9% at January 1, 2008 to 106.1% as of the last valuation date of January 1, 2009. In aggregate the System has been in a net surplus where the actuarial value of assets exceeds the actuarial liability. That surplus has increased from $81.6 million as of January 1, 2008 to $88.5 million as of January 1, 2009.

- The rate of return for the year ended December 31, 2009 was a net gain of 18.8% compared to a net loss of 24.8% and a net gain of 8.2% for the years ended December 31, 2008 and 2007, respectively.

- Total employee and employer contributions increased from $49.7 million in 2008 to $54.9 million in 2009 primarily due to an increase in employer required contributions. Total employee and employer contributions increased from $46.8 million in 2007 to $49.7 million in 2008.

- Total pension plan benefit payouts increased by 8.2% from $53.8 million during 2008 to $66.0 million during 2009 primarily due to withdrawals of four pension plans. Total pension plan benefit payouts increased by 7.8% from $49.9 million during 2007 to $53.8 million during 2008.

- Administrative expenses increased by $0.2 million to $3.2 million for 2009. Expenses increased $0.1 to 3.0 million for 2008 and remained unchanged at $2.9 million in 2007. 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. An actuarial valuation was preformed as of January 1, 2009 for the cash balance and defined benefit plans that are required to redetermine contribution levels bi-annually on odd years. 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. No actuarial valuation was performed as of January 2, 2006, January 1, 2004, or January 1, 2002, except for those plans required to redetermine contribution requirements.

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 106.1% funded as of January 1, 2009.

INVESTMENTS

PMRS is a long-term investor and the Board manages the Fund with long-term objectives in mind. A primary element of the PMRS 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 2009, the System's rate of return on investments was a net gain of 18.8% which is primarily attributable to returns in the domestic and international equity markets. The annualized rate of return over the past three and five years ended December 31, 2009 was -1.1% and 3.4%, 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, 2009, 2008, and 2007 at fair market value is listed on the chart on page 20.

SHORT TERM

Short term increased by approximately $8.2 million from December 31, 2008 to December 31, 2009 and decreased approximately $8.4 million from December 31, 2007 to December 31, 2008. Neither the increase for 2009 nor the decrease for 2008 was intentional but rather the normal cash flow to meet expenses and fund managers.

FIXED INCOME

Fixed income decreased by approximately $3.4 million from December 31, 2008 to December 31, 2009, primarily due to asset allocation rebalancing. Fixed income decreased approximately $88 million from December 31, 2007 to December 31, 2008, primarily due to depreciation in the fixed income market during 2008, as well as asset allocation rebalancing.

COMMON AND PREFERRED STOCK

Common and preferred stock including international stock increased approximately $216 million from December 31, 2008 to December 31, 2009 due to appreciation in domestic and international markets as well as asset allocation rebalancing, and decreased approximately $326 million from December 31, 2007 to December 31, 2008, primarily due to depreciation in the domestic and international equity markets.

REAL ESTATE EQUITY

Real estate equity decreased approximately $21 million from December 31, 2008 to December 31, 2009. The decrease was due to depreciation in fair values, and increased approximately $27 million from December 31, 2007 to December 31, 2008 as a result of market appreciation in fair value, as well as additional allocations to the sector.

CONTRIBUTIONS AND INVESTMENT INCOME

During 2009, contributions from employers and members totaled $54.9 million compared to $49.7 million during 2008 and $46.8 million during 2007. Net investment gains during 2009 were $210 million compared to net investment losses of ($387) million during 2008 and net investment gains of $115 million during 2007. 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 decreased $1.0 million from $6.1 million during 2008 to $5.1 million during 2009 and increased $0.5 million from $5.6 million during 2007 to $6.1 million during 2008. The investment expenses are based on the fair value of the quarterly average balance of investments under management.

PENSION PLAN BENEFITS AND EXPENSES

The primary source of expense during 2009 was for payment of pension benefits totaling $66 million compared to $53.8 million during 2008 and $49.9 million during 2007. Pension benefits increased by $12.2 million from 2008 to 2009 due to increased payments to retirees and withdrawal of 4 pension plans. Pension benefits increased by $3.9 million from 2007 to 2008 due to increased payments to retirees. Administrative expenses totaled $3.2 million during 2009 as compared to $3.0 million during 2008 and $2.9 million in 2007.

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, Pennsylvania Municipal Retirement System at P. O. Box 1165, Harrisburg, PA 17108-1165.

Summary of Plan Net Assets
as of December 31, 2009, 2008, and 2007

Analysis of Plan Assets	2009	2008	2007
Assets		(In Thousands)	
Receivables	$ 7,737	$ 12,389	$ 16,338
Investments	1,364,328	1,165,033	1,561,067
Securities lending collateral pool	-	-	96,876
Capital assets	209	229	224
Total assets	1,372,274	1,177,651	1,674,505
Liabilities	5,687	7,019	109,731
Total plan assets	**$1,366,587**	**$1,170,632**	**$1,564,774**

Summary of Changes in Plan Net Assets
as of December 31, 2009, 2008, and 2007

Analysis of Plan Assets	2009	2008	2007
Additions		(In Thousands)	
Contributions	$ 54,934	$ 49,694	$ 46,833
Net investment gain/(loss)	210,273	(387,078)	114,839
Total additions	265,207	(337,384)	161,672
Deductions			
Benefit payments and terminations	66,049	53,771	49,905
Administrative expenses	3,203	2,987	2,862
Total deductions	69,252	56,758	52,767
Total changes in plan net assets	**$195,955**	**$(394,142)**	**$108,905**

Asset Distribution at Fair Market Value

	2009	%	2008	%	2007	%
Asset Class			(In Thousands)			
Short term [1]	$ 39,908	2.9%	$ 31,696	2.7%	$ 40,116	2.6%
Fixed income	259,608	19.0	263,054	22.6	350,661	22.5
Common preferred stock	564,227	41.4	503,506	43.2	771,519	49.4
International stock	349,020	25.6	193,729	16.6	252,249	16.1
Real estate equity	151,565	11.1	173,048	14.9	146,522	9.4
Total	**$1,364,328**	**100.0%**	**$1,165,033**	**100.0%**	**$1,561,067**	**100.0%**

[1] Short term includes cash and equivalents held by investment managers and the Pennsylvania Treasury Department.

Statements of Plan Net Assets

As of December 31, 2009,and 2008

Assets	2009	2008
Receivables		
Plan members	$ 1,947,164	$ 1,924,719
Municipal employers	3,436,169	2,904,762
Accrued investment income	1,126,653	4,371,362
Investment sales receivable	1,226,691	3,188,463
Total receivables	7,736,677	12,389,306
Investments, at fair value		
Short-term and other investments	39,907,876	31,696,129
U.S. Government bonds	153,843,575	193,660,279
Corporate bonds	105,764,213	69,393,618
Common and Preferred stocks	564,227,315	503,506,353
Real estate equity	151,564,810	173,048,076
International equities	349,019,881	193,728,502
Total investments	**1,364,327,670**	**1,165,032,957**
Securities lending collateral pool	-	-
Capital assets (net of accumulated depreciation of $204,391.35 and $242,167 respectively)	209,359	228,671
Total assets	**$1,372,273,706**	**$1,177,650,934**
Liabilities		
Accounts payable and accrued expenses	1,697,184	1,604,180
Investment purchases payable	3,990,024	5,414,930
Collateral held under securities lending program	-	-
Total liabilities	**5,687,208**	**7,019,110**
Net Assets Held in Trust For Pension Benefits	**$1,366,586,498**	**$1,170,631,824**

(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, 2009, and 2008

Additions	2009	2008
Contributions		
Plan members	$ 19,331,869	$ 17,870,426
Municipal employers	35,309,446	31,532,859
Assessments	292,660	290,320
Total contributions	**54,933,975**	**49,693,605**
Investment income/(loss)		
From investing activities:		
Net appreciation/(depreciation) in fair value of investments	200,069,406	(407,656,237)
Short-term and other investments	426,192	674,503
Common and Preferred stocks	7,834,772	12,093,339
Real estate equity	2,315,269	7,927,482
International equities	4,272,958	4,458,381
Miscellaneous income	424,717	107,122
Less investment expenses	(5,070,505)	(6,128,828)
Total investing activities income/(loss)	**210,272,809**	**(388,524,238)**
Securities lending activity		
Securities lending income/(loss)	-	2,894,813
Less: Securities lending expenses	-	(1,448,177)
Net securities lending activity	**-**	**1,446,636**
Net investment income/(loss)	**210,272,809**	**(387,077,602)**
Total additions	**265,206,784**	**(337,383,997)**
Deductions		
Annuity benefits	52,267,003	46,173,544
Terminations	13,781,629	7,597,681
Administrative expenses	3,203,478	2,986,656
Total deductions	**69,252,110**	**56,757,881**
Net increase/(decrease)	**195,954,674**	**(394,141,878)**
Net assets held in trust for pension benefits		
Balance, beginning of year	**1,170,631,824**	**1,564,773,702**
Balance, end of year	**$1,366,586,498**	**$1,170,631,824**

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

(1) Organization and Description of the System

ORGANIZATION

The Pennsylvania Municipal Retirement System (the System) was created by the Pennsylvania General Assembly in 1974 with the passage of the Pennsylvania Municipal Retirement Law, Act of 1974, P.L. 34, No. 15 (the Act). The System is an agent multiple-employer system, and its designated purpose is to administer sound, cost-effective pensions for local government employees. Responsibility for the organization and administration of the System is vested in the eleven-member Pennsylvania Municipal Retirement Board (the Board). Under the Act, each individual municipality has authority to establish or amend its respective benefits and employee contribution rates subject to Board approval. Employer contributions are actuarially determined by the System's actuary.

Membership in the System is optional for Pennsylvania's local governments. When a municipality joins the System, its permanent employees contractually become members. Seasonal and temporary employees as well as elected officials may also become members through contractual agreement. As of January 1, 2009, there were 696 municipalities with defined benefit plans and 204 with cash balance plans. 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	5	0
Cities	19	0
Boroughs	147	31
Townships of the First Class	18	1
Townships of the Second Class	156	110
Authorities and Other Units	167	53
Police	176	9
Firefighters	8	0
Total	**696**	**204**

Individual Membership

Active Members	
Defined Benefit Plans	
Municipal	7,515
Police	750
Firefighters	146
Total	**8,411**
Cash Balance Plans	
Municipal	971
Police	7
Firefighters	0
Total	**978**
Total active members	**9,389**
Retirees and Beneficiaries	
Retirees	3,289
Beneficiaries	461
Total retirees and beneficiaries	**3,750**
Inactive Participants with Rights to Deferred Pension (Vested)	
Defined benefit	650
Cash balance	197
Total vested	**847**
Defined benefit	0
Cash balance	0
Total non-vested	**0**
Total individual memberships	**13,986**

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. 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. The estimates of the fair value of the real estate investments are based on periodic relevant financial information, the value of comparables, and other relevant data. Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

CAPITAL ASSETS

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

FEDERAL INCOME TAXES

The System has been accepted into the Internal Revenue Service(IRS)'s Employee Plans Compliance Resolution System (EPCRS) and has initiated steps to insure its status as a tax-qualified plan. These actions will allow the System to continue to be exempt from federal income taxes. A formal filing with the IRS will be made by the end of the public fund filing cycle (January 31, 2011).

(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, 2009 and 2008 consisted of the following:

	2009	2008
Municipality normal cost	$38,132,235	$36,584,175
Amortization of unfunded actuarial accrued liability	(7,500,919)	(7,283,797)
Total [1]	**$30,631,316**	**$29,300,378**

Total contributions to the System during 2009 amounted to $54,933,975 of which $19,331,869 and $35,309,446 were made by its members and municipalities, respectively and $292,660 was from assessments.

Total contributions to the System during 2008 were $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.

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 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.

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

The normal cost rate is applied to the projected payroll, and projected employee contributions are deducted. Actuarial gains (or losses) are reflected by decreases (or increases) in the unfunded actuarial accrued liability. Under Act 205, and amended under Act 44, 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);

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

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

c. 20 years with respect to actuarial gains and losses;

d. 10 years with respect to changes in benefits for current retired members; 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, 2009 and 2008, the balance in the Members' Reserve Account was $384,265,369 and $368,673,298, 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, 2009 and 2008, the balance in the Municipal Reserve Account was $712,686,650 and $688,576,068, 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, 2009 and 2008, the balance in the Retired Members' Reserve Account was $519,449,655 and $479,026,087, 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, 2009 and 2008, the balance in the Disability Reserve Account was $374,105 and $502,489 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 2009 or 2008. Such calculation would have been prepared in accordance with a Board approved formula and would have been based on the actuarial value (fair value) of the Systems assets as of December 31, 2008 and 2007, respectively, and the expected cash flows of the System for 2009 and 2008 if excess interest had been distributed.

As of December 31, 2009 and 2008, the Undistributed Earnings Designation Account had a balance of $(250,189,281) and $(366,146,118), respectively. While this balance is of concern, historical data argues that the markets' reversion to the mean will resolve the shortfall. The long term outlook of the System remains positive.

(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 sub-custodian (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, 2009, 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, 2009 and 2008 are shown at right:

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:

2009 Interest Rate Risk

Security	Quality Rating*	Modified-Adjusted Duration	Fair Value
Barclays Capital US Aggregate Fund	AAA	4.6	$153,843,575
Barclays Capital US Aggregate Fund	AA	4.6	105,764,213
Short-Term Investment Fund	NR	0.1	$ 36,093,938

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

2008 Interest Rate Risk

Security	Quality Rating*	Modified-Adjusted Duration	Fair Value
Lehman Brothers 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

Credit Risk Concentration

Security	Fair Value
2009	
State Street Index Fund	$530,530,982
Forest Investment Associates	$70,598,872
2008	
State Street Index Fund	$407,174,039
Prudential Property Investment Separate Account (PRISA)	$83,260,183
Forest Investment Associates	$59,296,728

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

2009 Foreign Currency Risk

Currency	Equity	Short-Term	Total
Euro Currency Unit	$51,029,305	$64,140	$51,093,445
British Pound Sterling	27,963,476	13,440	27,976,916
Japanese Yen	26,335,494	95,650	26,431,144
Swiss Franc	19,435,039	49,943	19,484,982
Canadian Dollar	7,955,705	5,630	7,931,335
Hong Kong Dollar	7,554,090	86,784	7,640,874
Norwegian Krone	6,370,051	58,497	6,428,548
Australian Dollar	5,684,578	199,452	5,884,030
South Korean Won	4,694,743	0	4,694,743
Singapore Dollar	4,003,591	47,844	2,767,343
Thailand Bath	2,282,178	0	2,282,178
Non-U.S. Currencies	193,222	3,823	197,045

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

(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 distributions on them. As of December 31, 2009 and December 31, 2008, the System had no securities out for loan because of a board policy temporarily terminate participation in a securities lending program which was adopted in 2008.

The System had no cash collateral invested in the custodial agent's short-term collateral investment pool as of December 31, 2009 and 2008.

(6) Pension Plan for Employees of the System

The System contributes to the Commonwealth's State Employees' 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 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% 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 3.15% at July 1, 2009, 3.29% at July 1, 2008 and 3.28% at July 1, 2007. The System's annual required contributions to SERS for the years ending December 31, 2009 and December 31, 2008 were $44,443 and $42,638 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

The System leases office facilities under an operating lease that expires November 2011. Future minimum lease payments under this lease are as follows:

2010	-	108,750
2011	-	99,688

Total rental expenses for the years ended December 31, 2009 and 2008 were $108,706 and $107,169, respectively.

The System has remained committed to fund a real estate investment of approximately $65.7 million as of December 31, 2009. 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, 2009, the most recent actuarial valuation date, the plan was 106.1% funded. The actuarial accrued liability for benefits was $1,451,637,264 and the actuarial value of assets was $1,540,152,742 resulting in an unfunded actuarial accrued liability (UAAL) of ($88,515,478). The covered payroll (annual payroll of active employees covered by the plan) was $372,370,037, and the ratio of the UAAL to the covered payroll was (23.8%) percent.

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

(c) Actuarial Methods and Assumptions

In the December 31, 2008 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 amortization method uses level dollar for plan bases and open for Aggregate Gain/Loss. The remaining amortization period at December 31, 2009, was 10-30 years. The single amortization period is not applicable for the System as it is individually determined for each of our participating plans.

(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)
1/1/2009	$1,540,152,742	$1,451,637,264	$(88,515,478)	106.1%	$372,370,037	(23.8)%
1/1/2008	1,458,148,442	1,376,536,031	(81,612,411)	105.9	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)

See accompanying notes to required supplementary schedules.

Schedule 2

Schedule of Required Employer Contributions for Last Six Years

Year Ended December 31	Annual Required Contributions (ARC) [2]	Actual Employer Contribution	Percentage Contributed [3]
2009	$30,631,316	$35,309,446	116%
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

See accompanying notes to required supplementary schedules.

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(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, or January 1, 2004, except for those plans required to redetermine contribution requirements. A January 1, 2009 actuarial valuation was performed for those municipalities required to redetermine contribution levels bi-annually for odd years. 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 2, 2008, actual active counts to estimate the liabilities for these plans to provide an overall measure of the funded status of the System.

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

(3) The difference between the municipalities' required contributions and the percentage contributed is due to various factors including plan takeovers and the municipalities transferring state aid money to the System as required under the Municipal Pension Plan Funding Standard and Recovery Act of 1984 (Act 205).

Actuarial Methods and Significant Assumptions

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

Valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar for plan bases and open for aggregate gain/(loss)
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 - 20 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 (eg., 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)

Supplemental Schedules

Years Ended December 31, 2009, and 2008

Schedule 3 - Administrative Expenses

Comparative Two-Year Schedule

	2009	2008
PERSONNEL COSTS		
Salaries and wages	$1,357,429	$1,335,559
Social security contributions	108,451	98,045
Retirement contributions	44,443	42,638
Insurance contributions	438,689	438,964
Other employee benefits	5,532	5,818
Total personnel costs	**1,954,544**	**1,921,024**
PROFESSIONAL COSTS		
Performance evaluation	108,992	109,000
Actuarial	251,486	275,043
Data processing	14,287	13,665
Audit	99,800	95,100
Legal	240,216	94,383
Miscellaneous professional	88,164	80,051
Total professional costs	**802,945**	**667,242**
COMMUNICATION COSTS		
Printing	15,156	18,686
Telephone	27,231	20,458
Postage	49,188	47,577
Travel	14,489	25,042
Advertising	4,140	3,525
Total communication costs	**110,204**	**115,288**
OTHER SERVICES AND CHARGES		
Contracted EDP services	139,382	73,242
Office space rental	108,706	107,169
Equipment leasing	4,092	4,613
Supplies	18,754	26,705
Maintenance	10,412	9,469
Bonding and insurance	1,497	1,834
Dues and subscriptions	2,547	2,795
Total other services and charges	**285,390**	**225,827**
DEPRECIATION	**50,395**	**57,275**
Total administrative expenses	**$3,203,478**	**$2,986,656**

Schedule 4 - Investment Expenses

Comparative Two-Year Schedule

	2009	2008
Investment management fees	$5,061,066	$6,120,345
Custodial fees	9,439	8,483
Total investment expenses	**$5,070,505**	**$6,128,828**

Schedule 5 - Payments to Consultants

Comparative Two-Year Schedule

Years Ended December 31, 2009, and 2008

Firm Name	Nature of Service	2009	2008
Clifton Gunderson, LLP	Auditor	$ 99,800	$ 95,100
Dahab Associates, Inc.	Investment Consultant	108,992	109,000
Cheiron	Actuary	251,486	275,043
Total		**$460,278**	**$479,143**

Investments

INVESTMENT RETURN[1]

On December 31st, 2009, the Pennsylvania Municipal Retirement Board's investment portfolio was valued at $1,361,114,994, which was an increase of $197,488,685 from the December 2008 ending valuation of $1,163,626,309. During the calendar year of 2009, the System recorded aggregate net withdrawals of $18,509,078 and a net investment return of $220,691,684.

For the period between January 1, 2004, and December 31, 2009, the System recorded net withdrawals totaling $88,321,687 and a net investment return of $218,149,696. If the fund had earned an annualized compounded rate of 6.0% during that period, it would have been worth $1,544,540,000, or $183,425,006 more than the actual value at the end of the year.

ECONOMIC ENVIRONMENT

The U.S. and other major global economies continued to gain strength during 2009. While credit remained tight, there were clear signs that most areas were improving. Stimulus programs have boosted economic activity and the consensus is that the "Great Recession" is either over or nearly so, thanks to massive government spending.

Domestically, economists claim that the stimulus has saved roughly 2.5 million jobs. The average consumer has begun to pay down personal debt and is actually in a savings mode. Consumer spending is up slightly too, having risen 1% from a year ago. Existing home sales appear to have bottomed and sale prices have crept up in some regions of the country thanks to an $8,000 incentive for first time homebuyers. While the Government's first time homebuyer tax credit stimulated sales, many more foreclosures are still expected in 2010.

On the credit front, major banks recently have returned some or all of their Government loans. The credit markets continue to re-liquefy and reflect narrowing interest rate spreads between Treasuries and corporate bonds. While there is great uncertainty about commercial property refinancing in the next year, the impact of defaults in this sector has not been great to date.

The stimulus spending is leading to growing budget deficits, which will either lead to higher taxes or inflation at some future date. For now, inflation remains reasonably contained, in large part because of high unemployment, which may have peaked at 10%. If that figure begins to drop significantly, some action may be needed to forestall inflationary pressures.

The Federal Reserve has sustained its near zero interest rate stance for short-term rates. Ten year Treasuries ended 2009 well below 4%. These low rates helped drive corporate borrowing, which in turn led to increased manufacturing activity. Corporations also reduced their costs. These steps helped to improve profits. In addition, the falling U.S. dollar has helped to push up exports and dampened imports.

For the full year, the Consumer Price Index (CPI) rose 2.7%. When food and energy are excluded, 2009 inflation was a more modest 1.8%. Stocks and bonds continued to perform well.

EQUITY MARKET

Equity securities made significant gains during 2009. The GDP grew at a considerable 5.7% rate. Inflation is now the main fear, with the Federal Reserve holding rates at near zero for the foreseeable short term. For now, unemployment, at 10%, is keeping inflation down, but it will need to be closely monitored.

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[1] The System's investment assets reported in the Investment Section are presented on the same basis of accounting as described in Note 1 of the Notes to Financial Statements with the following exceptions: The Investment Section includes those investments under management of advisors which are under contract by the agency and does not include pending sales and purchases. The investment consultant, Dahab Associates, oversees these investments. In addition, PMRS maintains a pool for certain short-term funds that is used to fund administrative and benefits payments.

The investment "sweet spot" for year 2009 was in the mid-cap growth space. The Russell Mid Cap Growth index posted a breathtaking 46.3% advance. Still, virtually all domestic stock indices rose 20% or more.

For the year, the broad large cap indices, the S&P 500 and the Russell 1000 returned 26.5% and 28.4%, respectively. Growth stocks out-paced value stocks during the year, with the Russell 1000 Value and Russell 1000 Growth returning 19.7% and 37.2%, respectively.

Small cap stocks were pretty even with large cap stocks over the trailing year with the Russell 2000 returning 27.2% for the year. There was also a considerable difference between value and growth in small cap stocks. The Russell 2000 Value returned 20.6% for the year, while the Russell 2000 Growth returned 34.5% for the year.

At the end of the year, the bottom line showed that the selling frenzy of 2008 and early 2009 had turned into a buying stampede for the latest nine months.

The year-end dividend yield for the S&P was 2.3% and the price/earnings ratio was 17.3 times. The yield was lower and the P/E higher than three months earlier, reflecting higher stock prices.

INTERNATIONAL EQUITIES

International markets continued to expand along with domestic securities and outperformed all other mature markets for the year. Over the trailing year, the S&P BMI Ex-US index returned 39.1%, and the S&P BMI Emerging Markets index returned an incredible 84.6%.

Increased domestic demand for products, less financial sector stress, and rising commodity exports helped many EM countries to surpass EAFE. The BRIC (Brazil, Russia, India, and China) countries were featured players in these spectacular results. The best performer of all was Brazil, which has been a perpetual hot spot for development and led the emerging markets with a return of 128.6% for the year.

Among the developed nations, the UK did slightly better than domestic markets, gaining a solid 7.0%; however, the EU was pulled down by debt concerns, mainly stemming from Greece and Ireland. Japan also struggled with a strong yen and weakening overseas export demand compounded by a changing political climate.

BOND MARKET

Bond returns continued to have huge spreads between low-risk, high-quality treasuries and riskier corporate debt investments. The fixed income market rewarded risk in general.

U.S. high yield or "junk" bonds continued to perform better than many domestic stock indices. The explanation was straightforward: investors were quite willing to take risk after the non-Treasury bond market had been beaten down to unprecedented lows by early 2009.

Financials, media companies, and retailers were the high-yield sector leaders. Full year 2009 returns were nothing short of spectacular; the High Yield Index rose 58.2% and the very low quality CCC Index component rose 90.7%.

90-day T-Bills returned a hardly measurable 0.15% for the year. For the Barclays Aggregate Index, which includes only investment grade names, losses in the Treasuries with longer maturities and weakness in the residential mortgage-backed sectors clearly dampened performance. At year's end, the Aggregate index yielded 5.90%.

Treasury securities lost value due to the fact that long-term interest rates have risen considerably. In the corporate sector, greater liquidity in the market caused yields to drop. Simultaneously, corporate bond prices that had been depressed began to rebound, resulting in a positive overall return for corporate bond holders.

In general, the lower the quality of the bond translated to a greater return seen by the investor.

RELATIVE PERFORMANCE

Total Fund

For the full year of 2009 our total portfolio returned 18.8%, ranking in the 47th percentile relative to other Trust Funds. Annualized over the last 5 years, we earned 3.4%, ranking in the 51st percentile.

Large Cap Equities

Our portfolio's large cap equity segment returned 25.6% over the trailing year. This ranked in the 71st percentile of the large cap universe and fell just 0.9% short of the S&P 500 Index's return of 26.5%. The trailing 5-year return of the large cap segment was 1.1% annualized, ranking in the 51st percentile. The S&P 500 returned 0.4% annualized over the same period.

Small Cap Equities

Our small cap equities returned 27.8% for the year, 0.6% above the Russell 2000, and ranked in the 74th percentile of the small cap universe. This segment returned -0.3% annualized over the previous 5 years, ranking in the 91st percentile. The Russell 2000 returned 0.5% for the trailing 5 years.

International Equities

The international equity portion of the portfolio returned 39.1% over the trailing year, which was equal to the S&P BMI Developed Ex-US index, ranking in the 29th percentile of the international equity universe. For the trailing 5 years, the portfolio returned 5.2%, ranking in the 52nd percentile, and equalling the benchmark's 5.2% return.

Emerging Markets Equities

The emerging market equity portion of the portfolio returned 77.8% over the trailing twelve-month period, which was 6.8% below the 84.6% performance of the S&P BMI Emerging Markets index, and ranked in the 43rd percentile.

Fixed Income

The fixed income portion of the portfolio (bonds) returned 5.9% for the trailing year and 5.0% annualized for the trailing 5-year period, ranking, respectively, in the 86th and 75th percentiles of the core fixed income universe. The Barclays Aggregate Index returned 5.9% and 5.0% annualized over the same periods.

Real Estate

Real estate for the portfolio returned -22.8% for the year and 2.7% annualized for the last 5 years. This was 5.9% less than the NCREIF Property Index's 1-year return of -16.9%, and was 2% less than the Index's 5-year return of 4.7%.

Asset Allocation

On December 31, 2009, asset allocation was as follows:

Large cap equities	25.8%	$351,578,991
Small cap equities	15.7%	$213,110,957
Int'l developed mkts	15.0%	$204,187,840
Int'l emerging mkts	10.7%	$145,466,834
Total equities	67.2%	$914,344,622
Fixed income	19.1%	$259,607,787
Real estate	11.2%	$152,811,303
Cash and equivalents [1]	2.5%	$34,351,283
Total portfolio	100.0%	$1,361,114,995

Report prepared by DAHAB ASSOCIATES, INC.

[1] Cash and equivalents includes funds held by the Pennsylvania Treasury Department.

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.

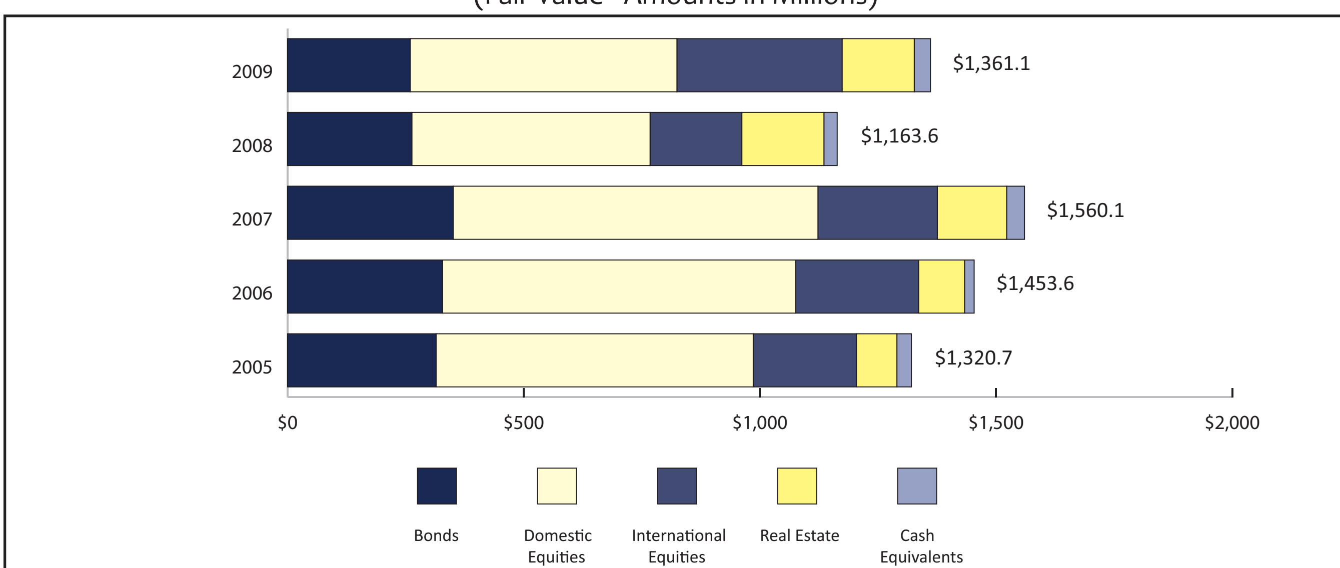
Returns for actively-managed funds presented throughout the Investment Section are gross of external manager fees; returns for passively managed funds are net of external manager fees. Overdraft charges, debit interest, registration expenses and stamp duties and taxes spent on foreign securities are 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, 2009, the System's investment assets were valued at $1,361,114,995 [1], an increase in value of $197,488,685 over the December 31, 2008 valuation of $1,163,626,309. During the last five years, the System has increased from $1,320.7 million to $1,361.1 million. The following graph shows the System's five-year trend of investment assets at fair value.

The data presented in the Investment Section by the System's independent investment consultant has been prepared by using rates of return using a time-weighted rate of return methodology based upon market values. The Investment Section includes only those investments under management of advisors which are under contract with the System. These investments are valued in a manner consistent with information presented in the Financial Section with the exception of the recognition of pending sales and purchases and cash held by real estate managers. The difference noted above represents the difference between the investment balance of $1,361,327,670 presented in the Financial Section and the balance of $1,361,114,995 reported in this section.

Portfolio Distribution - Five-Year Trend [1]

(Fair Value - Amounts in Millions)



(1) Amounts in the Investment Section do not include cash held by real estate managers.

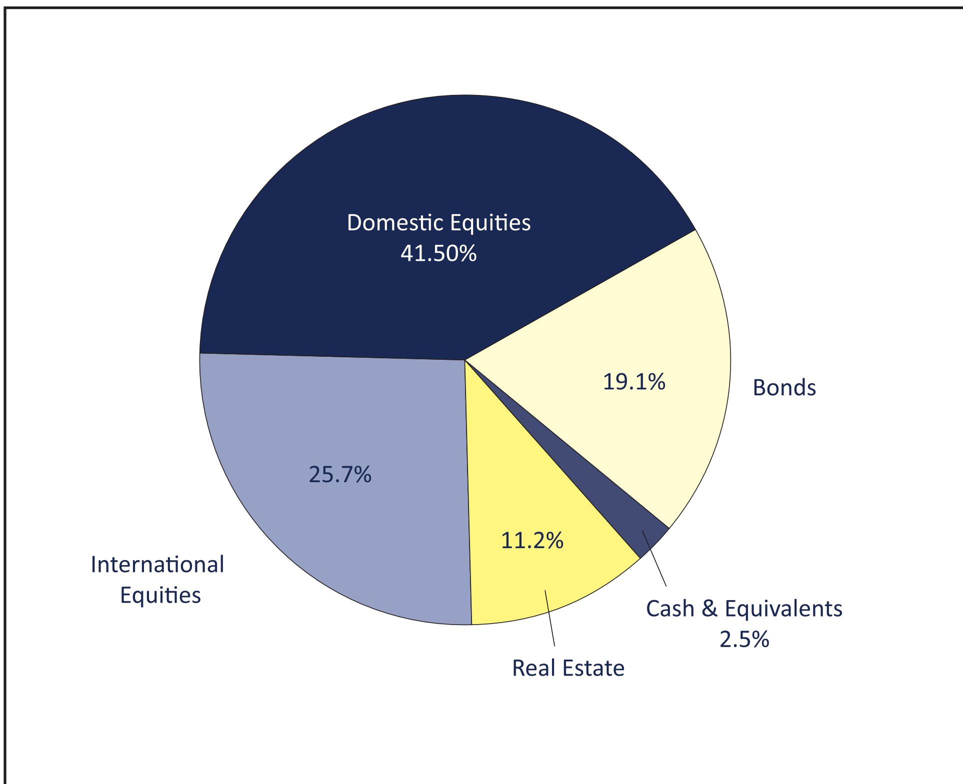
Asset Allocation

The System's asset allocation as of December 31, 2009, was $564.7 million committed to domestic equities, $349.7 million to international equities, $260 million to bonds, $153 million to real estate, and $34 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, 2009, was 18.8%, ranking near the median in the 47th percentile of all balanced funds. This performance level was below the median balanced fund's return of 20.9%. The cumulative five-year return for December 2004 through December 2009 of 3.4% annualized ranked in the 51st percentile.

For the year ended December 31, 2009, large cap equities returned 25.6% and ranked in the 71st percentile, performing just below the S&P 500 Index return of 26.5%. For the last five years, the System's large cap equities return was 1.1% annualized and ranked in the 51st percentile. The Standard and Poor's 500 return was 0.4% for the same time period. The small cap equities returned 27.8% for the year and ranked in the 74th percentile, just above the Russell 2000 return of 27.2%. For the five year period, the cumulative return was -0.3% annualized and ranked in the 91st percentile. For the year ending December 31, 2009, the international equities gained 39.1%, which equaled the S&P BMI Ex-US, and ranked in the 29th percentile. The 5-year return was 5.2% and ranked in the 52nd percentile.

Fixed income returned 5.9% for the year, ranking in the 86th percentile performing equal to the Barclays Aggregate Index return. For the five-year period, the cumulative bond return of 5.0% annualized ranked in the 75th percentile. The real estate segment of the portfolio lost 22.8% for the fiscal year. For the cumulative five-year period, the real estate portfolio earned 2.7% annualized.



Portfolio Summary

As of December 31, 2009

Type of Investment	Par Value	Cost Value	Fair Value	% of Total Fair Value
Corporate and government bonds				
U.S. Government bonds	$ 124,387,833	$ 124,387,833	$ 153,843,575	11%
Corporate bonds	85,514,011	85,514,011	105,764,213	8
Total	**209,901,844**	**209,901,844**	**259,607,787**	**19**
Common stock				
Domestic	509,013,942	509,013,942	564,227,315	41
International	284,505,393	284,505,393	349,019,881	26
Total	**793,519,335**	**793,519,335**	**913,247,196**	**67**
Other investments				
Real estate equity	186,204,275	186,204,275	151,564,810	11
Cash equivalents	39,907,876	39,907,876	39,907,876	3
Total	**226,112,151**	**226,112,151**	**191,472,687**	**14**
Grand total	**$1,229,533,330**	**$1,229,533,330**	**$1,364,327,670**	**100%**

Portfolio Quality

Two-Year Comparative Analysis
Years Ended December 31, 2009, and 2008

Bond Rating	Fair Value	% of Total Fair Value	% of Total Carrying Value
December 31, 2009			
AAA	$153,843,575	59%	59%
AA	105,764,213	41	41
A	0	0	0
Total bonds	259,607,788	100%	100%
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%

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 12/31/2009	Period from 1/1/06 to 12/31/09 (Annualized)	Period From 1/1/04 to 12/31/09 (Annualized)
Total	18.8%	-1.1%	3.4%
(Rank) [2]	(47)	(52)	(51)
Large Cap Equities	25.6	-5.0	1.1
(Rank) [3]	(71)	(46)	(51)
Fixed Income	5.9	6.1	5.0
(Rank) [4]	(86)	(72)	(75)
Real Estate	-22.8	-5.3	2.7
International	39.1	-3.4	5.2
(Rank)[5]	(29)	(39)	(52)
Emerging Markets	77.8	-	-
(Rank)[6]	(43)	-	-
Small Cap Equities	27.8	-6.9	-0.3
(Rank)	(74)	(85)	(91)
Consumer Price Index	2.7	2.3	2.6
Standard and Poor's 500	26.5	-5.6	0.4
Russell 2000	27.2	-6.1	0.5
Barclays Aggregate	5.9	6.0	5.0
S&P BMI Developed Ex-US	39.1	-4.4	5.2
S&P BMI Emerging Markets	84.6	6.9	16.9
91-day Treasury Bills	0.15	2.22	2.88
NCREIF Property Index	-16.9	-3.4	4.7
Shadow Index [5]	20.9	-1.2	3.5

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(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) Ranked against international developed markets oriented funds.

(6) Ranked against international emerging markets oriented funds.

(7) 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, 2009 (Fair Value)

Stock	Shares	Fair Value	% of Stock Portfolio
Hewlett-Packard Co	156,300	$ 8,051,013	1.43%
Visa Inc Com Class A Shares	81,000	7,084,260	1.26
Microsoft Corp	220,200	6,711,696	1.19
Google Inc Class A	10,460	6,484,991	1.15
Starbucks Corp	271,200	6,253,872	1.11
TJX Companies Inc	166,800	6,096,540	1.08
Apple Inc	28,320	5,967,930	1.06
Exxon Mobil Corp	84,200	5,741,598	1.02
EMC Corp Mass	299,100	5,225,277	0.93
NETAPP Inc Com	151,800	5,215,848	0.92

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

Summary of Investment Expenses

Comparative Two-Year Schedule
Years ended December 31, 2009, and 2008

Firm Name	2009	2008
Century Capital Management	$ 256,767	$ 325,006
Chase Investment Counsel	573,396	922,964
Denver Investment Advisors	310,554	394,094
DePrince, Race & Zollo	222,098	271,736
Emerald Advisors	151,401	176,282
Globeflex Capital	223,243	312,715
LSV Asset Management	510,681	636,048
Mercator Asset Management	608,986	701,431
State Street Global Advisors	224,938	169,916
Wentworth, Hauser and Violich	325,164	411,656
Forest Investment Associates	703,570	691,849
Prudential Real Estate Investments	672,176	881,509
TIAA-CREF Global Real Estate	278,091	225,139
Total Investment Management Fees	**5,061,065**	**6,120,345**
Custodial Fees - BNY Mellon	9,439	8,483
Total Investment Expenses	**$5,070,504**	**$6,128,828**

Summary of Commissions Paid to Brokers

Year Ended December 31, 2009

Broker Name	Commissions Paid
Abel Noser Corp, New York	$79,735
ABG Secs, Oslo	4,192
American Technology Research Inc, Dallas	299
Avian Securities Inc, Boston	230
Avondale Partners LLC, Nashville	1,708
Baird, Robert W & Co Inc, Milwaukee	12,132
Banc Of America Secs LLC, Charlotte	58
Banco Bilbao Vizcaya, Madrid	1,046
Banco Santander, New York	2,327
Banque Paribas, Paris	3,026
Barclays Capital LE, Jersey City	9,872
Barrington Research Associates, Brooklyn	632
Baypoint Trading LLC, New York	855
Bernstein Sanford C & Co, New York	2,178
Bloomberg Tradebook LLC, New York	23,610
BNP Paribas Peregrine Sec Ltd, Hong Kong	171
BNP Paribas Sec Svcs, London	8,047
BNY Convergex / LJR, Houston	369
BNY Convergex, New York	70,139
Boenning & Scattergood, W Conshohocken	406
Brean Murray Foster Inc, New York	218
Brockhouse and Cooper, Montreal	1,919
Brown Bros Harriman & Co, New York	310
Buckingham Research Grp Inc, Brooklyn	204
Calyon, Madrid	1,449
Canaccord Adams Inc, Boston	1,462
Canaccord Adams Inc, Jersey City	2,269
Cantor Fitzgerald & Co, New York	5,312
Cap Instl Svcs Inc-Equities, Dallas	5,498
Caris & Company Inc, Jersey City	3,799
Charles Stanley & Co Ltd, London	413
Citigroup Gbl Mkts Inc, New York	12,974
Citigroup Gbl Mkts/Salomon, New York	1,420
CJS Securities, Brooklyn	520
Clearstream Banking AG, Frankfurt	341
Clearview Correspondent Srvs, LLC, Richmon	4,205
Collins Stewart Inc, New York	14,080
Collins Stewart LLC, New York	2,779
Compass Point Research & Trdng, New York	116
Cowen and Company LLC, New York	8,776
Craig Hallum, Minneapolis	2,857
Credit Agricole Cheuvreux Nordc, Stockholm	1,814
Credit Agricole Cheuvreux, Courbevoie	22,150
Credit Agricole Indosuez Chx, Milano	1,602
Credit Agricole USA, New York	2,157
Credit Lyonnais Sec, Seoul	370
Credit Lyonnais Secs (Asia), Hong Kong	8,258
Credit Lyonnais Secs, New York	3,200
Credit Lyonnais Secs, Singapore	4,089
Credit Suisse (Europe), London	1,610
Credit Suisse, New York	41,212
Daewoo Securities Co Ltd, Seoul	11,675
Daiwa Secs Amer Inc, New York	3,277
Davenport & Co of Virginia, Richmond	166
Davidson(D A) & Co Inc, New York	2,217
Davy Stockbrokers, Dublin	2,441
DBS Securities, Singapore	4,180
Deutsche Bk Secs Inc, NY	4,229
Dexia Bk (Formerly Kempen), Amsterdam	7
Dougherty Company, Brooklyn	2,592
Dowling & Partners, Jersey City	668
Euroclear Bank SA/NV, Brussels	1,117
Exane, Paris	2,487
First Analysis Securities Corp, Chicago	235
First Clearing LLC, Richmond	204
Fokus Bank, Trondheim	48
Fox Pitt Kelton Inc, New York	3,073
Fox Pitt Kelton Ltd, London	2,614
Fox River Execution Tech, LLC, Jersey City	3,908
Friedman Billings, Washington DC	2,651
Global Equities, Paris	109
Goldman Sachs & Co, NY	11,202
Goldman Sachs Execution & Clearing, NY	2,177
Green Street Advisors, Jersey City	580
Greentree Brokerage Services, Jersey City	2,513
Gunnallen Financial, Jersey City	712
Hibernia Southcoast Cap Inc, Jersey City	291
Howard Weil Incorporated, New Orleans	572
Intermonte Sec Cim, Milan	1,935
Investment Technology Group, New York	5,744
ISI Group Inc, NY	1,834
Israel A. Englander & Co Inc, New York	30,577
ITG (Europe) Ltd, Dublin	3,864
ITG Australia Ltd, Melbourne	3,210
ITG Canada Corp, Toronto	13
ITG Hong Kong Limited, Hong Kong	822
J P Morgan Secs Ltd, London	14,618
J P Morgan Securities Inc, Brooklyn	5,111

Broker Name	Commissions Paid
J P Morgan Clearing Corp, New York	7,360
Janney Montgomery Scott, Philadelphia	4,906
Jefferies & Co Inc, New York	23,602
JMP Securities, San Francisco	3,578
Jonestrading Instl Svcs LLC, Westlake	19,366
J P Morgan Secs (Far East) Ltd, Seoul	3,374
J P Morgan Secs Asia Pacific, Hong Kong	2,955
J P Morgan Securities Inc, New York	2,788
Keefe Bruyette and Woods, Jersey City	6,973
Kepler Equities, Zurich	127
Kepler Equities, Sucursal En Espana, Madri	83
Keybanc Capital Markets Inc, New York	2,605
King (Cl) & Associates, Albany	4,837
Knight Sec Broadcort, Jersey City	34,629
Ladenburg Thalman & Co, Weehawken	142
Lasker Stone & Stern, New York	664
Lazard Capital Markets LLC, New York	1,965
Leerink Swann & Co, Jersey City	6,377
Lighthouse Financial Group, Jersey City	296
Liquidnet Inc, Brooklyn	4,772
Longbow Securities LLC, Jersey City	1,501
Macquarie Equities Ltd, Sydney	5,220
Macquarie Securities (USA) Inc, Jersey City	352
Melvin Securities LLC, Chicago	1,874
Merrill Lynch Intl (KSI), London	248
Merrill Lynch Intl London Equities	452
Merrill Lynch Pierce Fenner Smith Inc NY	18,014
Merrill Lynch Pierce Fenner, Wilmington	5,145
Merrill Lynch Professional Clrg, Purchas	1,400
Merriman Curhan Ford, Jersey City	309
Mesirow Financial Inc, Chicago	1,852
Midwest Research Securities, Jersey City	309
Mitsubishi UFJ Sec (USA), New York	1,615
Mizuho Securities USA Inc, New York	4,639
MKM Partners, Greenwich	2,178
Morgan J P Secs Inc, New York	10,156
Morgan Joseph & Co Inc, Brooklyn	567
Morgan Keegan & Co Inc, Memphis	5,082
Morgan Stanley & Co Inc, NY	19,520
Natexis Bleichroeder Inc, New York	214
National Finl Svcs Corp, New York	464
Needham & Co, New York	4,966
Nesbitt Burns, Toronto	48
Noble Intl Investments Inc, Jersey City	702
Nomura Secs Intl Inc, New York	16,670

Broker Name	Commissions Paid
Nomura Secs Intl, London	57
Non-Broker Corp Actions, Boston	1
Oneil William & Co Inc/Bcc,Los Angeles	712
Oppenheimer & Co Inc, New York	14,384
Opstock Secs, Helsinki	29
Pacific Crest Sec, Portland	3,535
Pershing LLC, Jersey City	13,635
Pickering Energy Partners, Houston	366
Pipeline Trading Systems LLC, New York	5
Piper Jaffray & Co, Minneapolis	16,784
Pulse Trading LLC, Boston	49
Raymond James & Assoc Inc, St Petersburg	13,986
RBC Capital Markets Corp, Minneapolis	7,213
RBS Securities Inc, Stamford	501
Roth Capital Partners LLC, Irvine	1,003
Sanders Morris Harris, Jersey City	229
Sandler O'Neill & Partners, New York	1,208
Sanford C Bernstein & Co Inc, London	3,414
Scotia McLeod Inc, Toronto	1,951
SG Americas Securities LLC, New York	496
SG Sec (London) Ltd, London	9,180
Sidoti & Co LLC, New York	4,697
Sis Segaintersettle AG, Zurich	5,656
Skandinaviska Enskilda Banken, London	2,386
State Street Brokerage Svcs, Boston	152
Stephens Inc, Little Rock	180
Sterne Agee & Leach Inc	1,261
Stifel Nicolaus	10,228
Suntrust Capital Markets Inc, Atlanta	7,474
Svenska Handelsbanken, New York	1,067
Thinkequity Partners LLC, Minneapolis	1,226
Thomas Weisel Partners, San Francisco	1,400
Toronto Dominion Sec, Toronto	1,469
UBS Equities, London	654
UBS Securities LLC, Stamford	25,853
UBS Warburg Asia Ltd, Hong Kong	36
Union Bank Switzerland Secs, London	7,753
Wedbush Morgan Secs Inc, Los Angeles	6,336
Weeden & Co, New York	45,638
Wells Fargo Securities LLC, Charlotte	824
William Blair & Co, Chicago	10,309
Wunderlich Securities Inc, Baltimore	2,180
Total Brokerage Commissions Paid	**$972,494**

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 quarterly average balance in the System's portfolio.

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

March 16, 2010

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, 2009. 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. This is a multiple employer retirement system for participating municipalities and counties. Assets and liabilities are separately accounted for and reported to the Public Employee Retirement Commission of the Commonwealth of Pennsylvania. This report reflects aggregate valuation results for the System. 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. We rely on future System experience conforming to the underlying assumptions. To the extent that actual System experience deviates from the underlying assumptions, the result 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 the credentialed actuaries below meet the Qualification Standards of the American Academy of Actuaries to render the opinions contained in this report.

Sincerely,
Cheiron

Kenneth A. Kent, FSA, FCA	Karen Zangara
Consulting Actuary	Consulting Actuary

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, 2009. 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 2009 Act 205 filings and 2008 Act 293 filings in preparing this valuation. The System is bound by Act 205 to complete a biennial valuation for each employer, but we have developed liabilities for 2009 for all plans in the System, which includes the four county plans, to provide an overall measure of the funded status of the System.

In preparing our report, we relied without audit, on information (some oral and some written) supplied by the Office of the System's staff. This information includes, but is not limited to, plan provisions, employee data, and financial information. This report incorporates all data and updates sent to Cheiron by February 9, 2010.

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. To the extent the laws of the Commonwealth of Pennsylvania and/or the administrative practices of the System differ from Actuarial Standards of Practice, we have identified such deviations within the assumption section of this report.

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)
2009	$333,142,928	$538,733,517	$579,760,819	$1,540,152,742	100%	100%	115%
2008	321,567,969	461,965,617	593,667,414 [2]	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%

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)
2009	1,540,152,742	1,451,637,264	(88,515,478)	106.1%
2008	1,458,148,442	1,377,201,000 [2]	(80,947,442) [2]	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, 2009, are shown in the assumptions and methods section. The above information was derived from the following membership data, as provided by the System, regarding:

- 696 defined benefit county and non-county plans and 204 cash balance plans as of January 1, 2009;
- 4 defined benefit plans required to re-determine contribution levels as of January 1, 2008 (prior year non-county benefit plans estimated from the January 1, 2007 valuation);
- 679 defined benefit county and non-county plans and 177 cash balance 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 cash balance 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.

(2) The liability was changed to address an inconsistency in the report.

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, 2009
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
2009	271	13,883	119	11,494	3,750	45,414,210	5.9%	12,110	1.6%
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

(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.

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Schedule of Total Membership

Six Year Trend

Valuation Date January 1,	Active Members Defined Benefit Plans	Active Members Cash Balance Plans	Retirees	Beneficiaries	Deferred Pensions	Inactive Members	Total
2009	8,411	978	3,289	461	847	0	13,986
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

Funded Status of Actuarial Liabilities

Schedule of Total Membership Over Last Five Years

	As of January 1[1]				
	2009	2008	2007	2006	2005
a. Retirees currently receiving benefits	3,289	3,173	2,965	218	2,768
b. Beneficiaries currently receiving benefits	461	425	494	8	424
c. Terminated vested employees entitled to future benefits from DB plans	650	570	561	53	464
d. Terminated non-vested employees entitled to contribution refunds from DB plans	0	7	33	7	165
e. Active employees in defined benefit plans	8,411	8,383	8,314	717	8,341
i. Aggregate salary	$372,370,037	$364,865,185	$358,690,830	$23,905,899	$319,004,918
ii. Vested[2]	4,952	4,913	4,430	358	4,603
iii. Non-vested	3,459	3,470	3,884	359	3,738
f. Participants in cash balance-only plans	1,175	1,124	1,080	--	1,005
i. Aggregate salary[3]	$32,811,919	$31,107,136	$28,213,485	--	$26,807,519
ii. Active	978	950	918	--	867
iii. Inactive	197	174	162	--	138

(1) Years 2005, 2007, 2008, and 2009 include defined benefit non-county plans, defined benefit county plans, and cash balance-only plans. 2006 includes defined benefit county plans only.

(2) Count of vested participants estimated based on service as of valuation date.

(3) Actual salary for preceding valuation date.

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								
2009	8,411	0.3%	696	.5%	$372,370,037	2.0%	$44,272	1.7%
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
Cash Balance Plans								
Valuation Date 1/1	Number of Active Members	Percentage Change in Membership	Number of Participating Employers	Percentage Increase in Number of Participating Employers	Total Annual Payroll	Percentage Increase in payroll	Average Annual Salary	Percentage Increase in Average Annual Salary
2009	978	3.0%	204	10.0%	$32,811,919	5.5%	$33,550	2.5%
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

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

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 to the left:

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 shown at right:

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

(iii) Members first eligible to retire at ages 62 or older will retire when first eligible.

---

(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.

b) Municipal Members:

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

Retirement Assumptions

Age	Current Rate of Normal Retirement (1)
Under 46	5%
46 - 54	15
55 - 59	10
60 - 61	10
62	30
63 - 64	20
65	35
66 - 74	15
75	100

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

H. Marital Status and Spouse's Age (2): 85 percent of members will be married at time of retirement and females are four years younger than their spouses.

I. Social Security Projections (2):

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 (2):

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 2009 is $3,375,000, which was the same amount allocated for 2008.

Actuarial Methods

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

ACTUARIAL VALUE OF ASSETS:

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.

Based on the unique legislative structure of PMRS, because assets are set equal to reserves under the System, they do not necessarily relate directly or indirectly with the current market value of assets as required under Actuarial Standard of Practice Statement No. 44 which states under section 3.3:

(1) 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.

(2) If applicable.

"…the actuary should select an asset valuation method that is designed to produce actuarial values of assets that bear a reasonable relationship to the corresponding market values. The qualities of such an asset valuation method include the following:

a. The asset valuation method is likely to produce actuarial values of assets that are sometimes greater than and sometimes less than the corresponding market values.

b. The asset valuation method is likely to produce actuarial values of assets that, in the actuary's professional judgment, satisfy both of the following:

1. The asset values fall within a reasonable range around the corresponding market values. For example, there might be a corridor centered at market value outside of which the actuarial value of assets may not fall, in order to assure that the difference from market value is not greater than the actuary deems reasonable.

2. Any differences between the actuarial value of assets and the market value are recognized within a reasonable period of time. For example, the actuary might use a method where the actuarial value of assets converges toward market value at a pace that the actuary deems reasonable, if the investment return assumption is realized in future periods.

In lieu of satisfying both (1) and (2) above, an asset valuation method could satisfy section3.3(b) if, in the actuary's professional judgment, the asset valuation method either (i) produces values within a sufficiently narrow range around market value or (ii) recognizes differences from market value in a sufficiently short period."

On this basis, the administrative rules adopted by the PMRS Board, which are not subject to comply with Actuarial Standards of Practice (ASOP), when defining the Actuarial Value of Assets, does not necessarily meet the requirement of ASOP 44 Selection and Use of Asset Valuation Methods for Pension Valuations.

ACTUARIAL COST METHOD

Entry Age Normal Actuarial Cost Method.

Entry age is defined as attained age less credited service. The normal cost rate is derived as a level percent of future compensation of current employees, on an individual basis. This rate is applied to the projected payroll and projected employee contributions are deducted. Actuarial gains (or losses), including the effect of contributions greater or lesser than the previously determined actuarial level, are reflected by decreases (or increases) in the unfunded actuarial liability. Under Act 205 of 1984, the unfunded actuarial liability is amortized as a level dollar amount over the lesser of:

a) i. 30 years, with respect to the initial liability as of 1/1/85 (or first valuation);
   ii. 20 years, with respect to actuarial gains and losses;
   iii. 20 years, with respect to changes due to actuarial assumptions;
   iv. 20 years, with respect to changes due to plan provisions
   v. 10 years, with respect to changes in benefits for currently retired members; 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

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

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.

CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS:
There were no changes in the actuarial assumptions from last year to this year.

There was a change in the Actuarial Method for amortizing the unfunded gain/loss. The amortization period was extended from 15 years to 20 years in accordance with amendments to Act 205 by Act 44.

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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. The next experience study will be completed in 2010.

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 nine 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	795
Bethlehem City	634
Adams County	576
Harrisburg City	516
Jefferson County	254
Adams County-Green Acres	209
Harrisburg City Fire	195
Monroeville Municipality	191
Easton City	169
Bucks County Water & Sewer Authority	143
Pottstown Borough	133
Upper Moreland Township	111
Tredyffrin Township	110
Whitehall Township	109

Revenues by Source and Expenses by Type

Last Nine Years

Fiscal Year	Revenues by Source				
	Member Contributions	Municipal Contributions [1]	Municipal Assessments [2]	Investment Income	Total Revenue
2009	$19,331,869	$35,309,446	$292,660	$210,272,809	$265,206,784
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 [3]	Termination [3]		
2009	$52,267,003	$13,781,629	$3,203,478	$69,252,110
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

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

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

(3) Reference Schedule of Benefit Deductions from Plan Net Assets by Type and Schedule of Refund Deductions from Plan Net Assets by Type charts on page 64 for trend data over the past four years.

Schedule of Benefit Deductions from Plan Net Assets by Type

Last Four Years [1]

Fiscal Year	Expenses by Type						
	Normal	Early	Disability	Survivor	Death	Transfer and Other	Total Annuity [2]
2009	$36,648,826	$3,780,903	$2,462,766	$4,284,030	$3,523,786	$1,566,692	$52,267,003
2008	34,911,175	4,549,688	1,351,900	3,897,639	1,397,947	65,195	46,173,544
2007	31,560,201	4,397,101	1,318,921	3,975,518	1,085,900	561,242	42,898,882
2006	29,558,020	4,191,612	1,374,825	3,840,600	1,075,744	4,095,994	44,136,795

Schedule of Refund Deductions from Plan Net Assets by Type

Last Four Years [1]

Fiscal Year	Expenses by Type		
	Terminations	Lump Sum	Total Refunds [2]
2009	$11,189,048	$2,592,581	$13,781,629
2008	6,675,755	921,926	7,597,681
2007	4,262,309	2,743,873	7,006,182
2006	15,971,530	2,383,037	18,354,567

Changes in Net Assets

Last Nine Years

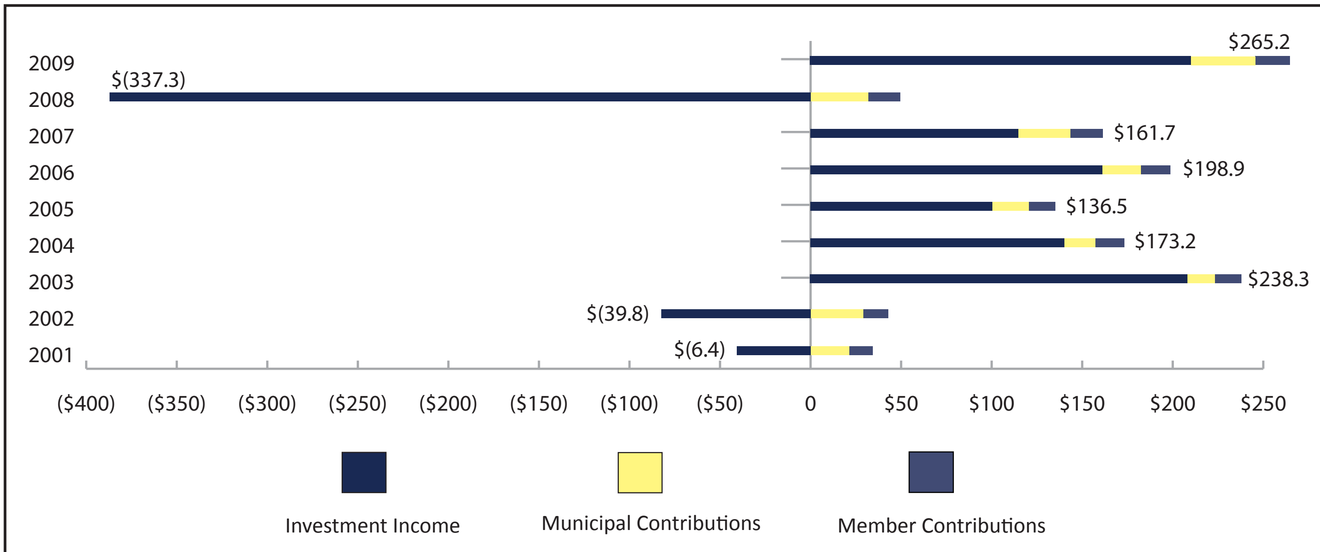
Fiscal Year	Contributions	Investment Income	Benefit Expenses	Administrative Expenses	Change in Net Assets
2009	$54,933,975	$210,272,809	$66,048,632	$3,203,478	$195,954,674
2008	49,693,605	(387,077,602)	53,771,225	2,986,656	(394,141,878)
2007	46,833,548	114,838,806	49,905,064	2,862,482	108,904,808
2006	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) Information prior to 2006 is not available.

(2) Reference Expenses by Type chart on page 63.

Revenues by Source - Nine-Year Trend

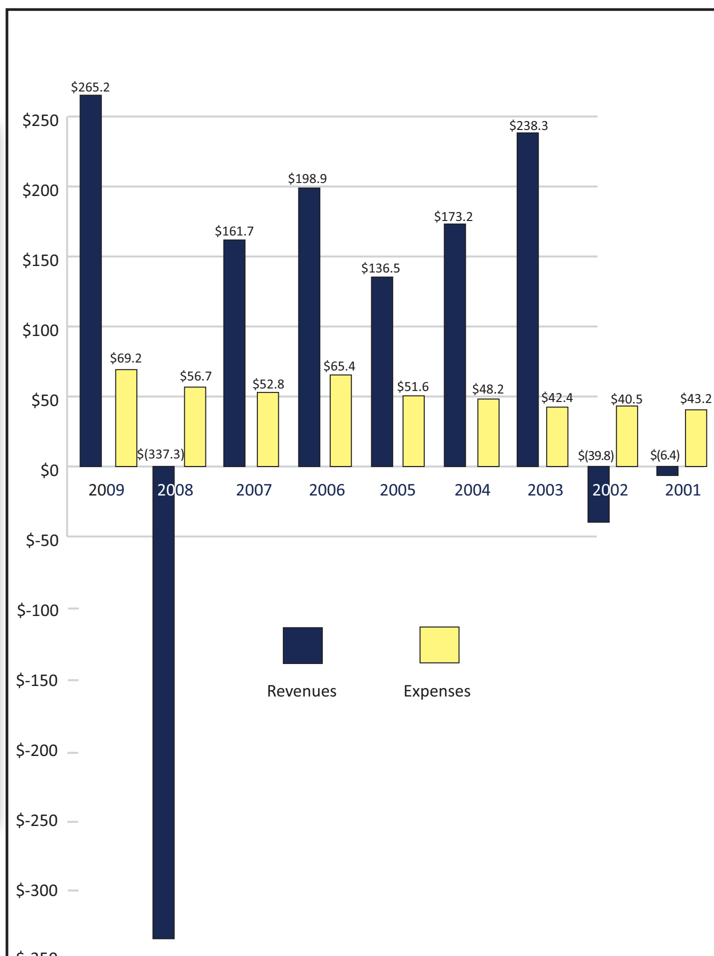
(Amounts in Millions)



Revenues vs. Expenses

Nine-Year Trend

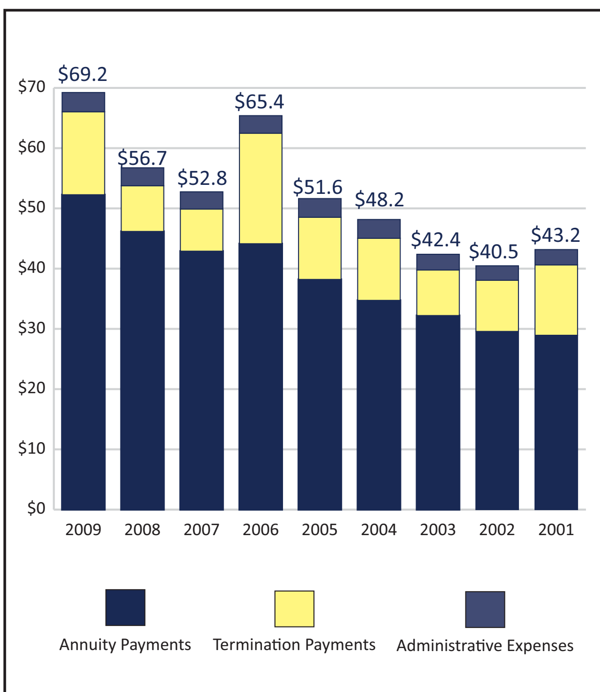
(Amounts in Millions)



Expenses by Type [1]

Nine-Year Trend

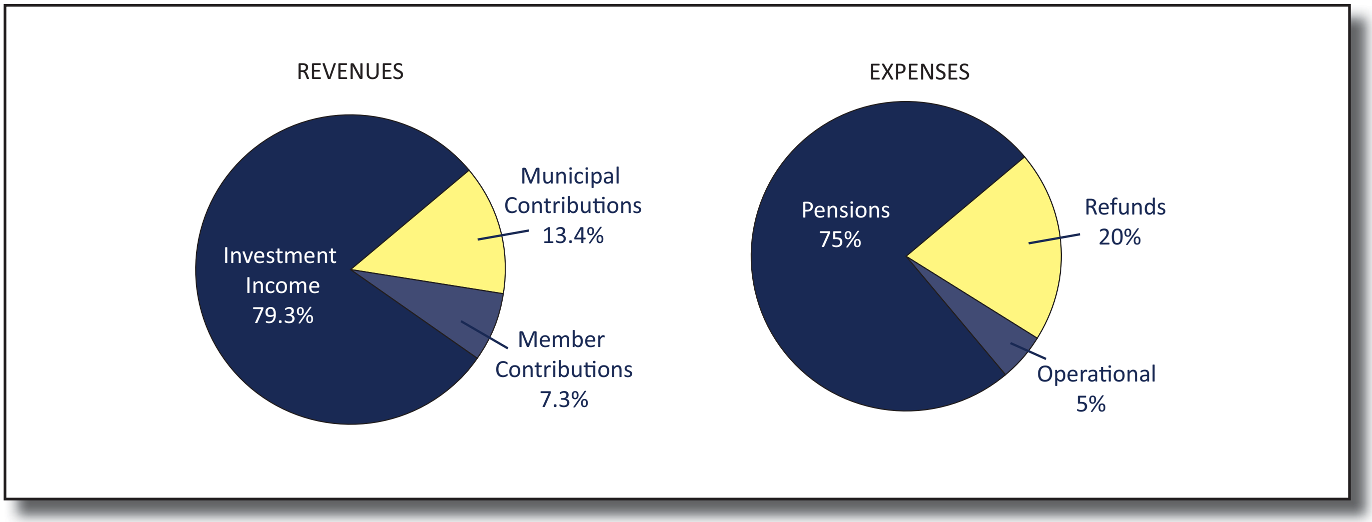
(Amounts in Millions)



[1] Reference Retired Members - Nine-Year Trend graph on page 66.

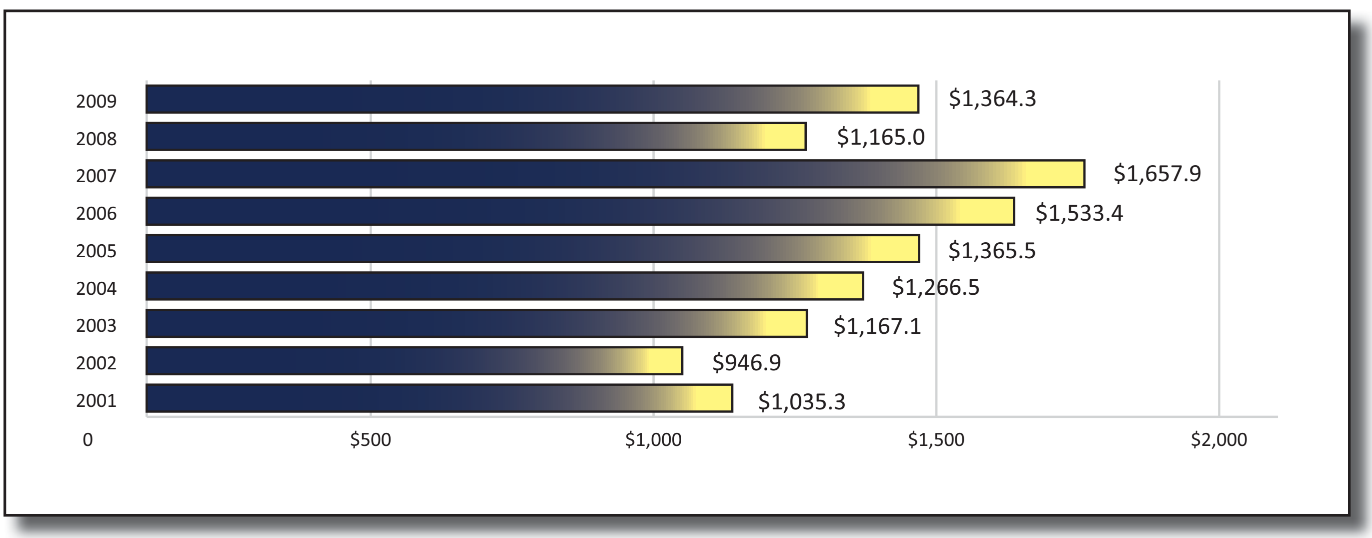
Revenues and Expenses

(Amounts in Millions)



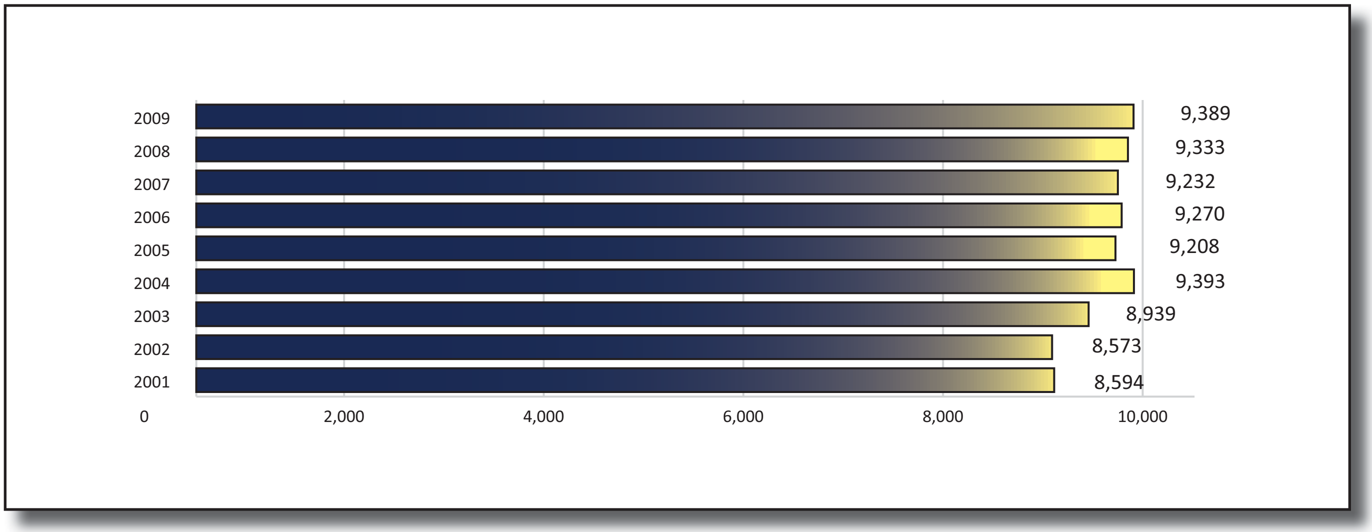
Total Investments - Nine-Year Trend

(Fair Value - Amounts in Millions)



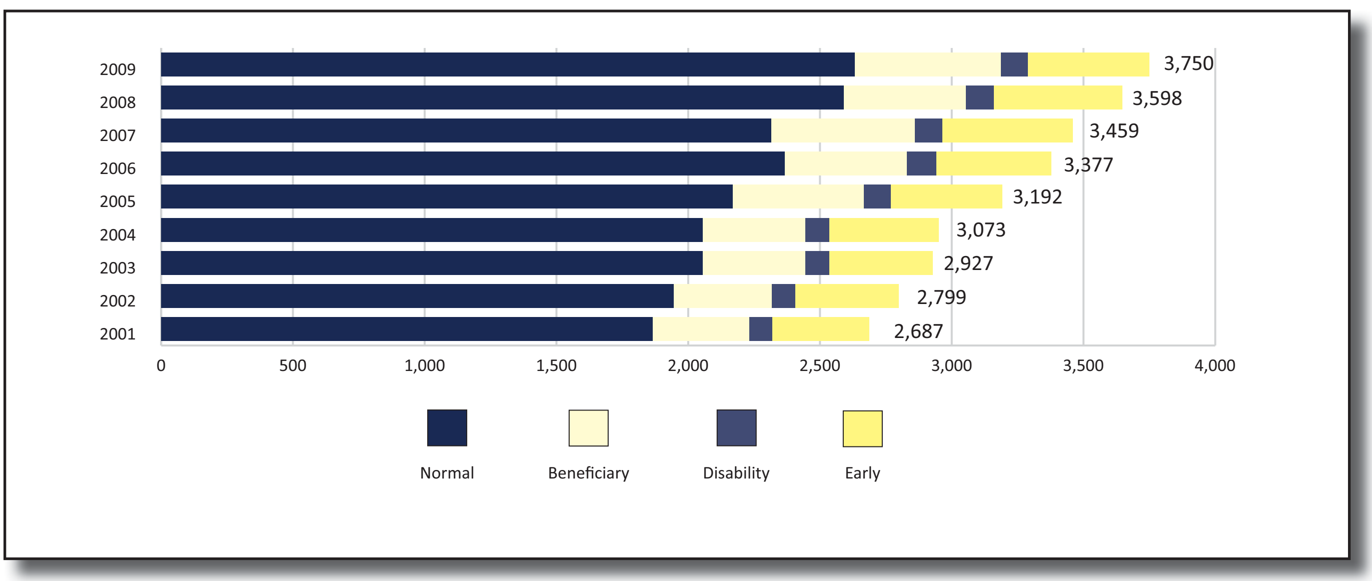
Active Members - Nine-Year Trend

Valuation Date 1/1



Retired Members - Nine-Year Trend

Valuation Date 1/1



Distribution of Active Members
by Age and Service as of January 1, 2009

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	11	2	0	0	0	0	0	0	0	0	13
20 -24	87	63	31	20	6	0	0	0	0	0	207
25 - 29	91	98	78	109	129	2	0	0	0	0	507
30 - 34	100	68	67	107	280	47	2	0	0	0	671
35 - 39	100	80	61	112	321	189	99	10	0	0	972
40 - 44	111	74	75	130	329	254	193	94	7	0	1,267
45 - 49	89	75	76	143	322	233	273	185	137	16	1,549
50 - 54	85	57	78	131	307	262	246	203	196	174	1,739
55 - 59	69	31	59	89	210	177	200	194	126	224	1,379
60 - 64	25	19	22	57	138	115	138	89	66	103	772
65 & up	14	10	9	17	59	50	52	30	24	48	313
Total	782	577	556	915	2,101	1,329	1,203	805	556	565	9,389

Distribution of Active Members
by Age and Service as of January 1, 2009

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	$22,598	$23,778	$0	$0	$0	$0	$0	$0	$0	$0	$22,779
20 -24	29,874	30,970	36,305	36,074	25,628	0	0	0	0	0	$31,647
25 - 29	32,072	35,697	39,457	39,861	43,328	48,250	0	0	0	0	$38,511
30 - 34	33,524	38,094	38,873	43,011	47,304	48,220	36,288	0	0	0	$42,822
35 - 39	34,014	38,201	38,855	43,730	46,647	48,655	50,596	43,696	0	0	$44,589
40 - 44	32,333	38,670	37,202	37,695	43,715	46,640	53,268	52,210	49,449	0	$44,123
45 - 49	36,232	35,998	34,342	39,010	41,728	44,316	49,554	53,246	50,887	47,948	$44,540
50 - 54	32,497	36,724	36,250	35,731	40,158	42,248	45,236	49,198	51,948	50,570	$43,621
55 - 59	33,258	42,107	40,045	36,704	38,796	41,242	44,525	47,190	49,987	56,161	$44,681
60 - 64	29,991	38,244	36,121	34,150	39,420	38,831	43,313	48,422	49,874	51,274	$42,724
65 & up	25,492	17,348	28,961	32,902	30,895	35,858	34.401	41,086	39,984	50,757	$36,369
Total	$32,605	$36,401	$37,452	$38,796	$42,608	$43,911	$47,123	$49,540	$50,448	$52,857	$43,155

Pensions in Payment Status on January 1, 2009
by Type and by Monthly Amount

Monthly amount	Total	Type of Pension				
		Normal	Involuntary early	Voluntary early	Service disability	Non-service disability
Total	3,750	3,093	180	373	34	70
Under $100	190	167	11	10	1	1
$100 - $199	242	192	29	19	2	0
200 - 299	261	205	31	25	0	0
300 - 399	270	219	24	26	0	1
400 - 499	225	180	13	27	2	3
500 - 599	259	215	11	25	1	7
600 - 699	210	172	9	22	0	7
700 - 799	204	159	10	27	0	8
800 - 899	202	156	8	23	2	13
900 - 999	196	152	10	25	2	7
1,000 - 1,199	338	272	6	43	6	11
1,200 - 1,399	226	187	5	26	4	4
1,400 - 1,599	206	173	5	19	7	2
1,600 - 1,799	147	126	4	14	3	0
1,800 - 1,999	130	111	2	13	0	4
2,000 - 2,199	98	88	0	9	1	0
2,200 - 2,399	66	62	0	4	0	0
2,400 - 2,599	68	61	0	5	1	1
2,600 - 2,799	56	51	2	2	1	0
2,800 - 2,999	32	30	0	1	0	1
3,000 - 3,499	57	51	0	5	1	0
3,500 - 3,999	41	38	0	3	0	0
4,000 and over	26	26	0	0	0	0

Pensions Awarded Each of the Last Ten Years

by Type and Amount

	Type of Pension									
	Total		Normal		Voluntary early		Involuntary early		Disability	
Valuation Date 1/1	Count	AMA [1]	Sum	AMA	Sum	AMA	Sum	AMA	Sum [2]	AMA
2009	271	1,157	223	1,150	36	1,259	7	843	5(3)	1,162
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

Schedule of Total Membership - Nine Year Trend

Valuation Date 1/1	Active Members Defined Benefit Plans	Active Members Cash Balance Plans	Retirees	Beneficiaries	Deferred Pensions [3]	Inactive Members [4]	Total
2009	8,411	978	3,289	461	847	0	13,986
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

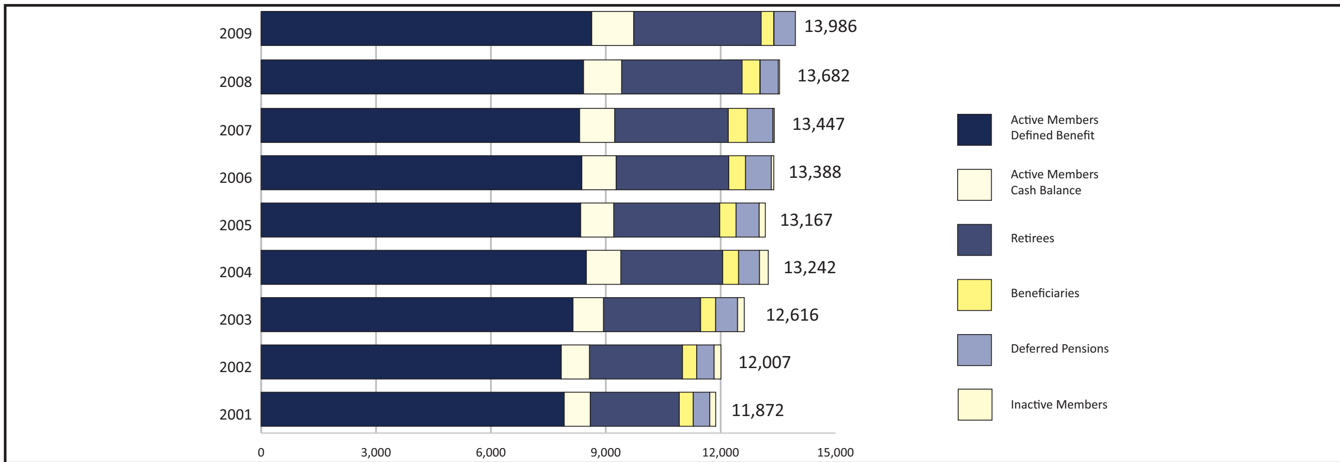
(2) Number of service-related disability pensions are shown in parentheses.

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

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

Total Membership - Nine-Year Trend

Valuation Date 1/1



Schedule of Active Member Valuation Data

Last Nine 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								
2009	8,411	0.3%	696	0.6%	$372,370,037	2.0%	$44,272	1.7%
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
Cash Balance Plans								
2009	978	3.0%	204	11.0%	$32,811,919	5.5%	$33,550	2.5%
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]

Five Years Ended January 1, 2009

Retirement Effective Dates	Years Credited Service						
	< 5	5-10	10-15	15-20	20-25	25-30	30+
Period 1/2/08 to 1/1/09							
Average monthly benefit	$237	431	455	1,004	1,051	1,999	2,118
Average final average salary	$29,979	35,106	32,921	45,862	35,792	50,659	50,249
Number of retired members	17	32	42	55	25	38	58
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 Cash Balance plans).

Schedule of Participating Pension Plans [1]

as of January 1, 2009

COUNTIES

Adams County

Adams County-Green Acres

Forest County

Jefferson County

Sullivan County

CITIES [2]

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

Bellefonte Borough (CB)

Bellwood Borough

Bentleyville Borough

Berlin Borough

Berlin Borough (CB)

Big Beaver Borough

Biglerville Borough

Biglerville Borough (CB)

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

Factoryville 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

Linesville Borough

Lykens Borough

Marcus Hook Borough

Mars Borough

Martinsburg Borough

Marysville Borough

Matamoras Borough

Mayfield Borough

Mercer Borough

(1) County names are in parentheses.

(2) The abbreviation CB designates a Cash Balance plan. NU denotes a Non-uniformed plan.

Meyersdale Borough
Middleburg Borough
Millersburg Borough
Millerstown Borough
Minersville Borough
Monaca Borough
Monroeville Municipality
Mont Alto Borough
Montrose Borough
Moosic Borough
Morrisville Borough
Moscow 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
Clay 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) (CB)
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)
Drumore Township
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
Loyalhanna Township (CB)
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 (Snyder County)
Monroe Township (Wyoming County)
Morris Township (Greene County)
Morris Township (Tioga 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
North Strabane Township (CB)
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
Porter 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
Snake Spring 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
Stonycreek 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
Upper Nazareth 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 (Jefferson 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
Bentleyville Borough Police (CB)
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)
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)
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
Hamiltonban Township 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
Quarryville Borough Police
Red Lion Police
Redstone Township 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
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 Berlin Area Joint 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 (CB)
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
Saxton Borough Municipal Authority
Seward/St. Clair Township Sanitary Authority
Shade-Central City Joint 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
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

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MUNICIPAL RETIREMENT SYSTEM

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