PENNSYLVANIA
MUNICIPAL RETIREMENT SYSTEM
COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2011

STAYING THE COURSE 2011

The PMRS

Vision

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

&

Mission

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

The Pennsylvania Municipal Retirement System

Comprehensive Annual Financial Report
For the Fiscal Year Ended
December 31, 2011

John A. Haiko, Chairman
Pennsylvania Municipal Retirement Board

James B. Allen, Secretary
Pennsylvania Municipal Retirement System

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

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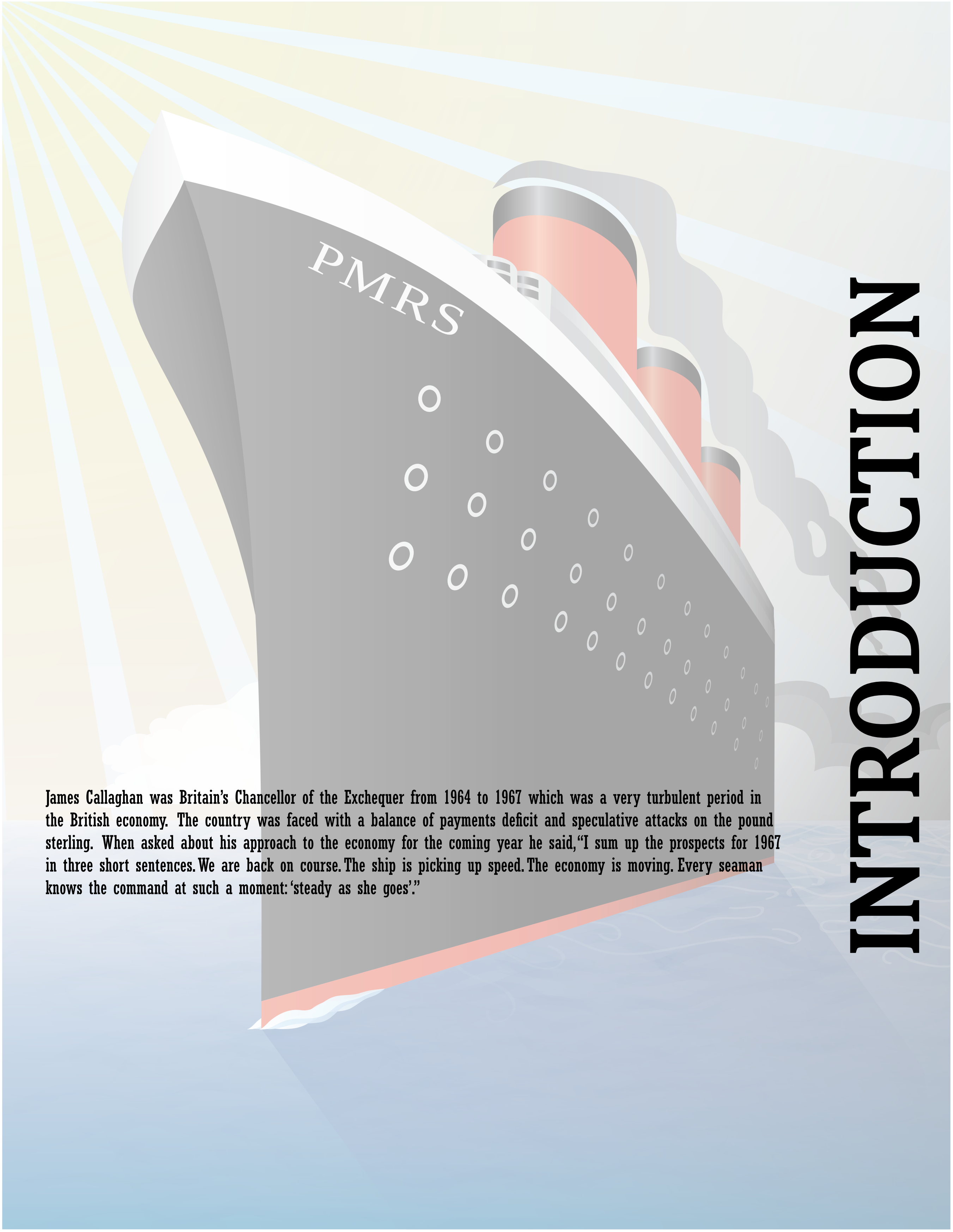
INTRODUCTION



James Callaghan was Britain's Chancellor of the Exchequer from 1964 to 1967 which was a very turbulent period in the British economy. The country was faced with a balance of payments deficit and speculative attacks on the pound sterling. When asked about his approach to the economy for the coming year he said, "I sum up the prospects for 1967 in three short sentences. We are back on course. The ship is picking up speed. The economy is moving. Every seaman knows the command at such a moment: 'steady as she goes'."

pmrs pennsylvania
MUNICIPAL RETIREMENT SYSTEM

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

June 29, 2012

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

Consistent with the agency's commitment to full financial disclosure, we are honored to submit the Pennsylvania Municipal Retirement System's (the System) Comprehensive Annual Financial Report for the fiscal year ended December 31, 2011. As required by 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 (CAFR) 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 CAFR is also published on the System's website. The System is solely responsible for the accuracy of the data in this report. As the two individuals primarily responsible for the System's financial records, 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 act of 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. The Statistical Section of this report lists all participating plans as of January 1, 2011.

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. Each pension plan is designed based on the plan sponsor's specific 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. A plan's cost is determined by the individual plan's benefit structure, demographics and financial condition. The System's individual plans may have an employer contribution and an employee contribution or just an employer charge. Employer 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 2011, plan requirements ranged from no employee contribution to as high as 7.5% of earnings.

ECONOMIC ENVIRONMENT

The System faced an economic environment in 2011 that could be likened to a walk where one takes two steps forward, and then one step back. As the year unfolded it seemed like the world was treated to two months of good economic news only to be followed by a month of bad economic stories. The first months of 2011 saw the release of the fourth quarter 2010 Gross Domestic Product (GDP) numbers which reflected a solid growth rate of 3.1% for the quarter. The number produced the sixth straight quarter of growth in GPD. The first quarter estimates predicted more of the same good news. Then in March the world stopped to absorb the consequences of a devastating earthquake and tsunami that struck Japan and resulted in the Fukushima nuclear accident becoming the worst nuclear incident in world history. The economic ripples were experienced thousands of miles away as the operations of crucial Japanese parts makers and equipment suppliers came to a standstill.

The domestic economy struggled to regain traction in the second quarter but just as things seemed to be looking up, the European Union (EU) took center stage and the world watched as one country after another turned to the EU for bailout money and support. First it was the government of Greece, then Ireland and by mid-summer the focus was on Portugal. Not to be out done, the United States Congress and President struggled to reach a compromise on the United States debt ceiling and budget priorities. The failure to reach a long-term solution led the debt rating service of Standard & Poor's to reduce the United States' AAA credit rating for the first time in its history. The result; one step back for the domestic economy.

The third quarter of the year saw the return of good economic news. The economy seemed to be taking another two steps forward. The United States employment figures seemed to be steadying, manufacturing output increased, housing markets seemed to be bottoming out and news on the inflation front was actually positive as the price of oil decreased and consumers saw relief at the pumps. This helped as both consumer and corporate spending was up in the quarter with only governmental spending seeing a decrease. Manufacturing increased as did retail sales. The country and the world's economies seemed to have it all working and things were moving in the right direction.

Not wanting to get too positive, the markets saw two reasons to pause and fear the future in the fourth quarter. In Europe it was the Greek voter's surprising rejection of the government's proposed "austerity plan" and in the United States it was former Senator, Governor and ex-cochairman of Goldman Sachs, Jon Corzine who reminded Americans why the financial reforms Congress recently adopted were not to be considered failsafe. Mr. Corzine had no answers as he testified before Congress as to what happened to $1.2 billion of customer money his company, MF Global, lost. Investors and the markets reacted negatively.

Looking back at 2011 the economy provided some solid good news: the year had positive growth in manufacturing, consumer confidence, employment growth and GDP. The concerns on the domestic front were – has the housing market reached bottom and was the declining price of gas a temporary anomaly. Despite the favorable trends in the domestic economy, the world could not ignore nor comprehend the willingness of some European countries to dissolve the EU or if not that drastic an action, send Europe back into a recession as many thought the Greeks were contemplating.

Some of the economic statistics at year end explained the feel good story that was trying to take hold in the economy: manufacturing activity continued at year's end with a positive number (the positive trend reflected 29 months of growth). Consumer confidence at year end was up as well. The Department of Labor announced that the December unemployment rate was at 8.5%. While not a good number in and of itself, it did mark the lowest rate seen in over three years.

The year's numbers were neither spectacular nor horrific; what they were was confusing. That confusion lead to some of the most volatile trading days and weeks in the securities markets this country has seen. This volatility reflected itself in not only the economy but also in the financial markets. Investors were left wondering where their money should be invested. Their decision was to stay the course.

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 independent auditor's report is located in the Financial Section on page 16 and the Management's Discussion and Analysis commences on page 18.

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 $1,490,169,104 as of December 31, 2011. In 2011, the System's net assets decreased by $52,118,999. Investment-related losses decreased the portfolio by $29,086,613 and contributions added $61,265,501. Benefit payments and administrative expenses reduced the total assets by $84,297,887. Additional information is detailed in the Financial Section ("Statements of Plan Net Assets" and "Statements of Changes in Plan Net Assets") located on page 22 and 23.

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 2011 administrative budget was adopted in September 2010 and set at $3.60 million exclusive of investment fees. Expenditures (exclusive of investment fees) in 2011 amounted to $3,142,004. More information on the System's expenses is 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 ending December 31, 2011, and also shows the amount and percentage of increases and decreases in relation to December 31, 2010, revenues.

Municipal contributions are based upon an actuarial valuation, using the Entry Age Normal Actuarial Cost Method, computed as a percentage of the total compensation of all active members during the period for which the amount is determined.

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

Investment revenues are a combination of earnings from bonds, equities, real estate, and a short-term cash management fund. During the 2011 fiscal year, the fair value of the System's investment portfolio decreased from $1,536,669,013 to $1,489,842,223. The largest decrease of investment revenue came from a depreciation of 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

Revenues

Additions to Plan Net Assets	2011 Amounts	Percent of Total	2010 Amounts	Increase (Decrease) from 2010	Percent of Increase (Decrease)
Member Contributions	$ 20,732,344	64.43%	$ 20,684,591	$ 47,753	0.23%
Municipal Contributions	40,231,586	125.02	40,949,360	(717,774)	(1.75)
Assessments	301,571	0.94	296,440	5,131	1.73
Investment Income/(loss)	(29,086,613)	(90.39)	180,338,425	(209,425,038)	(116.13)
Total	**$32,178,888**	**100.00%**	**$242,268,816**	**($210,089,928)**	**(86.72)%**

Expenses

Deductions from Plan Net Assets	2011 Amounts	Percent of Total	2010 Amounts	Increase (Decrease) from 2010	Percent of Increase (Decrease)
Annuity benefits	$63,105,165	74.86%	$54,771,528	$ 8,333,637	15.22%
Terminations	18,050,718	21.41	8,612,310	9,438,408	109.59
Administrative	3,142,004	3.73	3,183,373	(41,369)	(1.30)
Total	**$84,297,887**	**100.00%**	**$66,567,211**	**$17,730,676**	**26.64%**

municipality and can be affected by employee turnover or new plans being added or plans leaving the System in previous years.

Ten-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 schedule on page 4 presents a summary of the System's expenses for the fiscal year ending December 31, 2011, and shows the percentage of increases and decreases in relation to December 31, 2010 amounts. The major expense-related items for 2011 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 ten-year historical trend information is presented in Part I of the Statistical Section of this report.

INVESTMENT HIGHLIGHTS

The time-weighted rate of return for the System's investments during the fiscal year ended December 31, 2011 was -1.9%, ranking in the 94th percentile of the Independent Consultants Cooperative (ICC) Universe. The cumulative ten-year return was 5.3% on an annualized basis and ranked in the 41st percentile. While relatively good this rate of return is admittedly short of the System's actuarial assumed rate of 6.0%. While there is some concern about the long-term investment return not meeting the actuarial assumed rate, the PMRS Board will continue to monitor this situation.

The return by asset class and their weighting in the portfolio are as follows: Large Cap Domestic Equity returned 2.8% (Class as percentage of portfolio: 26.3%); Fixed Income produced 7.8% (20.2%); Small Cap Domestic Equity yielded a return of -3.4% (14.1%); International Equity returned -15.2% (13.2%); Real Estate produced 7.4% (15.6%); and the International Emerging Markets asset class had an annualized return of -18.6 (9.1%) At the year-end, the portfolio had a commitment in cash equivalents representing 1.5% 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. The decrease in net assets for the 2011 fiscal year was $52,118,999. This represents a decrease in the fund balance of 3.4% under the 2010 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, 2011 . The funded ratio decreased from 103.8% at January 1, 2010 to 102.4% as of the last valuation date of January 1, 2011. In aggregate the System is in a net surplus where the actuarial value of assets exceeds the actuarial liability. That surplus has decreased from $59.8 million as of January 1, 2010 to $39.8 million as of January 1, 2011. 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 on page 57.

MAJOR INITIATIVES

At the risk of appearing repetitive, the major initiatives of 2011 were to build on the 2009 and 2010 initiatives and thus in 2011 PMRS sought to "Stay the Course." During the past several years the Board and staff have focused on three primary issues: Obtaining the Internal Revenue Services' (IRS) formal determination that PMRS is a tax qualified pension plan; preparing for the possible assumption of responsibility for the City of Pittsburgh's pension plans while monitoring and navigating the financial markets' recovery from the 2008-2009 "Great Recession." In our efforts the approaches used have been very similar. Address each issue with research, prepare for a range of possibilities and act with the fiduciary prudence we have been entrusted to steward.

While the System is a tax qualified system as defined by the I.R.S., a formal letter so noting that status has not previously been obtained from the agency. In 2009 and 2010 the System participated in the I.R.S. Employee Plans Compliance Resolution System (EPCRS). Compliance with the EPCRS was effectuated in 2011 and the System did file an application with the I.R.S. to obtain the formal determination as a Tax Qualified Governmental Plan in January 2011. The filing has resulted in the I.R.S. and the System discussing the best way to handle the fact that the PMRS is not a single pension plan but a conglomeration of over 900 individual plans that pool investment performance, administrative costs, and retiree life expectancy. A conclusion to the discussions with the I.R.S. is expected in 2012 but much effort was undertaken in 2011 to insure that the I.R.S. fully understood how PMRS operates.

The statutory mandate for PMRS to assume responsibility for the City of Pittsburgh's three pension plans should they be determined to not be at least fifty percent (50%) funded also required continued research, preparation and contingency planning. The documents used to determine the funded status of the City's pension plans were not filed with the Public Employee Retirement Commission until late August of 2011. The Commission made its determination in mid-September; that determination was that the City's plans were over fifty percent funded and as such PMRS would not be required to assume responsibility for their administration. The net effect on PMRS enrolled plans and their members was that there was no impact. The situation, however, required diligence, contingency planning and a great deal of public education as to what was involved and what could be involved with such a transfer of responsibility.

The third initiative was related to the management of the System's investment portfolio and monitoring the money managers, investment risks and making changes when appropriate. In 2011 the Board conducted four Requests for Proposals (RFPs) one each for an international equity growth manager, an international equity value manager, a domestic large cap growth manager, and a manager for the fund's passive investments. Three new managers were retained and one existing manager's contract was renewed. The year also proved difficult because the Board was challenged by the financial markets reacting in a manner contradictory to the anticipated longer term expectations. After much consideration and discussion, the Board decided to stay with its long term plan, i.e. its adopted asset allocation for the portfolio even though this was not the best path to follow during 2011. The System reaffirmed that it was not going to "time" the markets but instead would "Stay the Course" with its measured and considered asset allocation plan.

PROFESSIONAL SERVICES

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

INTERNAL CONTROLS

The management of the System is responsible for and has implemented systems of internal accounting controls. These controls are designed to provide reasonable but not absolute assurances for the safeguarding of assets and the reliability of financial records. It should be recognized, however, that all internal controls have inherit limitations. These limitations exist because of several factors, including cost and the potential for controls to be overridden by management. To mitigate the risk caused by these inherent limitations, the System monitors the adequacy and effectiveness of the System's internal control structure. 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. Also, our independent external auditor CliftonLarsonAllen LLP, conducts an annual audit of the financial statements in accordance with generally accepted auditing standards. Their audit includes tests and procedures designed to provide reasonable assurance that the financial statements are fairly presented.

ACKNOWLEDGMENTS

This Comprehensive Annual Financial Report is the product of many individual contributions and unfortunately not all of those efforts can be acknowledged in these few paragraphs. It would be unfair though to not at least recognize the efforts of several key members of the team responsible for this product. First and foremost, we express sincere thanks to our agency's Accounting Division. Accounting for the agency's financial well-being is only part of the picture, presenting the numbers in a comprehensive and clear document is the key to a successful, full financial disclosure.

Making the document come to life in charts, tables, and footnotes requires an editor's eye for detail and style. This year's report is Mr. Tom Garrett's second as that editor. He has done a tremendous job under very, very tight deadlines. Tom's commitment and willingness to accept a challenge, no matter how late in the process it came his way, allowed us to assemble this CAFR; a document in which we take great pride.

In addition to the staff, the PMRS relies on a number of consultants to operate effectively and efficiently. These consultants have also made invaluable contributions to the presentation of this CAFR. Our recognition must begin with the professionals associated with the accounting firm of CliftonLarsonAllen LLP. While a new "name" as a result of a merger, we are indebted to the "old" team that has been so helpful over the years. Two other firms that have stood the test of time in service to the agency are the teams at the actuarial firm of Cheiron and the investment-consulting firm of Dahab Associates, Inc. Their contributions, support and expertise remain a fundamental part of our success.

All successful organizations have at their center a leadership with vision and dedication. PMRS is blessed to have such leadership represented in a Board composed of volunteers. Leaders in their community and among their peers, they are a team of selfless servants dedicated to one purpose, the financially secure retirement of our members. The hours of collaboration, the dedication of purpose, and the camaraderie of team building is evident in their service. The ladies and gentlemen who fulfill the fiduciary responsibility of a PMRS Board member are hereby recognized. Chairman John Haiko led the Board through a volatile year with a steady hand and keen resolve. We especially appreciate his support and service in 2011.

James B. Allen
Secretary

Donna L. Miller
Chief of Accounting

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Pennsylvania Municipal Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2010

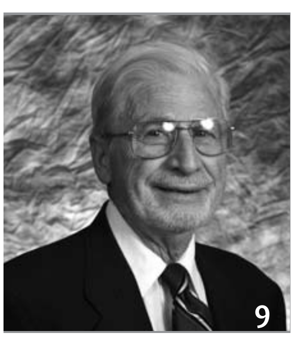
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

President

Executive Director

Pennsylvania Municipal Retirement Board

as of December 31, 2011



VACANT

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VACANT

1 John A. Haiko
Chairman

Represents Pennsylvania State Association of Township Supervisors

2 Paul Corbin
Vice-Chairman

Represents Pennsylvania State Association of County Commissioners

3 Carol Aichele

Secretary of the Commonwealth

4 Duane L. Filchner

Represents Pennsylvania Municipal Authorities Association

5 William J. Junkin III

Represents Active Fire Fighters enrolled in PMRS

6 Robert M. McCord

State Treasurer (ex-officio) represented by Sandy Leopold

7 David Perruso

Represents Pennsylvania State Association of Boroughs

8 Barry Sherman

Represents Active Police Officers enrolled in PMRS

9 Anthony Spagnolo

Represents Pennsylvania State Association of Township Commissioners

10 Vacant

Represents Retired Members enrolled in PMRS

11 Vacant

Represents Pennsylvania League of Cities

Staff, Consultants, & Managers
as of December 31, 2011

Administrative Staff

Secretary
James B. Allen

Assistant Secretary
Kristine M. Cline

Accounting Division Chief
Donna L. Miller

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
CliftonLarsonAllen 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
Gordon Sapko, Relationship Manager

Investment Managers [1]

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

DePrince, Race, & Zollo
Winter Park, FL
Katie Byrne, Portfolio Manager - Client Services

Emerald Advisers, Inc.
Lancaster, PA
John V. Thompson, Senior Vice-President

Forest Investment Associates, Inc.
Atlanta, GA
V. Scott Bond, Director of Marketing & Client Relations

GlobeFlex Capital, L.P.
San Diego, CA
Jerre Bridges, Vice-President Client Services & Marketing

LSV Asset Management
Chicago, IL
Keith Bruch, Director, Client Portfolio Services

M&I Investment Management
Milwaukee, WI
Thomas Nolte, Senior Vice-President

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

Polen Capital Management
Boca Raton, FL
Stan C. Moss, Chief Operating Officer

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

UBS Global Asset Management
Chicago, IL
Michael Lammers, Executive Director

Wentworth, Hauser and Violich
San Francisco, CA
Miriam E. Ballert, Vice-President

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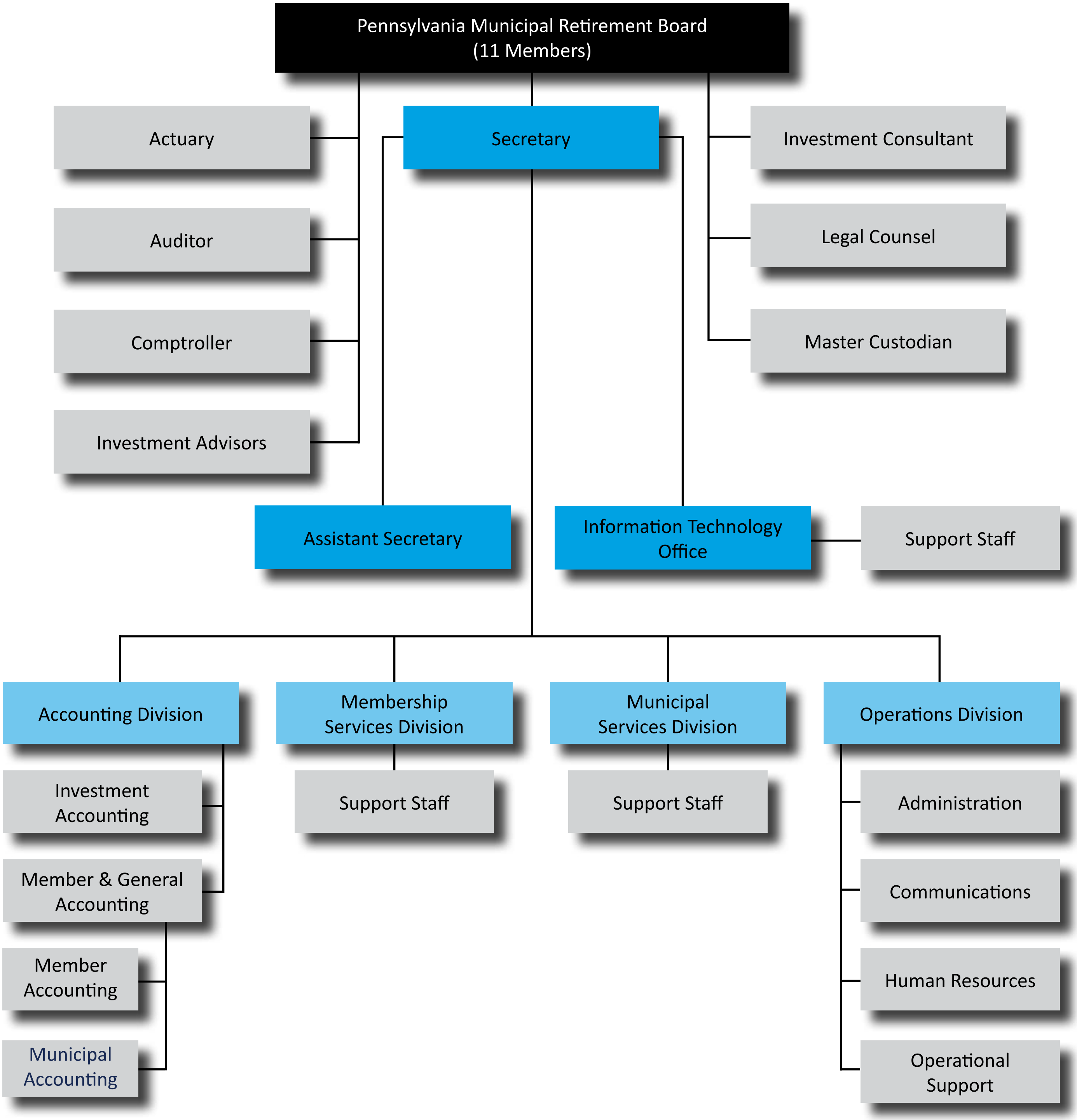
[1] Manages the long-term portfolio of investments reported on the Statement of Plan Net Assets. All information in the Investment Section pertains to the activity of these investment managers.

Organization Chart



pmrs pennsylvania
MUNICIPAL RETIREMENT SYSTEM

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

June 12, 2012

Dear Members:

The year ending December 31, 2011 was one of the more interesting ones that I have observed as Chairman of the Pennsylvania Municipal Retirement Board. Much of the Board's work in 2011 was devoted to "Staying the Course" as the theme of this year's Comprehensive Annual Financial Report (CAFR) attempts to convey. As you read the 2011 CAFR you will learn how the Board and staff have worked to keep our membership's retirement future secure and safe. The Board is pleased to share with our members the news that even though we faced some pretty choppy investment waters in 2011 we ended the year comforted in seeing the storm clouds starting to dissipate.

While much of the Board and staff's efforts in 2011 were focused on addressing the very volatile financial markets, I believe it also important to briefly acknowledge something that is not extensively addressed in the rest of the CAFR. The system did spend considerable time in 2011 responding to the statutory assignment given to PMRS to possibly assume responsibility for the City of Pittsburgh's three pension plans. Without going into details, the Board prepared for that possibility. The PMRS exhibited its professionalism and acted prudently with the directed assignment. During this effort, I am proud to report that we never forgot nor set aside our fiduciary obligations to you, our existing plan members. I commend my fellow Board members and the staff for responsibly addressing this possible mandate. The final result – PMRS did not have to assume responsibility for Pittsburgh's pension plans.

The volatile financial markets, the sputtering domestic economic recovery, and even the new statutory mandate, tested the PMRS' ability to "Stay the Course" throughout 2011. I believe our membership has been better served due to our focus. I again express my appreciation to you, for allowing us to serve your pension needs, to my fellow Board members who have served unwaveringly as trustees for your retirement assets, and to the consultants and staff of PMRS who have helped the Board so diligently. If at anytime you have questions about our operations and the way we are attempting to meet our fiduciary duties to serve you, I invite you to contact me as Chairman.

Yours Truly,

John A Haiko

John Haiko,

Chairman

Phone: (717) 787-2065 (800) 622-7968 Fax: (717) 783-8363

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

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

The majority of plans have a disability benefit that allows a member who is unable to work because of serious injury or illness to 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 elect to receive their monthly retirement allowance 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

In light of the last ten years of subpar stock market performance, is "stay the course" still good advice?

"I'm convinced that it is. In fact, if we were to experience another decade without a positive return for stocks, I'd consider investing every dollar I had in the stock market. Why? Because by historical measures, we'd likely be overdue for an impressive bull market.

One of the most consistent phenomena in the investment arena is what mathematicians call "reversion to the mean." It helps explain why, in the wake of past market downturns, we've often witnessed very strong rebounds."

~Gus Sauter

Vanguard's chief investment officer, responding to an investor's question

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Pennsylvania Municipal Retirement Board
Pennsylvania Municipal Retirement System
Harrisburg, Pennsylvania

We have audited the accompanying statements of plan net assets of the Pennsylvania Municipal Retirement System (the System) as of December 31, 2011 and 2010 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Funding Progress and Required Employer Contributions and Actuarial Methods and Significant Assumptions, as listed on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information, including the schedules of administrative expenses, investment expenses, and payments to consultants, as listed on the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional information, including the schedules of administrative expenses, investment expenses, and payments to consultants are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory, investment, actuarial and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania

June 26, 2012

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, 2011 and 2010. It is presented as required supplemental information to the financial statements.

OVERVIEW OF FINANCIAL STATEMENTS

The System administers sound, cost-effective pension plans on a contracted basis for local government employers 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. The Statistical Section of this report lists all participating plans as of January 1, 2011.

The Statements of Plan Net Assets provide a snapshot of the financial position of PMRS at December 31, 2011, 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, 2011 to December 31, 2011, including comparative amounts for the prior year.

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

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

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

FINANCIAL HIGHLIGHTS

- The System's plan net assets decreased by $52 million from $1,542 million at December 31, 2010 to $1,490 million at December 31, 2011. The System's plan net assets increased by $175 million from $1,367 million at December 31, 2009 to $1,542 million at December 31, 2010. The changes in market value are recognized as part of the net appreciation/depreciation in the fair value of investments.

- The funded ratio decreased from 103.8% at January 1, 2010 to 102.4% as of the last valuation date of January 1, 2011. In aggregate the System has been in a net surplus where the actuarial value of assets exceeds the actuarial liability. That surplus has decreased from $59.8 million as of January 1, 2010 to $39.8 million as of January 1, 2011.

- The rate of return for the year ended December 31, 2011 was a net loss of 1.9% compared to net gains of 13.8% and 18.8% for the years ended December 31, 2010 and 2009, respectively.

- Total employee and employer contributions decreased from $61.9 million in 2010 to $61.3 million in 2011, primarily due to a decrease in employer required contributions. Total employee and employer contributions increased from $54.9 million in 2009 to $61.9 million in 2010.

- Total pension plan benefit payouts increased by 28% from $63.4 million in 2010 to $81.2 million during 2011, primarily due to four plans withdrawing in 2011 with total assets of $13.4. Total pension plan benefit payouts decreased by 4.0% from $66.0 million during 2009 to $63.4 million during 2010, primarily due to fewer plans withdrawing in 2010 than 2009 with total assets of $3.8 million and $9.5 million respectively.

- Administrative expenses decreased by $0.04 million to $3.14 million for 2011. Expenses decreased $0.02 to $3.18 million for 2010 and increased $0.02 million to $3.20 million in 2009. Administrative expenses were within PMRS' budgeted amounts for all three years.

FUNDED STATUS

PMRS uses an actuarial reserve method 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. The January 1, 2011 actuarial valuation was derived from actual values for the cash balance and defined benefit plans that are required to redetermine contribution levels bi-annually on odd years and actuarial adjustments to the January 1, 2010 liabilities for those municipalities required to redetermine contribution levels bi-annually on even years. The January 1, 2010 liabilities were adjusted to reflect January 1, 2011 actual active counts to estimate the liabilities for these plans to provide an overall measure of the funded status of the system. An actuarial valuation was performed as of January 1, 2010 for the five defined benefit plans that are required to redetermine contributions levels bi-annually on even years.

As part of a 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 102.4% funded as of January 1, 2011.

INVESTMENTS

PMRS is a long-term investor and the Board manages the Fund with long-term objectives in mind. A primary element of 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 2011, the System's rate of return on investments was a net loss of 1.9% which is primarily attributable to changes in fair value in the small cap domestic and international equity markets. The annualized rate of return over the past three and five years ended December 31, 2011 was 9.9% and 1.5%, 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, 2011, 2010, and 2009, at fair market value is listed on page 21.

SHORT-TERM

Short-term investments decreased by approximately $19.5 million from December 31, 2010 to December 31, 2011 and increased approximately $13.3 million from December 31, 2009 to December 31, 2010. Neither the decrease for 2011, nor the increase for 2010 were intentional but rather represented the normal cash flow necessary to meet expenses and to fund managers.

FIXED INCOME

Fixed income increased by approximately $21.5 million from December 31, 2010 to December 31, 2011, primarily due to change in fair value. Fixed income increased approximately $17.0 million from December 31, 2009 to December 31, 2010, also primarily due to change in fair value.

COMMON AND PREFERRED STOCK

Common and preferred stock including international stock decreased approximately $85.3 million from December 31, 2010 to December 31, 2011 due to changes in fair value gain/loss in domestic and international markets. Values increased approximately $97.7 million from December 31, 2009 to December 31, 2010, also primarily due to changes in fair value gain/loss in the domestic and international equity markets.

REAL ESTATE EQUITY

Real estate equity increased approximately $36.5 million from December 31, 2010 to December 31, 2011, and also increased approximately $44.3 million from December 31, 2009 to December 31, 2010 The increases were due to changes in fair value gain/loss and fully funding allocation to this class.

CONTRIBUTIONS AND INVESTMENT INCOME

During 2011, contributions from employers and members totaled $61.3 million compared to $61.9 million during 2010 and $54.9 million during 2009. Net investment losses during 2011 were $29.1 million compared to net investment gains of $180.3 million during 2010 and $210.3 million during 2009. Investment gains/losses were primarily attributable to appreciation/depreciation in fair values in the domestic and international equity markets. Investment expenses increased $0.7 million from $5.8 million during 2010 to $6.5 million during 2011 and increased $0.7 million from $5.1 million during 2009 to $5.8 million during 2010. 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 2011 was for payment of pension benefits totaling $81.2 million compared to $63.4 million during 2010 and $66.0 million during 2009. Pension benefits increased by $17.8 million primarily due to four plans withdrawing in 2011 with total assets of $13.4 million and increased payments to retirees. Pension benefits decreased by $2.6 million from 2009 to 2010 primarily due to fewer plans withdrawing from the System in 2010 than 2009, with total assets of $3.8 million and $9.5 million respectively. Administrative expenses totaled $3.14 million during 2011 as compared to $3.18 million during 2010 and $3.20 million in 2009.

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 there are questions about the report or additional information is required, 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, 2011, 2010, and 2009

Analysis of Plan Assets	2011	2010	2009
Assets		(In Thousands)	
Receivables[1]	$ 4,162	$ 8,403	$ 7,737
Investments	1,489,842	1,536,669	1,364,328
Capital assets	160	176	209
Total assets	1,494,164	1,545,248	1,372,274
Liabilities	3,995	2,960	5,687
Total plan net assets	**$1,490,169**	**$1,542,288**	**$1,366,587**

Summary of Changes in Plan Net Assets
for years ended December 31, 2011, 2010, and 2009

Analysis of Plan Assets	2011	2010	2009
Additions		(In Thousands)	
Contributions	$ 61,266	$ 61,930	$ 54,934
Net investment gain/(loss)	(29,087)	180,338	210,273
Total additions	32,179	242,268	265,207
Deductions			
Benefit payments and terminations[2]	81,156	63,384	66,049
Administrative expenses	3,142	3,183	3,203
Total deductions	84,298	66,567	69,252
Total changes in plan net assets	**$(52,119)**	**$175,701**	**$195,955**

Asset Distribution at Fair Market Value
as of December 31, 2011, 2010, and 2009

	2011	%	2010	%	2009	%
Asset Class			(In Thousands)			
Short term [3]	$ 33,751	2.3%	$ 53,231	3.5%	$ 39,908	2.9%
Fixed income	298,102	20.0	276,641	18.0	259,608	19.0
Common preferred stock	596,814	40.1	619,971	40.3	564,227	41.4
International stock	328,770	22.1	390,954	25.4	349,020	25.6
Real estate equity	232,406	15.6	195,872	12.7	151,565	11.1
Total	**$1,489,843**	**100.0%**	**$1,536,669**	**100.0%**	**$1,364,328**	**100.0%**

(1) Previously, cash was recognized when the funds were receipted by the PA Treasury Department. Effective January 1, 2011 cash was recognized when receipted by PMRS. This caused a decrease in receivables for municipal employers.

(2) Monthly annuity payroll increased by $5,995,851 for 2011. Average number of annuitants receiving benefits increased by 240 in 2011 (over 5.6%). In 2011 four plans withdrew from the System with total retired reserve assets of $13,368,163. Compared to 2010 with three plans withdrawn with total retired reserve assets of $3,821,275.

(3) Short term includes cash and equivalents held by investment managers and the Pennsylvania Treasury Department.

Statements of Plan Net Assets

As of December 31, 2011 and 2010

Assets	2011	2010
Receivables		
Plan members	$ 1,753,138	$ 2,095,948
Municipal employers	909,371	4,497,801
Accrued investment income	1,274,716	1,261,348
Investment sales receivable	224,586	548,054
Total receivables	4,161,811	8,403,151
Investments, at fair value		
Short-term and other investments	33,751,185	53,230,655
U.S. Government fixed income pulled funds	195,524,849	177,548,578
Corporate bond pulled funds	102,576,765	99,093,021
Common and Preferred stocks	596,813,520	619,970,867
Real estate equity	232,406,348	195,872,013
International equities	328,769,556	390,953,879
Total investments	**1,489,842,223**	**1,536,669,013**
Capital assets (net of accumulated depreciation of $191,765 and $204,391 respectively)	160,016	175,773
Total assets	**$1,494,164,050**	**$1,545,247,937**
Liabilities		
Accounts payable and accrued expenses	1,754,427	2,016,410
Investment purchases payable	2,240,519	943,424
Total liabilities	**3,994,946**	**2,959,834**
Net Assets Held in Trust For Pension Benefits	**$1,490,169,104**	**$1,542,288,103**

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Plan Net Assets

Years Ended December 31, 2011, and 2010

Additions	2011	2010
Contributions		
Plan members	$ 20,732,344	$ 20,684,591
Municipal employers	40,231,586	40,949,360
Assessments	301,571	296,440
Total contributions	**61,265,501**	**61,930,391**
Investment income/(loss)		
From investing activities:		
Net appreciation/(depreciation) in fair value of investments	(41,712,477)	175,868,423
Short-term and other investments	106,016	716,263
Common and Preferred stocks	8,332,951	8,015,827
Real estate equity	4,887,398	(3,320,980)
International equities	5,806,869	4,643,969
Miscellaneous income	0	184,779
Less investment expenses	(6,507,370)	(5,769,855)
Total investing activities income/(loss)	**(29,086,613)**	**180,338,425**
Total additions	**32,178,888**	**242,268,816**
Deductions		
Annuity benefits	63,105,165	54,771,528
Terminations	18,050,718	8,612,310
Administrative expenses	3,142,004	3,183,373
Total deductions	**84,297,887**	**66,567,211**
Net increase/(decrease)	**(52,118,999)**	**175,701,605**
Net assets held in trust for pension benefits		
Balance, beginning of year	**1,542,288,103**	**1,366,586,498**
Balance, end of year	**$1,490,169,104**	**$1,542,288,103**

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 full-time employees contractually become members. Part-time, seasonal and temporary employees as well as elected officials may also become members through contractual agreement. As of January 1, 2011, there were 707 municipalities with defined benefit plans and 229 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, 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.

Participating Local Government Employers

	Defined Benefits	Cash Balance
Counties	5	0
Cities	19	0
Boroughs	146	37
Townships of the First Class	18	2
Townships of the Second Class	159	119
Authorities and Other Units	167	58
Police	183	13
Firefighters	10	0
Total*	**707**	**229**

*Total includes plans with no active members.

Individual Membership

Active Members	
Defined Benefit Plans	
Municipal	7,184
Police	769
Firefighters	138
Total	**8,091**
Cash Balance Plans	
Municipal	1,107
Police	12
Firefighters	0
Total	**1,119**
Total active members	**9,210**
Retirees and Beneficiaries	
Retirees	3,707
Beneficiaries	477
Total retirees and beneficiaries	**4,184**
Inactive Participants with Rights to Deferred Pension (Vested)	
Defined benefit	711
Cash balance	234
Total vested	**945**
Defined benefit	42
Cash balance	0
Total non-vested	**42**
Total individual memberships	**14,381**

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 member municipalities include the automatic increase; others occasionally grant an ad hoc cost-of-living (COLA) increase. The most common method of granting a postretirement benefit increase 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 drafted by the System's staff, reviewed by the Chief Counsel's Office, adopted by the municipality, 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. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller; that is other than in a forced or liquidation sale. 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 are based on independent appraisals every three years. In years for which an appraisal is not performed, real estate investments and investments that do not have an established market value are reported at estimated fair values. Purchases and sales of investments are recorded on a trade-date basis.

CAPITAL ASSETS

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

FEDERAL INCOME TAXES

The System is a qualified trust fund under Section 401(a) of the Internal Revenue Code (IRC). As a result of the qualified status, the trust fund is entitled to an exemption, under Section 501(a) of the IRC, from federal income taxation on its investment earnings. Additionally, the trust fund and any benefits accruing to the members of PMRS are exempt from Pennsylvania state and municipal taxes.

It should be noted that the Internal Revenue Service (IRS) announced and initiated a renewed focus on the tax qualification of public pension funds in 2008. PMRS continues to work proactively to address this IRS initiative.

(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, 2011 and 2010 consisted of the following:

	2011	2010
Municipality normal cost	$39,094,578	$38,933,706
Amortization of unfunded actuarial accrued liability	(5,214,150)	(7,371,781)
Total [1]	**$33,880,428**	**$31,561,925**

Total contributions to the System during 2011 amounted to $61,265.501 of which $20,732,344 and $40,231,586 were made by its members and municipalities, respectively and $301,571 was from assessments. The actual contributions are 118.7% of the required contributions.

Total contributions to the System during 2010 were $61,930,391 of which $20,684,581 and $40,949,360 were made by its members and municipalities, respectively and $296,440 was from assessments. The actual contributions are 133.6% of the required contributions.

The difference between the municipalities' required and actual contributions 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).

Each municipality is also charged a $20 assessment charge 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 [2], the unfunded accrued liability is amortized as a level dollar amount over the lesser of:

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

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

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

[2] Act 44 of 2009 made amendments to Act 205 which changed certain amortization periods. These changes affect the cost calculations for the System's plans on January 1, 2011.

c. 15 years with respect to changes due to actuarial assumptions;

d. 10 years with respect to changes due to plan provisions, except:

e. 20 years with respect to changes due to state-mandated benefit changes;

f. 1 year with respect to changes in benefits for currently 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% per year (net of investment and certain administrative expenses) compounded annually, (b) projected salary increases of 3.0% per 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 year until the maximum is reached (optional in contracts), and (d) pre- and post-retirement mortality based on the RP2000 Mortality 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 the contributions of members not eligible for benefits are paid from this reserve.

As of December 31, 2011 and 2010, the balance in the Members' Reserve Account was $407,199,633 and $395,048,320, 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, 2011 and 2010, the balance in the Municipal Reserve Account was $745,384,988 and $735,092,318, 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 benefits and retirees' death benefits 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, 2011 and 2010, the balance in the Retired Members' Reserve Account was $637,170,767 and $580,171,196, 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 the Retired Members' Reserve Account over the most recent three years.

As of December 31, 2011 and 2010, the balance in the Disability Reserve Account was $211,577 and $65,140 respectively. The account is fully funded.

Undistributed Earnings Designation Account

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 2011 or 2010. 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, 2010 and 2009, respectively, and the expected cash flows of the System for 2011 and 2010 if excess interest had been distributed.

As of December 31, 2011 and 2010, the Undistributed Earnings Designation Account had a balance of $(299,797,860) and $(168,088,871), 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 Commonwealth 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 the 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 equals 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, 2011 and 2010, the System had no credit risk exposure to borrowers because participation in the program was halted in 2008 and has not yet resumed.

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, 2011 and 2010 were:

Credit Risk Concentration

Security	Fair Value
2011	
State Street Index Fund	$520,257,040
TIAA-CREF	104,200,000
2010	
State Street Index Fund	564,565,583

INTEREST RATE RISK

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:

2011 Interest Rate Risk

Security	Quality Rating*	Modified-Adjusted Duration	Fair Value
U.S. Aggregate Bond index	AAA	4.9	$195,524,849
U.S. Aggregate Bond index	AA	4.9	$ 102,576,765
State Treasury STIF	NR	0.1	$ 28,867,510

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

2010 Interest Rate Risk

Security	Quality Rating*	Modified-Adjusted Duration	Fair Value
U.S. Aggregate Bond index	AAA	4.9	$177,548,578
U.S. Aggregate Bond index	AA	4.9	$ 99,093,021
State Treasury STIF	NR	0.1	$ 31,485,696

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

FOREIGN CURRENCY RISK

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:

2011 Foreign Currency Risk

Currency	Equity	Short-Term	Total
Euro Currency Unit	$44,266,282	$75,202	$44,341,484
Japanese Yen	28,706,986	3,978	28,710,964
British Pound Sterling	21,929,749	189,005	22,118,754
Swiss Franc	19,273,924	239,683	19,513,607
Canadian Dollar	9,324,911	11,874	9,336,785
Australian Dollar	7,215,693	9,177	7,224,871
Hong Kong Dollar	5,808,185	75,250	5,883,434
South Korean Won	4,918,443	0	4,918,443
Thailand Baht	3,691,521	0	3,691,521
Singapore Dollar	2,991,862	56,181	3,048,044
Norwegian Krone	2,719,915	614	2,720,529
Swedish Krona	1,112,600	95,952	1,208,553
Danish Krone	890,269	5,334	895,603
Israeli Shenkel	449,279	70,588	519,868

2010 Foreign Currency Risk

Currency	Equity	Short-Term	Total
Euro Currency Unit	$37,114,694	$4,535,928	$41,650,622
Japanese Yen	39,186,213	156,489	39,342,702
British Pound Sterling	26,977,476	70,824	27,048,300
Swiss Franc	25,204,616	72,116	25,276,732
Hong Kong Dollar	10,648,557	3,182	10,651,739
Canadian Dollar	9,836,838	17,434	9,854,272
Australian Dollar	9,236,316	171,563	9,407,879
South Korean Won	5,410,720	0	5,410,720
Singapore Dollar	3,634,296	75,494	3,709,790
Thailand Baht	3,032,275	0	3,032,275
Norwegian Krone	2,656,470	62,076	2,718,546
Swedish Krona	1,521,687	71,865	1,593,552
Indonesian Rupian	1,125,532	0	1,125,532
Danish Krone	0	46,052	46,052

(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, 2011 and 2010, the System had no securities out for loan because of a continued Board policy prohibiting participation in securities lending. The System had no cash collateral invested in the custodial agent's short-term collateral investment pool as of December 31, 2011, and 2010.

(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 6.69% at July 1, 2011, 4.11% at July 1, 2010, 3.15% at July 1, 2009 and 3.29% at July 1, 2008. The System's annual contributions to SERS for the years ending December 31, 2011, 2010 and 2009 were $74,926, $47,136 and $44,443, respectively, which were equal to the required contributions each year.

(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, approval of a minimum of 75% of the plan's active, vested and retired members 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 investment 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 2016 with an option to extend for five years. Future minimum lease payments under this lease are $111,000 per year

Total rental expenses for the years ended December 31, 2011 and 2010 were $109,093 and $108,275, respectively.

(11) Additional Plan Disclosures as Mandated by GASB 50

(a) Plan Description

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

The System's investments are reported at fair value as discussed in Note 2, Summary of Significant Accounting Policies. The annual required contribution (ARC) is actuarially determined. The System's actuary used the Entry Age Normal Cost Actuarial Method to determine plan liabilities and normal cost. Under this method, a normal cost is calculated that would fund each employee's benefits during the employee's career as a level percent of pay.

(b) Funding Status and Funding Progress

As of January 1, 2011, the most recent actuarial valuation date, the plan was 102.4% funded. The actuarial accrued liability for benefits was $1,673,904,151, and the actuarial value of assets was $1,713,751,974 resulting in an unfunded actuarial accrued liability (UAAL) of ($39,847,829). The covered payroll (annual payroll of active employees covered by the plan) was $383,802,844, and the ratio of the UAAL to the covered payroll was (10.4%) percent.

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

(c) Actuarial Methods and Assumptions

In the January 1, 2011 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 an average for Aggregate Gain/Loss based on an open amortization period, 10% of surplus is credited against aggregate cost where applicable.

The single amortization period is determined individually for each of our participating plans. The weighted average of the separate amortization periods is 11.13 years for the unfunded municipalities. This amount was determined by taking the sum of the individual amortization periods multiplied by the unfunded liabilities for each underfunded municipality and dividing by the sum of the unfunded liability for all of the underfunded municipalities.

(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)
1/1/2011	$1,713,751,974	$1,673,904,145	$(39,847,829)	102.4%	$383,802,844	(10.4)%
1/1/2010	1,620,150,779	1,560,357,536	(59,793,243)	103.8	377,960,930	(15.8)
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)

See accompanying Actuarial Methods and Significant Assumptions.

Schedule 2

Schedule of Required Employer Contributions for Last Seven Years

Year Ended December 31	Annual Required Contributions (ARC) [2]	Actual Employer Contribution	Percentage Contributed [3]
2011	$33,880,428	$40,231,586	119%
2010	31,561,925	40,949,360	130
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

See accompanying Actuarial Methods and Significant Assumptions.

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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. The January 1, 2011 actuarial valuation was derived from actual values for cash balance and defined benefit plans that are required to redetermine contribution levels bi-annually on odd years, and actuarial adjustments to the January 1, 2010 liabilities for those municipalities required to redetermine contribution levels bi-annually on even years. The January 1, 2010 liabilities were adjusted to reflect January 1, 2010 actual active counts to estimate the liabilities for these plans to provide an overall measure of the funded status of the System. The January 1, 2010 actuarial valuation was derived from actual values for the five defined benefit plans required to redetermine contribution levels bi-annually for even years, and actuarial adjustments to the January 1, 2009 liabilities for those municipalities required to redetermine contribution levels bi-annually for odd years. An actuarial valuation was performed 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 valuation was derived from actual values for the four defined benefit plans that are required to redetermine contributions 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. An actuarial valuation was performed as of January 1, 2007 and 2005 for the cash balance and defined benefit plans that are required to redetermine contribution levels on odd years. No actuarial valuation was performed as of January 1, 2006 except for the four defined benefit plans required to redetermine contribution levels bi-annually on even years.

(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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar for plan bases and open for aggregate gain/(loss) based on an open amortization period
Remaining amortization period	- 30 years with respect to the initial unfunded liability as of 1/1/1985 (or first valuation) - 20 years with respect to actuarial gains and losses - 15 years with respect to changes due to actuarial assumptions. - 10 years with respect to changes due to plan provisions, except: - 20 years with respect to changes due to state-mandated benefit changes. - 1 year 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)

Schedule 3 - Administrative Expenses

Comparative Two-Year Schedule
Years Ended December 31, 2011, and 2010

	2011	2010
PERSONNEL COSTS		
Salaries and wages	$1,323,532	$1,264,713
Social security contributions	100,088	99,724
Retirement contributions	74,926	47,136
Insurance contributions	416,726	436,252
Other employee benefits	2,130	1,892
Total personnel costs	**1,917,401**	**1,849,717**
PROFESSIONAL COSTS		
Investment Consultant	175,000	162,342
Actuarial	241,293	338,386
Data processing	13,515	9,986
Divestiture Consultant	27,500	0
Audit	99,700	104,700
Legal	169,577	175,133
Proxy Voting Services	16,241	14,855
Miscellaneous professional	49,630	55,595
Total professional costs	**792,456**	**860,997**
COMMUNICATION COSTS		
Printing	4,836	10,543
Telephone	37,632	26,943
Postage	37,623	49,656
Travel	14,994	26,983
Advertising	5,145	5,068
Total communication costs	**100,229**	**119,193**
OTHER SERVICES AND CHARGES		
Contracted EDP services	114,316	152,490
Office space rental	109,093	108,275
Equipment leasing	17,071	12,314
Supplies	21,241	18,109
Maintenance	16,348	13,326
Bonding and insurance	1,342	1,081
Dues and subscriptions	2,469	2,350
Total other services and charges	**281,881**	**307,945**
DEPRECIATION	**50,037**	**45,521**
Total administrative expenses	**$3,142,005**	**$3,183,373**

Schedule 4 - Investment Expenses

Comparative Two-Year Schedule
Years Ended December 31, 2011, and 2010

	2011	2010
Investment management fees	$6,496,511	$5,759,556
Custodial fees	10,859	10,299
Total investment expenses	**$6,507,370**	**$5,769,855**

Schedule 5 - Payments to Consultants

Comparative Two-Year Schedule
Years Ended December 31, 2011, and 2010

Firm Name	Nature of Service	2011	2010
Cheiron	Actuary	$241,293	$338,386
CliftonLarsonAllen, LLP	Auditor	99,700	104,700
Dahab Associates, Inc.	Investment Consultant	175,000	162,342
ISS	Proxy Voting Services	16,241	14,855
IW Financial	Divesture Consultant	27,500	0
Total		**$402,234**	**$620,283**

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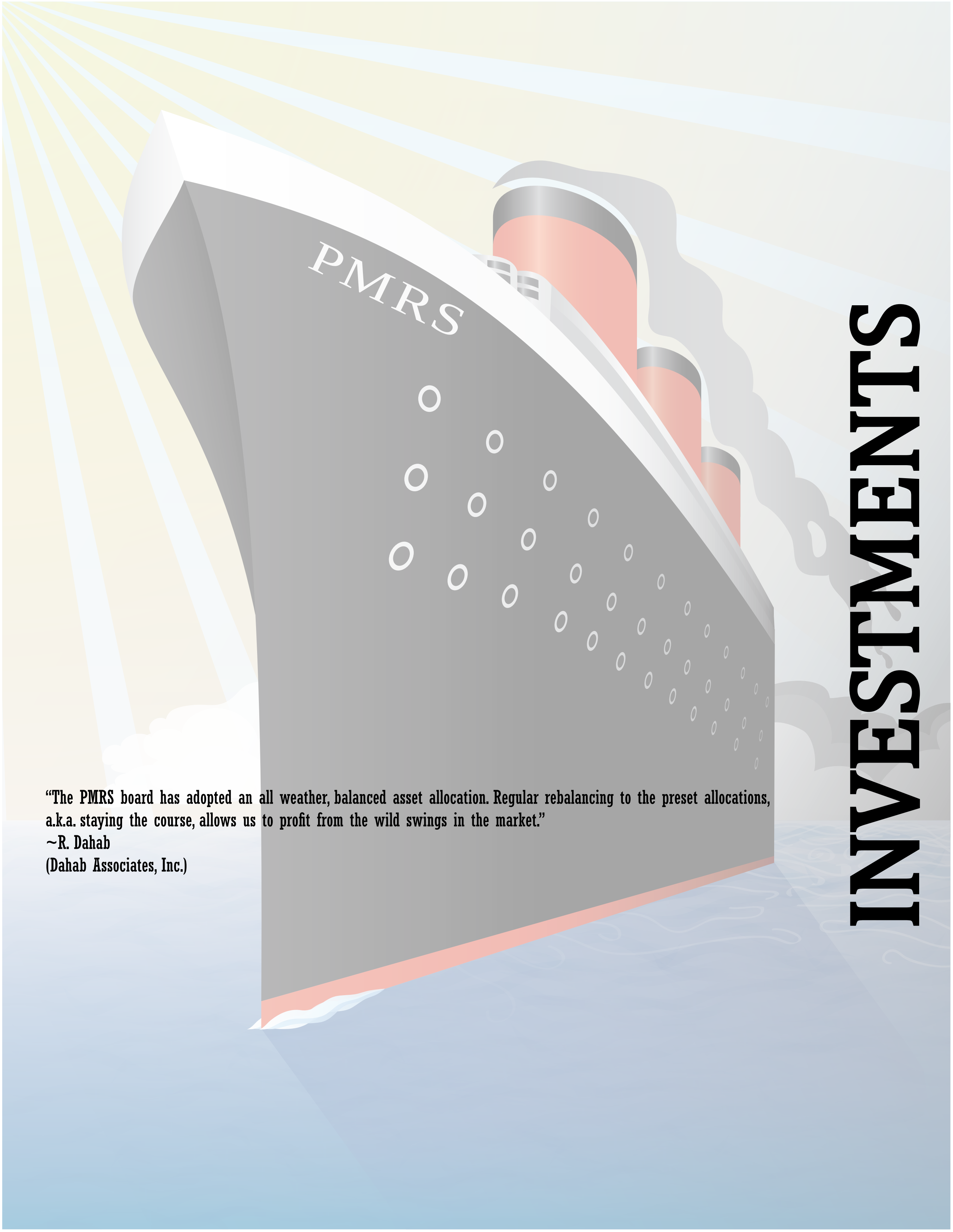
INVESTMENTS



"The PMRS board has adopted an all weather, balanced asset allocation. Regular rebalancing to the preset allocations, a.k.a. staying the course, allows us to profit from the wild swings in the market."
~R. Dahab
(Dahab Associates, Inc.)

INVESTMENT RETURN[1]

On December 31st, 2011 the Pennsylvania Municipal Retirement Board's investment portfolio was valued at $1,477,974,790 which was a decrease of $57,876,651 from the December 2010 ending valuation of $1,535,851,441. During the calendar year of 2011, the System recorded aggregate net withdrawals of $30,012,842 and a net investment return of ($27,863,979).

For the period between December 31, 2006 and December 31, 2011, the System recorded net withdrawals of $82,156,680 and a net investment return of $106,567,472. If the fund had earned an annualized compound rate of 6.0% during that period, it would have been worth $1,851,973,793 or $373,999,003 more than the actual value for the year.

ECONOMIC ENVIRONMENT

Late last year, U.S. economic indicators turned decidedly positive. There were upticks in manufacturing, employment, consumer confidence and GDP. While housing results remained negative, it is possible that housing indicators are bottoming out as well. Commodity prices were mixed as oil prices spiked and gold was down as the year came to a close. While domestic results were favorable, the Euro zone fiscal crisis remains and even the best case scenarios will have a global impact if Europe slips into recession. Still, EU member nations continue to look for workable solutions to address their fiscal woes. Progress was evident with the implementation of a $640 billion ECB lending program to help European banks shore up their balance sheet. The US dollar strengthened relative to the euro.

The 4th quarter domestic GDP grew an estimated 2.8% rate reflecting expansion in construction, exports, and consumer and government spending. A high level of imports and a decline in municipal government spending dampened a stronger advance. The unemployment rate fell to a 3 year low of 8.5%. While a big improvement from the peak unemployment rate of 10.0% in October 2009 it is still quite high relative to the January 2001 rate of 4.2%. More encouraging still was the fact that employment increased in every major category, from construction and manufacturing to service and retail. For the year, CPI (all items) increased by 3% the highest calendar year since 2007.

While the year results were neither terrific nor horrible, global investors won't forget the market volatility. The wild swings reflected investors' loss of confidence in both US and European economies and in their political leaders' abilities to deal with the problems. China wrestled with its own problems as it tried to tame rampant real estate speculation and contain the drop in its export economy. The US equity market regained momentum during the fourth quarter. This was partially attributable to an investor attitude that "almost nothing else can go wrong." International markets staged a mild turnaround, but nothing like the domestic market. It is now several months since S&P downgraded America's credit rating but investors simply ignored the downgrade and kept buying US paper. Long maturity US bonds were the favored asset class compared to virtually any equity index. However, 1 to 3 month Treasury-bills returned literally zero for 2011.

(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.

RELATIVE PERFORMANCE

Total Fund

The time-weighted rate of return for the System's investments during the fiscal year ended December 31, 2011 was -1.9%, ranking in the 94th percentile of all balanced funds. This performance level was 2.9% below the median balanced fund's return of 1.0%. The cumulative five-year return for December 2006 through December 2011 was 1.5% on an annualized basis and ranked in the 72nd percentile. For comparison the median balanced fund's return was 2.1%.

Large Cap Equities

Over the trailing twelve months, the large cap equity portfolio returned 2.8%, which was 0.7% more than the benchmark's 2.1% performance and ranked in the 21st percentile. For the last five years, this component returned 0.1% per annum and ranked in the 46th percentile. The S&P 500 returned an annualized -0.2% during the same time frame.

Small Cap Equities

This component returned -3.4%, which was 0.8% greater than the benchmark's -4.2% performance, ranking in the 61st percentile for the trailing twelve months. For the five year period, this component returned 0.1% annualized and ranked in the 83rd percentile. For comparison, the Russell 2000 returned an annualized 0.2% over the same period.

Developed International Equities

This segment's return was -15.2% over the trailing year, which was 2.5% less than the benchmark's -12.7% return, ranking in the 78th percentile. For the five-year period, this component returned -3.1% on an annualized basis and ranked in the 56th percentile. For comparison, the S&P BMI Developed Ex-US Index returned an annualized -3.3% during the same time frame.

Emerging Markets Equities

Over the trailing year, the emerging markets equity portfolio returned -18.6%, 2.1% above the benchmark's -20.7% return, ranking in the 59th percentile. PMRS entered the Emerging Market Equities during October and November 2008. There is no performance information for the trailing 5 years.

Fixed Income

Over the trailing year, this component returned 7.8%; that return was 0.1 below the benchmark's 7.9% return, ranking in the 41st percentile. For the five-year period, this component returned 6.5% annualized and ranked in the 72nd percentile. For comparison, the Barclays Aggregate Index also returned an annualized 6.5% over the same period.

Real Estate

Over the trailing twelve-month period, this segment returned 7.4%, which was 4.8% below the benchmark's 12.2% performance. For the cumulative five-year period, this component returned -0.4% per annum, while the NCREIF Property Index returned an annualized 2.7% over the same time frame.

The table on page 41 compares rates of return for the System's total investment portfolio with standard indexes for the last year, three years, five years and ten years.

Asset Allocation

The table to the right shows the allocation of assets as of December 31, 2011.

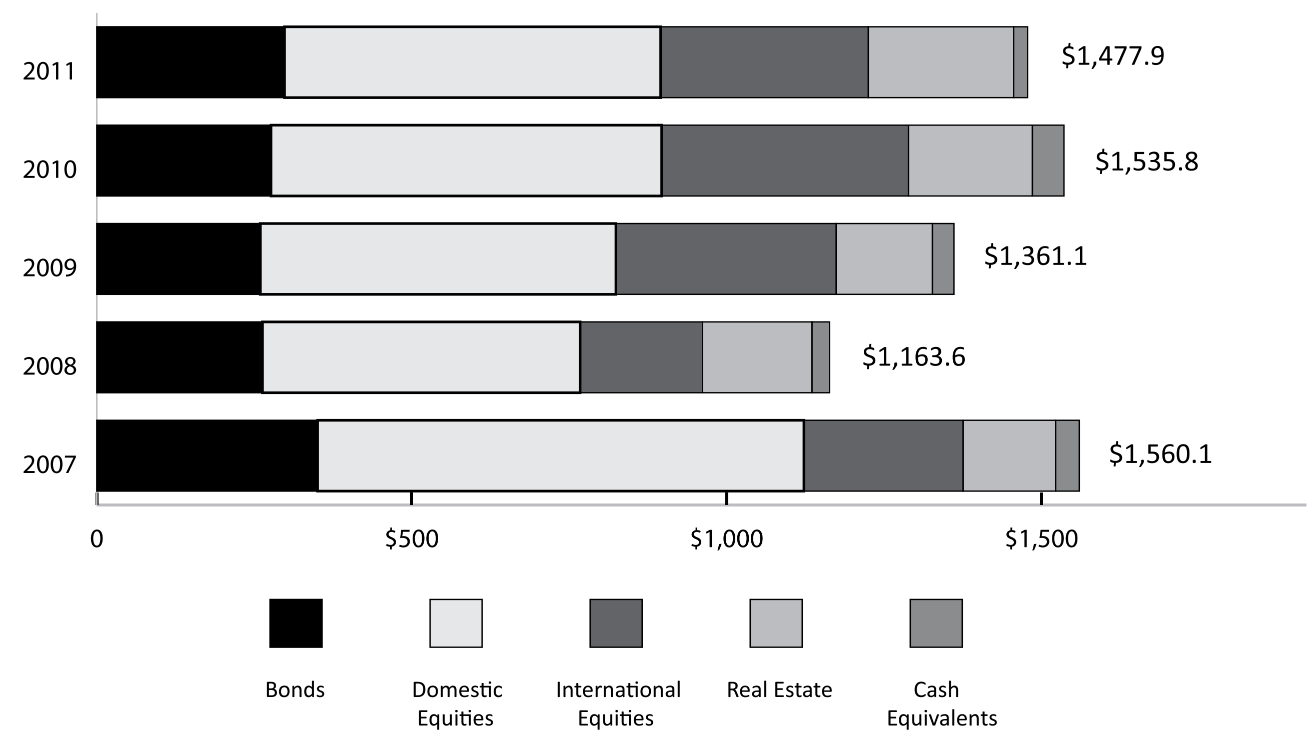
* Numbers may not add due to rounding.

The following graph shows the System's five-year trend of investments at fair value.

Asset Allocation (as of 12/31/2011)		
Type	%	Amount
Large cap equities	26.3%	$389,250,875
Small cap equities	14.1%	$208,046,133
Int'l developed mkts	13.2%	$194,703,713
Int'l emerging mkts	9.1%	$134,850,575
Total equities	62.7%	$926,851,296
Fixed income	20.2%	$298,101,614
Real estate	15.6%	$230,805,097
Cash and equivalents [1]	1.5%	$22,216,779
Total portfolio	100.0%	$1,477,974,790

Portfolio Distribution - Five-Year Trend [2]

(Fair Value - Amounts in Millions)



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

[2] Amounts in the Investment Section do not include cash held by real estate managers.

Portfolio Rates of Return [1]

Last 10 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.

PERFORMANCE SUMMARY

	1 Year	3 Year	5 Year	10 Year
Total Portfolio	-1.9%	9.9%	1.5%	5.3%
Public Fund Rank [2]	(94)	(60)	(72)	(41)
Shadow Index [3]	-1.5	10.7	1.6	5.3
Large Cap Equity	2.8	13.8	0.1	4.0
Large Cap Rank [4]	(21)	(65)	(46)	(47)
S&P 500	2.1	14.1	-0.2	2.9
Small Cap Equities	-3.4	16.8	0.1	5.1
Small Cap Rank [4]	(61)	(70)	(83)	(94)
Russell 2000	-4.2	15.6	0.2	5.6
International Equity	-15.2	9.7	-3.1	5.5
International Equity Rank [5]	(78)	(50)	(56)	(77)
S&P BMI Ex-US	-12.7	10.3	-3.3	6.4
Emerging Markets Equity	-18.6	19.6		
Emerging Markets Rank [6]	(59)	(55)		
S&P BMI EMGM	-20.7	20.7		
Real Estate	7.4	-3.7	-0.4	6.0
NCREIF	12.2	1.8	2.7	7.9
Fixed Income	7.8	6.8	6.5	5.8
Core Fixed Income Rank [7]	(41)	(77)	(72)	(76)
Barclays AGG	7.9	6.8	6.5	5.8

Report prepared by DAHAB ASSOCIATES, INC.

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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) 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. Ranked against equity oriented funds.

(4) Ranked against equity oriented funds.

(5) Ranked against international developed markets oriented funds.

(6) Ranked against international emerging markets oriented funds. PMRS entered emerging markets equities late 2008.

(7) Ranked against fixed income oriented funds.

Basis of Presentation

The Investment Section was prepared under the supervision of James B. Allen, Secretary of PMRS. 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 present in the Financial Section with the exception of the recognition of unallocated cash, pending sales and purchases and cash held by real estate managers. The difference noted above represents the difference between the investment balance of $1,489,842,224 presented in the Financial Section and the balance of $1,477,974,790 reported in this section.

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.

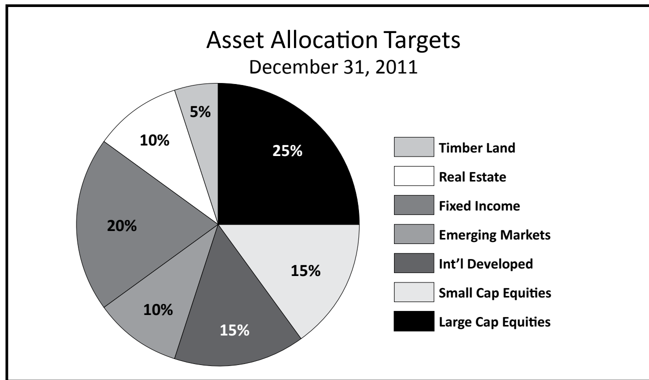
On December 31, 2011, the System's investment assets were valued at $1,477,974,490[1], a decrease in value of $57,876,651 over the December 31, 2010 valuation of $1,535,851,441. During the last five years, the System has increased from $1,453.6 million to $1,478.0 million. The graph on page 40 shows the System's five-year trend of investment assets at fair value.

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

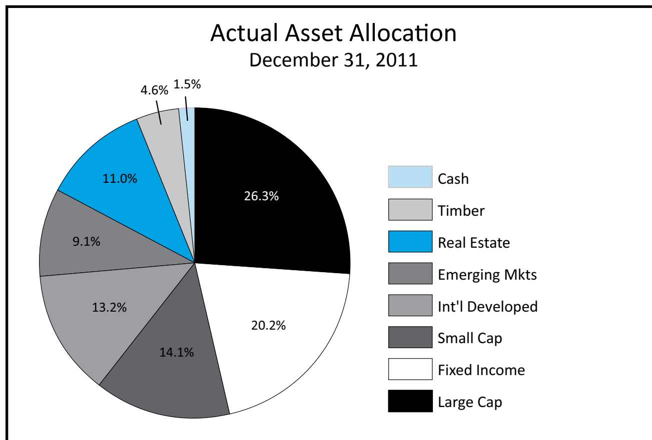
Asset Allocation

On January 21, 2010, the Board adopted Policy Statement 10 - 1 Investment Guidelines which established its allocation goals as follows:

Equities (large capitalized firms)	25%
Equities (small capitalized firms)	15%
Equities (international developed markets)	15%
Equities (emerging markets)	10%
Fixed Income	20%
Real Estate	10%
Timberland	5%



The System's asset allocation as of December 31, 2011, was $597.3 million committed to domestic equities ($389.3 large cap and $208.0 small cap), $329.6 million to international equities ($194.7 international developed and $134.9 emerging markets), $298.16 million to bonds, $230.8 million to real estate (includes timberland $68.6), and $22.2 million to cash equivalents. The percentage distribution is illustrated below.



Asset Allocation
December 31, 2011

Sector	Target Allocation	Target Dollar	Current Allocation	Current Dollar Allocation	Variance/Dollar	Variance/Percent
Fixed Income	20%	$295,594,958	20.2%	$298,101,614	$2,506,656	0.17%
Large Cap	25%	369,493,698	26.3%	389,250,875	19,757,178	1.34%
Small Cap	15%	221,696,219	14.1%	208,046,133	(13,650,086)	-0.92%
Int'l Developed	15%	221,696,219	13.2%	194,703,713	(26,992,506)	-1.83%
Emerging Mkts	10%	147,797,479	9.1%	134,850,575	(12,946,904)	-0.88%
Real Estate	10%	147,797,479	11.0%	162,249,168	14,451,689	0.98%
Timber	5%	73,898,740	4.6%	68,555,929	(5,342,811)	-0.36%
Cash	0.0%	0	1.5%	22,216,779	22,216,779	1.50%
TOTAL	100%	$1,477,974,790	100%	$1,477,974,790	0	0

Investment Summary

Ten Largest Common Stock Holdings

As of December 31, 2011 (Fair Value)

Stock	Shares	Fair Value	% of Stock Portfolio
Apple Inc	36,023	$ 14,589,315	0.99%
Google	15,990	10,327,941	0.70
Microsoft Corp	332,080	8,620,797	0.59
Qualcomm Inc	155,700	8,516,790	0.58
Allergan Inc/US	91,307	8,011,276	0.54
CH Robinson Worldwide Inc	99,405	6,936,481	0.47
Starbucks Corp	132,885	6,114,039	0.42
Varian Medical Systems Inc	88,546	5,944,093	0.40
Abbot Laboratories	104,908	5,898,977	0.40
Oracle Corp	212,900	5,460,885	0.37

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

Summary of Investment Expenses

Comparative Two-Year Schedule
Years ended December 31, 2011 and 2010

Firm Name	2011	2010
Chase Investment Counsel (1)	$ 327,057	$ 537,837
DePrince, Race & Zollo	307,326	288,367
LSV Asset Management	513,136	541,089
Polen Capital Management	439,363	118,593
UBS Asset Management (2)	105,798	0
Century Capital Management (3)	0	264,728
Denver Investment Advisors	489,992	415,252
Emerald Advisers	243,939	195,167
M&I Investment Management	360,922	57,852
State Street Global Advisors	261,260	256,761
Globeflex Capital	298,874	258,849
Mercator Asset Management	732,762	686,952
Wentworth, Hauser and Violich	449,151	401,382
Forest Investment Associates	616,875	633,894
Prudential Real Estate Investments	668,840	793,503
TIAA-CREF Global Real Estate	681,216	309,330
Total Investment Management Fees	**6,496,511**	**5,759,556**
Custodial Fees - BNY Mellon	10,859.36	10,298.94
Total Investment Expenses	**$6,507,371**	**$5,769,855**

(1) Investment manager terminated in 2011.
(2) Investment manager funded in 2010.
(3) Investment manager terminated in 2010.

Portfolio Summary
As of December 31, 2011

Type of Investment	Cost Value	Fair Value	% of Total Fair Value
Corporate and government bonds			
U.S. Government bonds	$ 175,178,665	$ 195,524,849	13%
Corporate bonds	91,902,697	102,576,765	7
Total	**267,081,362**	**298,101,614**	**20**
Common stock			
Domestic	550,972,660	596,813,520	40
International	286,680,310	328,769,556	22
Total	**847,652,970**	**925,583,076**	**62**
Other investments			
Real estate equity	236,074,151	232,406,348	16
Cash equivalents	28,839,991	28,867,510	2
Total	**264,914,142**	**261,273,858**	**18**
Grand total	**$1,379,648,474**	**$1,484,958,548**	**100%**

Portfolio Quality
Two-Year Comparative Analysis
Years Ended December 31, 2011, and 2010

Bond Rating	Fair Value	% of Total Fair Value	% of Total Carrying Value
December 31, 2011			
AAA	$195,524,849	66%	66%
AA	102,576,765	34	34
A	0	0	0
Total bonds	298,101,614	100%	100%
December 31, 2010			
AAA	177,548,578	64%	64%
AA	99,093,021	36	36
A	0	0	0
Total bonds	276,641,599	100%	100%

Summary of Commissions Paid to Brokers

Year Ended December 31, 2011

Broker Name	Commissions Paid
ABG Sec, Oslo	$2,428.16
Abn Amro Bk Nv (Secs Trading), Hong Kong	9,822.19
Ancora Securities Inc. Jersey City	1,306.68
Aqua Securities LP, New York	19.00
Assent LLC. Hoboken	2,370.10
Baird, Robert W & Co Inc, Milwaukee	11,870.94
Banco Bilbao Vizcaya, Madrid	4,749.64
Banco Santander, New York	1,102.95
Bank of New York, Brussels	2,027.24
Banque Paribas, Paris	1,302.05
Barclays Capital Inc/LE, New Jersey	269.00
Barclays Capital LE, Jersey City	28,389.32
Benchmark Company LLC, Brooklyn	530.00
Bernstein Sanford C & Co, New York	28,575.88
Bloomberg Tradebook LLC, New York	35,906.18
BNP Paribas Peregrine Sec LTD, Hong Kong	4,919.77
BNP Paribas Sec Svcs, London	6,104.39
BNY Convergex, New York	36,791.22
Boenning & Scattergood, W Conshohocken	107.60
Broadcourt Cap Corp/Sub of Mlpf&s, NY	464.00
Brown Bros Harriman & Co, New York	372.00
Buckingham Research Grp Inc, Brooklyn	602.00
Calyon, Madrid	943.51
Canaccord Genuity Inc, Jersey City	3,110.64
Cantor Fitzgerald & Co Inc, New York	2,520.28
Cantor Fitzgerald & Co, New York	1,107.42
Cap Instl Svcs Inc-Equities, Dallas	14,366.48
Capital One Southcoast Inc, New Orleans	1,442.80
Carnegie Secs LTD, Helsinky	410.04
Chicago Analytic Trading Co, Jersey City	21,639.23
Citigroup Gbl Mkts Inc, New York	3,361.98
Clearview Correspondent Srvs, LLC, Richmond	3,655.12
Collins Stewart LLC, New York	7,945.00
Cowen and Company LLC, New York	8,669.46
Craig Hallum, Minneapolis	2,847.00
Credit Agricole Cheuvreux Nordc, Stockholm	1,864.81
Credit Agricole Cheuvreux, Courbevoie	11,555.43
Credit Agricole USA, New York	216.00
Credit Lyonnais Sec, Seoul	1,206.48
Credit Lyonnais Secs (Asia), Hong Kong	2,762.05
Credit Lyonnais Secs, Singapore	6,009.11
Credit Suisse, New York	28,800.45
Daiwa Secs Amer Inc, New York	4,774.18

Broker Name	Commissions Paid
DBS Vickers Sec Pte LTD, Singapore	3,264.01
Deutsche Bk Secs Inc, NY	4,351.29
Dougherty Company, Brooklyn	4,887.54
Dowling & Partners, Jersey City	1,440.00
Exane, Paris	516.56
Fox River Execution Tech, LLC, Jersey City	833.70
Friedman Billings, Washington, DC	396.36
G-Trade Services LTD, Hamilton	35,803.16
Gleacher & Company Secs Inc, Brooklyn	760.00
Global Hunter Secs LLC, Jersey City	2,025.80
Goldman Sachs & Co, NY	22,291.68
Goldman Sachs Execution & Clearing, NY	171.00
Green Street Advisors, Jersey City	488.00
Greentree Brokerage Services, Jersey City	22,525.92
Howard Weil Incorporated, New Orleans	140.00
ICAP Corporates LLC, Jersey City	15,355.36
Instinet Corp, NY	13,737.00
Iinstinet Europe Limited, London	718.52
Instinet Pacific LTD, Hong Kong	366.81
Intermonte Sec Cim, Milan	5,155.58
Investment Technology Group LTD, Dublin	2,392.16
Investment Technology Group, New York	1,020.43
ISI Group Inc, NY	2,661.50
ITG (Europe) LTD, Dublin	468.87
ITG Australia LTD, Melbourne	2,669.98
ITG Canada Corp, Toronto	4,492.33
J P Morgan Secs LTD, London	8,480.11
J P Morgan Securities Inc, Brooklyn	73,181.08
J.P. Morgan Clearing Corp, New York	1,748.00
Janney Montgomery Scott, Philadelphia	3,128.36
Jefferies & Co Inc, New York	28,102.64
Jonestrading Instl Scsc LLC, Westlake	20,378.16
Keefe Bruyette and Woods, Jersey City	1,871.09
Keybanc Capital Markets Inc, New York	2,352.96
King (cl) & Associates, Albany	1,264.44
Knight Direct LLC, Jersey City	156.00
Knight Equity Markets L.P., Jersey City	89.00
Lazard Capital Markets LLC, New York	193.72
Leerink Swann & Co, Jersey City	2,334.50
Lehman Brothers Inc, Jersey City	2,360.29
Liquidnet Inc, Brooklyn	4,721.73
Longbow Securities LLC, Jersey City	2,511.72
Loop Capital Markets, Jersey City	296.00
M Ramsey King Securities, Burr Ridge	1,616.44
Macquarie Bank LTD, Sydney	8,578.01

Broker Name	Commissions Paid
Macquarie Capital LTD, London	964.90
Macquarie Securities Limited, Hong Kong	3,917.93
Macquarie Securities (USA) Inc, Jersey City	1,460.20
Merrill Lynch Pierce Fenner Smith Inc, NY	11,554.35
Merrill Lynch Pierce Fenner, Wilmington	290.67
Mizuho Securities USA Inc, New York	7,008.56
MKM Partners LLC, Greenwich	908.40
Morgan Keegan & Co Inc, Memphis	4,021.50
Morgan Stanley & Co Inc, NY	11,169.07
MR Beal & Company, Jersey City	1,968.00
National Finl Svcs Corp, New York	1,524.00
Needham & Co, New York	3,925.06
Noble Intl Investments Inc, Jersey City	748.40
Nomura Financial & Investment, Seoul	3,332.47
Nomura Secs Intl Inc, New York	15,239.75
Nomura Secs Intl. London	511.26
OCBC Secs, Singapore	549.55
Oneil William & Co Inc/BCC, Los Angeles	806.00
Oppenheimer & Co Inc, New York	4,229.52
Pacific Crest Sec, Portland	2,157.52
Penson Finl Services, Inc/Ridge New York	596.00
Pershing LLC, Jersey City	3,506.01
Pickering Energy Partners, Houston	1,816.00
Pipeline Trading Systems LLC, New York	2,041.00
Piper Jaffray & Co, Minneapolis	7,882.88
Pritchard Capital Partners, Jersey City	260.00
Pulse Trading LLC, Boston	1,036.38
Raymond James & Assoc Inc, St. Petersburg	9,963.63
RBC Capital Markets Corp, Minneapolis	5,966.40
RBS Securities Inc, Stamford	4,588.39
Roth Capital Partners LLC, Irvine	652.00
Royal Bank of Scotland N.V. London	1,610.00
S G Warburg, Seoul	768.00
Sandler O'Neil & Partners, New York	678.44
Sanford C Bernstein & Co Inc, London	3,795.68
SG Sec (London) LTD, London	8,254.70
Sidoti & Co LLC, New York	1,413.20
SIS Segaintersettle AG, Zurich	2,191.42
Skandinaviska Enskilda Banken, London	189.65
State Street Global Markets LLC, Boston	92.00
Stephens Inc, Little Rock	1,520.00
Sterne Agee & Leach Inc	2,354.92
Stifel Nicolaus	8,245.44
Sturdivant and Co Inc, Mount Laurel	1,351.28
Suntrust Capital Markets Inc, Atlanta	5,426.68

Broker Name	Commissions Paid
Svenska Handelsbanken, New York	585.16
UBS Equities, London	2732.35
UBS Securities LLC, Stamford	20,667.40
UBS Warburg Asia LTD, Hong Kong	6,272.68
Union Bank Switzerland and Secs, London	3,932.37
Wedbush Morgan Secs Inc, Los Angeles	2,194.84
Weeden & Co, New York	41,795.45
Wells Fargo Securities LLC, Charlotte	12.00
William Blair & Co, Chicago	3,724.48
Total Brokerage Commissions Paid	**$835,939.53**

INTRODUCTION

The following represents highlights from the Board's investment guidelines adopted on January 21, 2010. 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 2010 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 (international developed markets)	15%
Equities (emerging markets)	10%
Fixed income	20%
Real estate	10%
Timber land	5%

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 generated by companies domiciled in the U.S. 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. Proxy solicitations by non-U.S. domiciled companies are handled by the investment manager that holds the security of that company in their portfolio.

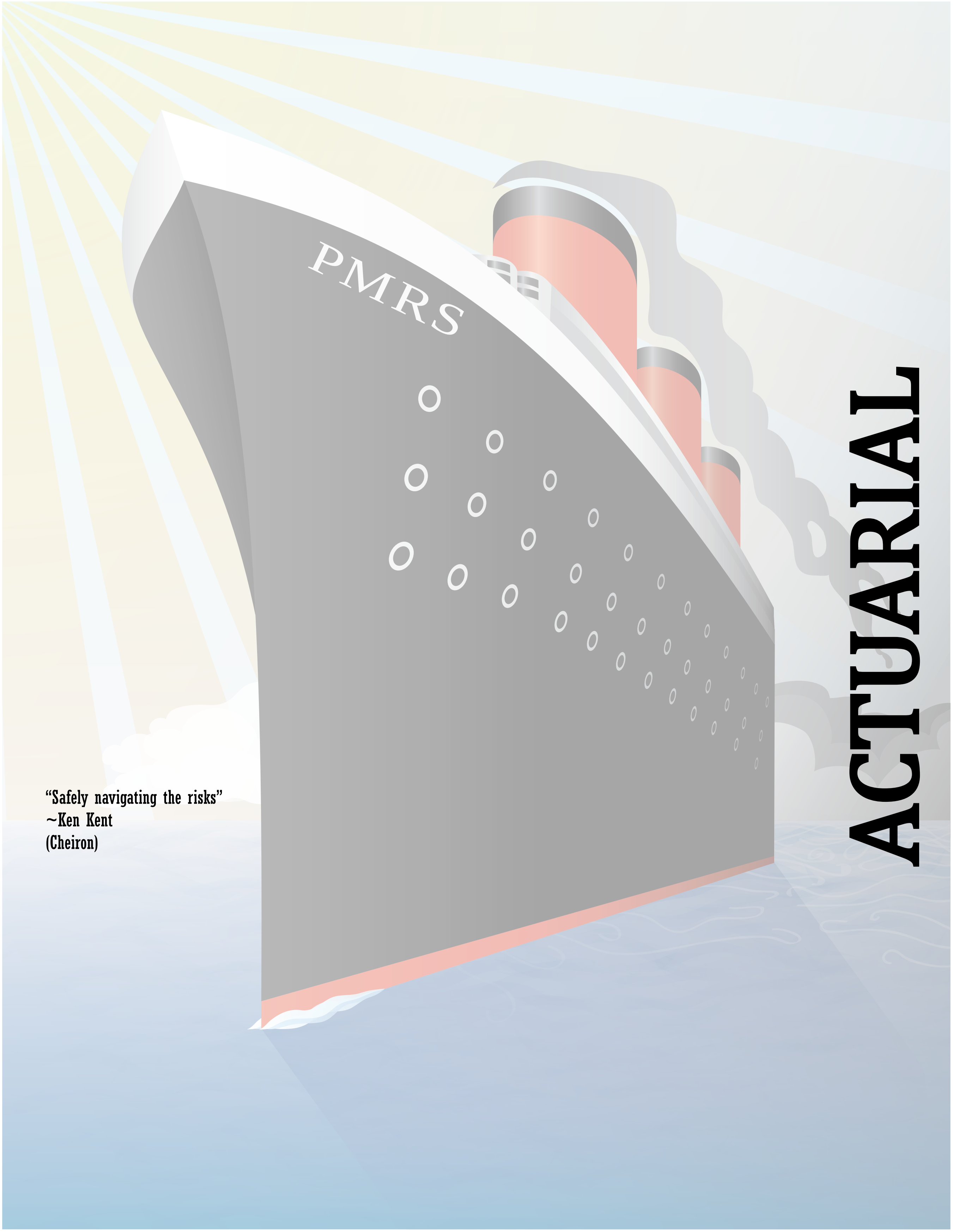
Communications

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.


PMRS
ACTUARIAL
“Safely navigating the risks”
~Ken Kent
(Cheiron)

Actuary's Certification Letter

CHEIRON Classic Values, Innovative Advice

June 22, 2012

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, 2011. The results of the valuation are contained in our report. The funded ratio of the System as of January 1, 2011 was 102.4% funded on an actuarial asset value basis and 92.1% funded on a market value basis.

The purpose of this report is to present the annual actuarial valuation of the System. This report is for the use of the Pennsylvania Municipal Retirement Board and its auditors in preparing financial reports in accordance with applicable law and accounting requirements. Any other user of this report is not an intended user and is considered a third party. This report contains 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 and provides statistics on employer contribution levels for the defined benefit portion of the municipal plans participating in the system as of the valuation date, the updated methods and assumptions effective January 1, 2011.

Our report contains required disclosures for the entire System and a description of the funding methods and assumptions as required by State law and covered under Act 205 which also fall within the methods as defined as acceptable under the Governmental Accounting Standards Board Statement #25.

In preparing our report, we relied without audit, on information (some oral and some written) supplied by the System. This information includes, but is not limited to, the plan provisions, employee data, and financial information. The report provides comments 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 to the best of our knowledge. We rely on future System experience conforming to the underlying assumptions. To the extent that actual System experience deviates from the underlying assumptions, the results would vary accordingly.

The assumptions used in preparing the individual municipal valuation have been determined and adjusted based on actuarial experience analysis and presented to the Board for consideration and adoption. The actuarial methods were adopted effective January 1, 1985 unless otherwise indicated. Several changes in assumptions were implemented with the January 1, 2011 actuarial valuation. The assumptions are believed to be reasonable on an individual plan basis when considering the participating municipalities experience in the aggregate and in the aggregate the assumptions serve to provide a reasonable estimation of the future obligations of the participating retirement systems. The funding method applied provides for an annual normal cost as a level percent of pay and amortization of unfunded and/or surplus over a fixed period in accordance with provisions of Act 205. The complete actuarial valuation report as of January 1, 2011 is available on the PMRS website at http://www.pmrs.state.pa.us/publications/index.html.

1750 Tysons Boulevard, Suite 1100, McLean, VA 22102 Tel: 703.893.1456 Fax: 703.893.2006 www.cheiron.us

The figures disclosed in the sections listed below were provided by Cheiron for 2007-2011. For years prior to 2007, the prior actuary developed the results as reported per their valuation reports.

1. Actuarial Liability compared with Actuarial Value for Funding Purposes to the CAFR.
2. Solvency Test
3. Funded Status of Actuarial Liabilities
4. Notes to Required Supplemental Information
5. Schedule of Retirees and Beneficiaries
6. Schedule of Total Membership
7. Schedule of Total Membership Funded Status of Actuarial Liabilities
8. Schedule of Active Member Valuation Data

We hereby certify that, to the best of our knowledge, this report and its contents, which are based on the information and data supplied by the Pennsylvania Municipal Retirement System, are work products of Cheiron, Inc. These work products are complete and have 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. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron

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

CHEIRON

The actuarial liability compared with the actuarial value of assests for funding purposes

Comparable two-year schedule for years January 31, 2011 and January 31, 2010

GASB No. 25 Basis	January 1, 2011	January 1, 2010
1. Actuarial Liabilities for retirees and beneficiaries currently receiving benefits and terminated not yet receiving benefits	$655,645,661	$589,362,501
2. Actuarial liabilities for current employees	1,018,258,484	970,995,035
3. Total actuarial liability (1 + 2)	$1,673,904,145	$1,560,357,536
4. Net final actuarial assets available for benefits	1,713,751,974	1,620,150,779
5. Unfunded/(surplus)Participants in cash balance-only plans actuarial liability (3 - 4)	$(39,847,829)	$(59,793,243)

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)
2011	$395,048,320	$655,645,661	$623,210,164	$1,713,751,974	100%	100%	106%
2010	348,126,106	589,362,501	622,868,929	1,620,150,779	100%	100%	110%
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%

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)
2011	$1,713,751,974	$1,673,904,145	$(39,847,829)	102.4%
2010	1,620,150,779	1,560,357,536	(59,793,243)	103.8%
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%

The actuarial assumptions as of January 1, 2011, are shown in the assumptions and methods section. The above information was derived from the following membership data, as provided by the System, regarding:

- 707 defined benefit county and non-county plans and 229 cash balance plans as of January 1, 2011;
- Five defined benefit plans required to re-determine contribution levels as of January 1, 2010 (prior year non-county benefit plans estimated from the January 1, 2009 valuation);
- 696 defined benefit county and non-county plans and 203 cash balance plans as of January 1, 2009;
- Four 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;
- Four 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 balanced plans as of Janaury 1, 2005;

[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, 2011
Actuarial cost method	Entry age
Amortization method	Level dollar for Plan Bases and an average for Aggregate Gain/Loss, 10% of surplus is credited against aggregate cost where applicable
Actuarial assumptions:	
Investment rate of return [1]	6.0%
Projected salary increases [1]	3.0% - 8.3%
[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
2011	396	$18,624	121	$8,981	4,184	$55,257,189	13.0%	$13,207	5.6%
2010	296	16,030	137	9,458	3,909	48,897,954	7.7	12,509	3.3
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

(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 2010.

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

CHEIRON

Schedule of Total Membership

Six Year Trend

Valuation Date January 1,	Active Members Defined Benefit Plans	Active Members Cash Balance Plans	Retirees	Beneficiaries	Deferred Pensions	Inactive Members	Total
2011	8,091	1,119	3,707	477	945	42	14,381
2010	8,357	994	3,449	460	834	23	14,117
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

Funded Status of Actuarial Liabilities

Schedule of Total Membership Over Last Six Years

	As of January 1[1]					
	2011	2010	2009	2008	2007	2006
a. Retirees currently receiving benefits	3,707	3,449	3,289	3,173	2,965	218
b. Beneficiaries currently receiving benefits	477	460	461	425	494	8
c. Terminated vested employees entitled to future benefits from DB plans	711	647	650	570	561	53
d. Terminated non-vested employees entitled to contribution refunds from DB plans	42	23	0	7	33	7
e. Active employees in defined benefit plans	8,091	8,357	8,411	8,383	8,314	717
i. Aggregate salary	$383,802,844	$377,960,930	$372,370,037	$364,865,185	$358,690,830	$23,905,899
ii. Vested[2]	4,992	5,025	4,952	4,913	4,430	358
iii. Non-vested	3,099	3,333	3,459	3,470	3,884	359
f. Participants in cash balance-only plans	1,353	1,181	1,175	1,124	1,080	--
i. Aggregate salary [3]	$41,683,065	$35,104,086	$32,811,919	$31,107,136	$28,213,485	--
ii. Active	1,119	994	978	950	918	--
iii. Inactive	234	187	197	174	162	--

[1] Years 2005, 2007, 2008, 2009, 2010, and 2011 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. Projected salary at 5% for year following valuation for 2008 only.

CHEIRON

Schedule of Active Member Valuation Data

Last Six Years

Valuation Date 1/1	Number of Active Members	Percentage Change in Membership	Number of Participating Employers	Percentage Increase in Number of Participating Employers	Total Annual Payroll	Percentage Increase in payroll	Average Annual Salary	Percentage Increase in Average Annual Salary
Defined Benefit Plans								
2011	8,091	(3.2)%	707	1.4%	$383,802,844	1.5%	$47,436	4.9%
2010	8,357	(0.6)	697	0.1	377,960,930	1.5	45,227	2.2
2009	8,411	0.3	696	0.5	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
Cash Balance Plans								
2011	1119	12.6%	229	13.4%	41,683,065	18.7%	$37,250	5.5%
2010	994	1.6	203	(.5)	35,104,086	6.9	35,316	5.3
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

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 shown at right:

(a) Killed in service mortality rates:

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

(ii) 50% of mortality is assumed to be service related for uniform plans.

Healthy Life Mortality Rates

	Actives (Males RP2000+1) Females RP2000+5)		Retirees (RP2000 Sex Distinct)	
Age	Male	Female	Male	Female
50	0.20%	0.11%	0.21%	0.17%
55	0.32	0.17	0.36	0.27
60	0.59	0.27	0.67	0.51
65	1.13	0.51	1.27	0.97
70	1.98	0.97	2.22	1.67
75	3.39	1.67	3.78	2.81
80	5.79	2.81	6.43	4.59
85	9.98	4.59	11.08	7.74

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

C. Termination Rates Before Retirement:

For all plans for Municipal and Police, the termination rates indicated below were used;

Termination Rates before Retirement

	Current Valuation Rate [1]			
	Uniformed Number of active members in plan		Municipal Number of active members in plan	
Years of Service	<25	>25	<25	>25
Less than 1	14%	13%	20%	20%
1 but less than 2	14	10	20	20
2 but less than 3	12	7	12	15
3 but less than 4	10	7	10	12
4 but less than 5	6	6	8	7
5 but less than 6	4	5	6	7
6 but less than 7	3	4	4	6
7 but less than 8	2	3	3	5
8 but less than 9	2	3	3	5
9 but less than 10	1	3	2.5	5
10 or more	1	3	2.5	3

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	8.3%
30	6.4
35	5.6
40	5.0
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) Municipal Members:

Members are assumed to retire over a range of ages as shown to the right.

Retirement Assumptions

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

b) Uniformed Members:
(retirement rates are reflected in the chart on page 58)

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

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

[2] Add 2% for each of the first 3 years of service.

[3] Rates indicated are adjusted by adding 5% (and 10% for ages 60-62 under current rate assumptions) for the year in which the member is first eligible for normal retirement.

H. Marital Status and Spouse's Age [1]**:** 85 percent of active members and are assumed to be married for retirees with the 50% J&S form of payment. Male spouses are assumed to be three years older than female spouses.

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

a) The Social Security Taxable Wage Base will increase by 3.5% compounded annually;

b) The Consumer Price Index will increase by 3.0% compounded annually;

c) The Average Total Wages of All Workers will increase by 3.5% compounded annually.

Retirement Rates for Uniform Participants

Age	Rates for all Plans
<49	0%
50	20
51	10
52	10
53	10
54	10
55	20
56	25
57	25
58	30
59	30
60	40
61	50
62	50
63	60
64	70
65	80
66+	100

J. Post-Retirement Cost of Living Increases[1]**:**

3.0% per year, subject to plan limitations.

K. Net Investment Return:

6.0% compounded annually (net of investment and certain administration expenses) for funding purposes.

L. Administrative Expenses:

The reserve for non-investment related expenses of the System, net the $20 per participant annual assessment is based on expected expenses for the current year. The amount allocated for 2011 is $3,310,900 compared to $3,660,224 for 2010.

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:

"...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 some times greater than and sometimes less than the corresponding market values.

[1] If applicable.

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. 15 years, with respect to changes due to actuarial assumptions;
   iv. 10 years, with respect to changes due to plan provisions;
   v. 1 year, with respect to changes in benefits for currently retired members,
   vi. 20 years, with respect to state mandated benefit changes; or

b) the average assumed working lifetime of active employees as of the date the liability was established[(1)].

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

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

2) A disabled member's pension is met in part from the amount that can be provided by the value of that portion of the member's accrued benefit attributable to municipal contributions,

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

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:

All changes in demographic actuarial assumptions are due to the Experience Study completed in 2010. These changes include the following:

- Uniform retirement rates
- Termination rates
- Mortality rates for both healthy and disabled participants
- Marriage assumption
- Salary scale

There were also changes in the Actuarial Method for amortizing the unfunded liability in accordance with amendments to Act 205 by Act 44. The changes were as follows.

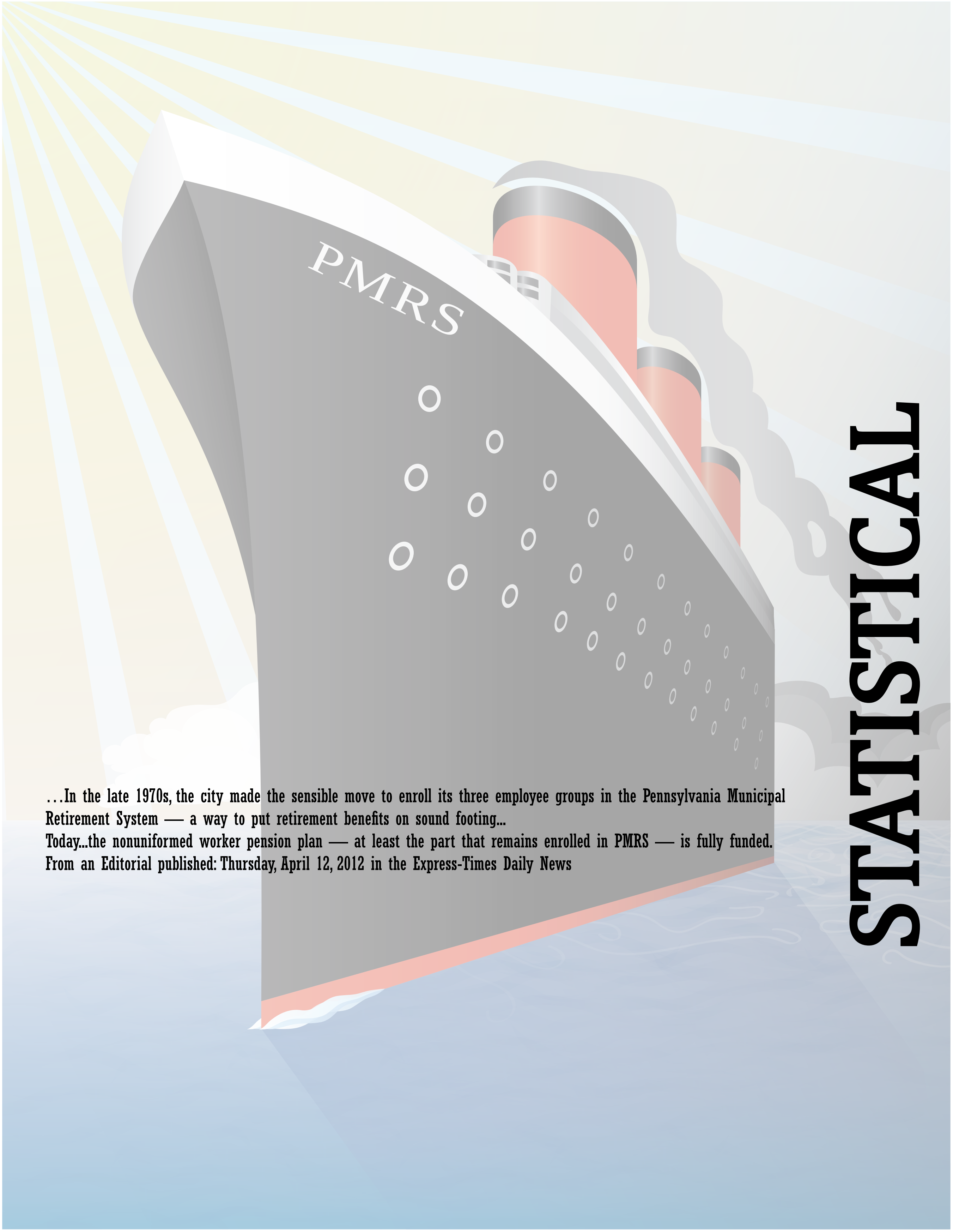
- Amortization period for changes due to actuarial assumptions was reduced from 20 years to 15 years.
- Amortization period for changes due to plan provisions was reduced from 20 years to 10 years, except:
- Amortization period for changes due to state-mandated benefit changes remains at 20 years.
- Amortization period for changes in benefits for currently retired members was reduced from 10 years to 1 year.

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 1/1/2005 to 12/31/2008 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, 2011 actuarial valuation.

STATISTICAL



…In the late 1970s, the city made the sensible move to enroll its three employee groups in the Pennsylvania Municipal Retirement System — a way to put retirement benefits on sound footing…

Today…the nonuniformed worker pension plan — at least the part that remains enrolled in PMRS — is fully funded.

From an Editorial published: Thursday, April 12, 2012 in the Express-Times Daily News

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 65 compare the revenues versus expenses of the System and include total investments of the System for the past ten 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 68 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 71 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	780	8.47
Bethlehem City	643	6.98
Adams County	583	6.33
Harrisburg City	471	5.11
Jefferson County	245	2.66
Adams County-Green Acres	197	2.14
Harrisburg City Fire	194	2.11
Monroeville Municipality	186	2.02
Easton City	171	1.86
Bucks County Water & Sewer Authority	142	1.54
Pottstown Borough	130	1.41
Upper Moreland Township	108	1.17
Tredyffrin Township	107	1.16
Whitehall Township	103	1.12

Changes in Net Assets
Last Ten Years

Fiscal Year	Contributions	Investment Income	Benefit Expenses	Administrative Expenses	Change in Net Assets
2011	$61,265,501	$(29,086,613)	$81,155,883	$3,142,004	$(52,118,999)
2010	61,930,391	180,338,425	63,383,838	3,183,253	175,701,725
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)

Revenues by Source
Last Ten Years

	Revenues by Source				
Fiscal Year	Member Contributions	Municipal Contributions [1]	Municipal Assessments [2]	Investment Income	Total Revenue
2011	$20,732,344	$40,231,586	$301,571	$(29,086,613)	$32,178,888
2010	20,684,591	40,949,360	296,660	180,338,425	242,268,816
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)

[1] Contributions were made in accordance with actuarially determined contribution requirements.

[2] Municipal assessments are receipts but not assets of the plans.

Expenses by Type

Last Ten Years

Fiscal Year	Benefit Expenses		Administrative Expenses	Total Expenses
	Annuity	Termination		
2011	$63,105,165	$18,050,718	$3,142,004	$84,297,887
2010	54,771,528	8,612,310	3,183,373	66,567,211
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

Schedule of Benefit Deductions from Plan Net Assets by Type

Last Five Years [1]

Fiscal Year	Expenses by Type						
	Normal	Early	Disability	Survivor	Death	Transfer and Other	Total Annuity
2011	$44,166,996	$6,161,604	$1,257,354	$4,497,860	$2,241,312	$4,780,038	$63,105,165
2010	38,721,068	4,263,362	1,392,815	4,376,019	2,653,312	3,364,952	54,771,528
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

Schedule of Refund Deductions from Plan Net Assets by Type

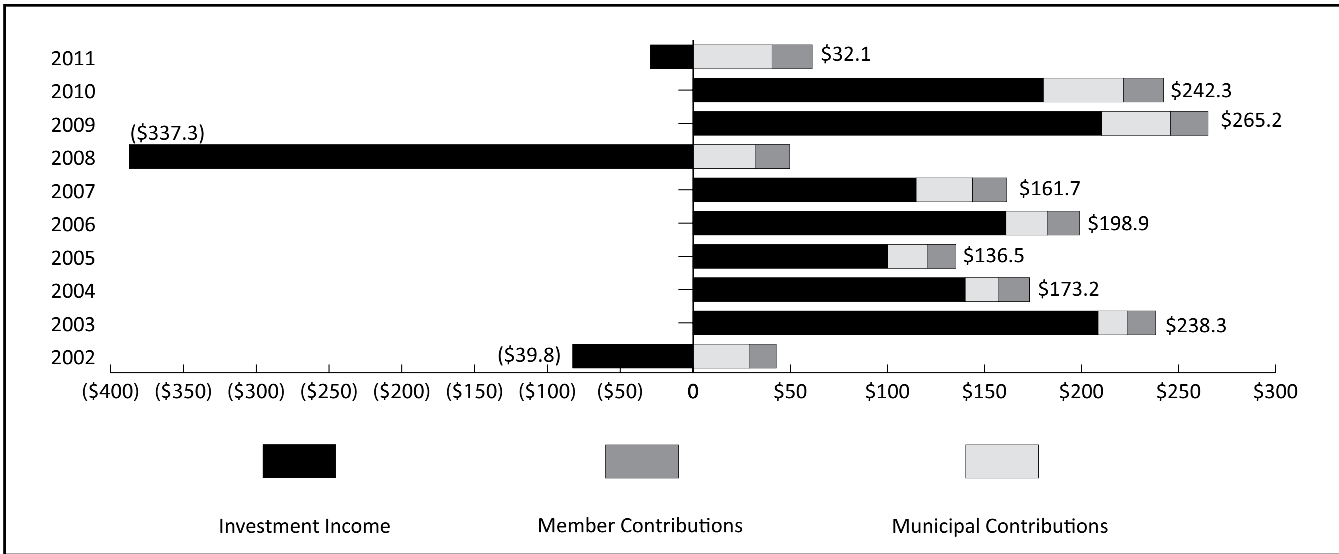
Last Five Years [1]

Fiscal Year	Expenses by Type		
	Terminations	Lump Sum	Total Refunds
2011	$12,421,382	$5,629,336	$18,050,719
2010	5,657,499	2,954,811	8,612,310
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

[1] Information prior to 2006 is not available.

Revenues by Source - Ten-Year Trend

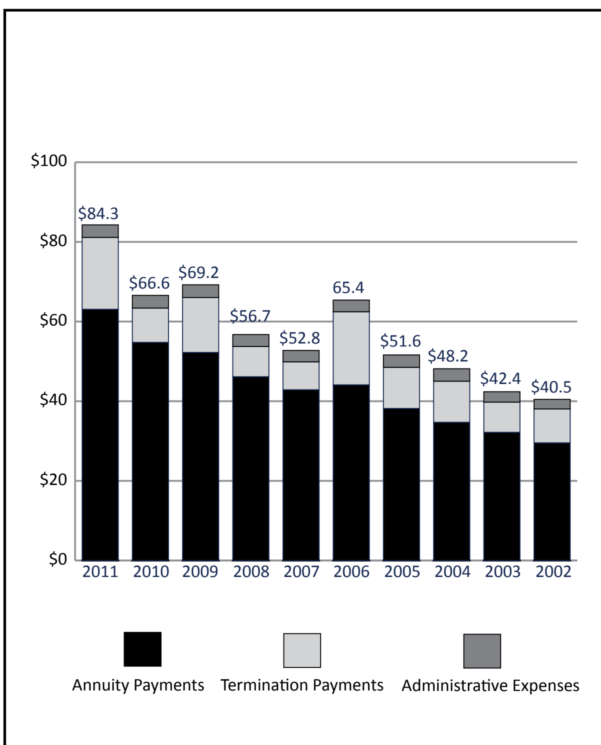
(Amounts in Millions)



Expenses by Type

Ten-Year Trend

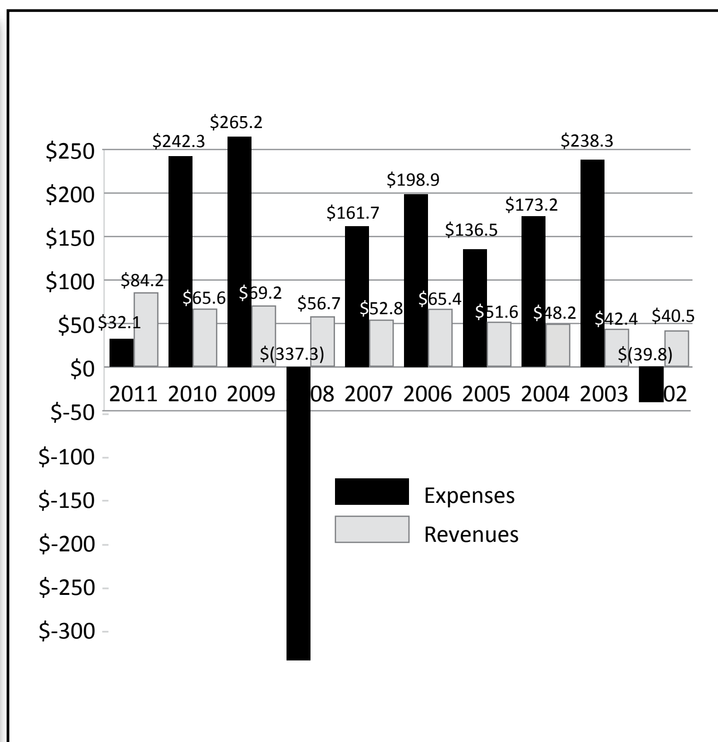
(Amounts in Millions)



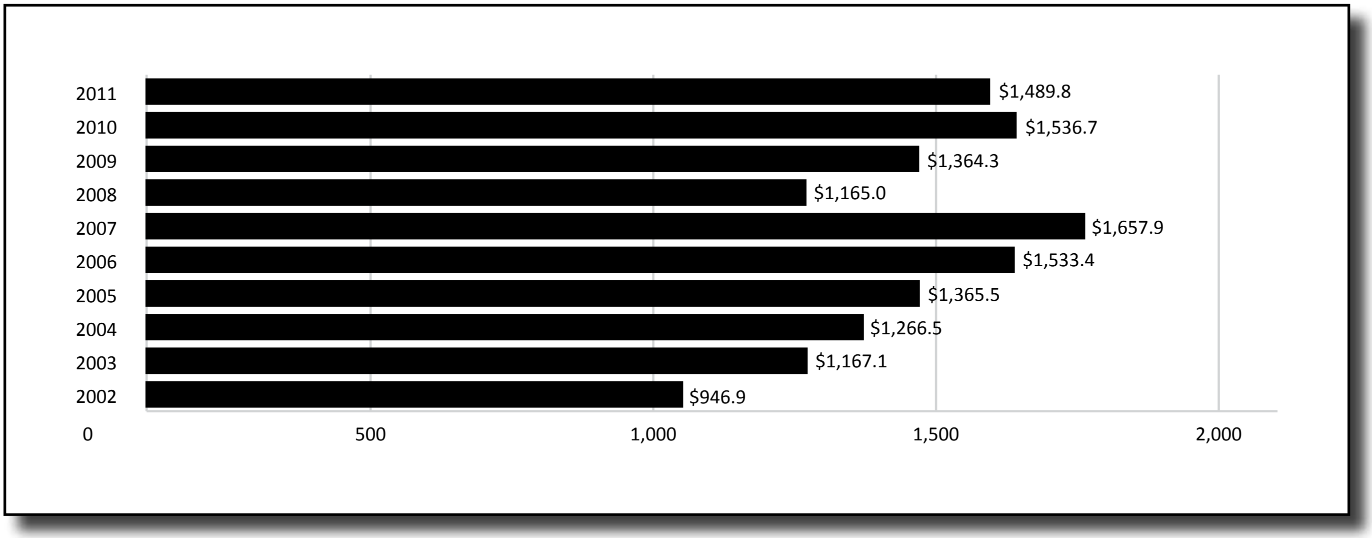
Revenues vs. Expenses

Ten-Year Trend

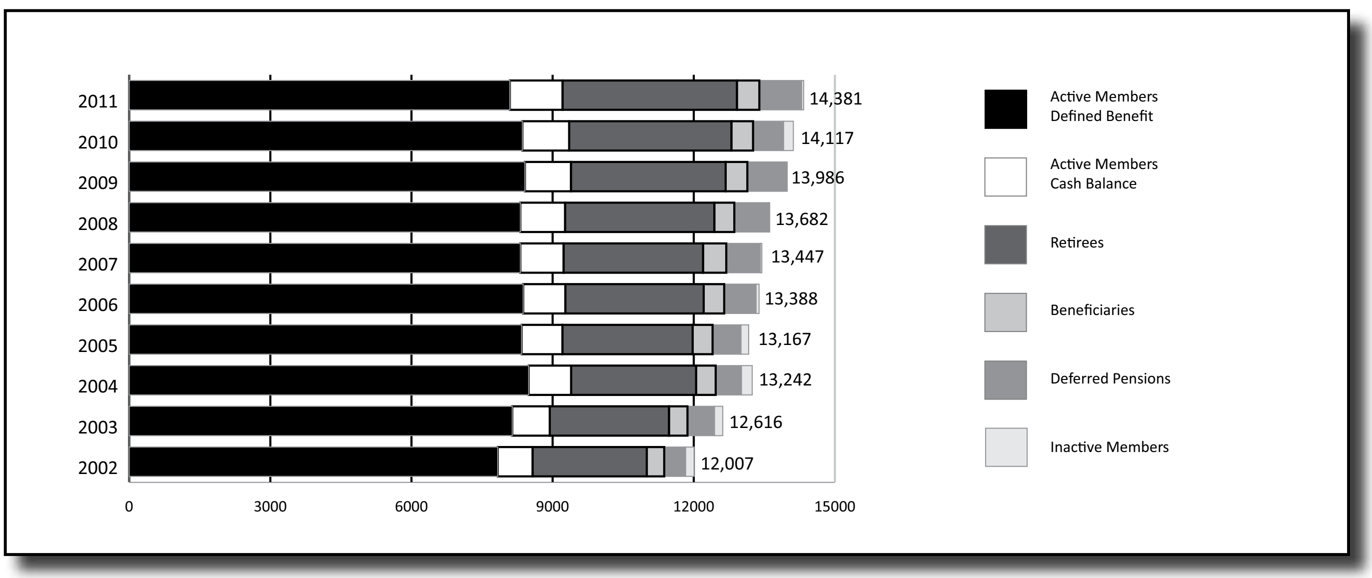
(Amounts in Millions)



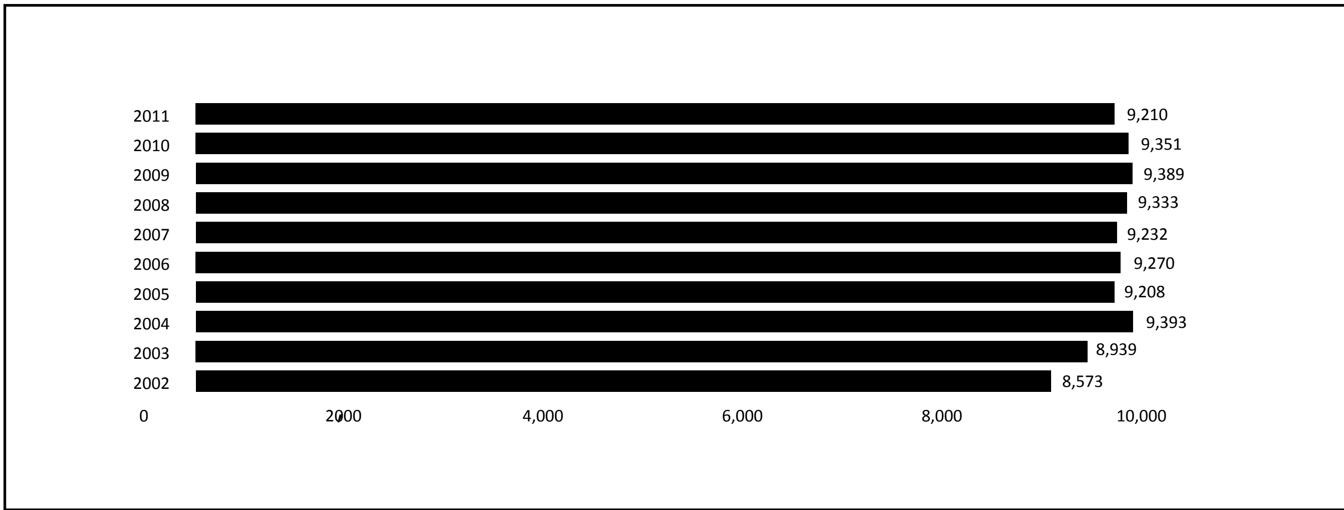
Total Investments - Ten Year Trend
(Fair Value - Amounts in Millions)



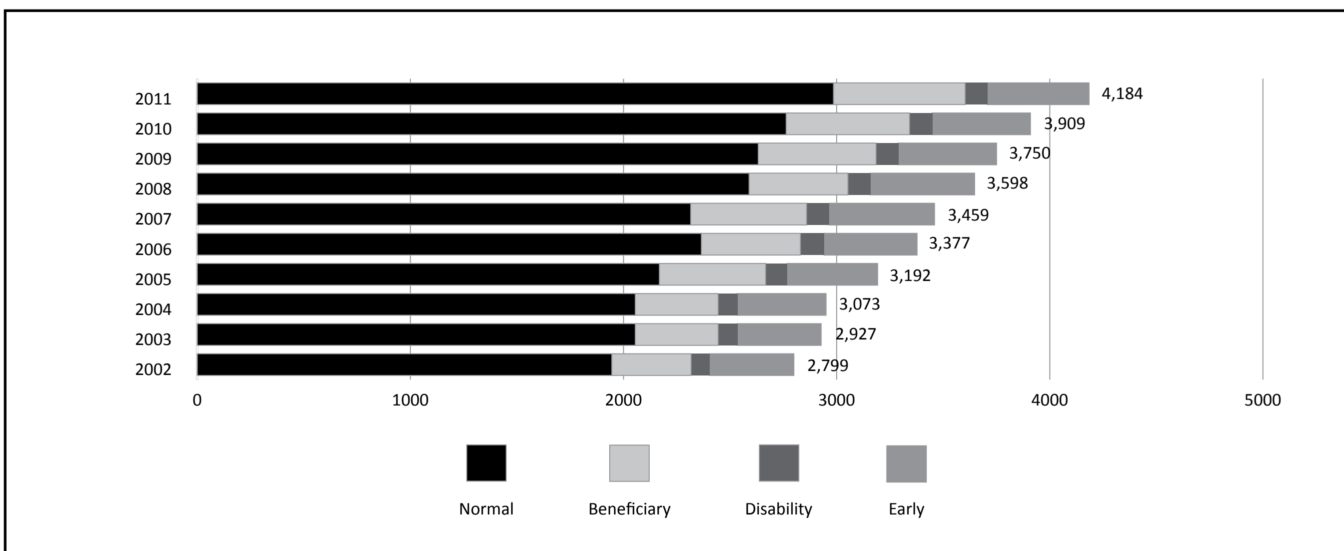
Total Membership - Ten-Year Trend
Valuation Date 1/1



Active Members - Ten-Year Trend
Valuation Date 1/1



Retired Members - Ten-Year Trend
Valuation Date 1/1



Distribution of Active Members
by Age and Service as of January 1, 2011

Counts by Age/Service											
Age	1 year or less	1 to 2	2 to 3	3 to 5	5 to 10	10 to 15	15 to 20	20 to 25	25 to 30	30 & up	Total
Under 20	8	0	0	0	0	0	0	0	0	0	8
20 -24	70	44	39	28	6	0	0	0	0	0	187
25 - 29	82	71	74	124	110	8	0	0	0	0	469
30 - 34	69	58	74	126	271	71	2	0	0	0	671
35 - 39	61	69	75	108	273	193	70	5	0	0	854
40 - 44	64	54	66	147	313	257	167	108	2	0	1,178
45 - 49	69	49	76	135	321	252	227	250	91	17	1,487
50 - 54	72	53	54	133	307	261	200	239	185	190	1,694
55 - 59	52	30	57	93	234	230	173	232	113	264	1,478
60 - 64	23	17	32	50	148	131	123	136	68	118	846
65 & up	5	8	6	17	53	67	58	49	19	56	338
Total	575	453	553	961	2,036	1,470	1,020	1,019	478	645	9,210

Distribution of Active Members
by Age/Service and Annual Salary as of January 1, 2011

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	$25,548	$0	$0	$0	$0	$0	$0	$0	$0	$0	$25,548
20 -24	31,718	33,946	35,825	34,908	30,997	0	0	0	0	0	$33,553
25 - 29	34,488	36,346	38,973	44,221	46,357	52,551	0	0	0	0	$41,142
30 - 34	35,197	37,929	42,762	42,252	49,787	51,548	40,592	0	0	0	$45,231
35 - 39	38,962	36,870	43,236	47,190	48,660	54,002	51,795	61,410	0	0	$47,891
40 - 44	33,972	37,434	37,546	42,302	48,677	50,057	54,454	56,618	52,033	0	$47,797
45 - 49	38,332	40,890	43,551	41,362	45,176	45,893	50,485	56,760	53,884	52,310	$47,782
50 - 54	37,397	39,683	39,327	38,268	43,452	46,314	48,755	51,002	54,713	52,900	$46,960
55 - 59	39,269	41,734	39,011	43,662	41,349	44,436	47,337	50,592	53,925	56,352	$47,613
60 - 64	37,969	32,886	36,401	44,031	39,833	39,586	45,378	47,550	49,679	57,120	$44,972
65 & up	38,618	36,057	24,440	28,714	30,676	38,757	36,000	43,134	45,877	48,663	$38,867
Average	$35,962	$37,629	$40,027	$42,168	$45,352	$46,955	$48,893	$52,128	$53,291	$54,702	$46,198

Pensions in Payment Status on January 1, 2011
by Type and by Monthly Amount

Monthly amount	Total	Type of Pension: Normal	Involuntary early	Voluntary early	Service disability	Non-service disability
Total	4,184	3,462	202	416	31	73
Under $100	208	179	17	10	1	1
$100 - $199	255	208	29	18	0	0
200 - 299	268	205	35	28	0	0
300 - 399	287	229	28	27	0	3
400 - 499	238	191	14	30	2	1
500 - 599	264	216	14	26	1	7
600 - 699	217	178	9	24	0	6
700 - 799	226	173	11	34	0	8
800 - 899	207	163	7	24	1	12
900 - 999	195	153	9	23	3	7
1,000 - 1,199	376	302	9	46	6	13
1,200 - 1,399	271	221	6	35	4	5
1,400 - 1,599	226	191	6	20	7	2
1,600 - 1,799	166	144	3	17	2	0
1,800 - 1,999	147	129	3	12	0	3
2,000 - 2,199	131	115	0	14	1	1
2,200 - 2,399	85	79	0	6	0	0
2,400 - 2,599	80	74	0	4	1	1
2,600 - 2,799	78	67	2	6	1	2
2,800 - 2,999	45	44	0	0	0	1
3,000 - 3,499	92	85	0	6	1	0
3,500 - 3,999	72	67	0	5	0	0
4,000 and over	50	49	0	1	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
2011	396	1,552	341	1,632	37	1,250	13	364	5(0)	1,407
2010	296	1,336	249	1,412	26	1,300	17	339	4(0)	1,067
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

Schedule of Total Membership - Ten 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
2011	8,091	1,119	3,707	477	945	42	14,381
2010	8,357	994	3,449	460	834	23	14,117
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

(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)

Schedule of Active Member Valuation Data

Last Ten 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								
2011	8,091	(3.2)%	707	1.4%	$383,802,844	1.6%	$47,436	4.9%
2010	8,357	(0.6)	697	0.1	377,960,930	1.5	$45,227	2.2
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
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
2011	1119	12.6%	229	13.4%	$41,683,065	18.8%	$37,250	5.5%
2010	944	1.6	203	(0.5)	35,104,086	6.9	35,316	5.3
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)

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

Seven Years Ended January 1, 2011

	Years Credited Service						
Retirement Effective Dates	< 5	5-10	10-15	15-20	20-25	25-30	30+
Period 1/2/10 to 1/1/11							
Average monthly benefit	$244	544	813	1,209	1.588	2,394	3,336
Average final average salary	$50,215	39,201	39,197	43,014	43,653	54,686	58,242
Number of retired members	7	31	53	44	70	40	97
Period 1/2/09 to 1/1/10							
Average monthly benefit	$151	392	729	1,294	1,653	2,247	3,020
Average final average salary	$30,418	36,819	36,047	42,001	47,445	48,018	53,737
Number of retired members	17	30	26	39	47	40	65
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][2]
as of January 1, 2011

COUNTIES

Adams County
Adams County-Green Acres
Forest County
Jefferson County
Sullivan County

CITIES

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

BOROUGHS

Adamstown Borough
Apollo 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
Bridgewater 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
Cressona Borough
Dalton Borough
Deemston Borough
Delmont Borough
Derry Borough
Doylestown Borough
Dravosburg Borough
Dublin Borough
Duboistown Borough
Duncannon Borough
Duncansville 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
Honey Brook 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

[1] County names are in parentheses.
[2] The abbreviation CB designates a Cash Balance plan. NU denotes a Non-uniformed plan.

Matamoras Borough
Mayfield Borough
Mercer Borough
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 Florence 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
Rural Valley Borough
Salisbury Borough
Sandy Lake Borough
Saxton Borough
Schuylkill Haven Borough
Selinsgrove Borough
Sellersville Borough
Seven Fields Borough
Seven Fields Borough (CB)
Shamokin Dam Borough
Sharpsburg Borough
Sharpsville Borough
Shenandoah Borough
Slippery Rock Borough
Smithton 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

Bristol Township
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
Coolspring Township
Cornplanter 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
McKean 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
Paint 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
Plymouth 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
Solebury Township (CB)
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)
Union Township (Washington County)
Unity Township
Upper Burrell Township
Upper Nazareth Township
Wallace Township
Warrington Township
Warsaw Township
Warwick Township
Washington Township (Berks County)
Washington Township (Cambria 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 (Westmoreland County)
Washington Township (Wyoming County)
Wayne Township
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
Apollo Borough 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
Bridgewater Borough 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
Covington Township Police
Crescent Township Police
Danville Borough Police
Darlington Township Police
Decatur 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
Duncansville 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
Farrell City Police
Forest City Borough Police
Forward Township Police
Franklin Borough Police
Franklin Township Police (Beaver County)
Frazer Township Police
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
Honey Brook Borough 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
Lewistown 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 (Lawrence County)
Mahoning Township Police (Montour County)
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 Pleasant Borough Police
Mount Pleasant Township Police (Washington County)
Mount Union 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
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
Polk Borough 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
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
Upper Burrell 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
Farrell 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.
Bath Borough 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
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
Clarion County Housing Authority (CB)
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
Elizabethville Area Authority
Emlenton Area Municipal Authority
Erie County Housing Authority
Everett Area Municipal Authority
Fairfield 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
Jenner Area Joint Sewer Authority
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 Pleasant Township Municipal 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

pmrs pennsylvania
MUNICIPAL RETIREMENT SYSTEM

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

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Fax: 717-783-8363

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