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The Pennsylvania Public School Employees' Retirement System
is administered by an eleven-member board:

The Secretary of Education, ex officio-
Caryl W. Kline

The State Treasurer, ex officio-
Robert E. Casey

The Executive Secretary of the Pennsylvania School Boards Association, ex officio-
Fred M. Hedinger

Two members appointed by the Governor, at least one who is not a school or state employe-
John D. Killian, Esq.
William F. Jacobs, Jr., Esq.

Three elected by the active professional members of the system from among their number-
Jacque D. Angle
J. Henry Eisenhart
Francis J. Moran

One elected by the annuitants from among their number-
Benjamin L. Stackowski

One elected by the non professional members of the system from among their number-
Samuel Corrado

One elected by members of the Pennsylvania public school boards from among their number-
Richard C. Harris

Mr. Killian serves as board chairman.

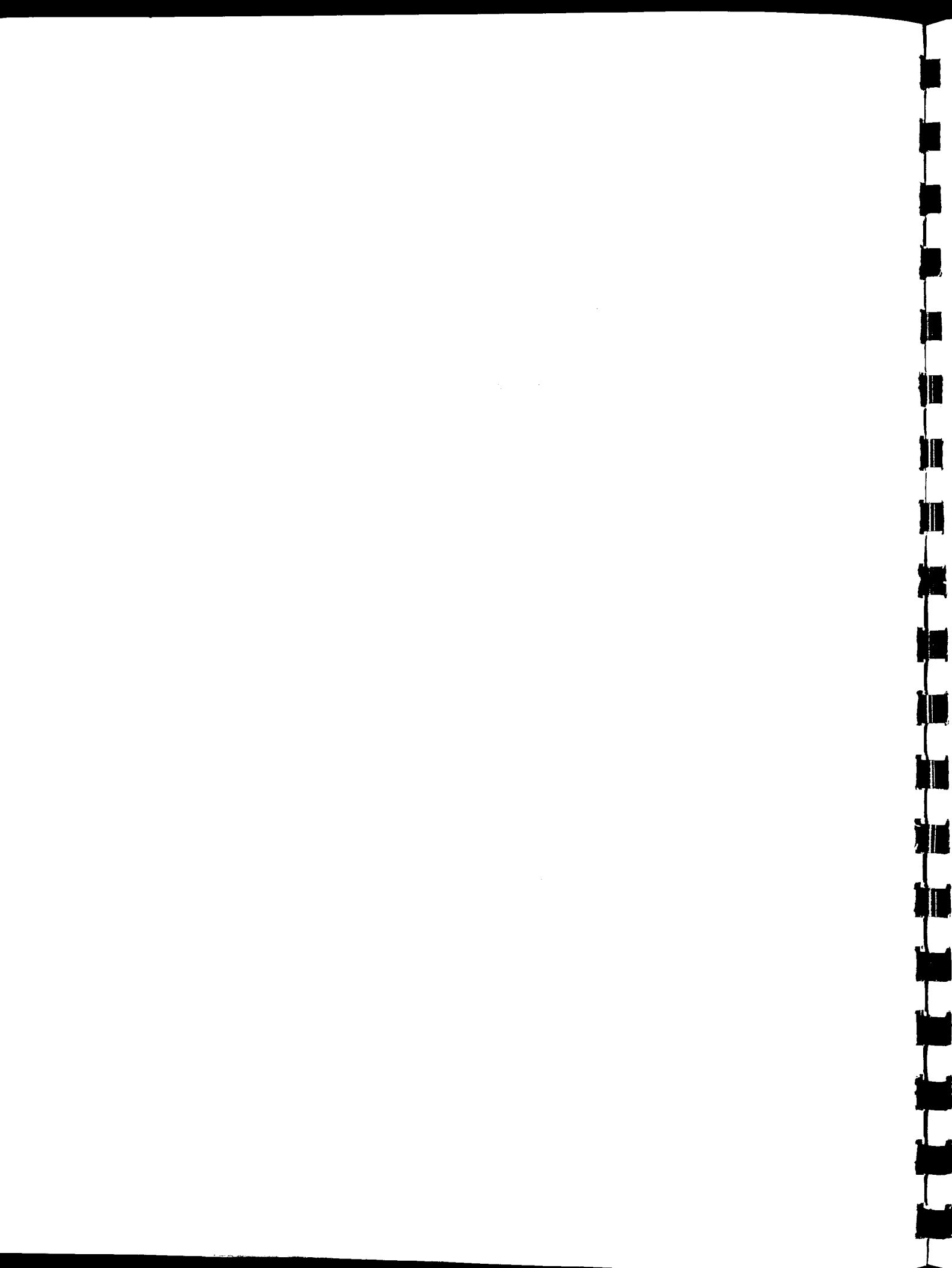


TABLE OF CONTENTS

Letter From The Chairman	1
Investments And Assets	2
Contributions	4
Income	6
Comparative Balance Sheets	8
Payments	10
Changes To Members' Savings Account	12
Changes To State Accumulation Account	13
Changes To Annuity Reserve Account	14
Graphic Illustrations Of Investment Activity	15

INVESTMENTS AND ASSETS

Net assets reached a point \$350.5 million dollars above the June 30, 1977 position. Total assets for the 77-78 fiscal year were \$4 billion dollars. \$346.1 million dollars of the increase in the assets was in investment. This increase is attributable for the most part to the purchase of industrial and commercial bonds. All corporate bonds purchased this year provided an average yield of 7.98%. The second largest increase in purchases was \$165.8 million common stocks.

STATEMENT OF INVESTMENTS

FOR THE YEARS ENDING JUNE 30, 1977 AND 1978

<u>AT PAR</u>	<u>1978</u>	<u>1977</u>	<u>INCREASE OR (DECREASE)</u>	<u>% INCREASE (DECREASE)</u>
State and Municipals	\$ 133,000.00	\$ 173,000.00	\$ (40,000.00)	(23.1)%
Pa. Higher Educ. Assistance Agency	0.00	36,656.00	(36,656.00)	(100.0)
Int'l & Inter-American Banks	90,568,000.00	75,275,000.00	15,293,000.00	20.3
Post Office Department	5,108,142.95	5,348,185.53	(240,042.58)	(4.5)
University of Pittsburgh	846,000.00	936,000.00	(90,000.00)	(9.6)
Industrial and Commercial	1,467,769,923.99	1,252,312,236.21	215,457,687.78	17.2
Public Utilities	772,328,712.43	839,977,751.79	(67,649,039.36)	(8.1)
Finance Companies	189,211,000.00	217,599,000.00	(28,388,000.00)	(13.0)
Railroads - Corporate	5,958,000.00	8,958,000.00	(3,000,000.00)	(33.5)
Railroads - Equipment Trusts	15,776,313.32	22,073,007.20	(6,296,693.88)	(28.5)
Short Term Notes (Cost)	89,382,979.97	40,371,235.00	49,011,744.97	121.4
U. S. Treasury Bills (Cost)	36,645,503.32	63,122,375.39	(26,476,872.07)	(41.9)
Repurchase Agreements (Cost)	7,650,000.00	2,775,000.00	4,875,000.00	175.7
Philadelphia National Bank Bldg.	15,934,099.72	16,079,097.68	(144,997.96)	(.9)
FHA Project Mortgages	150,806,448.83	114,793,751.21	36,012,697.62	31.4
Capehart Mortgages	20,710,304.34	22,675,482.39	(1,965,178.05)	(8.6)
Project Mortgage Debentures	915,400.00	1,279,400.00	(364,000.00)	(28.5)
FHA and VA Mortgages	330,448,952.32	323,716,247.44	6,732,704.88	2.1
Common Stock (Cost)	638,756,895.47	472,977,792.16	165,779,103.31	35.3
Preferred Stock (Cost)	<u>1,800,000.00</u>	<u>1,800,000.00</u>	<u>0.00</u>	<u>0.0</u>
Total Par Value	<u>\$3,840,749,676.66</u>	<u>\$3,482,279,218.00</u>	<u>\$358,470,458.66</u>	<u>10.3</u>

CONTRIBUTIONS

Total contributions for the year amounted to \$492.9 million, an amount exceeding the previous year by \$14.7 million. 1977/78 contributions of the Commonwealth were fully paid by September 1978.

STATEMENT OF CONTRIBUTIONS

FOR THE YEARS ENDING JUNE 30, 1977 AND 1978

	<u>1978</u>	<u>1977*</u>	<u>INCREASE OR (DECREASE)</u>	<u>% INCREASE OR (DECREASE)</u>
Contributions from School Districts	\$175,527,429.61	\$169,755,021.10	\$ 5,772,408.51	3.4%
Contributions from Employes	137,716,454.91	135,319,087.25	2,397,367.66	1.8
Installment Purchases	5,372,476.33	12,311,914.19	(6,939,437.86)	(56.4)
Contributions from Commonwealth	169,677,977.91	157,538,828.28	12,139,149.63	7.7
Transfers from State Employes' Retirement System	2,599,880.72	1,932,040.68	667,840.04	34.6
Sub Total	<u>\$490,894,219.48</u>	<u>\$476,856,891.50</u>	<u>\$14,037,327.98</u>	<u>2.9%</u>
Outstanding Checks Ret'd to Cash	139,771.15	87,966.27	51,804.88	58.9
Annuity Checks Ret'd to Cash	1,868,212.40	1,306,875.68	561,336.72	43.0
Miscellaneous	<u>7,076.04</u>	<u>5,817.87</u>	<u>1,258.17</u>	<u>21.6</u>
Total	<u><u>\$492,909,279.07</u></u>	<u><u>\$478,257,551.32</u></u>	<u><u>\$14,651,727.75</u></u>	<u><u>3.1%</u></u>

*Restated to include the net change in receivables.

INVESTMENTS AND ASSETS

Net assets reached a point \$350.5 million dollars above the June 30, 1977 position. Total assets for the 77-78 fiscal year were \$4 billion dollars. \$346.1 million dollars of the increase in the assets was in investment. This increase is attributable for the most part to the purchase of industrial and commercial bonds. All corporate bonds purchased this year provided an average yield of 7.98%. The second largest increase in purchases was \$165.8 million common stocks.

STATEMENT OF INVESTMENTS

FOR THE YEARS ENDING JUNE 30, 1977 AND 1978

<u>AT PAR</u>	<u>1978</u>	<u>1977</u>	<u>INCREASE OR (DECREASE)</u>	<u>% INCREASE (DECREASE)</u>
State and Municipals	\$ 133,000.00	\$ 173,000.00	\$ (40,000.00)	(23.1)
Pa. Higher Educ. Assistance Agency	0.00	36,656.00	(36,656.00)	(100.0)
Int'l & Inter-American Banks	90,568,000.00	75,275,000.00	15,293,000.00	20.3
Post Office Department	5,108,142.95	5,348,185.53	(240,042.58)	(4.5)
University of Pittsburgh	846,000.00	936,000.00	(90,000.00)	(9.6)
Industrial and Commercial	1,467,769,923.99	1,252,312,236.21	215,457,687.78	17.2
Public Utilities	772,328,712.43	839,977,751.79	(67,649,039.36)	(8.1)
Finance Companies	189,211,000.00	217,599,000.00	(28,388,000.00)	(13.0)
Railroads - Corporate	5,958,000.00	8,958,000.00	(3,000,000.00)	(33.5)
Railroads - Equipment Trusts	15,776,313.32	22,073,007.20	(6,296,693.88)	(28.6)
Short Term Notes (Cost)	89,382,979.97	40,371,235.00	49,011,744.97	121.6
U. S. Treasury Bills (Cost)	36,645,503.32	63,122,375.39	(26,476,872.07)	(41.8)
Repurchase Agreements (Cost)	7,650,000.00	2,775,000.00	4,875,000.00	175.3
Philadelphia National Bank Bldg.	15,934,099.72	16,079,097.68	(144,997.96)	(.9)
FHA Project Mortgages	150,806,448.83	114,793,751.21	36,012,697.62	31.4
Capehart Mortgages	20,710,304.34	22,675,482.39	(1,965,178.05)	(8.6)
Project Mortgage Debentures	915,400.00	1,279,400.00	(364,000.00)	(28.5)
FHA and VA Mortgages	330,448,952.32	323,716,247.44	6,732,704.88	2.1
Common Stock (Cost)	638,756,895.47	472,977,792.16	165,779,103.31	35.1
Preferred Stock (Cost)	<u>1,800,000.00</u>	<u>1,800,000.00</u>	<u>0.00</u>	<u>0.0</u>
Total Par Value	<u>\$3,840,749,676.66</u>	<u>\$3,482,279,218.00</u>	<u>\$358,470,458.66</u>	<u>10.3</u>

INCOME

Total income increased by \$19.5 million over 1976/77 amounting to \$220.7 million of which \$208.7 million was received from fixed obligations and \$21.5 million from dividends on common and preferred stocks. Charged against this investment income was a restatement of the bond-swap treatment in which capitalized losses are shown separately and amortized over the lives of the bonds swapped out.

STATEMENT OF INCOME

FOR THE YEARS ENDING JUNE 30, 1977 AND 1978

	<u>1978</u>	<u>1977*</u>	<u>INCREASE OR (DECREASE)</u>	<u>% INCREASE OR (DECREASE)</u>
Investment Income	\$230,153,492.41	\$208,978,068.78	\$21,175,423.63	10.1%
Plus: Discounts, Gains & Misc. Rev. (Note 1)	15,088,678.52	13,812,605.47	1,276,073.05	9.2
Less: Deductions (Note 2)	<u>(20,996,606.05)</u>	<u>(18,670,552.80)</u>	<u>(2,326,053.25)</u>	<u>(12.5)</u>
Sub Total	\$224,245,564.88	\$204,120,121.45	\$20,125,443.43	9.9%
Less: Administrative Expenses	<u>(3,529,076.26)</u>	<u>(2,886,103.50)</u>	<u>(642,972.76)</u>	<u>(22.3)</u>
Total Net Income	<u>\$220,716,488.62</u>	<u>\$201,234,017.95</u>	<u>\$19,482,470.67</u>	<u>9.7%</u>
Distribution of Net Income:				
State Accumulation Account	\$ 60,348,664.41	\$ 53,712,757.94	\$ 6,635,906.47	12.4%
Members' Savings	49,145,049.23	44,570,132.74	4,574,916.49	10.3
Annuity Reserve	<u>111,222,774.98</u>	<u>102,951,127.27</u>	<u>8,271,647.71</u>	<u>8.0</u>
Total Distribution	<u>\$220,716,488.62</u>	<u>\$201,234,017.95</u>	<u>\$19,482,470.67</u>	<u>9.7%</u>
Note 1:				
Amortization of Discount	\$ 4,226,763.31	\$ 3,937,346.72	\$ 289,416.59	
Amortization of Additional Discount	10,155,834.65	9,447,531.99	708,302.66	
Amortization of Capitalized Gains	555,707.17	323,735.67	231,971.50	
Gain on Sale	146,031.42	102,829.34	43,202.08	
Miscellaneous Revenue	<u>4,341.97</u>	<u>1,161.75</u>	<u>3,180.22</u>	
Total	<u>\$ 15,088,678.52</u>	<u>\$ 13,812,605.47</u>	<u>\$1,276,073.05</u>	
Note 2:				
Amortization of Premium	\$ 89,683.89	\$ 96,523.18	\$ (6,839.29)	
Amortization of Capitalized Losses	19,018,665.05	16,808,111.72	2,210,553.33	
Loss on Sale	8,278.51	432.90	7,845.61	
Service Fees	1,520,370.58	1,425,175.36	95,195.22	
Investment Expense	359,602.02	334,991.79	24,610.23	
Miscellaneous Expense	<u>6.00</u>	<u>5,317.85</u>	<u>(5,311.85)</u>	
Total	<u>\$ 20,996,606.05</u>	<u>\$ 18,670,552.80</u>	<u>\$2,326,053.25</u>	

*Restated for comparison purposes only.

COMPARATIVE BALANCE SHEETS

FOR THE YEARS ENDING JUNE 30, 1977 AND 1978

<u>ASSETS</u>	<u>1978</u>	<u>1977</u>	<u>INCREASE OR (DECREASE)</u>	<u>% INCREASE OR (DECREASE)</u>
Cash on Deposit in Treasury	\$ 28,582.27	\$ 49,568.29	\$ (20,986.02)	(42.3)%
Investments @ cost (Notes 1 & 2)	3,776,482,986.65	3,430,418,476.24	346,064,510.41	10.1
Investment Income Receivable	54,599,786.61	49,524,620.11	5,075,166.50	10.2
Investment Proceeds Receivable	2,247,407.13	1,421,118.67	826,288.46	58.1
Checks to be Returned to Cash	0.00	161,138.96	(161,138.96)	(100.0)
Contributions Receivable:				
School Districts and Others	78,491,984.27	79,075,056.07	(583,071.80)	(.7)
Lump Sum Payments-Employers'	17,020.99	0.00	17,020.99	
Employes	12,516,309.76	18,172,907.00	(5,656,597.24)	(31.1)
Installment Purchases Prior Srvc.	9,613,701.64	11,466,989.24	(1,853,287.60)	(16.2)
Commonwealth of Pa.-Current	78,380,000.00	76,000,000.00	2,380,000.00	3.1
-Deficit	82,540,000.00	71,600,000.00	10,940,000.00	15.3
Transfers from State Emp. Ret. Sys.	544,448.11	0.00	544,448.11	
Fixed Assets	996,752.39	0.00	996,752.39	
Permanent Purchasing Fund Advance	3,100.00	3,100.00	0.00	
Permanent Travel Advance	5,000.00	5,000.00	0.00	
<u>TOTAL ASSETS</u>	<u>\$4,096,467,079.82</u>	<u>\$3,737,897,974.58</u>	<u>\$358,569,105.24</u>	<u>9.6%</u>
<u>LIABILITIES AND RESERVES</u>				
Accounts Payable	\$ 5,865,798.61	\$ 3,123,709.86	\$ 2,742,088.75	87.8%
Investments Payable	4,589,156.50	56,817.50	4,532,339.00	
Contracts Payable-Fixed Assets	818,799.09	0.00	818,799.09	
Members' Savings Account	1,314,216,828.07	1,190,832,835.02	123,383,993.05	10.4
State Accumulation Account	646,990,385.45	512,183,404.25	134,806,981.20	26.3
Annuity Reserve Account	2,123,986,112.10	2,031,701,207.95	92,284,904.15	4.5
<u>TOTAL LIABILITIES AND RESERVES</u>	<u>\$4,096,467,079.82</u>	<u>\$3,737,897,974.58</u>	<u>\$358,569,105.24</u>	<u>9.6%</u>

NOTES

Note 1: Investments at cost:

Par Value	\$3,840,749,676.66	\$3,482,279,218.00	\$358,470,458.66
Net Discount	(227,378,702.90)	(222,157,450.58)	(5,221,252.32)
Deferred Losses—Bond Sales	163,115,251.53	170,296,708.82	(7,181,457.29)
Advancements	(3,238.64)	0.00	(3,238.64)
Total Cost	<u>\$3,776,482,986.65</u>	<u>\$3,430,418,476.24</u>	<u>\$346,064,510.41</u>

The Board makes provision for systematically amortizing net discounts throughout the life of the bonds by a direct charge and credit to net discounts and interest income respectively.

Revision of procedure relative to bond swaps was instituted to conform to the accrual and amortization method of accounting for gains and losses.

Note 2: Investments include FHA and VA Insured Mortgages in default for the fiscal year 1978 of \$3,282,048.37 and for the fiscal year 1977 of \$3,468,707.35, a decrease of \$186,658.98.

Note 3: The system's unfunded accrued liability was \$2,280,016,562 as of June 30, 1975 and \$2,394,463,697 as of June 30, 1976.

Note 4: Reports subject to Auditor General's review.

PAYMENTS

The total payments from the system amounted to \$366.0 million, an increase of \$23.6 million over last year. Total contributions exceeded total payments by \$127 million but the increase in total payments was greater by \$8.9 million.

STATEMENT OF PAYMENTS

FOR THE YEARS ENDING JUNE 30, 1977 AND 1978

	<u>1978</u>	<u>1977</u>	<u>INCREASE OR (DECREASE)</u>	<u>% INCREASE OR (DECREASE)</u>
Annuities:				
Normal Retirement	\$281,618,835.92	\$269,038,762.14	\$12,580,073.78	4.7%
Disability	8,770,084.52	7,832,053.53	938,030.99	12.0
Early Retirement	16,429,844.15	13,169,010.63	3,260,833.52	24.8
Refund Annuity	894.24	894.24	0.00	0.0
Death Benefits	13,413,889.44	17,290,416.81	(3,876,527.37)	(22.4)
Lump Sum Option 4	15,933,764.61	10,712,708.14	5,221,056.47	48.7
Refunded Principal & Interest	17,956,615.68	15,322,066.23	2,634,549.45	17.2
Transferred to State Employees' Retirement System	11,211,861.62	8,519,336.79	2,692,524.83	31.6
Refunded to School Districts	626,405.29	431,412.02	194,993.27	45.2
Replacement Checks Issued	<u>26,375.73</u>	<u>22,156.24</u>	<u>4,219.49</u>	<u>19.0</u>
Total	<u><u>\$365,988,571.20</u></u>	<u><u>\$342,338,816.77</u></u>	<u><u>\$23,649,754.43</u></u>	<u><u>6.9%</u></u>

1977-1978 CHANGES TO MEMBERS' SAVINGS ACCOUNT

June 30, 1977 Balance		\$1,190,832,835.02
Plus: Contributions of Members Including		
Net Receivable Change		137,716,454.91
Installment Purchases of Prior Service		5,372,476.33
Interest Credit @ 4%		49,145,049.23
Retired Members' Share of Annuities for Annuitants Who Returned to Service		88,509.30
Less: Transfers of Accumulated Deductions (contributions plus interest) to State Annuity Reserve Account for Retirement of Members:		
Normal Retirements	\$25,292,719.69	
Disabilities	2,528,795.30	
Early Retirements	4,784,108.78	
Beneficiaries Allowances	121,223.29	32,726,847.06
Death Benefits		1,966,504.46
Refunds to Members		17,956,615.68
Lump Sum Option 4		15,933,764.61
Transfers to State Retirement System		354,764.91
June 30, 1978 Balance		\$1,314,216,828.07

1977-1978 CHANGES TO STATE ACCUMULATION ACCOUNT

June 30, 1977 Balance		\$593,725,149.72
75/76 Actuarial Transfer with Interest	(\$81,541,745.47)	
Prior Period Adjustment - Amortization		
Adjustment of Capitalized Losses	2,538,777.36	
- Interest Adj.	30,000.00	
Returned Allocation Administration 76/77	<u>91,951.25</u>	(78,881,016.86)
June 30, 1977 Adjusted Balance		<u>\$514,844,132.86</u>
Plus:		
Contributions of School Districts and Others including net receivable change		175,527,429.61
Contributions of Commonwealth including net receivable change		169,677,977.91
Outstanding Checks Returned to Cash		139,771.15
Interest Credit		60,348,664.41
State Share of Annuities for Members who returned to service		556,713.26
Miscellaneous Account Increases		7,076.04
Capitalized Administrative Expense		177,953.30
Less:		
Annuity Transfers to Annuity Reserve		
Account for retirement of members:		
Normal Retirements	\$199,380,983.78	
Disabilities	13,747,204.68	
Early Retirements	40,804,534.31	
Beneficiary Allowances	<u>761,755.42</u>	254,694,478.19
Death Benefits		8,083,777.17
Refunds to School Districts		626,405.29
Transfer to State Retirement System		10,857,096.71
Replacement Checks Issued		26,375.73
Former Teacher Payments for May & June 1978		<u>1,200.00</u>
June 30, 1978 Balance		<u>\$646,990,385.45</u>

1977-1978 CHANGES TO ANNUITY RESERVE ACCOUNT

June 30, 1977 Balance		\$2,084,343,435.04
75/76 Actuarial Transfer with Interest	\$81,541,745.47	
June 30, 1977 Supplemental Account Balance	(134,183,972.56)	<u>(52,642,227.09)</u>
June 30, 1977 Adjusted Balance		\$2,031,701,207.95
Plus: Annuity Checks Returned to Cash		1,868,212.40
Interest		111,222,774.98
Transfer from State Employes' Retirement		2,599,880.72
Transfers from Members' Savings and State		
Accumulation Accounts for Retirement		
Annuities for Members:		
Normal Retirements	\$224,673,703.47	
Disabilities	16,275,999.98	
Early Retirements	45,588,643.09	
Beneficiary Allowances	<u>882,978.71</u>	287,421,325.25
Less: Retired Members' Shares of Annuities for		
Annuitants Who Returned to Service		645,222.56
Death Benefits Paid to Deceased Members'		
Estates and Beneficiaries		3,363,607.81
Annuities Paid:		
Normal Retirements	\$281,617,635.92	
Disabilities	8,770,084.52	
Early Retirements	16,429,844.15	
Refunds of Annuity	<u>894.24</u>	<u>306,818,458.83</u>
June 30, 1978 Balance		<u><u>\$2,123,986,112.10</u></u>

GRAPHS ILLUSTRATING
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A000001387087

STAFF

M. Andrew Sheffler, Executive Director
James A. Perry, Assistant Executive Director
Richard J. McElroy, Director, Fiscal Control
Terry L. Moser, Director, Information Systems
John C. Sandroek, Director, Contributor Services
Thomas E. Yagel, Director, Administrative Services

LEGAL COUNSEL

Raymond Kleiman, Deputy State Attorney General

ADVISORS

Investment Counsel

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Mellon Square
Pittsburgh, PA. 15230

Mortgage Counsel

Fidelity Bank
P.O. Box 1300
Philadelphia, PA. 19105

ACTUARY

George B. Buck Consulting Actuaries, Inc.
2 Pennsylvania Plaza
New York, N.Y. 10001

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