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Public School Employes' Retirement System  
PO Box 125  
Harrisburg, Pennsylvania 17108  
Telephone: 717-787-8540

**Component Unit Financial Report**  
For The  
Fiscal Year Ended June 30, 1992

Bernard J. Freitag  
Chair  
Alma Kay Crawford  
Vice Chair  
Board of Trustees

James A. Perry  
Executive Director

*Report prepared by the Public School Employes' Retirement System staff*

***Committee Co-Chairpersons***

*Yvonne C. Wineholt  
Director of Fiscal Control*

*Douglas A. Bonsall  
Director of Public Relations*

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of  
Pennsylvania Public School  
Employees' Retirement System

For its Component Unit  
Financial Report  
for the Fiscal Year Ended  
June 30, 1991

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 component unit financial reports (CUFRs) achieve the highest standards in government accounting and financial reporting.

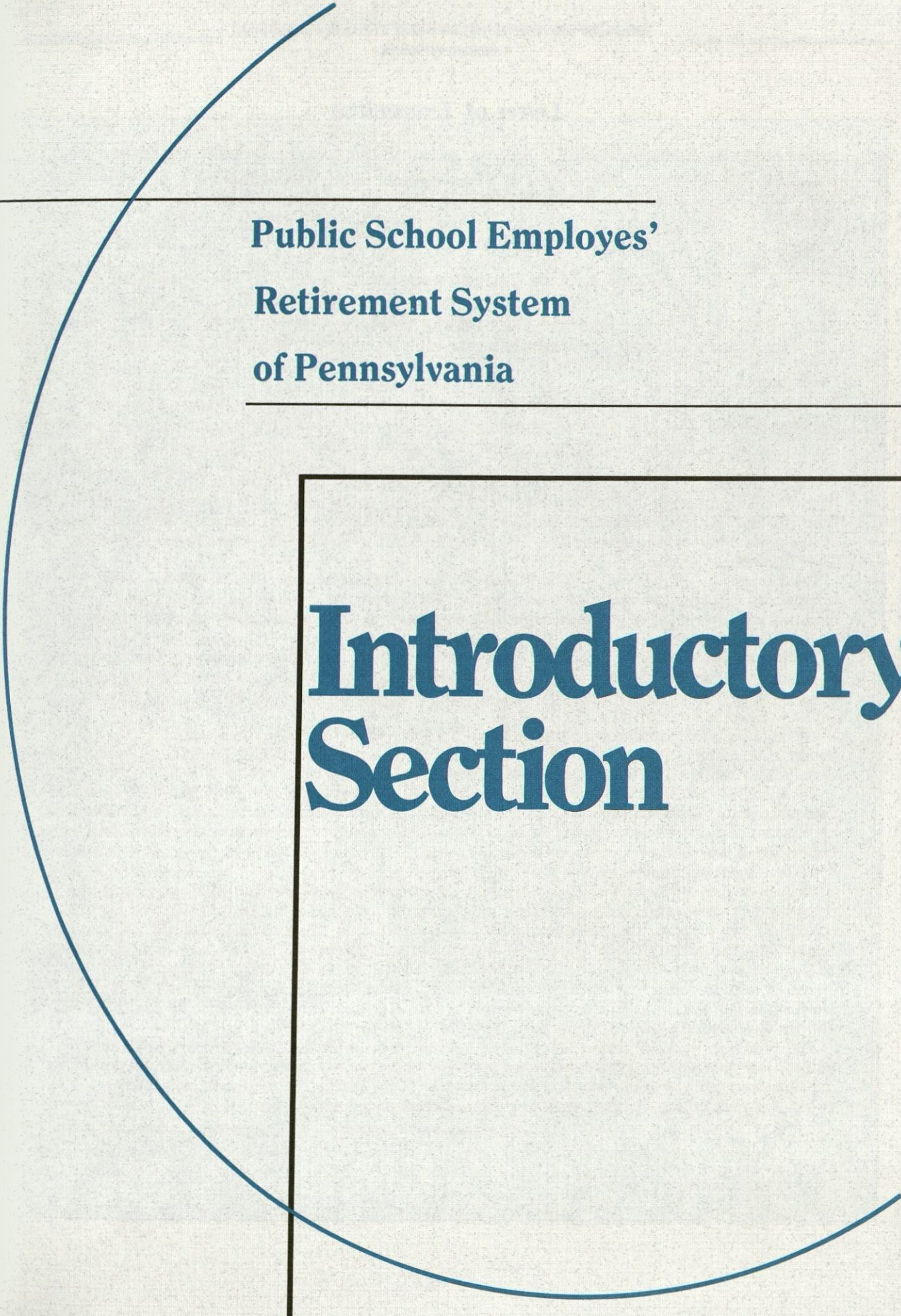


*[Signature]*

President

*[Signature]*

Executive Director



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**Public School Employes'  
Retirement System  
of Pennsylvania**

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**Introductory  
Section**

## Letter of Transmittal



COMMONWEALTH OF PENNSYLVANIA  
**PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**  
Telephone (717) 787-8540

*Mailing Address*  
PO Box 125  
Harrisburg PA 17108-0125

*Building Location*  
5 North 5th Street  
Harrisburg PA 17101

December 1, 1992

The Board of Trustees  
Public School Employees' Retirement System  
Harrisburg, PA 17101

We are pleased to present the seventy-third annual Component Unit Financial Report for the Pennsylvania Public School Employees' Retirement System (the System) for the fiscal year ended June 30, 1992. The management of the System is solely responsible for the accuracy and completion of this report, pursuant to section 24 Pa.C.S. §8502(n) of the Public School Employees' Retirement Code (Retirement Code).

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania. The System has experienced various benefit modifications over its 75 years in existence which are provided in a plan history included in this **Introductory Section**.

The members eligible to participate in the System include all full time public school employees and part time public school employees who render at least 80 days or 500 hours of service yearly in any of 633 reporting units in Pennsylvania. As of June 30, 1992, the System had 203,000 active members with an annual active payroll of \$6.4 billion.

The annuitant membership was comprised of 105,000 retirees and beneficiaries who receive \$72 million each month. The average yearly benefit paid to annuitants is \$8,300. The average benefits for each option type are detailed in the **Statistical Section** of this report.

The System is a cost-sharing multi-employer defined benefit pension plan, to which 633 reporting units contribute. The Commonwealth of Pennsylvania provides half of the employer contributions to the System. The System is administered by a staff of 258. The System is headquartered in Harrisburg, Pennsylvania and field offices are maintained in strategic areas of the state to enable direct contact with the membership and employers of the System.

The report has been prepared in accordance with the principles of governmental accounting and reporting as promulgated by the Governmental Accounting Standards Board (GASB). The report consists of five sections: the **Introductory Section** containing the Transmittal Letter, the Chairman's Report, and the Administrative Organizational Structure; the **Financial Section** containing the opinion of the independent certified public accounting firm and the financial statements of the System; the **Actuarial Section** containing the opinion of the independent actuarial firm and the results of their latest actuarial valuation; the **Statistical Section** containing significant data pertaining to the System; and the **Investment Section** containing an overview of the System's investment activities.

The Pennsylvania Public School Employees' Retirement System was established by law as an independent administrative board, directed by a governing board which exercises control and management of the System, including the investment of its assets. The System is considered a component unit of the Commonwealth of Pennsylvania as defined by the GASB.

An annual audit of the System by a certified public accounting firm is required by the Retirement Code. The System has contracted with KPMG Peat Marwick for this audit of its financial statements and has received a favorable opinion as evidenced in the **Auditor's Opinion Letter** in the **Financial Section** of this report.

### **Economic Summary**

Many states continue to experience decreasing revenues and are taking measures to curtail spending. This had an impact on the System's revenues in that the Commonwealth quarterly contribution payments were delayed an average of three months. However, as of July 31, 1992, the Commonwealth had paid its final contribution for the 1991/92 fiscal year. The reporting units are also current in their contributions to the System.

Throughout the economic downturn, the Board has continued fulfilling its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the increasing growth of the System's assets, the favorable performance of the investment portfolio and the increasing strength of the System with respect to funding. Of utmost importance to the Board is to assure that required reserves are available for payment of current and prospective retirement benefits.

### **Major Initiatives**

In August 1991, the Pennsylvania Legislature enacted legislation that provides for a health care premium assistance payment of up to \$55 per month for annuitants who have at least 24½ years of credited service and for all disability annuitants. These payments began in July 1992 and funding began during the 1991-92 fiscal year. The funding for this program is provided by the reporting units and the Commonwealth as a percentage of active salaries. The System's actuary has determined that the rate required for funding is .5 percent which is included as a component of the total employer contribution rate.

The implementation of the health care program was a major initiative during the 1991-92 fiscal year requiring vast resources from all of the System's operational areas. The program was successfully implemented on schedule and currently, 34,000 annuitants are receiving assistance under this program. In addition, the System expanded the existing elective group medical plan to provide coverage for all annuitants, spouses and dependents.

The System implemented conversion to a new master trust custodian, Provident Bank, for all investment assets and activities. The results of this conversion were increased effectiveness and efficiency in trade processing as a result of additional automation. The impact to the System was dramatic in that all investment accounting activities were significantly changed creating temporary delays in reporting of all financial activities over a six month period of time.

Progress continues with the System's comprehensive business plan to integrate all information and systems. The System has contracted for consultative design, development and monitoring services and work is expected to begin during the 1992-93 fiscal year.

The in-house investment program continues to expand with over \$4 billion now under management. It is anticipated that this program will double by 1993 resulting in substantial savings in management fees.

In the area of member services, a new regional office was opened in Warminster to provide additional counseling services to our members in the southeastern part of the state. We are also continuing our efforts to establish collaborative arrangements with labor unions and professional organizations to provide retirement information to our members.



The System developed two major requests for proposal for consultant work: one for assistance to design, develop, implement, and provide project leadership for the plan; and one to develop the project plan and provide monitoring services as to project progress and effectiveness.

### Financial Highlights

The System maintains a full accrual accounting system. More specific accounting information is detailed in the **Summary of Significant Accounting Policies (Note 2)** in the notes to the financial statements.

The System has established policies and procedures for the review and verification of all payments made from the Fund.

The System's assets totaled \$20.5 billion at book value (\$22.3 billion at market value) as of June 30, 1992. This was an increase of \$2.4 billion over the prior year book value. Based on market valuation of its assets, the System is the 14th largest public pension fund in the nation and the 21st largest among public and corporate pension funds in the nation.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly from the investment income of the Fund. For the fiscal year 1991/92, the appropriation was \$15,816,000.

### Revenues

Public employe retirement systems are established by law to pay retirement benefits and to accumulate the resources with which to pay such benefits. The System accumulates its resources through collection of contributions from its members and employers and from income earned on invested contributions. Contributions and investment income for 1992 totaled \$3,035.5 million detailed as follows:

Revenue Source	1992 (Millions)	1991 (Millions)
Member Contributions	\$ 361.7	\$ 337.8
Employer Contributions	961.0	1,142.1
Investment Income	1,712.8	1,213.8
<b>Total</b>	<b>\$3,035.5</b>	<b>\$2,693.7</b>

The net increase of \$341.8 million resulted primarily from the increase in investment income. The investment income is detailed in **Note 4** of the financial statements.

The decrease in employer contributions resulted from the decrease in the employer contribution rate from 19.18 percent of salaries to 14.40 percent for fiscal year 1991-92, a decrease of 4.78 percent. This rate is shared equally by the school districts and the Commonwealth of Pennsylvania. Additional revenue details are provided in **Schedule 2** of the **Financial Section** of this report.

## Introductory Section

## Expenses

The largest single factor of expense relates to the purpose for which the System was created: payment of benefits. These payments, coupled with the expense to administer the plan, constitute the total expenses of the System. Expenses by type for 1992 and 1991 are shown for comparative purposes.

Expenses	1992 (Millions)	1991 (Millions)
Retirement Benefits	\$ 847.0	\$ 792.9
Disabilities	31.1	30.9
Lump-Sum Payments	125.2	124.0
Refunds	10.4	11.2
Administrative	15.7	13.6
Net Transfers	10.7	9.4
<b>Total</b>	<b>\$1,040.1</b>	<b>\$ 982.0</b>

Pension payments to the System's 105,000 annuitants now exceed \$72 million per month. Expenses to administer the System were \$15.7 million for the year and continue to represent a small fraction of total expenses, constituting only 1.5 percent of the System's total expenditures. A detailed breakdown of these expenses, with budget comparisons by expenditure category, appears in the **Financial Section (Schedule 3)**.

The ten-year trend in expense by type is presented in **Schedule 2** of the **Financial Section**.

## Funding

The System uses an actuarial reserve type of funding which is financed by member contributions, employer contributions and earnings from invested assets. For the year ended June 30, 1992, member contributions constituted 11.9 percent of the annual funding, employer contributions constituted 31.7 percent and investment earnings accounted for 56.4 percent.

The total employer rate of contribution as a percent of salaries decreased from 14.90 percent for the fiscal year 1991-92 to 14.24 percent for 1992-93. Of this rate, 13.74 percent represents the contributions required to fund the System and is a decrease of .66 percent from the 1991-92 fiscal year. This decrease results from a change in the asset valuation method and from net favorable actuarial experience during fiscal year 1991-92. The remaining .5 percent is required to fund the Health Care Premium Assistance Program. Further information is provided in the **Actuarial Section** of this report.

Funding is the process of specifically setting aside money for current and future use. Proper funding entails an actuarial examination of the fund balances to ensure money will be available for future and current benefit payments. With such a systematic approach, reliance can be placed on the balances of these accounts. Continuous improvement in the funding by increased earnings and contributions is sought along with control over expenses. As of June 30, 1992, the Fund balance increased \$1,995.4 million over the prior year — from \$17,597.4 million to \$19,592.8 million after meeting the retirement obligations of the System.

The results of the latest actuarial valuation indicate that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System. Additional information on the System's pension benefit obligation, actuarial liability and funding progress is contained in the **Actuarial** and **Financial Sections** of this report.

### Investments

Earnings from the investment portfolio represent a major source of revenue to the System, accounting for over 56 percent of total revenues for the year.

Investments of the System netted \$1,712.8 million in earnings for the year. The investment portfolio totalled \$21.3 billion, at market value, as of June 30, 1992. This represents an increase of approximately \$3.2 billion over the prior year.

The investment portfolio is of high quality and well-diversified to emphasize a long-term investment approach. The investment objective of the System is to produce a real return over inflation over time. The Board of Trustees recognizes that the objectives of a sound and prudent policy are to produce investment results that will preserve the assets of the System, as well as maximize earnings consistent with its long-term needs. For the fiscal year ended June 30, 1992, the time-weighted rate of return on the System's investments was 14.2 percent.

Additional information on the System's investments is contained in the **Investment Section** of this report.

### Federal and State Tax Status

The System is a qualified trust fund under Section 401(a) of the Internal Revenue Code. As a result of the qualified status, the trust fund is entitled to an exemption, under Section 501(a) of the Code, from Federal income taxation on its investment earnings. Additionally, contributions made on behalf of the active members are tax deferred under Section 414(h) of the Internal Revenue Code. The trust fund and any benefits accruing to the members of the System are exempt from Pennsylvania state and municipal taxes.

### Professional Services

Professional consultants are appointed by the Board of Trustees to perform services essential to the efficient operation of the System. An annual audit by an independent certified public accounting firm and annual valuation by an actuarial consultant attest to the financial and actuarial soundness of the System. The investment performance of the System is reviewed by investment evaluation firms on a quarterly basis. The consultants providing services to the System are listed in the **Introductory Section** of this report.

### Other Information

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public School Employees' Retirement System for its component unit financial report for the fiscal year ended June 30, 1991.

**Introductory Section**

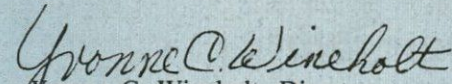
The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

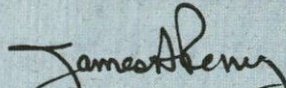
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such component unit financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Public School Employees' Retirement System has received a Certificate of Achievement for the last nine consecutive years (fiscal years ended June 30, 1983 — June 30, 1991). We believe our current report continues to conform to the Certificate of Achievement program requirements and we will be submitting this report to GFOA to determine eligibility for the 1992 certificate.

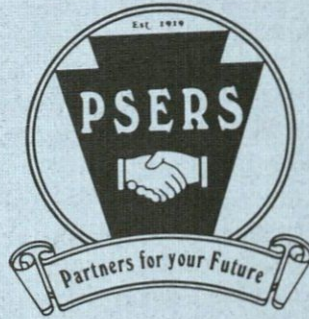
A reproduction of this award appears in this **Introductory Section**. Its attainment represents a significant accomplishment by the Retirement System.

Respectfully submitted,

  
Yvonne C. Wineholt, Director  
Bureau of Fiscal Control

  
James A. Perry  
Executive Director

# Mission Statement



*The Board of Trustees of the Public School Employees' Retirement System, empowered by statute with the authority and having fiduciary responsibility to ensure the timely and accurate payment of benefits to the members of the System and to maintain the stability of the Fund, shall:*

- 1. effectively collect contributions to the Fund*
- 2. prudently invest the assets of the Fund, and*
- 3. diligently obtain and maintain the long-term, optimum value of the total Fund for the members of the System, the Commonwealth and its taxpayers, and the school districts of the Commonwealth.*

*Adopted  
4/26/85*

## Administrative Organization

### PSERS Board of Trustees



**Bernard J. Freitag**  
Chairman



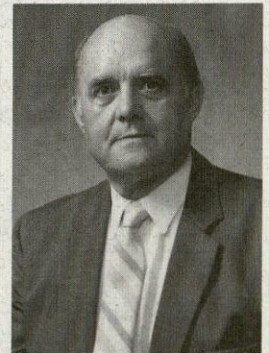
**Alma Kay Crawford**  
Vice Chair



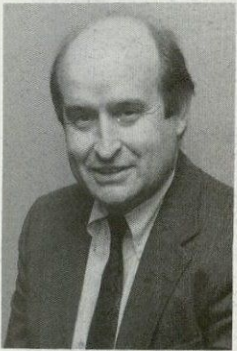
**Jacque D. Angle**



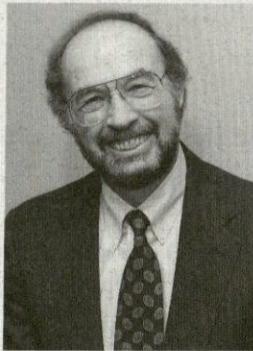
**Mary Ann Caputo**



**Donald M. Carroll, Jr.**



**Winston J. Churchill, Jr.**



**Dennis Ciani**



**Dwight Evans**



**Albert Fondy**



**Vincent J. Fumo**



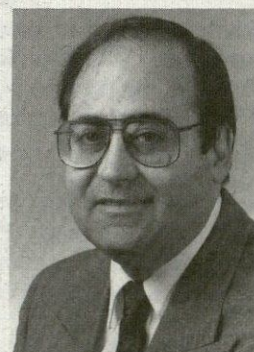
**Kenton W. Keiser**



**Catherine Baker Knoll**



**Roger A. Madigan**



**Steven R. Nickol**



**Joseph V. Oravitz**

**PSERS Board of Trustees**  
as of June 30, 1992

**Secretary of Education of the Commonwealth of Pennsylvania (ex officio)**  
Honorable Donald M. Carroll, Jr.

**Treasurer of the Commonwealth of Pennsylvania (ex officio)**  
Honorable Catherine Baker Knoll

**Executive Secretary of the Pennsylvania School Boards Association, Inc. (ex officio)**  
Mr. Joseph V. Oravitz

**Two Members Appointed by the Governor of the Commonwealth of Pennsylvania**  
Mr. Albert Fondy (term expires January 1, 1994)  
Mr. Winston J. Churchill, Jr. (term expires February 14, 1995)

**Three Members Elected from Among the Professional Contributors of the System for a Term of Three Years**  
Mr. Bernard J. Freitag (term expires January 1, 1993)  
Mr. Dennis Ciani (term expires January 1, 1994)  
Mr. Jacque D. Angle (term expires January 1, 1995)

**One Member Elected from Among the Nonprofessional Contributors of the System for a Term of Three Years**  
Ms. Mary Ann Caputo (term expires January 1, 1995)

**One Member of the Annuitant Group of the System Elected from Among their Number for a Term of Three Years**  
Ms. Alma Kay Crawford (term expires January 1, 1993)

**One Member Elected by Members of Pennsylvania Public School Boards from Among their Number for a Term of Three Years**  
Mr. Kenton W. Keiser (term expires January 1, 1994)

**Two Members Appointed by the Speaker of the House from the Pennsylvania House of Representatives, One Representing the Majority Party and One Representing the Minority Party**  
Honorable Dwight Evans (term expires November 30, 1992)  
Honorable Steven R. Nickol (term expires November 30, 1992)

**Two Members Appointed by the President Pro Tempore of the Pennsylvania Senate, One Representing the Majority Party and One Representing the Minority Party**  
Honorable Vincent J. Fumo (term expires November 30, 1992)  
Honorable Roger A. Madigan (term expires November 30, 1992)

## 1992 Board Committees

### Appeals

Mr. Angle, Chair  
Mr. Ciani, Vice-Chair  
Ms. Crawford  
Ms. Knoll  
Mr. Oravitz

### Audit/Budget

Mr. Oravitz, Chair  
Mr. Angle  
Mr. Churchill  
Ms. Crawford  
Rep. Evans

### Building

Mr. Fondy, Chair  
Ms. Caputo  
Mr. Ciani  
Rep. Nickol

### Election

Mr. Oravitz, Chair  
Mr. Ciani  
Mr. Fondy  
Rep. Nickol

### Finance

Mr. Churchill, Chair  
Mr. Angle  
Mr. Carroll/Mr. Brown  
Mr. Ciani  
Ms. Crawford  
Rep. Evans  
Mr. Fondy  
Sen. Fumo  
Mr. Keiser  
Ms. Knoll  
Sen. Madigan

### Internal Operations Review

Mr. Freitag, Chair  
Mr. Churchill  
Mr. Ciani  
Mr. Keiser

### Legislative Monitor

Ms. Crawford  
Rep. Nickol

### Personnel

Mr. Ciani, Chair  
Ms. Caputo  
Mr. Churchill  
Ms. Crawford  
Mr. Keiser  
Ms. Knoll

### Proxy

Ms. Crawford, Chair  
Mr. Keiser, Vice-Chair  
Mr. Carroll/Mr. Brown  
Mr. Churchill  
Mr. Fondy  
Rep. Nickol  
Ms. Knoll  
Sen. Madigan

### Real Estate

Ms. Knoll, Chair  
Mr. Angle  
Mr. Carroll/Mr. Brown  
Mr. Churchill  
Mr. Ciani  
Ms. Crawford  
Rep. Evans  
Mr. Fondy  
Sen. Fumo  
Mr. Keiser  
Sen. Madigan

### Strategic Planning

Mr. Freitag, Chair  
Mr. Angle  
Ms. Caputo  
Mr. Carroll/Mr. Brown  
Mr. Churchill  
Mr. Ciani  
Ms. Crawford  
Rep. Evans  
Mr. Fondy  
Sen. Fumo  
Mr. Keiser

Ms. Knoll  
Sen. Madigan  
Rep. Nickol  
Mr. Oravitz

*NOTE: The Chairman of the Board of Trustees is a voting ex-officio member of all committees.*



## Chairman's Report



COMMONWEALTH OF PENNSYLVANIA  
**PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

Bernard J. Freitag, Chairman of the Board  
Telephone: 215-757-7420

December 1, 1992

Honorable Robert P. Casey  
Governor of Pennsylvania

Members of the Legislature  
Members of the Retirement System

Dear Governor Casey, Legislators and Members:

On behalf of the Board of Trustees of the Pennsylvania Public School Employees' Retirement System, I am pleased to present this seventy-third Component Unit Financial Report for the fiscal year ended June 30, 1992. This report includes reports of the independent auditor and consulting actuary and other significant activities of the System for the year.

This year, the System attained three significant milestones:

- (1) The assets of the System surpassed the \$20 billion mark and as of June 30 were \$20.5 billion at book value and \$22.3 billion at market value.
- (2) The total benefit payouts to System annuitants and beneficiaries surpassed \$1 billion.
- (3) In the area of health care, the System expanded its elective group health insurance plan to allow all annuitants, spouses and dependents to participate. The System also implemented a legislated \$55 per month health care premium assistance program for annuitants with at least 24½ years of service and all disability annuitants. These premium assistance payments commenced in July 1992.

The Board of Trustees is committed to prudent management of the System's assets for the benefit of the membership. At the same time, we are aware of our responsibilities to the Commonwealth, its taxpayers and the reporting units.

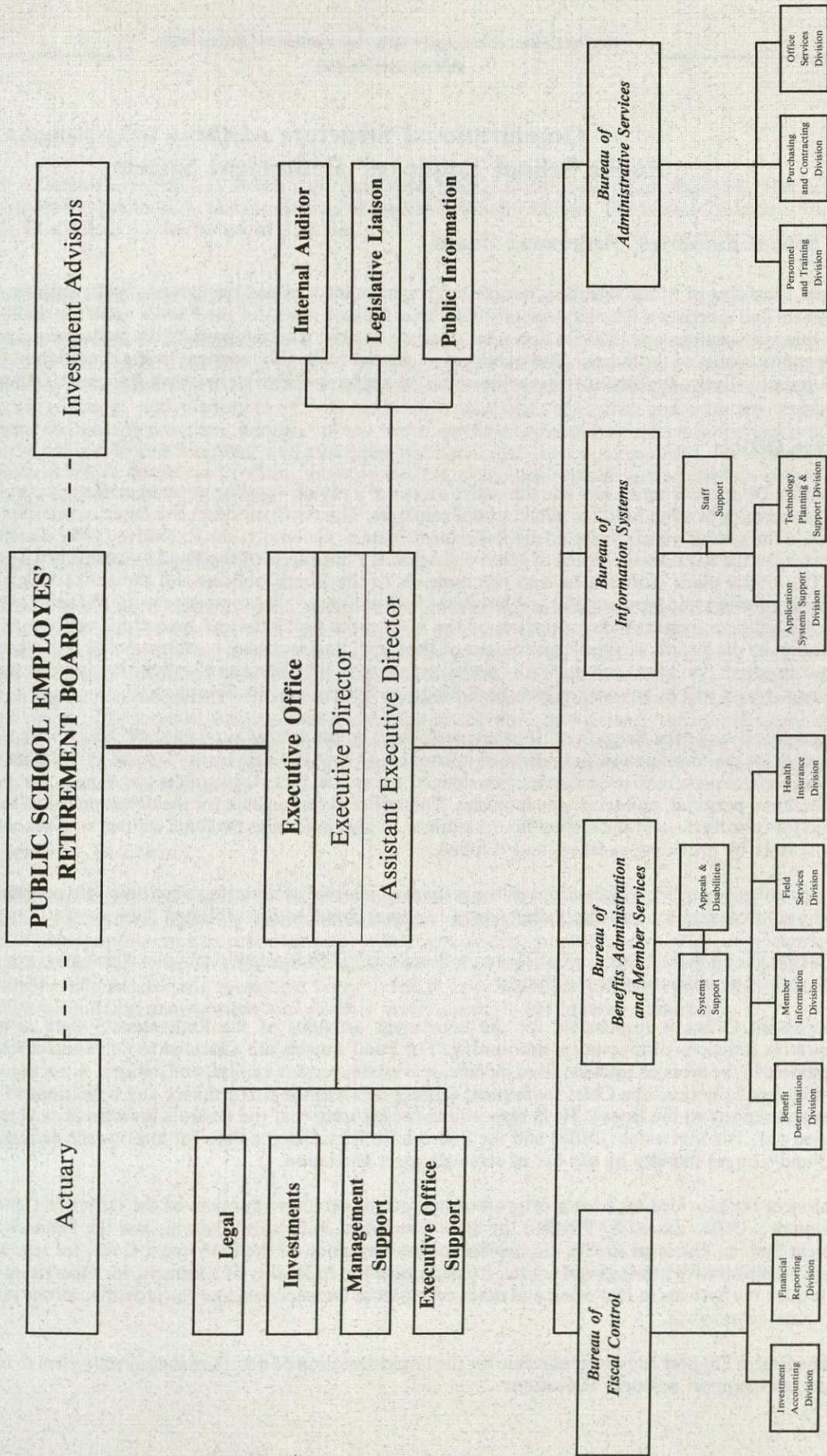
The Board of Trustees appreciates the cooperation extended to it by the Governor's Office and the Legislature which enables and empowers us to meet the challenges which face us currently and to make timely provisions for the challenges ahead.

The Board of Trustees pledges to continue to administer the affairs of the Pennsylvania Public School Employees' Retirement System in the most competent and efficient manner possible.

A handwritten signature in cursive script that reads 'Bernard J. Freitag'.

Bernard J. Freitag  
Chair  
Board of Trustees

# Organizational Chart of the Public School Employees' Retirement System



## Organizational Structure of the Public School Employees' Retirement System

### Public School Employees' Retirement Board

The Board, consisting of fifteen members, adopts and promulgates rules and regulations for the uniform administration of the System and exercises a fiduciary responsibility over the investment of the Fund's assets. In addition, the Board certifies salary deductions and contribution rates, makes actuarial investigations of the Retirement System, provides for independent audits of the System, and publishes an annual financial statement of the condition of the Retirement Fund. Administratively, the Board reviews the activities performed by the System's Executive Office.

### Executive Office

The Executive Director serves as chief administrative officer of a rapidly growing governmental agency which is chartered to administer a large pension fund for public school employes. The Assistant Executive Director provides administrative assistance in the overall management of the Retirement System. Generally, the Executive Office directs and manages the operation of the Retirement System to achieve the primary objectives of the Fund as established by the Retirement Board. This office plans, formulates, and recommends to the Board policies and directions which further sound management practices and represent the best interests of the active members and annuitants of the System. Particularly, the Executive Office monitors the operation of the investment portfolio and evaluates portfolio performance for consideration by the Board, certifies expenditures of the Fund, and measures performance of professional individuals or firms with whom the Board contracts for specialized services. The Executive Office also apprises the Board of any development which will in any way affect the Retirement System and its operation.

Additional functions of the Executive Office are performed by specialized support staff. The Public Relations Office is responsible for the coordination and release of information about the Retirement System. In fulfilling this obligation, this office prepares press releases, bulletins, newsletters, the annual report, pamphlets, and members' handbooks, and answers written, personal, and telephone inquiries. This office is responsible for the development of the agency video series and for coordination of the annual Board seminar. It also maintains personal contact with school retiree groups across the state by providing speakers and displays.

The internal auditor performs evaluations of the systems of internal accounting, electronic data processing and benefit processing controls and conducts periodic reviews for compliance with established laws, regulations and guidelines.

The legislative liaison in the Executive Office monitors and reports on legislative activities which may impact on members' benefits or the administration of the System.

The Investment Office is responsible for the investment activities of the Retirement System as opposed to the administrative functions of investment accounting. The Fund's assets are allocated to numerous investment advisors for investment in the areas of equities, fixed income, real estate, venture capital, and options. A portion of the portfolio is now managed in-house. The Chief Investment Officer oversees the performance and operations of the investment advisors and reports to the Board. He is responsible for assuring that the Board's investment policies and decisions are carried out. The Investment Office and the Board have formulated a plan for meeting the earnings requirements of the Fund's target liability by the use of strategic asset allocation.

Legal services are provided by a team of professional personnel under auspices of the Office of General Counsel of the Governor's Office shared by PSERS, the State Employees' Retirement System, and the Pennsylvania Municipal Retirement System. The legal staff is responsible for interpretation of the Retirement Code, for representation of the System in administrative hearings and courts, for determination of legality of contracts, for supervising outside lawyers who represent the Systems in real estate and other commercial transactions, and for providing advice related to matters of corporate governance.

The Management Support team is responsible for the implementation of a work management system to improve PSERS' efficiency and support resource allocations.

## **Bureau of Administrative Services**

The Bureau of Administrative Services directs and coordinates staff activities relating to personnel, purchasing, and office services, as well as preparation and monitoring of the administrative budget. The Bureau Director is responsible for conducting all elections to the Board of Trustees.

### **Personnel and Training Division**

This division coordinates a comprehensive human resources operation by establishing and maintaining personnel and training policies and programs. Specifically, the division maintains a compensation and classification system; administers the Commonwealth benefits and employe services program; oversees the recruitment, selection, and placement of job candidates; develops, conducts, and evaluates employe development and training programs; administers and maintains the automated personnel management system; oversees the labor relations function; and maintains personnel and leave records. Also, the Affirmative Action, State Employee Assistance Program, employe services, retirement counseling, and employe evaluation functions are carried out in this division.

### **Purchasing and Contracting Division**

This division administers the agency procurement function through the purchase and maintenance of supplies, furniture, and equipment. The division reviews agency purchase requests, makes recommendations to management and staff, formulates specifications, secures and awards bids, prepares purchasing documents, determines the need for maintenance agreements and ensures compliance with the agency's and Commonwealth requirements and procedures. The division prepares, maintains, and administers Service Purchase Contracts for services, maintenance and computer software, and controls the agency master file on blueback contracts. The division chief serves as the agency Contract Compliance Officer, Minority and Women's Business Enterprise Compliance Officer, and Surplus Property Control Officer. Office equipment repairs are coordinated in this division.

### **Office Services Division**

This division develops techniques to improve practices and the allocation of resources, develops administrative procedures, conducts space and equipment utilization studies, and negotiates leases. The division also manages a forms and publications program by providing graphic, composition, reproduction, and distribution services. The division coordinates, directs, and tests a Disaster Recovery program and operates a consolidated mail and messenger service. The division chief has primary responsibility for the coordination of building management and security at the agency's headquarters building.

## Bureau of Benefits Administration and Member Services

The Bureau of Benefits Administration and Member Services provides professional and technical services to over 200,000 active members and 103,000 retirees from the moment of enrollment through the process of retirement, and administers the \$68 million dollar annuitant payroll. The bureau is organized into four divisions: Field Services, Member Information, Benefit Determination, and Health Insurance.

As part of the bureau director's office, requests from members appealing staff decisions are researched and presented to the Appeals Committee of the Board. The staff, with a team of medical doctors, reviews requests for disability benefits. Lastly, as part of the director's office, a team of analysts provide management and system support to bureau personnel.

### Field Services Division

Our field program services both active and retired PSERS' members and over 600 reporting units through ten field offices that are strategically located throughout the Commonwealth of Pennsylvania. Each field representative is a professional liaison between the agency, the members, and the reporting units.

Our Board of Trustees requires mandatory counseling for members before they retire. PSERS offers several retirement seminars to cover this mandatory counseling: general information seminars which target members of PSERS that will be retiring two or more years in the future, benefits counseling, which is for members retiring in the current school year, and individual counseling, which is provided as needed. On occasion, a Pre-Retirement Education Program which targets members retiring within the next ten to fifteen years is offered. These programs are expanded to include guest speakers such as: attorneys, insurance company representatives, Blue Cross/Blue Shield representatives, etc.

The field staff also trains the personnel located in the reporting units who are responsible for the information reported to PSERS. Problems between the reporting units and PSERS are often resolved by the field staff.

### Member Information Division

The Member Information Division is responsible for the security and accuracy of our members' records and functions as an information center for the membership who call or write about their accounts. The division consists of four sections: Member Communications, Research and Reports, Information Processing, and Account Maintenance.

**Member Communications Section** — The majority of oral and written communications relative to a member's record in the System is handled by Member Communications. This section has the general telephone number for all of PSERS, and is the main link between PSERS and the outside world (reporting units, members, SERS, legislative offices, field offices, etc.).

**Research and Reports Section** — This section determines eligibility for membership in PSERS, reviews beneficiary information for compliance with legal requirements, and maintains an automated master cross-reference file of each member.

**Information Processing Section** — This section provides typing support to all bureaus within the agency. Recording and transcription services for meetings within the agency are also provided. Information is transferred to machine readable formats and data entry and verification services are performed by this section. This unit also develops and maintains the automated programs which perform data validation and consistency edits.

**Account Maintenance Section** — This section is responsible for the security and management of the approximately 375,000 records of current and former public school employees. An updatable microfiche system has been installed to provide maximum disaster recovery capability.

## Benefit Determination Division

The Benefit Determination Division is responsible for the calculation and processing of all retirement benefits, death benefits, requests to purchase service credit, and refunds. In addition, the division is responsible for the annuitant payroll. The division consists of five sections:

**Retirement Processing Sections (A & B)** — These sections are responsible for retirement eligibility and computation of all types of retirement benefits: superannuation, early, disability, frozen annuity, and multiple service.

These sections also communicate with vested members by providing projected estimated benefits.

**Purchase of Service Section** — This area establishes a member's eligibility to purchase over 16 types of service and calculates cost. This section determines the effective dates for the member's payroll deduction plan and communicates with members regarding their purchase of service requests.

**Annuitant Processing Section** — This section is responsible for the maintenance of the annuitant payroll file. Deductions for health insurance premiums, Federal Withholding Tax, Federal Tax Levies, and Child and Spousal Support are processed by this section. Benefit payments are adjusted and recalculated when corrected information is reported.

**Refund and Closing Section** — This section calculates and processes all types of refund payments to both members and beneficiaries of deceased members.

This section also determines eligibility to receive death benefits and calculates the final death benefits. The benefits are paid to beneficiaries of active members and beneficiaries or survivor annuitants of retirees.

This section answers questions on such issues as capital gains, ordinary income, death benefit exclusions, federal estate tax, inheritance tax, and Pennsylvania State income tax.

## Health Insurance Division

This division is responsible for all aspects of the PSERS Health Insurance Program. To provide group insurance coverage for all school retirees, a statewide plan is sponsored by PSERS. Premium assistance of \$55 per month is also provided for retirees who are receiving a disability benefit from PSERS or are credited with at least 24½ years of service.

## Bureau of Fiscal Control

This bureau has responsibility for the planning, organizing, and directing a complete accounting system. Fulfilling this responsibility includes: recording of all financial transactions; preparing financial statements; determining and collecting member, employer and Commonwealth contributions; accounting for the investment portfolio transactions; consulting with the Board of Trustees on financial matters; and serving as liaison with financial consultants, actuaries, fund evaluators, investment advisors, other state and federal agencies, and all reporting units.

### Financial Reporting Division

The Financial Reporting Division has responsibility for the classification, analysis, and reporting of all financial transactions. The Division consists of four sections: General Ledger, Active Members Review and Control, Post-Retirement Review and Control, and Accounts Receivable.

**The General Ledger Section** — This section records all financial data including outgoing payments from the Fund and incoming receipts to the Fund. It maintains the cash receipts journal, cash disbursements journal, the general ledger, and is responsible for the preparation of financial statements.

**The Active Members Review and Control Section** — This section collects all membership salary and service data, provides services to the reporting units by interpreting the Rules and Regulations regarding membership and by ensuring the proper application of reporting codes and procedures. It also controls all updates of salaries, contributions, interest, and service to the individual members' accounts, reconciles these accounts prior to retirement and reviews the benefit calculations at retirement.

**The Post-Retirement Review and Control Section** — This section controls all updates to the annuitant payroll file, reviews adjustments to original benefit calculations, controls and reconciles the federal withholding and medical insurance deduction accounting processes, controls and reconciles the payment history file, and reviews the data required for death benefit calculation and final account closings.

**The Accounts Receivable Section** — Accounts Receivable administers billing and receivable procedures for employe or employer contributions and for member purchase of service. The Section is the System's liaison with banks who provide lockbox and ACH services in the collection of the employe and employer contributions into the Fund. It also safeguards direct payments made to the System from members, reporting units, and vendors.

### Investment Accounting Division

The Investment Accounting Division has responsibility for processing and monitoring all investment transactions to guarantee adherence to guidelines and objectives prescribed by the Board. It serves as intermediary with custodial banks, the State Treasury Department, brokers, and the investment evaluator. The Division accounts for the \$18 billion investment portfolio by the reconciliation of each investment asset class and income category between the general ledger and the sub-custodial banks.

## **Bureau of Information Systems**

The Bureau of Information Systems has the responsibility for planning, administering, and controlling all electronic data processing activities within PSERS. Additionally, this bureau interprets and applies agency policies and objectives across all automated technology activities, provides professional services for feasibility studies, system analyses, system design and programming, data communications and data management, hardware and software selection and computer operations. The bureau also formulates short-term and long-range developmental plans to permit the agency to meet directed missions.

### **Director's Office**

The Director's Office provides support to the director, the division chiefs and personnel within the Bureau of Information Systems by performing a variety of assignments which ensure that program needs and bureau goals are met. They also provide testing and training of all end-user software and application systems which reside on the mainframes and microcomputers. This includes developing test files and system integration testing; and development of end-user and operational manuals. Testing materials and course outlines are developed and training is scheduled.

Assistance is provided to the director by gathering and assembling information for use in preparing PSERS' administrative budget, the automated technology multi-year plan, service purchase contracts, requests for proposals, and monthly reports. Special status and statistical reports are prepared for use at staff, planning and priority committee meetings and presentations, both agency and bureau.

This section is responsible for administering the problem tracking system. These responsibilities include identification and tracking of automated technology related problems; processing end-user requests for software, if possible; forwarding all problems/requests to appropriate BIS divisions; summarizing problems and requests reported; recommending to bureau management methods to eliminate problems and improve methods to handle requests.

This section evaluates functions performed throughout PSERS and recommends microcomputer software to assist the end-users in performing their job more efficiently and effectively. Assistance and training is provided in implementing the recommended software and procedures.

### **Application Systems Support Division**

This division has two main functions: data administration, and development and maintenance of all application systems.

Responsibilities for data administration include design, definition, and control of all data collected by this agency; planning for future data needs; development of data standards; development of procedures for the collection and use of data; data dictionary administration.

Responsibilities for the application systems support function are systems analysis and design which includes: feasibility and workflow analysis, conceptual system design, detailed system design, program and system specifications, identifying potential applications for automation, developing program logic and translating logic into machine readable code, program testing and debugging, creation of screen and image printer formats, and development of system and source library routines; maintenance and enhancements to existing systems; implementation of federal and state legislation; implementation of federal and state court decisions; development of operational, program and system documentation.



## Technology Planning and Support Division

This division has the responsibility for the administration and operation of the agency's mainframe and microcomputer systems and all associated software.

This division provides software support in the areas of data communications, data management, end user software, operating systems, compilers, system utilities, vendor supplied applications, and microcomputer packages. This support includes the modification and enhancement of existing software and the development of supporting software when necessary. It develops and enforces efficiency and usage standards for the various software products and evaluates their performance on a continuing basis. The division provides technical training and assistance to management and BIS staff in the areas of project development, problem analysis and resolution, and development of long and short range plans. It develops backup and recovery procedures for data management, data communications, and other critical system resources. It provides for the security and integrity of data, system access security, and change control security.

This division monitors system hardware and software for acceptable performance and resource utilization, making adjustments to configurations and parameters when necessary. It analyzes current workload and usage trend data to ensure sufficient availability of resources to meet future agency needs.

This division provides for the operation and control of the computer mainframes, associated peripherals, and data entry equipment. In addition, support is provided for the agency's data communications networks and microcomputer clusters. The division evaluates performance and assures effective availability and utilization of this hardware consistent with agency needs and priorities. It is also accountable for the organization and execution of control functions (input-output validation, computer job accounting, output distribution, and quality checks of completed work), the performance of data entry and verification services, and the programs necessary to perform the verification and editing.

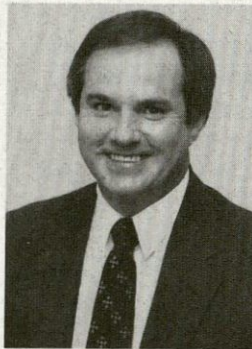
This division has the responsibility for performing research into technological developments within the information processing industry, the evaluation of the impact and implications of those advancements relative to the hardware components and software products in use within the agency, and the selection, testing, and application of systems integration engineering principles to assure proper merger of new technology into the existing environment.

Specifically, the division provides the expertise to evaluate new vendor offerings and ascertain their applicability toward the improvement of services to users of electronic information processing systems. Additionally, the division is responsible for the development of strategic plans to assure the successful integration of selected new technology while minimizing the impact, disruption, and displacement of those products currently being utilized within the agency.

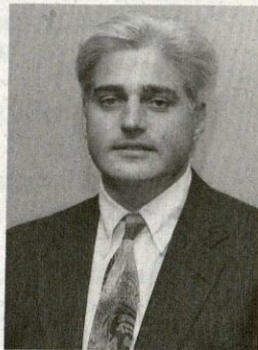
## Administrative Staff



**James A. Perry**  
Executive Director



**Arthur J. Granito**  
Assistant Executive  
Director



**John C. Lane**  
Chief  
Investment Officer



**Jeffrey B. Clay**  
Acting Chief Counsel



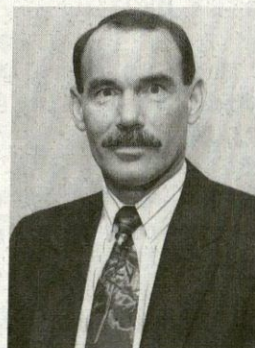
**Thomas E. Yagel**  
Director of  
Administrative Services



**Helen D. Hosler**  
Director of  
Benefits Administration  
and Member Services



**Yvonne C. Wineholt**  
Director of  
Fiscal Control



**Dale W. Houck**  
Director of  
Information Systems

## Professional Consultants Investment Advisors

Acorn Asset Management (*Options*)  
One Water Street, 2nd Floor  
White Plains, NY 10601

CEO Venture Fund I & II (*Venture Capital*)  
4516 Henry Street, Suite 402  
Pittsburgh, PA 15213

Columbus Circle Investors, Inc. (*Equity*)  
Metro Center  
One Station Place, 8th Floor  
Stamford, CT 06902

Commonwealth of Pennsylvania (*Short Term*)  
Treasury Department  
Harrisburg, PA 17120

Criterion Investment Management Co.  
(*Fixed Income*)  
1990 Post Oak Boulevard, Suite 1100  
Houston, TX 77056-3890

Delaware Investment Advisers (*Equity &  
Fixed Income*)  
One Commerce Square  
Philadelphia, PA 19103

Delta Asset Management (*Equity*)  
333 South Grand Avenue, Suite 1450  
Los Angeles, CA 90071

Dietche & Field Advisors, Inc. (*Equity*)  
437 Madison Avenue  
New York, NY 10022

Dreman Value Management, Inc. (*Equity*)  
10 Exchange Place  
Jersey City, NJ 07302

Duncan-Hurst Capital Management (*Equity*)  
4365 Executive Drive, Suite 1520  
San Diego, CA 92121

Eagle Asset Management (*Equity*)  
880 Carillon Parkway, Box 10520  
St. Petersburg, FL 33716

Edison Venture Fund II (*Venture Capital*)  
Princeton Pike Corporate Center  
997 Lenox Drive #3  
Lawrenceville, NJ 08648

FX Concepts, Inc. (*Absolute Return Program*)  
100 Maiden Lane  
New York, NY 10038

Genesis Seed Fund, Ltd. (*Venture Capital*)  
Two Penn Center Plaza  
Philadelphia, PA 19102

Glenmede Trust Co. (*Fixed Income*)  
229 South 18th Street  
Philadelphia, PA 19103

Hudson Capital Advisors (*Equity*)  
3 East 54th Street, 10th Floor  
New York, NY 10022

Jones Lang Wootton Realty Advisors  
(*Real Estate*)  
101 East 52nd Street, 20th Floor  
New York, NY 10022

Latimer & Buck (*Mortgages & Real Estate*)  
121 South Broad Street  
Philadelphia, PA 19107

Loomis Sayles & Co. (*Options*)  
2001 Pennsylvania Avenue, N. W.  
Suite 200  
Washington, DC 20006

Loyalhanna Commonwealth Fund (*Venture  
Capital*)  
681 Andersen Drive  
Pittsburgh, PA 15220

Mellon Bank, N.A. (*Equity, Fixed Income,  
& Security Lending*)  
One Mellon Bank Center, Room 3400  
Pittsburgh, PA 15258-0001

**Investment Advisors (Continued)**

Mellon Capital Management (*Balanced*)  
595 Market Street, Suite 2900  
San Francisco, CA 94105

Miller Anderson & Sherrerd (*Equity & Fixed Income*)  
One Tower Bridge  
West Conshohocken, PA 19428

Morgan Grenfell Capital Management  
(*Fixed Income*)  
885 Third Avenue, 32nd Floor  
New York, NY 10022-4802

Morgan Stanley Asset Management, Inc.  
(*Equity, Fixed Income, & Farmland*)  
1221 Avenue of the Americas, 21st Floor  
New York, NY 10020

NEPA Management Corp. (*Venture Capital*)  
125 Goodman Drive  
Lehigh University  
Bethlehem, PA 18015

Newbold's Asset Management (*Equity*)  
937 Haverford Road  
Bryn Mawr, PA 19010-3845

Oppenheimer Capital Corp. (*Equity*)  
Oppenheimer Tower, 37th Floor  
World Financial Center  
New York, NY 10281

Oppenheimer Option Management (*Options*)  
Oppenheimer Tower, 37th Floor  
World Financial Center  
New York, NY 10281

PNC Financial Corp. Advanced Investment  
Management (*Equity & Futures*)  
Two Oliver Plaza, Suite 2020  
Pittsburgh, PA 15222

Pacific Investment Management Co.  
(*Fixed Income & Futures*)  
840 Newport Center Drive, 3rd Floor  
P. O. Box 9000  
Newport Beach, CA 92658-9030

Payden & Rygel (*Short Term*)  
333 South Grand Avenue, Suite 3250  
Los Angeles, CA 90071

Pennsylvania Investment Private Placement  
(*CIGNA*) (*Venture Capital*)  
Connecticut General Life Insurance Co.  
P. O. Box 2975  
Hartford, CT 06152

Pennsylvania Venture Capital Fund  
(*APA/Fostin*) (*Venture Capital*)  
5 Radnor Corporate Center, Suite 470  
Radnor, PA 19087

Philadelphia Ventures, Inc. (*Venture Capital*)  
Commonwealth Ventures Partners, LP  
Bellevue Building, 8th Floor  
200 South Broad Street  
Philadelphia, PA 19102

Pilgrim Baxter Greig & Associates (*Equity*)  
1255 Drummers Lane, Suite 200  
Wayne, PA 19087

Provident National Bank (*Custodial Bank*)  
200 Stevens Drive  
Lester, PA 19113

Putnam Companies (*Fixed Income*)  
One Post Office Square  
Boston, MA 02109

Scudder Stevens & Clark (*Equity & Fixed Income*)  
345 Park Avenue  
New York, NY 10154

State Street Bank & Trust Company (*Global Custodial Bank*)  
P. O. Box 470  
Boston, MA 02102

**Investment Advisors (Continued)**

**Investment Evaluator**

Evaluation Associates, Inc.  
200 Connecticut Avenue, Suite 700  
Norwalk, CT 06854

**Investment Consultant**

MacFarlane Realty Advisors  
One Penn Center  
1617 JFK Boulevard, Suite 1350  
Philadelphia, PA 19103

**Private Placement Consultants**

Blue Bell Corporation  
1767 Sentry Parkway West, Suite 250  
Blue Bell, PA 19422

Weymouth & Associates  
5 Radnor Corporate Center  
100 Matsonford Road, Suite 500  
Radnor, PA 19087

**Real Estate Consultant**

Institutional Property Consultants, Inc.  
4330 La Jolla Village Drive, Suite 310  
San Diego, CA 92122

**Venture Capital Consultant**

Springhouse Associates  
Springhouse Corporate Center, Suite 1  
321 Norristown Road  
Ambler, PA 19002

**Actuary**

Buck Consultants  
George B. Buck Consulting Actuaries, Inc.  
Xerox Centre  
55 West Monroe Street, Suite 1700  
Chicago, IL 60603

**Auditor**

KPMG Peat Marwick  
225 Market Street, Suite 300  
Harrisburg, PA 17108-9987

**Medical Examiners**

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4700 Union Deposit Road, Suite 120  
Harrisburg, PA 17111

Dr. Jonathan Tocks, M. D.  
4470 Valley Road  
Enola, PA 17025

Dr. Richard Davis, M. D.  
4470 Valley Road  
Enola, PA 17025

## Developmental Fund Managers

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5 Post Oak Park, Suite 2300  
Houston, TX 77027

Acadian Financial Research, Inc. (*Equity*)  
260 Franklin Street  
Boston, MA 02110

Bankers Trust (*Short Term*)  
280 Park Avenue, 6th Floor  
New York, NY 10017

Birmingham Capital Management Co., Inc.  
(*Equity*)  
31 Inverness Center Parkway, Suite 100  
Birmingham, AL 35242

Clay Finlay, Inc. (*Equity*)  
200 Park Avenue  
New York, NY 10166

Duncan-Hurst Capital Management (*Equity*)  
4365 Executive Drive, Suite 1520  
San Diego, CA 92121

Equinox Capital Management, Inc. (*Equity*)  
126 East 56th St., 17th Floor  
New York, NY 10022

First Pacific Advisors, Inc. (*Equity*)  
11400 West Olympic Boulevard  
Los Angeles, CA 90064

Heartland Capital Management, Inc. (*Equity*)  
36 South Pennsylvania Street, Suite 610  
Indianapolis, IN 46204

IDS International, Inc. (*Equity*)  
IDS Tower 10  
Minneapolis, MN 55440

Income Research & Management, Inc.  
(*Fixed Income*)  
155 Federal Street, 4th Floor  
Boston, MA 02110

Marathon Asset Management Limited (*Equity*)  
140A Gloucester Mansions  
Cambridge Circus  
London, WC2H 8HD, England

Munder Capital Management, Inc. (*Equity*)  
260 East Brown Street, Suite 100  
Birmingham, MI 48011

NCM Capital Management Group, Inc.  
(*Fixed Income*)  
2 Mutual Plaza  
501 Willard Street  
Durham, NC 27701

Pilgrim Baxter Greig & Associates (*Equity*)  
1255 Drummers Lane, Suite 200  
Wayne, PA 19087

Putnam Companies (*Fixed Income*)  
One Post Office Square  
Boston, MA 02109

Rogge Global Partners (*Fixed Income*)  
5-6 St. Andrew's Hill  
London, EC4V 5BY, England

Roxbury Capital Management (*Equity*)  
100 Wilshire Boulevard, Suite 600  
Santa Monica, CA 90401

Strategic Fixed Income Advisors (*Fixed Income*)  
2000 K Street, N. W., Suite 444  
Washington, DC 20006

Wilke/Thompson Capital Management, Inc.  
(*Equity*)  
4760 IDS Tower  
80 South 8th Street  
Minneapolis, MN 55402-2111

World Invest Ltd. (*Equity & Fixed Income*)  
56 Russell Square  
London, WC1B 4HP, England

## A History of the Public School Employees' Retirement System

The following is a brief history of PSERS.

- 1917 — The Pennsylvania Public School Employees' Retirement Act became law on July 18.
- 1918 — Henry H. Baish became the System's first Secretary. The first Board was comprised of seven members.
- 1919 — The law went into full effect July 1 with the merger of 13 school district retirement systems into the new statewide system. Membership was 37,503.
- 1920 — By July, 204 members had been granted full retirement and 50 had been granted disabilities. The average annuity was \$275 a year.
- 1920-1923 — The Institute for Government Research called PSERS one of the nation's "safe and sound systems". (Ninety percent of the country's systems were found to be unsafe.)
- 1924 — PSERS membership had grown to 54,677. The balance in the retirement fund was \$7.3 million.
- 1929 — Membership totaled 71,313. Funds were invested exclusively in Pennsylvania state, county, city, borough, and township bonds with preference for school district bonds. The System was not threatened by the "Crash".
- 1933 — Membership had grown to 74,698. U.S. government bonds were added to the list of legal investments.
- 1935 — At the height of the depression, the year's annual report noted that through PSERS bond investments, jobs had been created building schools and roads in Pennsylvania.
- 1941-1942 — Even with nationwide conscription to fight a war on two fronts, PSERS membership grew from 82,956 to 83,482.
- 1944 — The System's first Secretary, Mr. Baish, left after 25 years. He was succeeded by J.Y. Shambach.
- 1950 — Mr. Shambach was replaced by Dr. George C. Richwine who served as acting Secretary until 1953. At mid-century, membership was 91,000, with assets of \$576.7 million.
- 1953 — Rex T. Wrye was appointed as Secretary.
- 1960 — Membership had grown to 141,000, and total assets were \$1.5 billion.
- 1963 — The minimum benefit paid to retirees became \$100 a month.
- 1965 — Membership was 171,000 and assets were \$2.1 billion.
- 1967 — The first ad hoc cost-of-living adjustment was granted; subsequent adjustments were granted in 1974, 1979, 1984 and 1989.

**History (continued)**

- 1970 — Mr. Wrye died and was succeeded by Frank R. Cashman as executive director. Annuitants totaled 32,140 with an annual payroll of \$104 million. The basic benefit formula increased to 2 percent of final average salary. The System's computerization began.
- 1972 — The first report was presented by the actuary hired for the examination of the actuarial soundness of the Fund.
- 1973 — A field staff was formed with offices around the state to counsel members and to instruct reporting units.
- 1974 — Final average salary was redefined as average compensation in the highest three periods of 12 consecutive months.
- 1975 — Act 96, a new Retirement Code, was enacted in 1975 with a profound effect on the System:
- PSERB became an "independent administrative Board".
  - Board membership increased.
  - The System's authority to invest in common stock was liberalized.
  - The lump-sum withdrawal of accumulated deductions at retirement was permitted.
  - Part-time employees were made eligible for PSERS membership.
  - Withdrawal (early) retirement eligibility was lowered from 25 to 10 years.
  - Eligibility for full death benefit was reduced from 25 to 10 years.
  - Eligibility for disability was lowered from 10 years to 5 years.
- 1976 — PSERS moved into City Towers, combining an operation that was scattered in three different locations in Harrisburg.
- 1977 — Assistant Executive Director M. Andrew Sheffler succeeded Mr. Cashman as Executive Director.
- 1979 — The System's first "outside" audit occurred.
- 1980 — The Board joined George Washington University in financing an office building/retail center in the District of Columbia. A security system was installed at the headquarters building.
- 1982 — The Fund could invest up to 50 percent of its total assets at book value in common stock. Various investment advisors were hired, and the portfolio was diversified. Four appointed legislators were added to the Board as nonvoting members, bringing membership to 15. The number of days an annuitant could return to work without a loss of annuity was changed from 60 to 75 days.

The Tax Equity and Fiscal Responsibility Act had significant impact on the members and automated systems.

The first of several retirement "windows" was enacted.



### History (continued)

- 1983 — The member contribution rate was raised from 5.25 percent of payroll to 6.25 percent for new members. Member contributions were “picked up” by the employer for federal tax purposes. The System received its first annual prestigious Certificate of Achievement for Excellence in Financial Reporting. The Board adopted sex-neutral actuarial tables as a result of a U.S. Supreme Court Ruling “Norris v. State of Arizona”. Disaster recovery planning began.
- 1984 — James A. Perry became the sixth Executive Director of PSERS. The System began to buy microcomputers for the staff. The Fund was enabled to invest in limited partnerships and separate accounts as well as venture capital. Act 95 provided for a one-year window for members 53 years old or older with 30 years of credited service to retire with no penalty. It also provided a cost-of-living increase for all annuitants.
- 1985 — A mission statement and strategic plan were adopted by the Board. Electronic transfer of benefits to financial institutions began. The Commonwealth made its final payment on a \$90 million debt owed PSERS for the Commonwealth portion of the employer contribution for fiscal years ended June 30, 1970, 1971, 1972, and 1973. (No interest was paid.) Retiring or refunding members were given the option to withdraw their contributions and interest in up to four installments. Legislation enabled the Board to deduct for child and spousal support.
- 1985-1986 — After many years of steady increases, the System’s unfunded accrued liability was decreased.
- 1986 — The Board adopted a resolution on divestment of assets in companies doing business in South Africa. Mandatory retirement counseling was enacted. The conversion of all retirement records to microfiche was begun, and the correspondence unit was established to answer mail and telephone calls more quickly and efficiently. The employe contribution rate was reduced for the first time in 23 years. An automated general ledger system was installed to provide PSERS with more timely financial information and to reduce the level of manual account postings required.
- 1986-Present — Retirement windows were enacted to allow for early retirement without penalties. A provision in the U.S. Tax Reform Act eliminating the “three-year rule” for taxation of retirement benefits had a negative impact on the System’s members and automated processes.
- 1987 — The System moved into a new headquarters building at 5 North Fifth Street, Harrisburg.
- 1988 — The technical corrections bill amending the U.S. Tax Reform Act was passed. This provided tax relief for members of the System on pre-1983 member contribution withdrawals.
- 1989 — Act 112 provided a cost-of-living increase starting January 1, 1989 for all annuitants who retired on or before July 1, 1987. Assets topped \$14 billion making PSERS the 14th largest public pension fund nationwide, with investment income of \$1 billion for the year. Active membership was 195,000. Retirees numbered 96,000.
- 1990 — The 100,000th annuitant was added to the payroll. The investment and legal staffs were expanded.

**History (continued)**

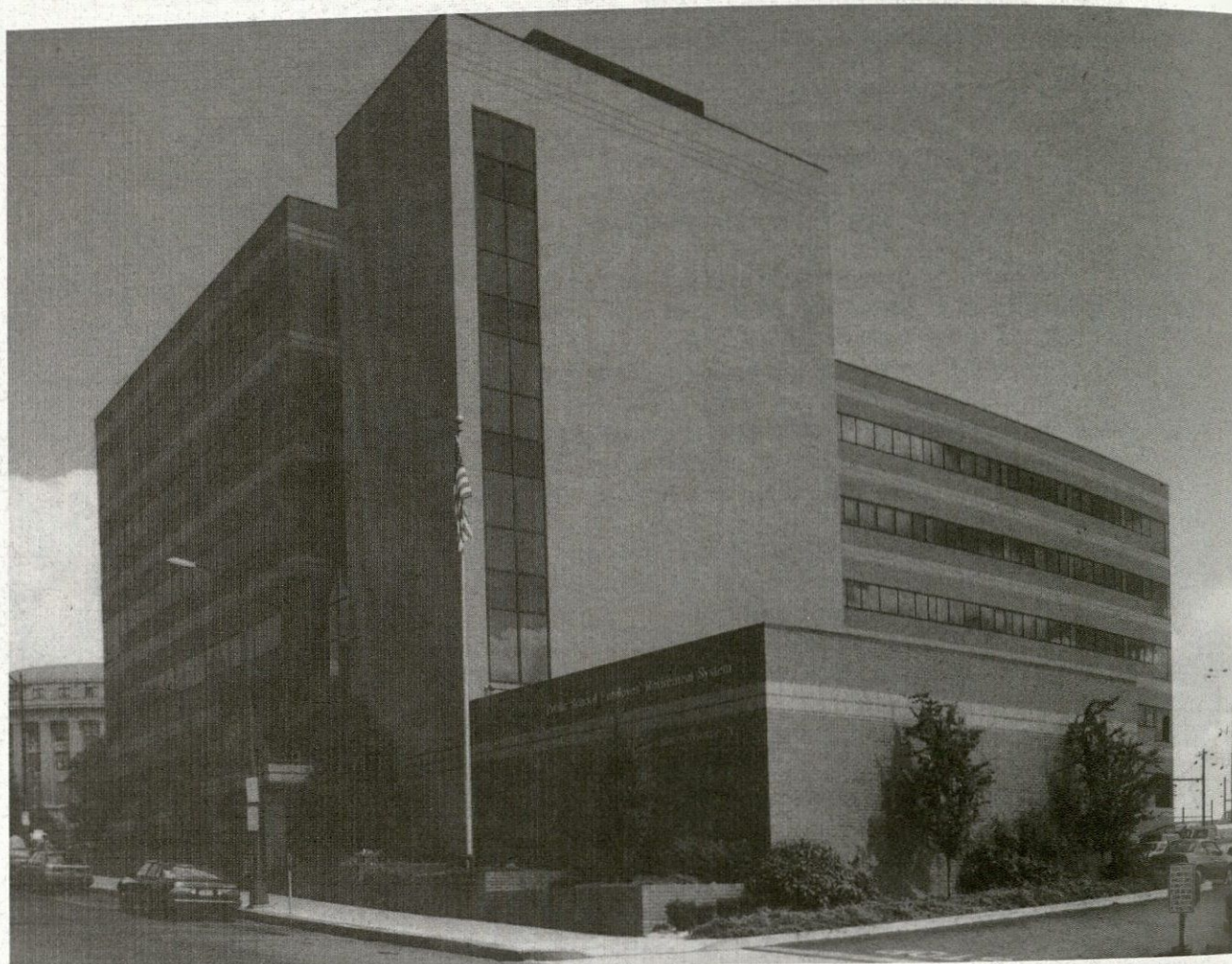
1991 — Retirees numbered 103,000, and active members numbered 202,000.

Act 23 was passed which brought about:

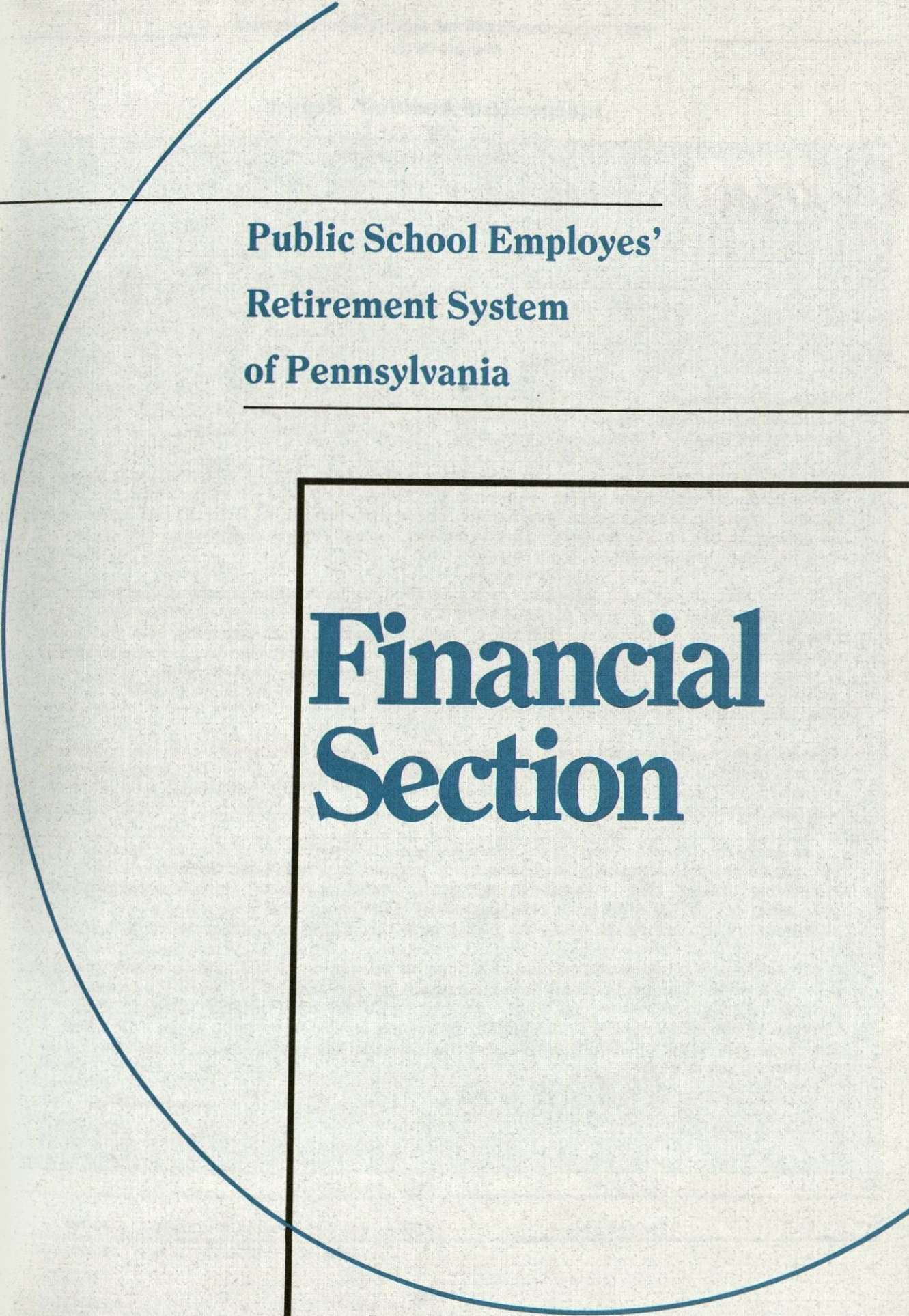
- Change in funding period lowering the contribution rate
- Credit for activated military leave
- Credit for forced maternity leave
- Credit for Cadet Nurse Corps service
- Number of days a retiree may return to school service without loss of benefit increased from 75 to 95 days
- Premium assistance for health insurance
- Group health insurance plan expanded to include pre-Medicare retirees
- Legislators became voting members of the Board
- Certain staff salaries set by the Board
- Expanded investment authority

1992 — The System reached milestones of \$1 billion in benefits paid and \$20.5 billion in assets.

## PSERS Headquarters Building



The headquarters of the Public School Employes' Retirement System is located at 5 North 5th Street in downtown Harrisburg, Pennsylvania near the State Capitol complex. It was constructed in 1987 as the first home of the System designed specifically for PSERS use. In addition, field offices are maintained in Brookville, Mechanicsburg, Pittsburgh, Reading, Warminster, Wilkes-Barre, and Williamsport.



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**Public School Employes'  
Retirement System  
of Pennsylvania**

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**Financial  
Section**

## Independent Auditors' Report

**KPMG** Peat Marwick

Certified Public Accountants

**Peat Marwick Main & Co.**

225 Market Street  
Suite 300  
P.O. Box 1190  
Harrisburg, PA 17108-1190

Telephone 717 238 7131

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The Board of Trustees  
Commonwealth of Pennsylvania  
Public School Employees' Retirement System

We have audited the accompanying balance sheets of the Commonwealth of Pennsylvania Public School Employees' Retirement System as of June 30, 1992 and 1991, and the related statements of revenues, expenses, and changes in fund balance 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 generally accepted auditing standards. 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 financial position of the Commonwealth of Pennsylvania Public School Employees' Retirement System at June 30, 1992 and 1991, and the results of its operations for the years then ended, in conformity with generally accepted accounting principles.

The Analysis of Funding Progress on Schedule 1 is not a required part of the basic financial information of the System but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 2 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*KPMG Peat Marwick*

October 9, 1992

**Balance Sheets**  
June 30, 1992 and 1991  
(Amounts in Thousands)

Assets	1992	1991
Investments, at cost (note 4):		
Fixed income investments and mortgage investments, net of valuation reserves of \$7,400 and \$-0- in 1992 and 1991, respectively (market value \$10,033,881 in 1992 and \$9,106,629 in 1991)	\$ 9,546,891	\$ 8,976,553
Common and preferred stocks (market value \$9,524,729 in 1992 and \$7,399,648 in 1991)	8,159,466	6,454,630
Other long-term investments, net of valuation reserves of \$107,600 and \$-0- in 1992 and 1991, respectively (market value \$514,811 in 1992 and \$608,558 in 1991)	569,645	665,474
Short-term investments (market value \$1,218,855 in 1992 and \$961,002 in 1991)	1,214,781	962,741
<b>Total investments</b>	<b>19,490,783</b>	<b>17,059,398</b>
Receivables:		
Contributions:		
Employes	54,576	53,731
Employers	164,551	206,314
Commonwealth of Pennsylvania	148,315	285,429
Investment:		
Income	215,983	207,218
Proceeds	459,968	302,788
Other	803	1,103
<b>Total receivables</b>	<b>1,044,196</b>	<b>1,056,583</b>
Cash	34	6
Fixed assets (net of accumulated depreciation of \$2,374 and \$3,123 in 1992 and 1991, respectively)	7,634	5,228
<b>TOTAL ASSETS</b>	<b>\$20,542,647</b>	<b>\$18,121,215</b>
<b>Liabilities and Fund Balance</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 42,144	\$ 33,895
Installment benefits payable	60,592	52,969
Investment purchases payable	847,115	436,951
<b>Total liabilities</b>	<b>949,851</b>	<b>523,815</b>
Unfunded Actuarial Liability (note 1d)		
Fund balance (note 3):		
State Accumulation Account	8,591,543	7,443,943
Members' Savings Account	4,127,436	3,771,931
Reserve for Retirement	6,603,226	6,157,432
Reserve for Disabilities	238,245	224,094
Health Insurance Account	32,346	—
<b>Total fund balance</b>	<b>19,592,796</b>	<b>17,597,400</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$20,542,647</b>	<b>\$18,121,215</b>

See accompanying notes to financial statements.

**Statements of Revenues, Expenses and Changes in Fund Balance**  
Years ended June 30, 1992 and 1991  
(Amounts in Thousands)

	Year ended June 30, 1992					
	Total	State Accumulation Account	Members' Savings Account	Reserve for Retirement	Reserve for Disabilities	Health Insurance Account
<b>Revenue:</b>						
Contributions:						
Employers	\$ 475,443	\$ 459,614	\$ —	\$ —	\$ —	\$15,829
Employes Commonwealth of Pennsylvania	361,654	—	361,654	—	—	—
	485,601	469,710	—	—	—	15,891
	<b>1,322,698</b>	<b>929,324</b>	<b>361,654</b>	<b>—</b>	<b>—</b>	<b>31,720</b>
Investment revenues, net of related expenses (note 4)	1,712,771	1,180,662	154,350	365,000	11,976	783
<b>Total revenue</b>	<b>3,035,469</b>	<b>2,109,986</b>	<b>516,004</b>	<b>365,000</b>	<b>11,976</b>	<b>32,503</b>
<b>Expenses:</b>						
Benefits	1,003,179	—	—	972,051	31,128	—
Refunds	10,431	—	10,431	—	—	—
Net transfers to (from) State Employes' Retirement System	10,740	10,075	665	—	—	—
Administrative expenses	15,723	15,566	—	—	—	157
<b>Total expenses</b>	<b>1,040,073</b>	<b>25,641</b>	<b>11,096</b>	<b>972,051</b>	<b>31,128</b>	<b>157</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>1,995,396</b>	<b>2,084,345</b>	<b>504,908</b>	<b>(607,051)</b>	<b>(19,152)</b>	<b>32,346</b>
<b>Transfers between reserves for:</b>						
Retirements by members	—	(937,783)	(156,646)	1,043,960	50,469	—
Annuitants who returned to service	—	5,423	217	(3,341)	(2,299)	—
Actuarial requirements	—	2,641	—	12,226	(14,867)	—
Other	—	(7,026)	7,026	—	—	—
<b>Net transfers between reserves</b>	<b>—</b>	<b>(936,745)</b>	<b>(149,403)</b>	<b>1,052,845</b>	<b>33,303</b>	<b>—</b>
<b>Fund balance at beginning of year</b>	<b>17,597,400</b>	<b>7,443,943</b>	<b>3,771,931</b>	<b>6,157,432</b>	<b>224,094</b>	<b>—</b>
<b>Fund balance at end of year</b>	<b>\$19,592,796</b>	<b>\$8,591,543</b>	<b>\$4,127,436</b>	<b>\$6,603,226</b>	<b>\$238,245</b>	<b>\$32,346</b>

See accompanying notes to financial statements.

**Statements of Revenues, Expenses and Changes in Fund Balance (Continued)**  
Years ended June 30, 1992 and 1991  
(Amounts in Thousands)

	Year ended June 30, 1991				
	Total	State Accumulation Account	Members' Savings Account	Reserve for Retirement	Reserve for Disabilities
<b>Revenue:</b>					
Contributions:					
Employers	\$ 571,228	\$ 571,228	\$ —	\$ —	\$ —
Employes	337,768	—	337,768	—	—
Commonwealth of Pennsylvania	570,858	570,858	—	—	—
	<b>1,479,854</b>	<b>1,142,086</b>	<b>337,768</b>	<b>—</b>	<b>—</b>
Investment revenue, net of related expenses (note 4)	1,213,809	740,911	141,327	320,348	11,223
<b>Total revenue</b>	<b>2,693,663</b>	<b>1,882,997</b>	<b>479,095</b>	<b>320,348</b>	<b>11,223</b>
<b>Expenses:</b>					
Benefits	947,798	—	—	916,858	30,940
Refunds	11,173	—	11,173	—	—
Net transfers to (from)					
State Employees' Retirement System	9,431	8,578	853	—	—
Administrative expenses	13,628	13,628	—	—	—
<b>Total expenses</b>	<b>982,030</b>	<b>22,206</b>	<b>12,026</b>	<b>916,858</b>	<b>30,940</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>1,711,633</b>	<b>1,860,791</b>	<b>467,069</b>	<b>(596,510)</b>	<b>(19,717)</b>
<b>Transfers between reserves for:</b>					
Retirements by members	—	(842,705)	(156,517)	947,383	51,839
Annuitants who returned to service	—	8,065	544	(5,348)	(3,261)
Actuarial requirements	—	(319,791)	—	322,764	(2,973)
Other	—	(2,575)	2,613	(38)	—
<b>Net transfers between reserves</b>	<b>—</b>	<b>(1,157,006)</b>	<b>(153,360)</b>	<b>1,264,761</b>	<b>45,605</b>
<b>Fund balance at beginning of year</b>	<b>15,885,767</b>	<b>6,740,158</b>	<b>3,458,222</b>	<b>5,489,181</b>	<b>198,206</b>
<b>Fund balance at end of year</b>	<b>\$17,597,400</b>	<b>\$7,443,943</b>	<b>\$3,771,931</b>	<b>\$6,157,432</b>	<b>\$224,094</b>

See accompanying notes to financial statements.



**Notes to Financial Statements**  
June 30, 1992 and 1991

**(1)**  
**Organization and Description of the System**

**(a) Organization**

The Commonwealth of Pennsylvania Public School Employees' Retirement System (the "System") was established as of July 18, 1917, under the provisions of P.L. 1043, No. 343. The System is a cost-sharing multiple-employer plan and its designated purpose is to provide retirement allowances and other benefits to members. Membership in the System is mandatory for substantially all full-time public school employees in the Commonwealth. At June 30, 1992 there were 633 reporting units, generally school districts. Membership as of June 30, 1991, the most recent year for which actual amounts are available, consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employes entitled to, but not receiving benefits	<u>136,000</u>
Currently employed members:	
Vested	123,000
Nonvested	<u>80,000</u>
	<u>203,000</u>

All members are fully vested in their individual balance in the Members' Savings Account which is described in note 3(b).

Responsibility for the organization and administration of the System is vested in the Board of Trustees.

The System, based primarily upon the criterion of financial interdependency, is considered a component unit of the Commonwealth of Pennsylvania financial reporting entity and is included in the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania.

**(b) Benefits**

Significant amendments to the System were made in the 1975 revision of the PA Public School Employees' Retirement Code ("the Code") by the Pennsylvania General Assembly. Under the provisions of the Code, members are eligible for monthly retirement benefits upon reaching (a) age 62; (b) age 60 and 30 or more years of service or; (c) 35 or more years of service regardless of age. For a period expiring June 30, 1993, the Code currently permits school employees with at least 30 years of credited service to retire without a reduction in benefits. This so-called "early retirement window" does not require a minimum age in conjunction with length of service for a member to be eligible for full benefits.

Such benefits are generally equal to two percent of the member's final average salary (as defined) multiplied by the number of years of credited service. After completion of 10 years of service, a member's right to the defined benefit is vested and early retirement benefits may be elected. Under certain features of the System, active members may purchase credit for types of prior educational or military service on a lump-sum or installment purchase basis.

In addition to regular retirement benefits, the System also provides for disability retirement benefits and death benefits. Participants are eligible for disability retirement benefits after completion of five years of eligible service. Such benefits are equal to two percent of the member's final average salary (as defined) multiplied by the number of years of credited service, but not less than one third of such salary (unless the participant would have less than 16.667 years of credited service had the participant worked until superannuation age, in which case the participant receives two percent of final average salary times the number of years of service that would have been credited had the participant worked until superannuation age), nor greater than the benefit the member would have had at superannuation retirement age.

Death benefits are payable upon the death of an active member who has reached age 62 or who has at least 10 years of eligible service. Such benefits are actuarially equivalent to the benefit which would have been effective if the member had retired on the day before death.

## Notes to Financial Statements (Continued)

Members with credited service in the State Employees' Retirement System may elect to transfer such service to the Public School Employees' Retirement System upon commencement of employment in the public school system. Similarly, a member with credited service in the System may transfer such service to the State Employees' Retirement System upon becoming a member of that system.

Upon termination of a member's employment in the public school sector, the member's accumulated contributions plus interest are refundable from the Members' Savings Account.

A health insurance premium assistance program was established effective July 1, 1991 for all eligible annuitants, as defined in the Code, who elect to participate. Under this provision, an employer contribution rate for premium assistance was established for the fiscal year that began July 1, 1991 in order to provide reserves in the Health Insurance Account as of June 30, 1992 which are sufficient for the payment of premium assistance for the fiscal year beginning July 1, 1992. Effective July 1, 1992, participating eligible annuitants are to receive premium assistance payments equal to the lesser of \$55 per month, or the actual monthly premium.

## (c) Contributions

The contribution policy is set by the Code and requires contributions by active members, employers and the Commonwealth. The rate of contribution for most active members was set by law at 5.25 percent of the member's compensation. For members joining the System on or after July 22, 1983, the rate of contribution is 6.25 percent. The contributions required of employers and the Commonwealth are based upon an actuarial valuation, using the "entry age normal" method, computed as a percentage of the total compensation of all active members during the period for which the amount is determined. The combined amounts required from the employers and Commonwealth were 14.90 percent, which is comprised of 14.40 percent for pension benefits and .50 percent for health insurance premium assistance, and 19.18 percent of active member payroll for the years ended June 30, 1992 and 1991, respectively, and consisted of:

(Amounts in Thousands)

	1992		1991	
	Amount	% of Current Covered Payroll	Amount	% of Current Covered Payroll
Employer's and Commonwealth's normal cost	\$ 516,471	8.00	\$ 493,038	8.28
Amortization of unfunded actuarial accrued liability	276,095	4.28	435,279	7.31
Amortization of supplemental annuities	136,758	2.12	213,769	3.59
Health insurance premium assistance	31,720	.50	—	—
	<b>\$ 961,044</b>	<b>14.90</b>	<b>\$1,142,086</b>	<b>19.18</b>

For the year ended June 30, 1992, contributions were made in accordance with the actuarially determined amounts. Employers and the Commonwealth share such cost equally. For the fiscal year ended June 30, 1992, employers contributed \$475,443,000 and the Commonwealth contributed \$485,601,000 to the System. The difference between these two amounts results from timing differences in payments to the System. The Commonwealth contribution approximates 7.6 percent of current covered payroll. The estimated covered payroll for the year ended June 30, 1992, was approximately \$6,356,674,000.

Effective July 1, 1992, the combined contribution rate was decreased to 14.24 percent of covered payroll. The rate of 14.24 percent is composed of a pension contribution rate of 13.74 percent for pension benefits and .50 percent for health insurance premium assistance. The decrease in the pension contribution rate is primarily comprised of the following:

- (1) a .35 percent decrease due to a change in the asset valuation method from a cost basis to the use of a 5-year moving average market value; and
- (2) a .31 percent decrease due to the System's net favorable actuarial experience during fiscal 1991.

## Notes to Financial Statements (Continued)

### (d) Actuarial Valuation

The contribution policy requires employers and the Commonwealth to make a normal contribution and a past service contribution as determined by a qualified actuary. The System's actuary uses the "entry age normal" method to determine normal costs. As of June 30, 1991, the date of the most recent actuarial report, the actuary computed that, utilizing the present method of funding, the unfunded actuarial accrued liability for prior service decreased by \$416,337,000 from the prior year and was \$4,612,147,000. The actuary calculates that the average funding period to amortize total unfunded accrued and supplemental annuity liabilities is 20 years as of July 1, 1991.

Significant assumptions underlying the actuarial computations include: (a) assumed rate of return on investments of 8.50 percent; (b) assumed rate of salary increases of 7.5 percent; (c) assets valued based upon a five year moving average of market values; (d) no post retirement benefit increases assumed in the future; and (e) mortality, vesting, retirement age and withdrawal estimates based on tables furnished by the actuary.

Beginning on July 1, 1991, employer contributions to amortize the unfunded liability on account of active members and supplemental annuity payments to annuitants were rescheduled over a period of 20 years from July 1, 1991, with each subsequent annual payment to be five percent greater than the previous fiscal year.

## (2) Summary of Significant Accounting Policies

The financial statements of the System are prepared on the accrual basis of accounting and conform to generally accepted accounting principles. In order to assist the reader in understanding the accompanying financial statements, a summary of the more significant accounting policies is presented below:

### (a) Investments

Income on investments is primarily recognized on the accrual basis. Income on certain other long-term investments is recognized when received, which is not materially different than that recognized on the accrual basis. Gains and losses on sales of investments are recognized on the trade date.

Corporate and government bonds with fixed maturities are reported at cost as of the trade date of the transaction.

Investments in common and preferred stocks are carried at cost. Gains and losses on stock sales are recognized on the basis of the average cost of the stocks sold.

Mortgage investments are carried at the amount of the unpaid principal balance of the loan.

Other long-term investments are carried at cost as of the trade date.

Investments which have incurred other than temporary declines are written down to market value and losses are charged against investment income.

Short-term investments, principally investments in the state treasury investment pool and global investments, are carried at cost, which approximates market value.

### (b) Fixed Assets

Fixed assets, consisting primarily of data processing equipment, are carried at cost. The System depreciates fixed assets by the straight-line method over an estimated useful life of seven years.

### (c) Federal Income Tax Status

During the years ended June 30, 1992 and 1991, the System qualified under the provisions of Section 501(a) of the Internal Revenue Code and was exempt from Federal income taxes.

**Notes to Financial Statements (Continued)**

**(d) Compensated Absences**

The System records a liability for employees' vacation and sick pay as earned.

**(3)  
Description of Funds**

The Code requires the following funds to be maintained by the System:

**(a) State Accumulation Account**

The State Accumulation Account is credited with the contributions of the Commonwealth and the employers. Additionally, interest earnings of the System (after crediting the Members' Savings Account with the four percent interest and the Reserves for Retirement and Disabilities with 5.50 percent interest) are credited to this account. Each year, the amounts necessary, as determined by the actuary for the payment of retirement and death benefits, are transferred from the State Accumulation Account to the Reserve for Retirement and Reserve for Disabilities. All administrative expenses necessary for the operation of the System, except for Health Insurance Account expenses, are paid from the State Accumulation Account.

**(b) Members' Savings Account**

The Members' Savings Account is credited with all contributions made by active members of the System. Interest is added to the member's individual account at an annual rate of four percent.

Upon death or retirement of a member, the accumulated contributions plus interest are transferred to the Reserve for Retirement or Reserve for Disabilities for subsequent payment of benefits.

**(c) Reserve for Retirement**

The Reserve for Retirement represents the amounts transferred from the Members' Savings and State Accumulation accounts, plus additional contributions made by the Commonwealth and employers for the payment of supplemental annuities and cost-of-living increases. All death and retirement benefits are paid from this reserve. Annual interest of 5.50 percent is credited to the Reserve for Retirement.

**(d) Reserve for Disabilities**

The Reserve for Disabilities represents the amounts transferred from the Members' Savings and State Accumulation accounts, plus additional contributions made by the Commonwealth and employers for the payment of supplemental annuities and cost-of-living increases. All disability benefits are paid from this reserve. Annual interest of 5.50 percent is credited to the Reserve for Disabilities.

**(e) Health Insurance Account**

The Health Insurance Account is credited with contributions of the Commonwealth and the employers. Effective July 1, 1992, participating eligible annuitants, as defined in the Code, are to receive health insurance premium assistance payments from this account equal to the lesser of \$55 per month, or the actual monthly premium. The Health Insurance Account pays all administrative expenses necessary to operate the health insurance premium assistance program.

Notes to Financial Statements (Continued)

(4)  
Investments

A summary of investment securities as of June 30, 1992 and 1991 and the approximate market values follows:

	(Amounts in Thousands)			
	1992		1991	
	Book Value	Market Value	Book Value	Market Value
<b>Fixed income and mortgage investments net of valuation reserves:</b>				
Domestic portfolio:				
U.S. Government and agency obligations	\$ 4,259,137	4,453,865	\$ 4,241,377	\$ 4,332,060
Mortgage backed securities	2,687,091	2,852,548	2,625,389	2,688,450
Corporate and municipal bonds	1,165,079	1,223,039	1,095,116	1,098,691
Miscellaneous fixed income	374,900	386,848	152,067	153,162
Private placements	90,000	104,580	50,000	50,000
FHA/VA residential mortgages	104,699	107,317	124,594	113,318
Equity participating commercial mortgages, net	86,126	94,150	94,035	104,675
FHA project mortgages	26,748	22,472	31,926	24,799
Global portfolio	753,111	789,062	562,049	541,474
	<b>9,546,891</b>	<b>10,033,881</b>	<b>8,976,553</b>	<b>9,106,629</b>
<b>Common and preferred stocks:</b>				
Domestic portfolio:				
Common stock	7,566,448	8,914,664	6,151,563	7,108,632
Private placement	140,000	142,168	—	—
Preferred stock	77,227	79,344	50,348	51,360
Global portfolio	375,791	388,553	252,719	239,656
	<b>8,159,466</b>	<b>9,524,729</b>	<b>6,454,630</b>	<b>7,399,648</b>
<b>Other long-term investments net of valuation reserves:</b>				
Real estate owned, net	192,085	121,199	225,200	181,458
Equity real estate, net	253,957	268,048	319,238	306,064
Venture capital	71,080	73,041	68,788	68,788
Farmland investments	52,523	52,523	52,248	52,248
	<b>569,645</b>	<b>514,811</b>	<b>665,474</b>	<b>608,558</b>
<b>Short-term investments:</b>				
Domestic portfolio:				
Health Insurance Account short-term investment fund	7,786	7,786	—	—
Pa. Treasury short-term investment fund	727,087	727,087	579,557	579,557
Global portfolio	479,908	483,982	383,184	381,445
	<b>1,214,781</b>	<b>1,218,855</b>	<b>962,741</b>	<b>961,002</b>
	<b>\$19,490,783</b>	<b>21,292,276</b>	<b>\$17,059,398</b>	<b>\$18,075,837</b>

## Notes to Financial Statements (Continued)

The Board of Trustees (the "Board") has the exclusive responsibility to invest and reinvest available funds of the System, in accordance with the guidelines and limitations set forth in the Code and other applicable state law. The Board accomplishes the daily management of the System's investments through investment advisors who act as agents for the System and through internal investment managers. Under the Code, the Board may make investments in U.S. government and agency obligations, common and preferred stocks, mortgages, real estate, venture capital, and to the extent of not more than 10 percent of the book value of System assets, other prudent investments not otherwise specifically authorized, all in such manner as to maximize return while maintaining a sound portfolio within the guidelines of the Code. By law, investments in common stock are limited to 50 percent of the total assets of the System. Additionally, the amount invested in common stock of any one entity may not exceed two percent of the book value of the assets of the System at the date of purchase, nor may the System own more than five percent of the total issued and outstanding common stock of any entity. Under other applicable state law, the Board may also invest System funds in state, municipal, public authority, corporate, and other qualified debt obligations.

The System's real estate investments consist of real estate owned, equity real estate, equity participating mortgages, FHA/VA residential mortgages, FHA project mortgages and farmland. The real estate investments are geographically distributed. Real estate investments include office space (46%), hotels (19%), retail (9%), farmland (7%), industrial space (1%) and residential (18%). No individual investment represents more than 7 percent of total real estate investments.

In general, there has been a decline nationally in the value of real estate properties. Losses in market value judged to be other than temporary have been recognized in the financial statements and are shown as a valuation provision in the table below. Management believes that other declines in appraised values are temporary in relation to the expected holding periods of the investments.

The major components of investment revenues for the years ended June 30, 1992 and 1991 are as follows:

	(Amounts in Thousands)	
	1992	1991
Fixed income and mortgage investments	\$ 725,388	\$ 725,726
Common and preferred stocks	251,471	209,385
Other long-term investments	39,062	37,545
Short-term investments	106,798	86,484
Stock index option writing gain (loss)	12,922	(14,325)
Securities lending income	2,591	3,287
Valuation provision	(115,000)	—
	<b>1,023,232</b>	<b>1,048,102</b>
Net amortized premium	—	(224)
Net gain on investment transactions	727,974	199,040
<b>Total investment revenues before investment expenses</b>	<b>1,751,206</b>	<b>1,246,918</b>
Investment expenses	(38,435) *	(33,109) *
<b>Net investment revenues</b>	<b>\$1,712,771</b>	<b>\$1,213,809</b>

\* The amounts for investment expenses do not reflect \$1,641,000 and \$1,344,000 in 1992 and 1991, respectively, which were paid on behalf of the System through the use of directed commissions and detailed on Schedule 4.

Investment expenses are primarily composed of investment management fees.

Such expenses do not include a portion of master trust fees which were paid through interest earnings on trades funded prior to settlement. The amount of master trust fees not reflected in investment expenses was \$89,000 and \$143,000 in 1992 and 1991, respectively.

The System has authorized investment managers to write covered call stock index options up to an amount of \$1,300,000,000 of the equity portfolio.

During the fiscal year ended June 30, 1992, the System owned no securities issued by school districts, the Commonwealth, or any related parties and made no loans to school districts, the Commonwealth, or any related party.

**Notes to Financial Statements (Continued)**

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 1992. In accordance with a contractual relationship between the Commonwealth's Treasury Department and a custodial agent, substantially all investments subject to categorization are held in book-entry form in the Commonwealth's name. Therefore, all such investments as well as certain securities physically held at the Commonwealth's Treasury Department are reflected in Category 1, which is defined as insured or registered investments or investments for which the securities are held by the System or its agent in the System's name.

Investments may also be categorized as Category 2, which is defined as uninsured or unregistered investments for which the securities are held by a financial institution's trust department or agent in the System's name, and Category 3, which is defined as uninsured or unregistered investments for which the securities are held by the broker or dealer or by its agent but not in the System's name. The System has no investments which would be classified in Categories 2 or 3. However, the System does have investments which are not in any of the three defined categories, because the securities are not used as evidence of the investment. Such investments are separately identified.

	Category 1	Not Categorized (Amounts in Thousands)	Market Value
U.S. Government and agency obligations	\$ 4,259,137	\$ —	\$ 4,453,865
Corporate and municipal bonds	1,165,079	—	1,223,039
Common stock	7,566,448	—	8,914,664
Preferred stock	77,227	—	79,344
Mortgage backed securities	2,687,091	—	2,852,548
FHA/VA residential mortgages	—	104,699	107,317
FHA project mortgages	—	26,748	22,472
Private placements	—	230,000	246,748
Miscellaneous fixed income	374,900	—	386,848
Real estate owned, net	—	192,085	121,199
Equity real estate, net	—	253,957	268,048
Equity participating mortgages, net	—	86,126	94,150
Farmland investments	—	52,523	52,523
Global fixed income	753,111	—	789,062
Global equity	375,791	—	388,553
Global pooled short-term investments	—	479,908	483,982
Venture capital	—	71,080	73,041
Health insurance account short-term investment fund	7,786	—	7,786
Pa. Treasury pooled short-term investment fund	—	727,087	727,087
	<b>\$17,266,570</b>	<b>\$2,224,213</b>	<b>21,292,276</b>

In accordance with contracts between the Commonwealth and the custodial agent, the System participates in a securities lending program, whereby System securities are transferred to an independent broker or dealer in exchange for collateral equal to 102 percent of the market value of securities on loan. Securities under loan are maintained on the System's financial records and are classified in the preceding summary of investment risk. As the System does not trade or sell the collateral received in the securities lending program, such collateral is not considered an asset of the System and a corresponding liability is not required on the balance sheet.

**(5)**  
**Off-Balance-Sheet Financing**

The System in the normal course of business enters into commitments with off-balance-sheet risk. The System adheres to the same credit policies, financial and administrative controls and risk limiting and monitoring procedures for commitments as for on-balance-sheet investments.

Notes to Financial Statements (Continued)

**(6)**  
**Funding Status and Progress**

The amount shown on the following page as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employe service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employe retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the System, discussed in notes 1(c) and 1(d).

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1991, the date of the most recent actuarial report. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8.50 percent per year compounded annually; (b) projected salary increases of 7.50 percent and (c) no post retirement benefit increases.

At June 30, 1991, the unfunded pension benefit obligation was \$3,353,132,000 as follows:

	<b>(Amounts in Thousands)</b>
Pension benefit obligation:	
Annuitants and survivor annuitants currently receiving benefits, and terminated members not yet receiving benefits	\$ 6,562,726
Current members:	
Accumulated member contributions with interest	3,557,218
System-financed vested	3,384,107
System-financed nonvested	7,446,481
<b>Total pension benefit obligation</b>	<b>20,950,532</b>
Less: Net assets available for benefits, at cost (market alue is \$18,613,839,000)	17,597,400
<b>Unfunded pension benefit obligation</b>	<b>\$ 3,353,132</b>

**(7)**  
**Relationships With Other Commonwealth Agencies**

The System is established by state law as an independent administrative board of the Commonwealth of Pennsylvania, which is directed by a governing board which exercises control and management of the System, including the investment of its assets. The System's Board has fifteen members including the Commonwealth's Secretary of Education, the State Treasurer, the Executive Secretary of the Pennsylvania School Boards Association, two members appointed by the Governor, six elected members (three from among the System's professional members, one from among the System's nonprofessional members, one from among the System's annuitants, and one from among school board members in Pennsylvania), and two members from the Senate and two members from the House of Representatives.

The Treasurer of the Commonwealth of Pennsylvania is the custodian of the Public School Employees' Retirement Fund. The retirement plan of the System is a contributory defined benefit plan for which the benefit payments to members and contribution rates by employers and employes are specified in state law. The Commonwealth's contribution is disbursed to the Department of Education and the Department remits the contribution to the System in quarterly installments. Changes in benefit and contribution provisions for each retirement plan must be made by legislation. Under statutory provision, all legislative bills and amendments proposing to change the System's retirement plan are to be accompanied with an actuarial note prepared by an enrolled pension actuary providing an estimate of the cost and actuarial effect of the proposed change.



Notes to Financial Statements (Continued)

**(8)**  
**Litigation and Contingencies**

The System is subject to various threatened and pending lawsuits which deal with the question of benefit eligibility and investment related matters. It is the opinion of management that the ultimate liability arising from such litigation and threats of litigation will not have a material effect on the financial statements of the System.

**(9)**  
**Commitments**

The System has commitments to fund various venture capital partnerships which amounted to \$10.7 million at June 30, 1992.

**(10)**  
**Ten-Year Historical Trend Information**

Ten-year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in Schedules 1 and 2.

**Schedule 1**  
**Analysis of Funding Progress**  
**Years Ended June 30, 1986 through 1991**

(Dollar Amounts in Millions)

	(1)	(2)	(3)	(4)	(5)	(6)
Valuation As of 6/30*	Net Assets Available for Benefits	Pension Benefit Obligation	Percentage Funded (1) ÷ (2)	Unfunded Pension Benefit Obligation (2) — (1)	Annual Covered Payroll	Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll (4) ÷ (5)
1991	\$17,597.4	\$20,950.5	84.00%	\$3,353.1	\$5,744.8	58.37%
1990	15,885.8	19,483.6	81.53%	3,597.8	5,363.5	67.08%
1989	13,999.3	19,601.4	71.42%	5,602.2	5,055.8	110.81%
1988	12,434.5	18,086.5	68.81%	5,652.0	4,641.9	121.81%
1987	11,041.4	16,366.1	67.51%	5,324.7	4,415.1	120.61%
1986	9,348.5	14,870.9	62.91%	5,522.4	4,159.1	132.81%

An isolated analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

\*Information prior to 1986 is unavailable.

**Schedule 2**  
**Revenues by Source and Expenses by Type**  
**Years ended June 30, 1983 through 1992**  
**(Dollar Amounts in Thousands)**

**Revenues by Source**

Fiscal Year	Employees Contributions	Employers and Commonwealth Contributions		Investment Revenues	Total Revenues
		Dollar Amount	Percentage of Total Payroll		
(A) 1992	\$361,654	\$ 961,044	14.90%	\$1,712,771	\$3,035,469
1991	337,768	1,142,086	19.18%	1,213,809	2,693,663
1990	311,434	1,086,447	19.68%	1,431,387	2,829,268
1989	287,803	989,510	19.27%	1,173,176	2,450,489
1988	275,994	932,532	19.54%	978,063	2,186,589
1987	250,420	888,260	19.90%	1,359,118	2,497,798
1986	228,760	831,840	20.04%	1,119,487	2,180,087
1985	217,946	763,488	19.31%	785,867	1,767,301
1984	197,096	608,617	17.06%	594,135	1,399,848
1983	184,639	541,109	16.00%	559,355	1,285,103

**Expenses by Type**

Fiscal Year	Benefits	Disabilities	Lump-Sums and Installments		Refunds	Administrative	Net Transfers	Total Expenses
(A) 1992	\$846,821	\$31,128	\$125,230		\$10,431	\$15,723	\$10,740	\$1,040,073
1991	792,855	30,940	124,003		11,173	13,628	9,431	982,030
1990	774,445	28,349	112,620		11,177	13,598	2,566	942,755
1989	709,726	25,382	116,200		12,134	11,055	11,281	885,778
1988	652,258	23,334	76,642		12,684	10,196	18,332	793,446
1987	623,576	22,084	131,683		11,374	9,507	6,658	804,882
1986	585,122	21,835	77,553		12,710	8,506	8,863	714,589
1985	560,484	20,781	75,061		13,623	7,992	4,118	682,059
1984	501,434	19,069	70,785		14,684	6,955	6,677	619,604
1983	476,714	17,564	85,461		18,539	8,219	6,579	613,076

(A) Includes Health Insurance Account activity.

**Schedule 3**  
**Administrative Expenses**  
**Years ended June 30, 1992 and 1991**  
**(Dollar Amounts in Thousands)**

	1992		1991	
	Actual	Budget	Actual	Budget
<b>Personnel costs:</b>				
Salaries and wages	\$ 7,011		\$ 6,254	
Social security contributions	934		671	
Retirement contributions	589		721	
Employees' insurance contributions	1,112		843	
Other employe benefits	127		146	
<b>Total personnel costs</b>	<b>9,773</b>	<b>\$10,052</b>	<b>8,635</b>	<b>\$ 9,018</b>
<b>Operating costs:</b>				
Auditor General services	3		—	
Treasury services	618		545	
Civil Service Commission services	30		26	
Classification and pay services	4		6	
Purchasing services	5		5	
Consultant fees	10		10	
Legal fees	12		41	
Specialized services	485		292	
Printing	142		234	
Postage	621		474	
Telephone and telegraph	200		197	
Dues and subscriptions	20		22	
Electricity	55		57	
Motorized equipment supplies and repair	9		9	
Travel	240		251	
Contracted maintenance services	443		472	
Rental of real estate	891		816	
Rental of equipment	201		36	
Office supplies	286		178	
Miscellaneous expenses	96		63	
<b>Total operating costs</b>	<b>4,371</b>	<b>4,915</b>	<b>3,734</b>	<b>4,450</b>
<b>Fixed charges:</b>				
Furniture and equipment	363		169	
Depreciation	1,216		1,090	
<b>Total fixed charges</b>	<b>1,579</b>	<b>1,724</b>	<b>1,259</b>	<b>1,648</b>
<b>Total administrative expenses</b>	<b>\$15,723<sup>1</sup></b>	<b>\$16,691<sup>2</sup></b>	<b>\$13,628</b>	<b>\$15,116<sup>3</sup></b>

<sup>1</sup> Includes \$157,000 of unbudgeted expenses related to the Health Insurance Account.

<sup>2</sup> Includes \$15,816,000 related to the 1991-92 appropriation and \$875,000 related to the 1990-91 appropriation.

<sup>3</sup> Includes \$14,285,000 related to the 1990-91 appropriation and \$831,000 related to the 1989-90 appropriation.

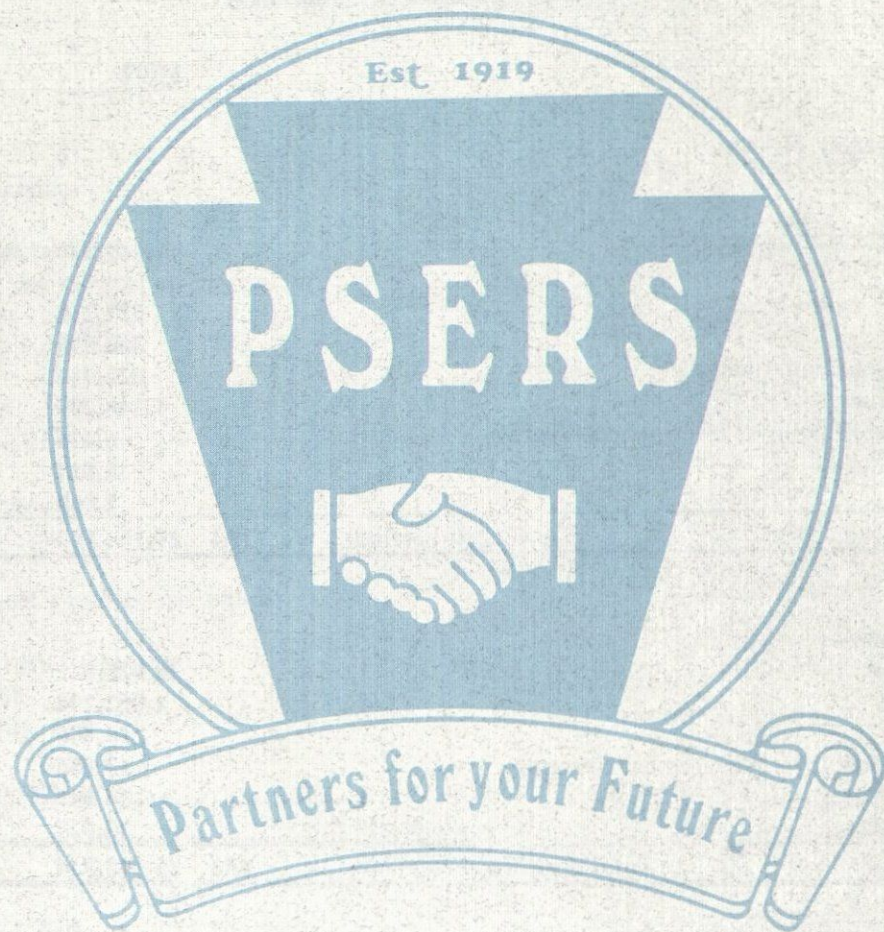
**Schedule 4**  
**Administrative Expenses Paid**  
**Through Directed Commissions**  
**Years ended June 30, 1992 and 1991**  
**(Amounts in Thousands)**

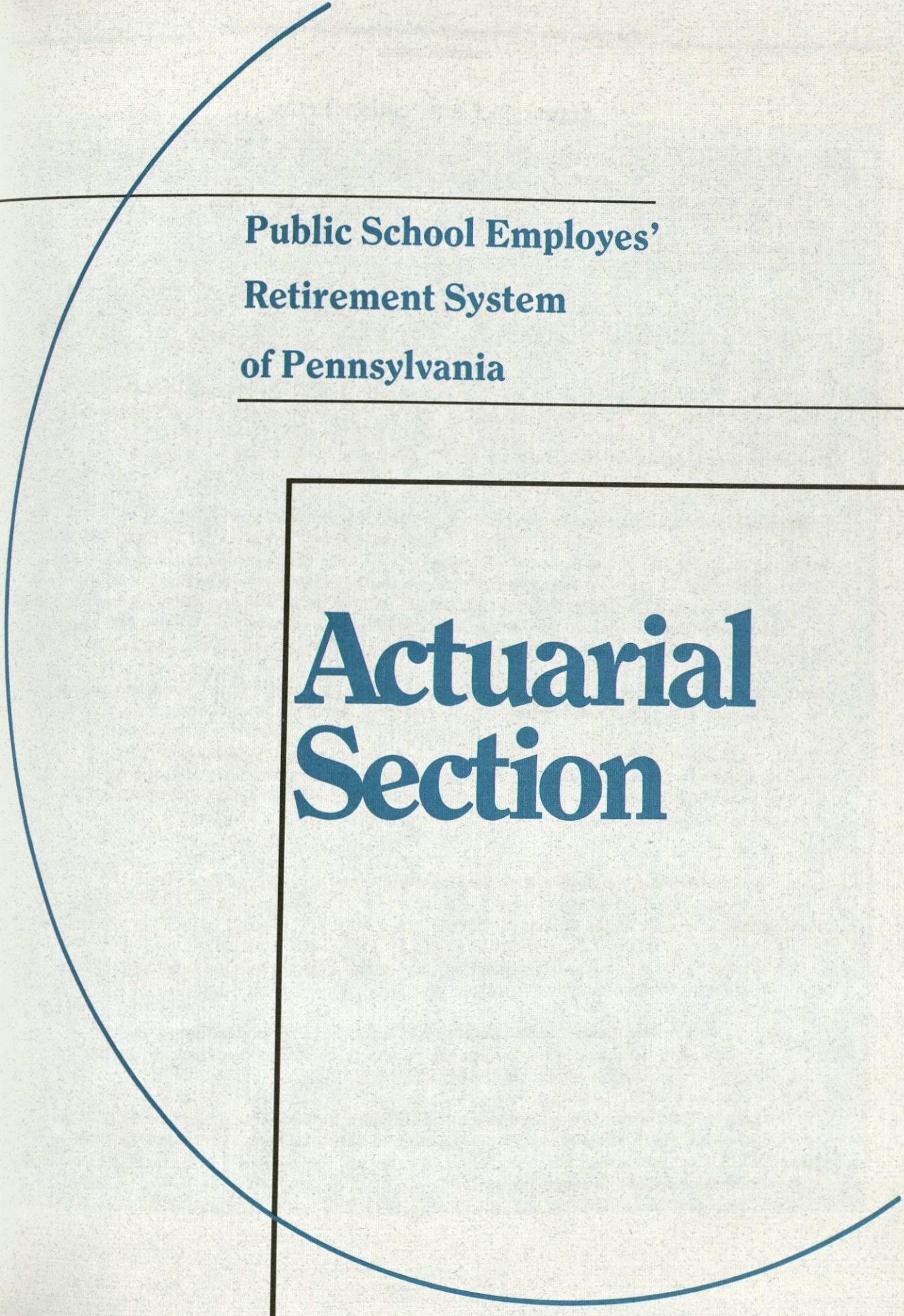
	<u>1992</u>	<u>1991</u>
<b>Operating costs:</b>		
Auditor General services	\$ —	\$ —
Treasury services	—	—
Civil Service Commission services	—	—
Classification and pay services	—	—
Purchasing services	—	—
Consultant fees	682	792
Legal fees	—	—
Specialized services	270	280
Printing	—	—
Postage	—	—
Telephone and telegraph	—	—
Dues and subscriptions	82	24
Electricity	—	—
Motorized equipment supplies and repair	—	—
Travel	—	—
Contracted maintenance services	—	—
Rental of real estate	—	—
Rental of equipment	—	—
Office supplies	—	—
Miscellaneous expenses	44	75
<b>Total operating costs</b>	<b>1,078</b>	<b>1,171</b>
<b>Fixed charges:</b>		
Furniture and equipment	563	173
Depreciation	—	—
<b>Total fixed charges</b>	<b>563</b>	<b>173</b>
<b>Total administrative expenses paid through directed commissions (note 4)</b>	<b>\$1,641</b>	<b>\$1,344</b>

**Schedule 5**  
**Summary Schedule of Cash Receipts and**  
**Disbursements**  
**Years ended June 30, 1992 and 1991**  
**(Dollar Amounts in Thousands)**

	<u>1992</u>	<u>1991</u>
Cash balance at beginning of year	\$ 6	\$ 4
<b>Add cash receipts:</b>		
Investment sales and maturities	26,440,570	23,990,803
Contributions:		
Employers	517,206	551,928
Employees	360,809	336,355
Commonwealth of Pennsylvania	622,715	420,746
Interest and dividends	1,148,209	1,061,597
Transfers from State Employees' Retirement System	6,476	3,618
Refund of expenditures	5,817	5,033
Other receipts	1,060	683
<b>Total cash receipts</b>	<b>(A) 29,102,862</b>	<b>26,370,763</b>
<b>Less cash disbursements:</b>		
Investment purchases	28,025,822	25,361,067
Benefit payments	1,002,294	947,060
Refunds	10,806	11,509
Transfers to State Employees' Retirement System	13,888	5,550
Administrative expenses	14,997	13,737
Other disbursements	35,027	31,838
<b>Total cash disbursements</b>	<b>(A) 29,102,834</b>	<b>26,370,761</b>
Cash balance at end of year	\$ 34	\$ 6

(A) Includes Health Insurance Account activity.





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**Public School Employes'  
Retirement System  
of Pennsylvania**

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**Actuarial  
Section**



## Actuary's Certification Letter

### BUCK CONSULTANTS

Xerox Centre  
55 West Monroe Street Suite 1700  
Chicago, Illinois 60603

June 10, 1992

Retirement Board  
Public School Employees'  
Retirement System of Pennsylvania  
P.O. Box 125  
Harrisburg, Pennsylvania 17108

Ladies and Gentlemen:

We have completed the annual actuarial valuation of the Public School Employees' Retirement System of Pennsylvania as of June 30, 1991. The valuation reflects the benefits in effect on the valuation date, and was prepared on the basis of the data submitted by the Retirement System and the same actuarial assumptions used in the previous valuation of the System, as adopted by the Retirement Board, including an interest rate assumption of 8½% per annum, compounded annually.

There were no fiscally-significant legislated changes made in the benefit or contribution provisions of the System since last year which needed to be taken into account in the valuation.

Effective with the current actuarial valuation, the asset valuation method was changed from book value to a market-related method which averages market gains and losses over a 5 year period. Also, the long-standing interest receivable from the Commonwealth of \$110 million was written off as of the current valuation.

#### **Financing Objective and Employers' Contribution Rate**

The financing objective of the System is to:

- (a) fully fund all current costs based on the normal contribution rate determined under the funding method; and
- (b) liquidate all unfunded accrued and supplemental annuity liabilities based on the amortization schedules set forth in the retirement code, i.e., a schedule of 20 years for each change in the unfunded liability.

On the basis of the current valuation, the total contribution rate payable by the employers for the year commencing July 1, 1992 should be set equal to 14.24% of payroll. The rate of 14.24% is comprised of a pension contribution rate of 13.74% for pension benefits plus a health care contribution rate of .50% for premium assistance.

The total contribution rate of 14.24% of payroll payable by the employers, when taken together with the contributions payable by the members, is sufficient to achieve the financing objective set forth above. When compared with the previous year's employers' pension contribution rate of 14.90%, the current employers' pension contribution rate of 14.24% shows a decrease of .66% from the prior year. It should be noted that .35% is due to the change in the asset valuation method to the use of a 5-year moving average market value of assets, and the balance of .31% is on account of the System's net favorable experience during fiscal 1991.

#### **Commonwealth's Assets and Participant Data**

The individual data for members of the System as of the valuation date were reported to the actuary by the Retirement System. While the actuary did not verify the data at their source, he did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation. It is our understanding that the outside auditor of the System has also made an examination of the data.

A statement of the net assets of the System, and the revenue and expenses of the System for the fiscal year ending on the valuation date was supplied to the actuary by the Retirement System.

Based on the 5-year moving average market value method and the write-off of the receivable of \$110 million, the valuation assets as of the current valuation amounted to \$17,961,839,000. Using book value and including the receivable of \$110 million, the valuation assets would have been equal to \$17,707,231,000. Thus, the change in the method and the write-off had the net favorable effect of increasing the valuation assets by \$254,608,000.

#### **Actuarial Assumptions and Methods**

The rates of separation and mortality after retirement used in the valuation were those adopted by the Retirement Board upon the recommendation of the actuary, including an interest rate assumption of 8½% per annum, compounded annually. In our opinion, the actuarial assumptions used in the valuation are, in the aggregate, reasonable.

The actuarial cost method utilized is the entry age normal method with open-end accrued liability, as specified in the Statutes. The application of the method produces a rate of employer contribution which should remain fixed as a level percentage of payroll for each individual member included in the valuation. The rate of contribution determined under the method covers both the normal costs of the System on account of currently accruing benefits and the amortization of the total unfunded accrued liability of the System based on funding the outstanding balance of the June 30, 1990 unfunded liability over the remainder of the 20 year period commencing July 1, 1991, with a separate 20 year amortization schedule for each change in the unfunded liability subsequent to June 30, 1990.

The asset valuation method was based on the use of a 5-year moving average market value of assets, which became effective as of June 30, 1991. As a result of the change in the asset valuation method and the write-off of the receivable of \$110 million, the unfunded liability of the System is reduced by \$254,608,000 as of June 30, 1991, and the unfunded liability rate of the System is reduced by .35% as of June 30, 1991.

### **Unfunded Accrued Liability**

The unfunded accrued liability represents the present value of the portion of benefits accrued to the valuation date in respect of active members, annuitants, and survivor annuitants, adjusted for experience gains and losses, which is not covered by the current assets of the System. Under the entry age normal cost method used for valuation purposes, the unfunded accrued liability is determined as the present value of total prospective benefits payable, less the current assets of the System, less the present value of prospective normal contributions payable.

As of June 30, 1991, the total unfunded accrued liability of the System amounted to \$4,612,147,000. The unfunded amount of \$4,612,147,000 reflects the net effect of a reduction in the unfunded of \$254,608,000 as a result of the change in the asset valuation method and an increase of \$114,600,000 on account of the net actuarial loss during the 1991 fiscal year.

### **Funding Adequacy**

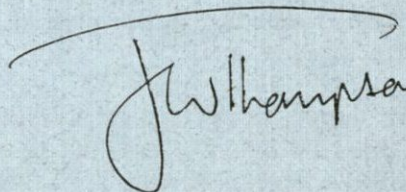
The results of the valuation indicate that the rates of contribution payable by members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System.

### **Financial Results and Membership Data**

Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the schedules which are presented in the body of the report.

The Table of Contents, which immediately follows, indicates the section and page where each schedule is shown.

Respectfully submitted,



John W. Thompson  
Consulting Actuary

**Actuarial Valuation  
June 30, 1991**

**Section I — Financial Results**

Section I of this report summarizes the major financial results developed in the valuation as well as the actuarial methods and assumptions used.

**Schedule I  
Summary of Principal Results  
(Dollar Amounts in Thousands)**

<b>Valuation Date</b>	<b>6/30/91</b>	<b>6/30/90</b>
Actuarial value of assets (method described in notes below)	\$17,961,839	\$15,995,598
Employer contribution rate:		
Normal	7.90%	8.00%
Unfunded liability	<u>5.84</u>	<u>6.40</u>
Total pension contribution rate	13.74%	14.40%
Health care contribution rate	<u>.50</u>	<u>.50</u>
Total employer rate	14.24%	14.90%
	(Fiscal year: 1992/93)	(Fiscal year: 1991/92)
Member contribution rate (based on weighted average)	5.48%	5.46%
Total contribution rate (member plus employer)	19.72%	20.36%
Unfunded liability	\$4,612,147	\$4,918,653
Unfunded liability funding period	19 to 20 years (From July 1, 1992)	20 years (From July 1, 1991)

**NOTES:**

- (1) Effective June 30, 1991, actuarial valuation method is based on 5-year moving average market value of assets. This value excludes interest receivable from Commonwealth of \$109,831, which was written off.
- (2) As of June 30, 1990, actuarial value of assets based on cost value, including interest receivable from Commonwealth of \$109,831.

**Schedule II**  
**Valuation Balance Sheet**  
**As Of June 30, 1991**  
(Dollar Amounts in Thousands)

<b>Assets</b>		
Current assets (including members' accumulated contributions of \$3,771,931):		\$ 17,961,839
Future assets:		
Member contributions		3,798,406
Employer contributions:		
Normal		5,475,803
Unfunded liability		<u>4,612,147</u>
Total Assets		\$ 31,848,195
<b>Liabilities</b>		
Active membership:		
Benefits payable on account of:		
Member contributions accumulated to date	\$3,771,931	
Future member contributions	<u>3,798,406</u>	7,570,337
Remaining benefits payable to produce 2% benefit formula amounts		<u>17,898,973</u>
Total Liabilities		\$ 25,469,310
Retired membership:		
Benefits payable to annuitants and survivor annuitants		<u>6,378,885</u>
Total Liabilities		\$ 31,848,195

**Schedule III**  
**Increase (Decrease) In Unfunded Accrued**  
**And Supplemental Annuity Liability**

**Year Ended June 30, 1991**  
(Dollar Amounts in Millions)

(1) Unfunded liability as of 6/30/90		\$ 4,918.7
(2) Interest at 8½% for 1 year		418.1
(3) Unfunded liability contribution		<u>584.7</u>
(4) Expected unfunded liability as of 6/30/91 = (1) + (2) - (3)		\$ 4,752.1
(5) Unfunded liability as of 6/30/91		<u>4,612.1</u>
(6) Increase (decrease) from expected = (5) - (4)		\$ (140.0)
(7) Explanation of net increase (decrease):		
(a) Experience:		
Interest deficit	\$181.2	
Salary increases above expected	82.6	
Retirement and other separations	(76.4)	
Pensioners' mortality experience	(11.0)	
Other	<u>(61.8)</u>	
Net experience loss (gain)		\$ 114.6
(b) Change in asset valuation method		<u>(254.6)</u>
Total net increase (decrease)		\$ (140.0)

**Schedule IV**  
**Relationship Between Accrued Liabilities**  
**And Assets of System Over Last 10 Years**  
(Dollar Amounts in Thousands)

Valuation As of June 30	Aggregate Accrued Liabilities For:			Reported Assets**	Portion of Accrued Liabilities Covered By Reported Assets		
	(1) Active Member Contributions	(2) Annuitants and Beneficiaries	(3) Active Members (Employer Financed Portion)*		(1)	(2)	(3)
1991	\$3,771,931	\$6,378,885	\$12,423,170	\$17,597,400	100.0%	100.0%	59.9%
1990	3,458,222	6,007,178	11,448,851	15,995,598	100.0	100.0	57.0
1989	3,171,058	6,670,207	11,375,553	14,109,085	100.0	100.0	37.5
1988	2,921,143	6,416,543	10,164,007	12,544,374	100.0	100.0	31.5
1987	2,668,271	5,740,249	9,003,259	11,151,231	100.0	100.0	30.5
1986	2,464,839	5,348,751	8,181,910	9,458,315	100.0	100.0	20.1
1985	2,274,834	4,950,826	7,332,210	7,992,817	100.0	100.0	10.5
1984	2,085,294	4,822,488	6,712,779	6,897,484	100.0	99.8	0.0
1983	1,919,861	4,361,033	5,987,048	6,109,592	100.0	96.1	0.0
1982	1,868,012	4,031,176	5,465,494	5,977,119	100.0	100.0	1.4

\* Equal to active members' liabilities (employer financed portion) less present value of future normal contributions based on new entrant normal rate.

\*\*The reported assets of \$17,597,400 as of June 30, 1991 exclude interest receivable from State of \$109,831. For years prior to 1991, reported assets include interest receivable of \$109,831.

**Schedule V**  
**Analysis Of Accrued Liability Of System**  
**As Of June 30, 1991**  
(Dollar Amounts in Millions)

Item	Amount
(1) Estimated value of accumulated benefits of System:	
Vested benefits	
- Members currently receiving payments	\$ 6,378.9
- Other members	<u>7,125.2</u>
Sub-total	\$13,504.1
Nonvested benefits	<u>1,322.1</u>
Total value of accumulated benefits	\$14,826.2
(2) Value of additional accrued liabilities reflecting effect of anticipated future increases in pay	<u>7,747.7</u>
(3) Total accrued liability of System = (1) + (2)	\$22,573.9
(4) 5-year moving market value of assets	<u>17,961.8</u>
(5) Unfunded liability of System (as shown in Schedule I)	\$ 4,612.1

NOTES:

- (A) Accumulated benefits shown under item (1) above are made up of (a) benefits currently being paid to annuitants and beneficiaries, plus (b) accrued benefits of active membership based on service and pay history up to the current valuation date of June 30, 1991. Thus, accumulated benefits do not reflect the effect of future pay increases on the benefit ultimately payable upon retirement or separation from employment.
- (B) Item (3) shows the total accrued liability of the System as determined under the funding method, i.e., the entry-age normal cost method. Item (3) reflects the effect of anticipated future pay increases on the benefits ultimately payable.
- (C) The calculation of the estimated value of accumulated benefits took into account the probability of future payments by use of the same decrements as to death, disability, withdrawal, and retirement which were used in the regular valuation of the System. These decrements are set forth in Schedule VI. The interest rate used is the same as for the regular valuation, namely 8½%. As mentioned in note (A) above, the estimated value does not include any allowance for future pay increases.



**Schedule VI**  
**Pension Benefit Obligation**  
**As Of June 30, 1991**  
(Dollar Amounts in Thousands)

Item	Amount
Pension benefit obligation:	
Annuitants and survivor annuitants currently receiving benefits and terminated members not yet receiving benefits	\$ 6,562,726
Current members:	
Accumulated member contributions with interest	\$ 3,557,218
System-financed vested	3,384,107
System-financed non-vested	<u>7,446,481</u>
Sub-total	\$14,387,806
Total pension benefit obligation	\$20,950,532

NOTES:

- (A) An assumed rate of return on the investment of present and future assets of 8½% per annum, compounded annually was used.
- (B) Assumed projected annual salary increases of 7½%, which reflect an allowance for inflation of 4%, national productivity of 1% and merit or seniority increases averaging 2½% were used.
- (C) No post-retirement benefit increases are assumed in the future.

**Schedule VII**  
**Outline Of Actuarial Assumptions And Methods**

**Interest Rate:** 8½ percent per annum, compounded annually (adopted in 1991) (4 percent used since 1960 in determining actuarial equivalent benefits.)

**Separations from Service:** Representative values of the assumed annual rates of separation (adopted in 1986):

Age	Annual Rate of:					
	Withdrawal	Death	Disability	Vesting & Early Retirement		Superannuation Retirement
				Less than 25 years of service	25 or more years of service	
Men						
25	10.01%	.07%	.01%	1.52%		
30	7.02	.07	.01	1.52		
35	5.88	.07	.02	1.47		
40	5.24	.12	.06	1.10	.13%	
45	4.85	.20	.11	1.00	.15	
50	4.58	.32	.26	1.30	.30	22.00%
55	4.42	.53	.49	2.30	3.41	20.90
60	4.37	.94	1.01	3.26	4.95	18.15
65		1.74				44.00
69		2.58				16.50
Women						
25	9.96%	.03%	.01%	7.20%		
30	9.02	.03	.02	4.40		
35	7.92	.04	.05	2.10		
40	6.62	.07	.07	1.40	1.32%	
45	5.70	.11	.10	1.50	1.32	
50	5.14	.15	.23	2.05	.86	22.00%
55	4.80	.21	.45	3.00	5.77	19.80
60	4.74	.34	.79	5.15	11.00	19.80
65		.63				36.30
69		1.10				27.50

**Salary Increase:** Assumed projected salary increases of 7½ percent, which reflect on allowance for inflation of 4 percent, national productivity of 1 percent and merit or seniority increases averaging 2½ percent.

**Death After Retirement:** The 1984 George B. Buck Mortality Tables (adopted in 1986) for service retirements and dependent beneficiaries. Special mortality tables were used for disability retirements. (The 1963 George B. Buck Mortality Tables, adopted in 1967, used in determining actuarial equivalent benefits.)

**Schedule VII (Continued)**

**Valuation Method:** Projected benefit method with level percentage entry age normal cost and open-end unfunded accrued liability with gains and losses reflected in the accrued liability. The outstanding balance of the June 30, 1990 unfunded liability is to be amortized over the remainder of the 20 year period commencing July 1, 1991, with annual amortization payments increasing at 5 percent. Increases (decreases) in unfunded liability subsequent to June 30, 1990 are to be amortized over a period of 20 years, with installments increasing annually at 5 percent.

**Asset Valuation Method:** Based on 5-year moving market average value of assets (adopted in 1991).

**Pension Benefit Obligation:** The measure of the actuarial present value (APV) as of the valuation date of credited projected benefits prorated on service, or pension benefit obligation (PBO) as referred to in Statement No. 5 of the Governmental Accounting Standards Board (GASB), includes an adjustment for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to June 30, 1991. Significant actuarial assumptions used to determine the pension benefit obligation as of June 30, 1991 include the following:

- (1) An assumed rate of return on the investment of present and future assets of 8½ percent per annum, compounded annually (adopted in 1991).
- (2) Assumed projected annual salary increases of 7½ percent, which reflect an allowance for inflation of 4 percent, national productivity of 1 percent and merit or seniority increases averaging 2½ percent (adopted in 1991).
- (3) No post-retirement benefit increases assumed in the future.

**Miscellaneous:** The valuation was based on members of the System as of June 30, 1991 and does not take into account future members.

**Section II — Membership Data**

Data regarding the membership of the System for use as a basis for the valuation were furnished by the System's office. Tables A and B following summarize the membership of the System as of June 30, 1991 upon which the valuation was based. Detailed tabulations of the data are given in Section IV. Tables C and D show historical membership data for the last 10 years.

**Table A**  
**Active Membership of System**  
**As Of June 30, 1991**

<b>Group</b>	<b>Number</b>	<b>Annual Salaries</b>
Active members included in valuation:		
Men	68,819	\$2,358,806,390
Women	<u>133,812</u>	<u>3,385,991,786</u>
Total	202,631	\$5,744,798,176*

In addition to the above, 33,029 inactive members and vestees were included in the valuation.

\*For valuation purposes, salaries of \$5,701,717,740 were reported for the fiscal year ended June 30, 1991, which when annualized amount to \$5,744,798,176.

**Table B**  
**Annuitants And Survivor Annuitants Of The System**  
**As Of June 30, 1991**

Class	Number	Annual Annuities
Retired on account of superannuation and those in receipt of withdrawal annuities:		
Men	30,968	\$306,665,591
Women	<u>63,299</u>	<u>463,205,778</u>
Total	94,267	\$769,871,369
Retired on account of disability:		
Men	1,388	\$ 10,572,405
Women	<u>2,653</u>	<u>16,176,264</u>
Total	4,041	\$ 26,748,669
Survivor annuitants in receipt of benefits:		
Men	559	\$ 2,463,894
Women	<u>4,055</u>	<u>17,363,011</u>
Total	4,614	\$ 19,826,905
Annuities in lieu of return of accumulated deductions:		
Men	—	—
Women	<u>2</u>	<u>\$ 134</u>
Total	2	\$ 134
Grand Total	102,924	\$816,447,077

**Table C - History Of Active Membership Data For Last 10 Years Valuation**

Valuation As of June 30	Number of Active Members	Percentage Change In Membership	Total Annual Payroll	Percentage Change In Payroll
1991	202,631	.98%	\$5,744,798,000	7.11%
1990	200,660	.11	5,363,535,000	6.09
1989	200,430	2.34	5,055,793,000	10.24
1988	195,842	(2.77)	4,586,367,000	3.88
1987	201,415	.92	4,415,102,000	8.57
1986	199,571	(1.07)	4,066,471,000	4.59
1985	201,735	.32	3,887,867,000	5.49
1984	201,083	(1.01)	3,685,611,000	8.30
1983	203,138	(2.90)	3,403,263,000	4.72
1982	209,210	(2.44)	3,249,799,000	3.07

**Table D - History of Annuitant And Survivor Annuitant Membership For Last 10 Years**

Year Ended June 30	Number on Roll	Additions	Deletions	Percentage Change in Membership	Annual Annuities (Millions)	Percentage Change in Annuities
1991	102,924	6,076	3,274	2.80%	\$816.4	5.79%
1990	100,122	6,439	1,778	4.88	771.7	8.66
1989	95,461	4,852	2,315	2.73	710.2	11.77
1988	92,924	5,818	3,271	2.82	635.4	4.44
1987	90,377	6,671	2,940	4.31	608.4	6.51
1986	86,646	6,586	2,828	4.53	571.2	5.15
1985	82,888	6,051	2,879	3.98	543.2	3.07
1984	79,716	5,989	2,611	4.43	527.0	12.03
1983	76,338	7,345	2,252	7.15	470.4	7.20
1982	71,245	6,098	2,303	5.63	438.8	4.23

**Table E - Summary of Accrued and Unfunded Accrued Liabilities for Last 10 Years  
(Dollar Amounts in Millions)**

Valuation As of 6/30	Aggregate Accrued Liabilities	Valuation* Assets	Assets As a Percentage of Accrued Liabilities	Unfunded Accrued Liabilities (UAL)	Total Annual Payroll	UAL As a Percentage of Total Payroll
1991	22,573.9	17,961.8	79.6%	4,612.1	5,744.8	80.3%
1990	20,914.3	15,995.6	76.5	4,918.7	5,363.5	91.7
1989	21,216.8	14,109.1	66.5	7,107.7	5,055.8	140.6
1988	19,501.7	12,544.4	64.3	6,957.3	4,641.9	149.9
1987	17,411.7	11,151.2	64.0	6,260.5	4,416.9	141.7
1986	15,995.5	9,458.3	59.1	6,537.2	4,159.0	157.2
1985	14,557.9	7,992.8	54.9	6,565.1	3,887.9	168.8
1984	13,620.6	6,897.5	50.6	6,723.1	3,685.6	182.4
1983	12,267.9	6,109.6	49.8	6,158.3	3,403.3	180.9
1982	11,364.7	5,977.1	52.6	5,387.5	3,249.8	165.8

\*Commonwealth interest receivable is included in the Valuation Assets for years 1982-1990. This receivable was written off as uncollectible for the 1991 evaluation.

### Section III — Summary Of Benefit And Contribution Provisions

#### Membership

For valuation purposes, all employees are considered to be members of Class T-C. All employees who become members on and after January 1, 1966 are members of the dual coverage group. Joint coverage members are those who became members prior to that date but subsequent to May 28, 1957. Joint coverage members may elect to become members of the dual coverage group but must make up the difference in accumulated deductions.

“Final average salary” means the highest average annual salary for any 3 years of service.

#### Benefits

##### Superannuation Annuity

Eligibility	Age 62, or age 60 with 30 years of service, or 35 years of service regardless of age.
Amount	2% of final average salary times years of service. Minimum of \$100 per year of service.  Benefit of a joint coverage member is reduced by 40% of primary insurance amount (subject to certain limitations) after age at which Social Security benefits become payable.

##### Vesting Annuity

Eligibility	10 years of service.
Amount	Accrued benefit deferred to superannuation retirement age.

##### Withdrawal Annuity

Eligibility	Vestee with 10 years of service may elect to receive a reduced vesting annuity which commences earlier than the superannuation retirement age.
Amount	Actuarial equivalent of the vesting annuity which would have commenced at superannuation retirement age. If member separates after age 55 with 25 or more years of service, reduction is $\frac{1}{4}\%$ for each month by which commencement of payments precedes superannuation retirement age. Benefit of a joint coverage member is reduced after age at which Social Security benefits become payable.

### Disability Annuity

Eligibility	5 years of service.
Amount	2% of final average salary per year of service, but not less than 33 1/3 % of such salary, nor greater than the benefit member would have had at superannuation retirement age. Minimum of \$100 per year of service.

### Optional Benefits

**Option 1.** Reduced benefit with refund of balance of present value of annuity at retirement over payments received. If balance is less than \$5,000, benefit is paid in lump sum; otherwise, beneficiary may elect annuity and/or lump sum.

**Option 2.** Joint and 100% survivorship annuity.

**Option 3.** Joint and 50% survivorship annuity.

**Option 4.** Benefit of equivalent actuarial value.

### Death Benefit

Eligibility	Death of an active member or vestee who was eligible to receive an annuity.
Amount	Annuity which would have been effective if the member retired on the day before death. Option 1 assumed payable if no other option elected.

### Return of Contributions

Eligibility	Death or separation from service where no other benefit payable.
Amount	Refund of accumulated deductions (less annuity payments received in the case of a retired member).

### Contributions

#### By Members

Members who were hired prior to July 22, 1983 contribute at a rate of 5 1/4 % of compensation, while members who were hired on or after July 22, 1983 contribute at a rate of 6 1/4 % of compensation. Reduction for a joint coverage member of 40% of Social Security tax, exclusive of disability and medical coverage portion.

#### By Commonwealth and School Districts

Balance of required contribution determined as normal contribution, accrued liability contribution, and supplemental annuity contribution, is shared equally by the Commonwealth and the School Districts.

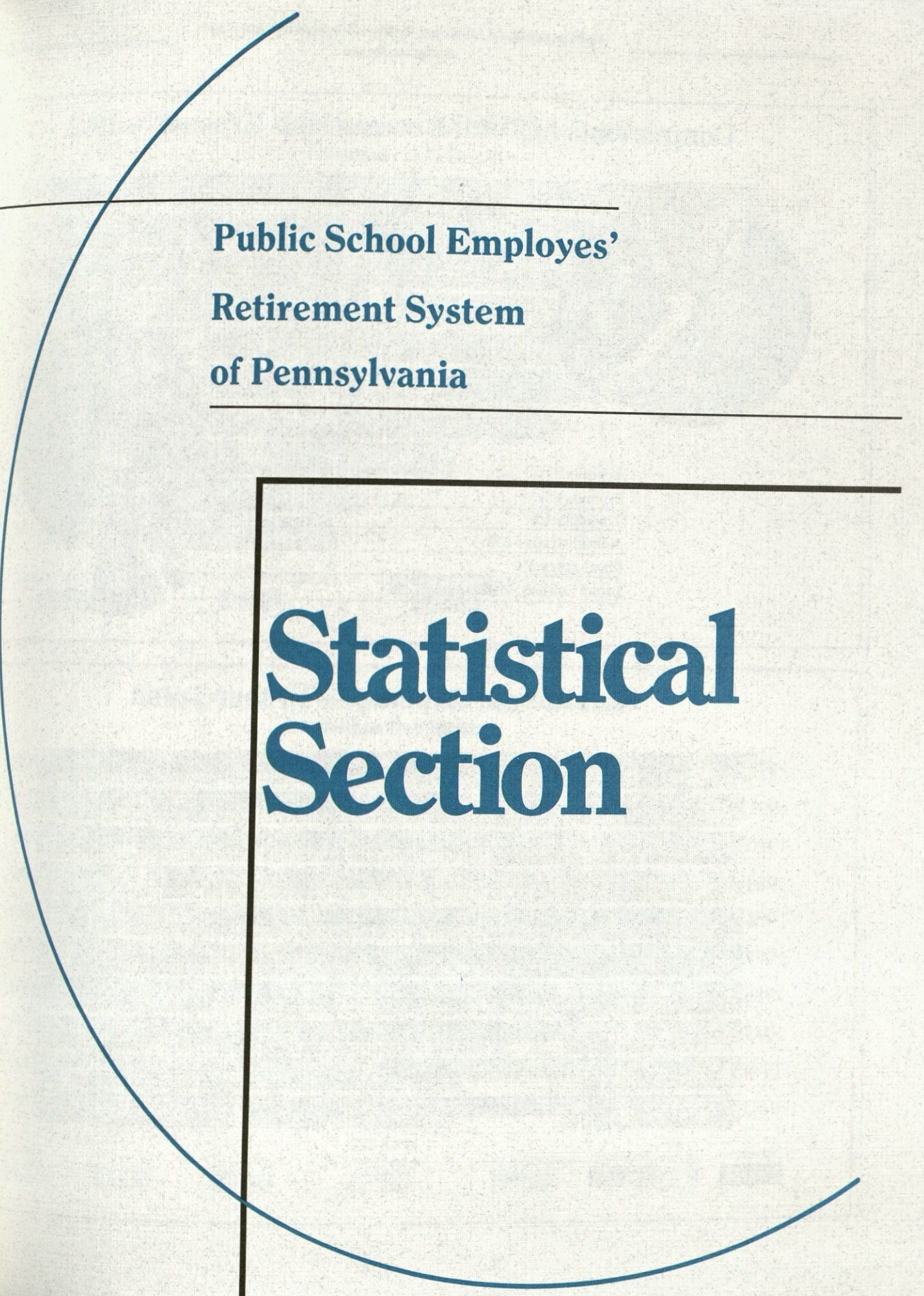


Section IV — Detailed Tabulations Of The Data

Active Membership Data  
Of June 30, 1991

Number and Average Annual Salary

Age	Service									TOTAL
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 25	3,820 \$17,861	67 \$17,192								3,887 \$17,849
25 - 29	8,005 \$20,312	2,695 \$24,433	136 \$20,591							10,836 \$21,340
30 - 34	7,393 \$17,913	5,027 \$25,773	3,248 \$28,415	162 \$23,650						15,830 \$22,623
35 - 39	10,238 \$16,892	4,254 \$24,284	8,806 \$31,827	7,357 \$35,294	83 \$23,468					30,738 \$26,616
40 - 44	10,590 \$17,717	5,192 \$22,857	4,945 \$29,738	14,185 \$38,128	11,218 \$41,073	78 \$25,718				46,208 \$31,530
45 - 49	6,009 \$16,417	4,124 \$20,912	4,140 \$25,004	4,380 \$33,959	9,410 \$42,311	5,999 \$43,835	29 \$27,860			34,091 \$32,239
50 - 54	3,573 \$14,767	2,764 \$18,392	3,608 \$21,155	3,840 \$28,420	3,489 \$37,077	5,148 \$43,573	2,680 \$44,984	18 \$32,673		25,120 \$30,409
55 - 59	2,698 \$13,512	2,003 \$16,367	2,745 \$18,880	3,403 \$24,450	2,949 \$31,708	2,124 \$39,291	2,807 \$45,201	990 \$47,625	10 \$30,912	19,729 \$28,160
60 - 64	1,650 \$11,854	1,454 \$15,298	1,619 \$17,914	22,096 \$22,826	2,131 \$29,749	1,251 \$35,859	784 \$42,197	883 \$47,063	197 \$46,243	12,065 \$25,748
Over 65	902 \$ 9,569	604 \$11,124	631 \$14,866	653 \$20,843	525 \$25,631	353 \$31,203	182 \$33,675	116 \$43,926	161 \$47,830	4,127 \$19,805
TOTAL	54,878 \$17,127	28,184 \$21,905	29,878 \$26,523	36,076 \$33,453	29,805 \$38,939	14,953 \$42,039	6,482 \$44,347	2,007 \$47,030	368 \$46,521	202,631 \$28,351



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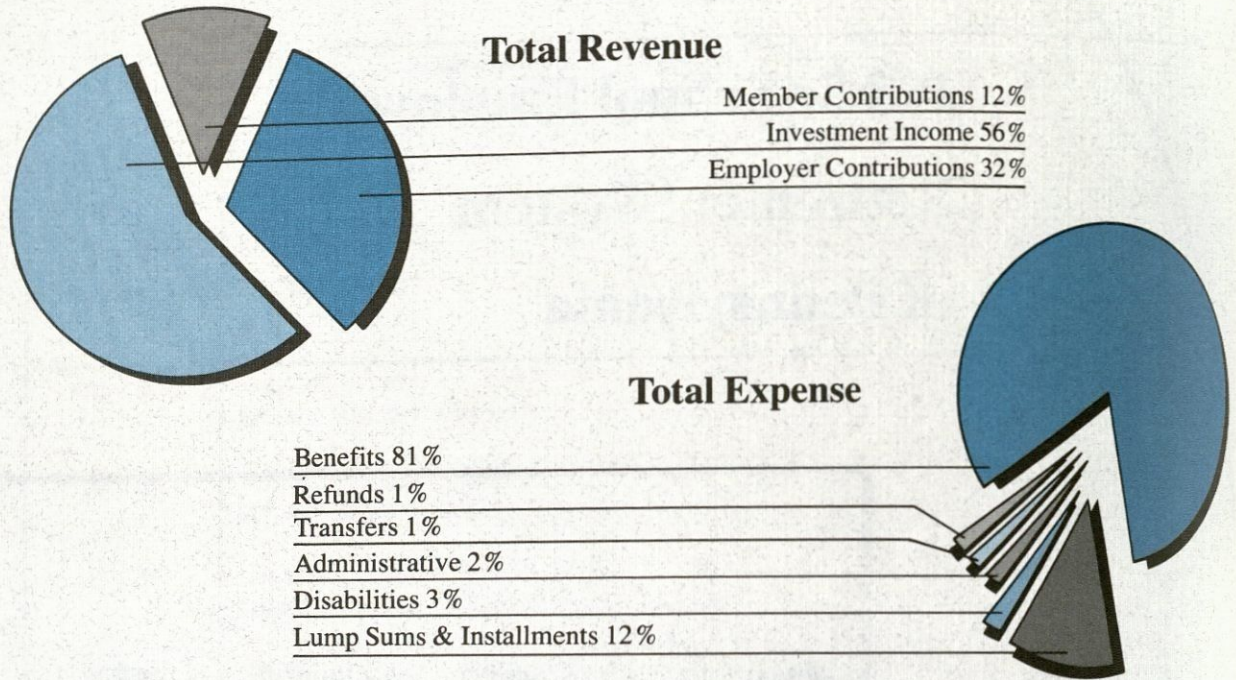
**Public School Employes'  
Retirement System  
of Pennsylvania**

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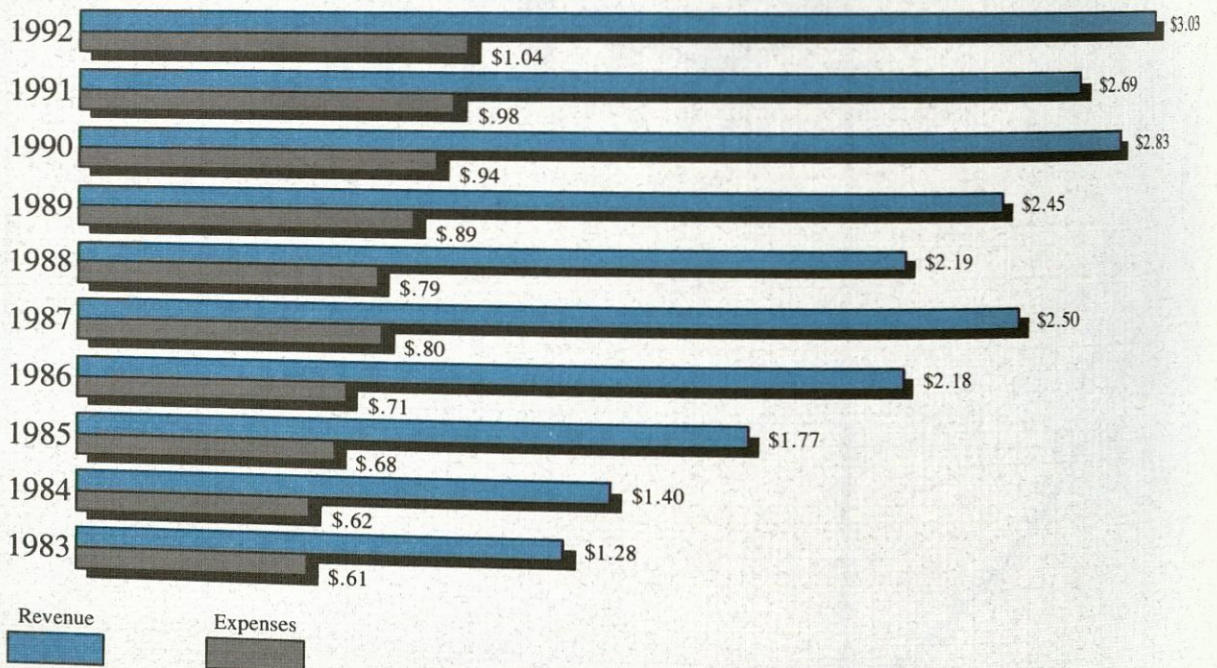


**Statistical  
Section**

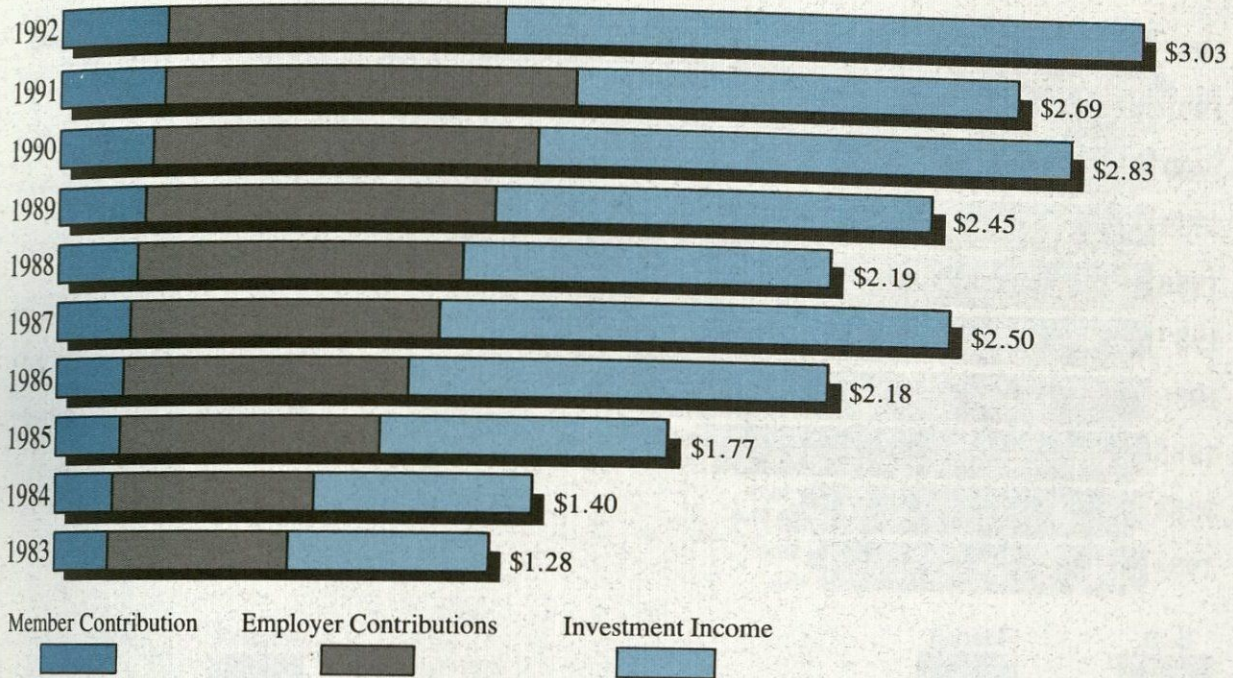
## Components of Total Revenue and Expense — 1992



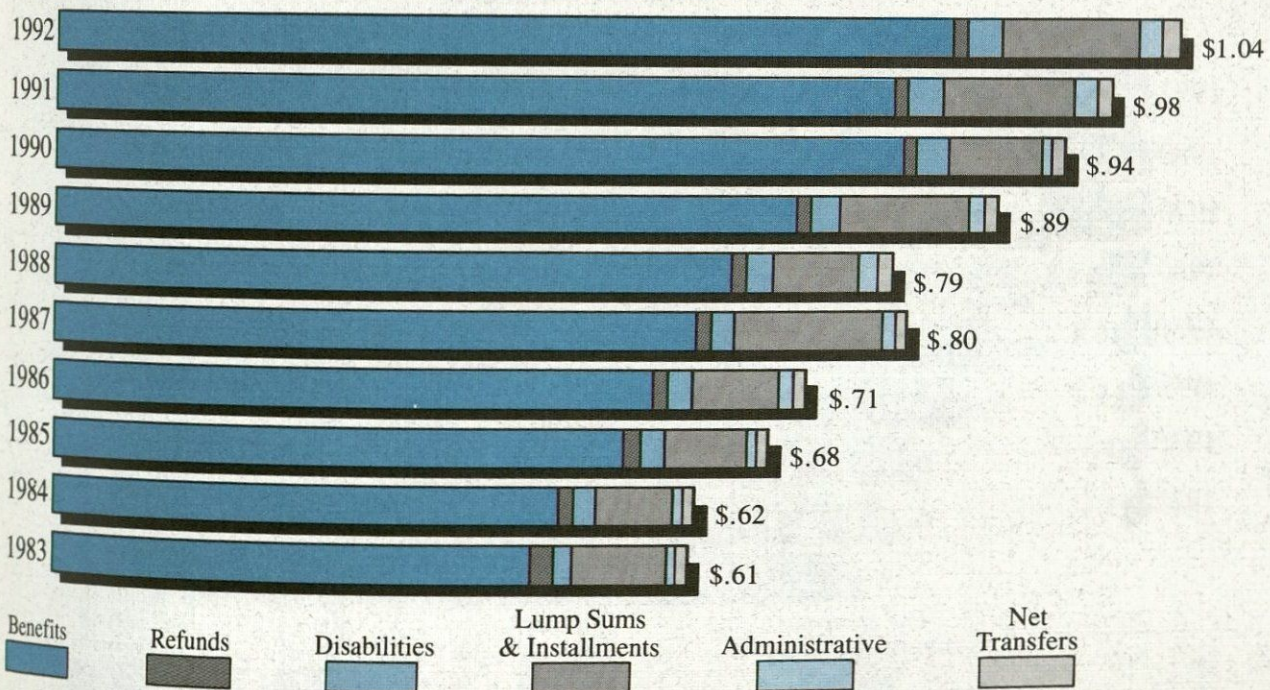
## Revenue vs. Expense — 10 Year Trend (Amounts in Billions)



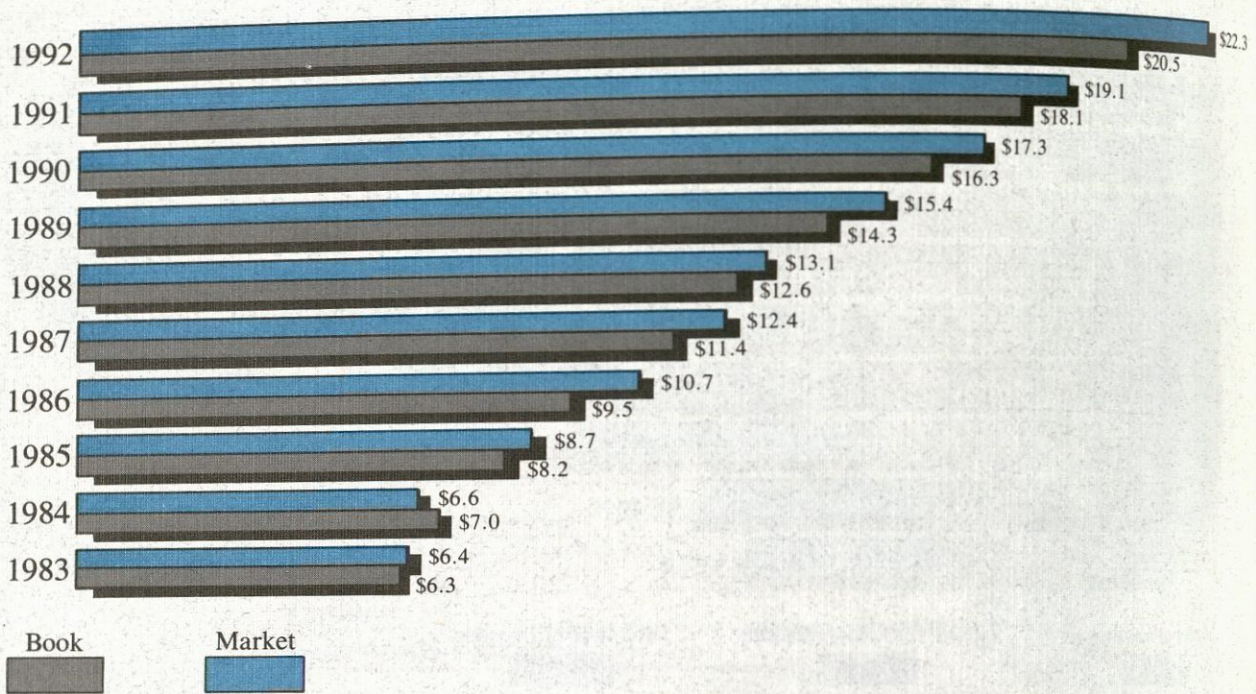
### Revenue By Source — 10 Year Trend (Amounts in Billions)



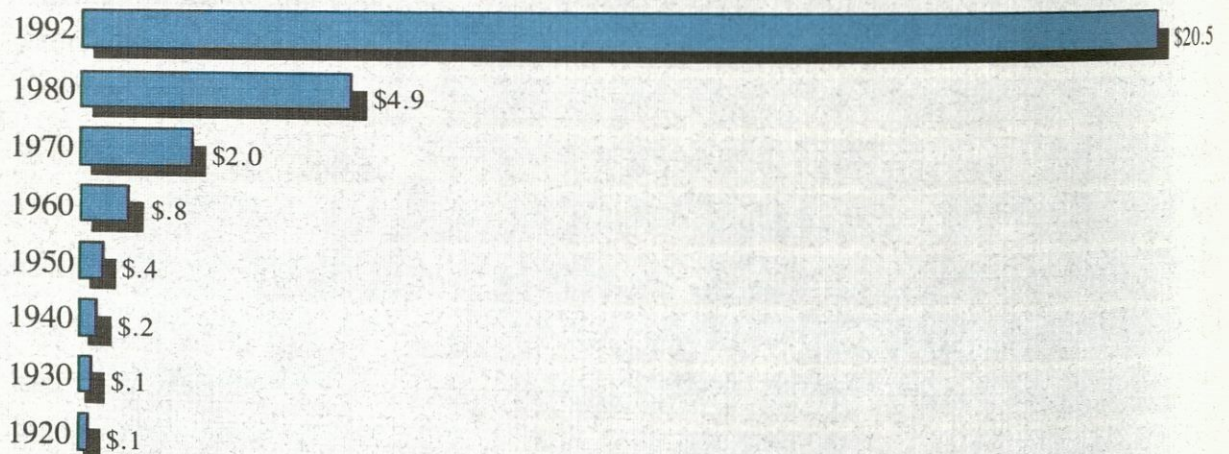
### Expense By Type — 10 Year Trend (Amounts in Billions)



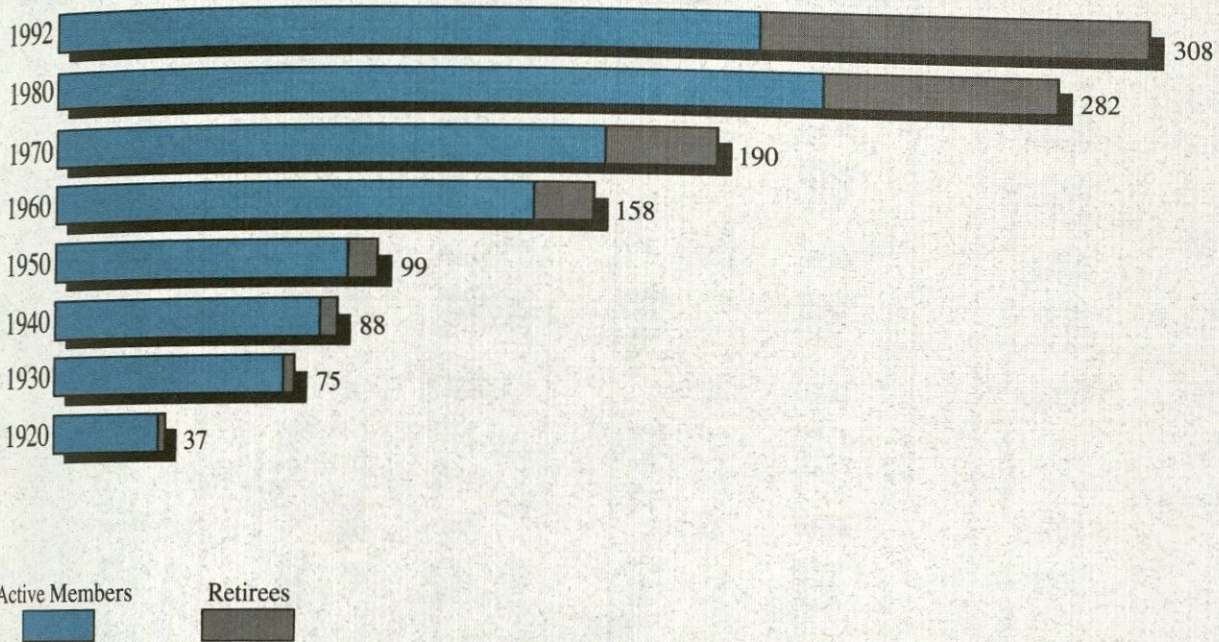
### Total Assets — 10 Year Trend (Amounts in Billions)



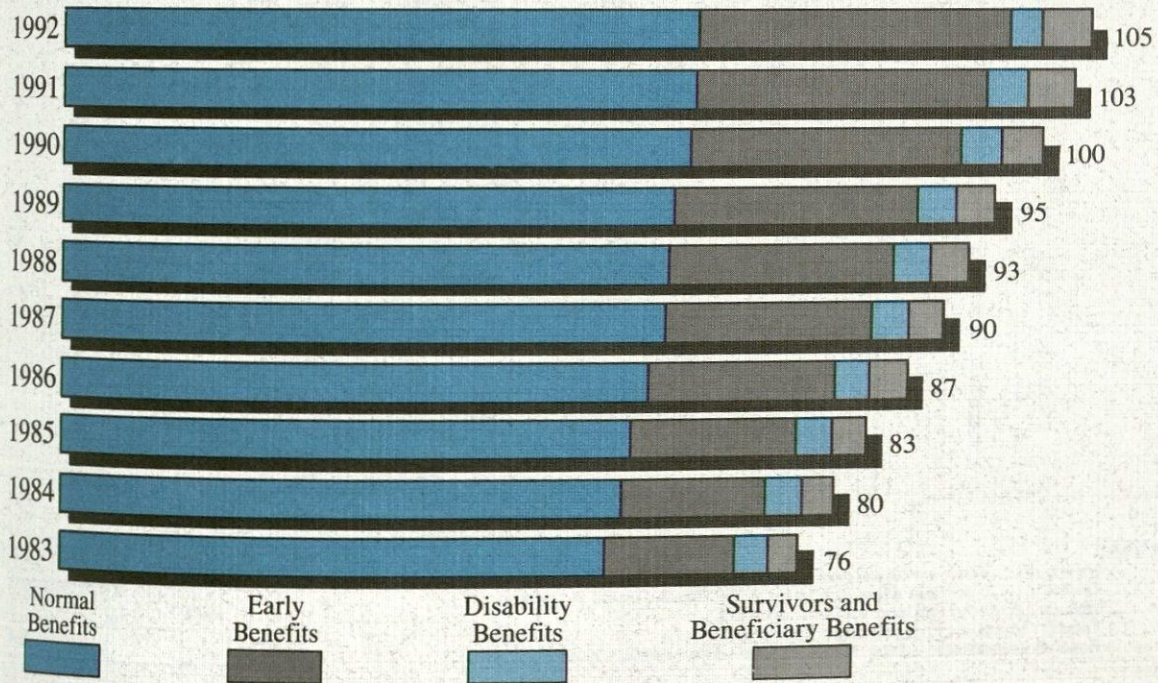
### Asset Growth (Book Value - Amounts in Billions)



### Total Membership — Active & Retired (In Thousands)



### Retired Members — 10 Year Trend (Amounts in Thousands)



## Schedule of Retired Members by Type of Benefit

Year	Retirement Type	Option M*		Option 1*		Option 2, 3*	
		Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit
1992	S	46,052	\$718	7,829	\$633	12,508	\$876
	W	21,116	629	4,104	434	4,177	768
	D	3,632	562	27	436	487	699
	R	2	6	0	0	0	0
	B	0	0	0	0	4,142	380
		<b>70,802</b>		<b>11,960</b>		<b>21,314</b>	
1991	S	46,063	\$693	7,668	\$624	12,234	\$847
	W	20,127	595	3,905	418	3,962	734
	D	3,561	538	27	436	457	662
	R	2	6	0	0	0	0
	B	0	0	0	0	3,991	369
		<b>69,753</b>		<b>11,600</b>		<b>20,644</b>	
1990	S	45,728	\$678	7,498	\$621	11,875	\$831
	W	18,982	559	3,639	403	3,726	703
	D	3,441	524	29	433	424	648
	R	2	6	0	0	0	0
	B	0	0	0	0	3,792	355
		<b>68,153</b>		<b>11,166</b>		<b>19,817</b>	
1989	S	45,064	\$660	7,235	\$618	11,257	\$813
	W	17,059	509	3,273	376	3,311	664
	D	3,346	507	45	474	406	612
	R	3	6	0	0	0	0
	B	0	0	0	0	3,531	338
		<b>65,472</b>		<b>10,553</b>		<b>18,505</b>	
1988	S	44,840	\$603	7,076	\$566	10,990	\$747
	W	16,000	467	3,037	345	3,038	612
	D	3,293	462	50	452	395	558
	R	3	6	0	0	0	0
	B	0	0	0	0	3,285	325
		<b>64,136</b>		<b>10,163</b>		<b>17,708</b>	
1987	S	44,608	\$595	6,919	\$565	10,624	\$736
	W	14,956	449	2,818	336	2,801	596
	D	3,196	447	52	460	366	548
	R	3	6	0	0	0	0
	B	0	0	0	0	3,114	314
		<b>62,763</b>		<b>9,789</b>		<b>16,905</b>	
1986	S	44,047	\$588	6,745	\$565	10,216	\$726
	W	13,224	403	2,540	315	2,477	563
	D	3,095	440	55	464	344	531
	R	4	11	0	0	0	0
	B	0	0	0	0	2,953	303
		<b>60,370</b>		<b>9,340</b>		<b>15,990</b>	
1985	S	43,418	\$587	6,554	\$568	9,781	\$717
	W	11,638	378	2,232	300	2,148	536
	D	2,999	433	57	464	333	523
	R	4	11	0	0	0	0
	B	0	0	0	0	2,791	288
		<b>58,059</b>		<b>8,843</b>		<b>15,053</b>	
1984	S	42,918	\$538	6,372	\$526	9,392	\$666
	W	10,366	363	1,915	291	1,888	529
	D	2,922	390	61	416	314	472
	R	4	11	0	0	0	0
	B	0	0	0	0	2,614	273
		<b>56,210</b>		<b>8,348</b>		<b>14,208</b>	
1983	S	42,224	\$541	6,093	\$535	8,975	\$659
	W	9,235	373	1,621	303	1,682	540
	D	2,804	385	61	416	303	457
	R	4	11	0	0	0	0
	B	0	0	0	0	2,449	261
		<b>54,267</b>		<b>7,775</b>		<b>13,409</b>	

**\*OPTIONS:**

- M — Maximum Option — Highest monthly allowance with guarantee of accumulated deductions only
- 1 — Option 1 — Maximum allowance reduced for Death Benefit protection
- 2, 3 — Option 2 & 3 — Joint and survivor annuities
- SO — Special Option — Plan approved by actuary
- BO — Beneficiary options — Life, 5 and 10 year certain annuity plans

### Schedule of Retired Members by Type of Benefit (Continued)

Year	Retirement Type	Option SO*		Option BO*		Total Retirees	% Increase of Retirees
		Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit		
1992	S	271	\$1,525	0	\$ 0	66,660	0.7%
	W	60	1,418	0	0	29,457	5.1%
	D	0	0	0	0	4,146	2.5%
	R	0	0	0	0	2	0.0%
	B	152	197	445	324	4,739	3.1%
		<b>483</b>		<b>445</b>		<b>105,004</b>	<b>2.0%</b>
1991	S	257	\$1,428	0	\$ 0	66,222	1.3%
	W	47	1,400	0	0	28,041	6.2%
	D	0	0	0	0	4,045	3.9%
	R	0	0	0	0	2	0.0%
	B	156	192	449	313	4,596	4.7%
		<b>460</b>		<b>449</b>		<b>102,906</b>	<b>2.8%</b>
1990	S	290	\$1,281	0	\$ 0	65,391	2.4%
	W	49	1,222	0	0	26,396	11.5%
	D	0	0	0	0	3,894	2.6%
	R	0	0	0	0	2	-33.3%
	B	157	187	439	315	4,388	6.4%
		<b>496</b>		<b>439</b>		<b>100,071</b>	<b>4.9%</b>
1989	S	277	\$1,221	0	\$ 0	63,833	1.0%
	W	29	982	0	0	23,672	7.1%
	D	0	0	0	0	3,797	1.6%
	R	0	0	0	0	3	0.0%
	B	151	178	442	301	4,124	6.1%
		<b>457</b>		<b>442</b>		<b>95,429</b>	<b>2.7%</b>
1988	S	268	\$1,098	0	\$ 0	63,174	1.2%
	W	24	835	0	0	22,099	7.3%
	D	0	0	0	0	3,738	3.4%
	R	0	0	0	0	3	0.0%
	B	156	178	446	303	3,887	4.6%
		<b>448</b>		<b>446</b>		<b>92,901</b>	<b>2.8%</b>
1987	S	282	\$1,073	0	\$ 0	62,433	1.8%
	W	24	823	0	0	20,599	12.8%
	D	0	0	0	0	3,614	3.4%
	R	0	0	0	0	3	-25.0%
	B	150	332	453	291	3,717	4.5%
		<b>456</b>		<b>453</b>		<b>90,366</b>	<b>4.3%</b>
1986	S	296	\$1,049	0	\$ 0	61,304	2.1%
	W	21	745	0	0	18,262	13.9%
	D	0	0	0	0	3,494	3.1%
	R	0	0	0	0	4	0.0%
	B	147	159	456	276	3,556	5.2%
		<b>464</b>		<b>456</b>		<b>86,620</b>	<b>4.5%</b>
1985	S	309	\$1,046	0	\$ 0	60,062	1.8%
	W	21	743	0	0	16,039	13.0%
	D	0	0	0	0	3,389	2.8%
	R	0	0	0	0	4	0.0%
	B	139	152	449	297	3,379	5.3%
		<b>469</b>		<b>449</b>		<b>82,873</b>	<b>4.0%</b>
1984	S	324	\$ 963	0	\$ 0	59,006	2.4%
	W	21	694	0	0	14,190	13.0%
	D	0	0	0	0	3,297	4.1%
	R	0	0	0	0	4	0.0%
	B	141	148	454	296	3,209	6.0%
		<b>486</b>		<b>454</b>		<b>79,706</b>	<b>4.3%</b>
1983	S	333	\$ 952	0	\$ 0	57,625	3.3%
	W	21	694	0	0	12,559	31.4%
	D	0	0	0	0	3,168	3.9%
	R	0	0	0	0	4	0.0%
	B	136	150	443	296	3,028	6.1%
		<b>490</b>		<b>443</b>		<b>76,384</b>	<b>7.2%</b>

**RETIREMENT TYPE:**  
S - Superannuation or Normal Retirement  
W - Withdrawal or Early Retirement  
D - Disability Benefit  
R - Refund Annuity  
B - Beneficiaries Receiving Annuities



## Schedule of Employers School Districts

### A

Abington  
Abington Heights  
Albert Gallatin  
Aliquippa  
Allegheny-Clarion Valley  
Allegheny Valley  
Allentown City  
Altoona Area  
Ambridge Area  
Annville-Cleona  
Antietam  
Apollo-Ridge  
Armstrong  
Athens Area  
Austin Area  
Avella Area  
Avon Grove  
Avonworth

### B

Bald Eagle Area  
Baldwin-Whitehall  
Bangor Area  
Beaver Area  
Bedford Area  
Belle Vernon Area  
Bellefonte Area  
Bellwood-Antis  
Bensalem Township  
Benton Area  
Bentworth  
Berlin Brothers Valley  
Bermudian Springs  
Berwick Area  
Bethel Park  
Bethlehem Area  
Bethlehem-Center  
Big Beaver Falls Area  
Big Spring  
Blackhawk  
Blacklick Valley  
Blairsville-Saltsburg  
Bloomsburg Area  
Blue Mountain  
Blue Ridge  
Boyertown Area  
Bradford Area  
Brandywine Heights Area  
Brentwood Boro  
Bristol Boro  
Bristol Township  
Brockway Area  
Brookville Area  
Brownsville Area  
Burgettstown Area  
Burrell  
Butler Area

### C

California Area  
Cambria Heights  
Cameron County  
Camp Hill  
Canon-McMillan  
Canton Area  
Carbondale Area  
Carlisle Area  
Carlynton  
Carmichaels Area  
Catasauqua  
Centennial  
Center Area  
Central Bucks  
Central Cambria  
Central Columbia  
Central Dauphin  
Central Fulton  
Central Greene  
Central York  
Chambersburg Area  
Charleroi Area  
Chartiers-Houston  
Chartiers Valley  
Cheltenham Township  
Chester-Upland  
Chestnut Ridge  
Chichester  
Clairton  
Clarion Area  
Clarion-Limestone Area  
Claysburg-Kimmel  
Clearfield Area  
Coatesville Area  
Cocalico  
Colonial  
Columbia Boro  
Commodore Perry  
Conemaugh Township Area  
Conemaugh Valley  
Conestoga Valley  
Conewago Valley  
Conneaut  
Connellsville Area  
Conrad Weiser Area  
Cornell  
Cornwall-Lebanon  
Corry Area  
Coudersport Area  
Council Rock  
Cranberry Area  
Crawford Central  
Crestwood  
Cumberland Valley  
Curwensville Area

### D

Dallas  
Dallastown Area  
Daniel Boone Area  
Danville Area  
Deer Lakes  
Delaware Valley  
Derry Area  
Derry Township  
Donegal  
Dover Area  
Downingtown Area  
DuBois Area  
Dunmore  
Duquesne City

### E

East Allegheny  
East Lycoming  
East Penn  
East Pennsboro Area  
East Stroudsburg  
Eastern Lancaster County  
Eastern Lebanon County  
Eastern York  
Easton Area  
Elizabeth Forward  
Elizabethtown Area  
Elk Lake  
Ellwood City Area  
Ephrata Area  
Erie City  
Everett Area  
Exeter Township

### F

Fairfield Area  
Fairview  
Fannett-Metal  
Farrell Area  
Ferndale Area  
Fleetwood Area  
Forbes Road  
Forest Area  
Forest City Regional  
Forest Hills  
Fort Cherry  
Fort Le Boeuf  
Fox Chapel Area  
Franklin Area  
Franklin Regional  
Frazier  
Freedom Area  
Freeport Area

Schedule of Employers (Continued)

**G**

Galeton Area  
Garnet Valley  
Gateway  
General McLane  
Gettysburg Area  
Girard  
Glendale  
Governor Mifflin  
Great Valley  
Greater Johnstown  
Greater Latrobe  
Greater Nanticoke Area  
Greencastle-Antrim  
Greensburg Salem  
Greenville Area  
Greenwood  
Grove City Area

**H**

Halifax Area  
Hamburg Area  
Hampton Township  
Hanover Area  
Hanover Public  
Harbor Creek  
Harmony  
Harrisburg City  
Hatboro-Horsham  
Haverford Township  
Hazleton Area  
Hempfield  
Hempfield Area  
Hermitage  
Highlands  
Holidaysburg Area  
Homer Center  
Hopewell Area  
Huntingdon Area

**I**

Indiana Area  
Interboro  
Iroquois

**J**

Jamestown Area  
Jeannette City  
Jefferson-Morgan  
Jenkintown  
Jersey Shore Area  
Jim Thorpe Area  
Johnsonburg Area  
Juniata County  
Juniata Valley

**K**

Kane Area  
Karns City Area

Kennett Consolidated  
Keystone  
Keystone Central  
Keystone Oaks  
Kiski Area  
Kutztown Area

**L**

Lackawanna Trail  
Lake Lehman  
Lakeland  
Lakeview  
Lampeter-Strasburg  
Lancaster City  
Laurel  
Laurel Highlands  
Lebanon  
Leechburg Area  
Lehigh Area  
Lewisburg Area  
Ligonier Valley  
Line Mountain  
Littlestown  
Lower Dauphin  
Lower Merion  
Lower Moreland  
Loyalsock Township

**M**

Mahanoy Area  
Manheim Central  
Manheim Township  
Marion Center Area  
Marple Newtown  
Mars Area  
McGuffey  
McKeesport Area  
Mechanicsburg Area  
Mercer Area  
Methacton  
Meyersdale Area  
Mid Valley  
Mid-West  
Middletown Area  
Midland Boro  
Mifflin County  
Mifflinburg Area  
Millcreek Township  
Millersburg Area  
Millville Area  
Milton Area  
Minersville Area  
Mohawk Area  
Monaca  
Monessen  
Moniteau  
Montgomery Area  
Montour  
Montoursville Area

Montrose Area  
Moon Area  
Morrisville Boro  
Moshannon Valley  
Mount Carmel Area  
Mount Lebanon  
Mount Pleasant Area  
Mount Union Area  
Mountain View  
Muhlenberg Township  
Muncy

**N**

Nazareth Area  
Neshaminy  
Neshannock Township  
New Brighton Area  
New Castle Area  
New Hope-Solebury  
New Kensington-Arnold  
Newport  
Norristown Area  
North Allegheny  
North Clarion County  
North East  
North Hills  
North Penn  
North Pocono  
North Schuylkill  
North Star  
Northampton Area  
Northeast Bradford  
Northeastern York County  
Northern Bedford County  
Northern Cambria  
Northern Lebanon  
Northern Lehigh  
Northern Potter  
Northern Tioga  
Northern York County  
Northgate  
Northwest Area  
Northwestern  
Northwestern Lehigh  
Norwin

**O**

Octorara Area  
Oil City Area  
Old Forge  
Oley Valley  
Oswayo Valley  
Otto Eldred  
Owen J. Roberts  
Oxford Area

**P**

Palisades  
Palmerton Area

Schedule of Employers (Continued)

Palmyra Area  
 Panther Valley  
 Parkland  
 Pen Argyl Area  
 Penn Cambria  
 Penn Crest  
 Penn Delco  
 Penn Hills Township  
 Penn Manor  
 Penn Trafford  
 Pennridge  
 Penns Manor  
 Penns Valley Area  
 Pennsbury  
 Pequea Valley  
 Perkiomen Valley  
 Peters Township  
 Philadelphia  
 Philipsburg-Osceola  
 Phoenixville Area  
 Pine Grove Area  
 Pine-Richland  
 Pittsburgh  
 Pittston Area  
 Pleasant Valley  
 Plum Boro  
 Pocono Mountain  
 Port Allegany  
 Portage Area  
 Pottsgrove  
 Pottstown  
 Pottsville Area  
 Punxsutawney Area  
 Purchase Line

**Q**

Quaker Valley  
 Quakertown Community

**R**

Radnor Township  
 Reading  
 Red Lion Area  
 Redbank Valley  
 Reynolds  
 Richland  
 Ridgway Area  
 Ridley  
 Ringgold  
 Riverside  
 Riverside Beaver County  
 Riverview  
 Rochester Area  
 Rockwood Area  
 Rose Tree Media

**S**

Saint Clair Area  
 Saint Marys Area

Salisbury-Elk Lick  
 Salisbury Township  
 Saucon Valley  
 Sayre Area  
 Schuylkill Haven Area  
 Schuylkill Valley  
 Scranton City  
 Selinsgrove Area  
 Seneca Valley  
 Shade-Central City  
 Shaler Area  
 Shamokin Area  
 Shanksville-Stonycreek  
 Sharon City  
 Sharpsville Area  
 Shenandoah Valley  
 Shenango Area  
 Shikellamy  
 Shippensburg Area  
 Slippery Rock Area  
 Smethport Area  
 Solanco  
 Somerset Area  
 Souderton Area  
 South Allegheny  
 South Butler County  
 South Eastern  
 South Fayette Township  
 South Middleton  
 South Moreland  
 South Park  
 South Side Area  
 South Western  
 South Williamsport Area  
 Southeast Delco  
 Southeastern Greene  
 Southern Columbia Area  
 Southern Fulton  
 Southern Huntingdon  
 Southern Lehigh  
 Southern Tioga  
 Southern York County  
 Spring Cove  
 Spring-Ford Area  
 Spring Grove Area  
 Springfield  
 Springfield Township  
 State College Area  
 Steel Valley  
 Steelton-Highspire  
 Sto-Rox  
 Stroudsburg Area  
 Sullivan County  
 Susquehanna Community  
 Susquehanna Township  
 Susquenita

**T**

Tamaqua Area

Titusville Area  
 Towanda Area  
 Tredyffrin-Easttown  
 Tri-Valley  
 Trinity Area  
 Troy Area  
 Tulpehocken Area  
 Tunkhannock Area  
 Turkeyfoot Valley  
 Tuscarora  
 Tussey Mountain  
 Twin Valley  
 Tyrone Area

**U**

Union  
 Union Area  
 Union City Area  
 Uniontown Area  
 Unionville-Chadds Ford  
 United  
 Upper Adams  
 Upper Darby  
 Upper Dauphin Area  
 Upper Dublin  
 Upper Merion Area  
 Upper Moreland Township  
 Upper Perkiomen  
 Upper Saint Clair Township

**V**

Valley Grove  
 Valley View

**W**

Wallenpaupack Area  
 Wallingford Swarthmore  
 Warren County  
 Warrior Run  
 Warwick  
 Washington  
 Wattsburg Area  
 Wayne Highlands  
 Waynesboro Area  
 Weatherly Area  
 Wellsboro Area  
 West Allegheny  
 West Branch Area  
 West Chester Area  
 West Greene  
 West Jefferson Hills  
 West Middlesex Area  
 West Mifflin Area  
 West Perry  
 West Shore  
 West York Area  
 Western Beaver County  
 Western Wayne  
 Westmont Hilltop

The Public School Employes' Retirement System of Pennsylvania  
Statistical Section

Schedule of Employers (Continued)

Whitehall-Coplay  
Wilkes-Barre Area  
Wilkesburg  
William Penn  
Williams Valley  
Williamsburg Community  
Williamsport Area  
Wilmington Area

Wilson  
Wilson Area  
Windber Area  
Wissahickon  
Woodland Hills  
Wyalusing Area  
Wyoming Area  
Wyoming Valley West

Wyomissing Area

**Y**

York  
York Suburban  
Yough

Area Vocational Technical Schools

Admiral Peary  
Altoona  
Armstrong County  
Beaver County  
Bedford-Everett  
Berks  
Bethlehem  
Bradford County  
Bucks County  
Butler County  
Carbon County  
Central Montgomery County  
Central Westmoreland County  
Centre County  
Clarion County  
Clearfield County  
Columbia-Montour  
Crawford County  
Cumberland-Perry  
Dauphin County  
Delaware County  
Eastern Montgomery County  
Eastern Northampton County

Eastern Westmoreland County  
Erie County  
Fayette County  
Forbes Road East  
Franklin County  
Fulton County  
Greater Johnstown  
Greene County  
Harrisburg-Steelton-Highspire  
Huntingdon County  
Indiana County  
Jefferson County-DuBois  
Juniata-Mifflin  
Lackawanna County  
Lancaster County  
Lawrence County  
Lebanon County  
Lehigh County  
Mercer County  
Middle Bucks County  
Mon Valley  
Monroe County  
North Fayette County

North Montco  
North Westmoreland County  
Northumberland County  
Parkway West  
Reading-Muhlenberg  
Schuylkill County  
Somerset County  
SUN  
Susquehanna County  
Upper Bucks County  
Venango County  
West Side  
Western  
Western Montgomery County  
Wilkes-Barre  
York County

Intermediate Units

Allegheny #3  
Appalachia #8  
Arlin #28  
Beaver Valley #27  
Berks County #14  
Blast #17  
Bucks County #22  
Capital Area #15  
Carbon Lehigh #21  
Central Susquehanna #16

Central #10  
Chester County #24  
Colonial Northampton #20  
Delaware County #25  
Intermediate Unit #1  
Lancaster Lebanon #13  
Lincoln #12  
Luzerne #18  
Midwestern #4  
Montgomery County #23

Northeastern Education #19  
Northwest Tri County #5  
Pittsburgh Mt. Oliver #2  
Riverview #6  
Schuylkill #29  
Seneca Highlands #9  
Tuscarora #11  
Westmoreland #7

Schedule of Employers (Continued)

Colleges/Universities

Bloomsburg University  
Bucks County Community College  
Butler County Community College  
California University  
Cheyney University  
Clarion University  
Community College of Allegheny County  
Community College of Beaver County  
Community College of Delaware County  
Community College of Philadelphia  
East Stroudsburg University  
Edinboro University  
Harrisburg Area Community College  
Indiana University  
Kutztown University  
Lehigh County Community College

Lock Haven University  
Luzerne County Community College  
Mansfield University  
Millersville University  
Montgomery County Community College  
Northampton County Area Community College  
Pennsylvania College of Technology  
Pennsylvania State University  
Reading Area Community College  
Shippensburg University  
Slippery Rock University  
University of Pittsburgh  
West Chester University  
Westmoreland County Community College

Other

Berks County Earned Income Tax Bureau  
Department of Education - Commonwealth of Pennsylvania  
Northern Area Special Purpose School  
Overbrook School for the Blind  
Pennsylvania Council on Vocational Education  
Pennsylvania School Boards Association  
Pennsylvania School for the Deaf

Scotland School for Veterans Children  
Scranton School for the Deaf  
Thaddeus Stevens School of Technology  
Washington County Alternative School  
Western Pennsylvania School for the Blind  
Western Pennsylvania School for the Deaf

## Components of Total Contribution Rate (In Percentages)

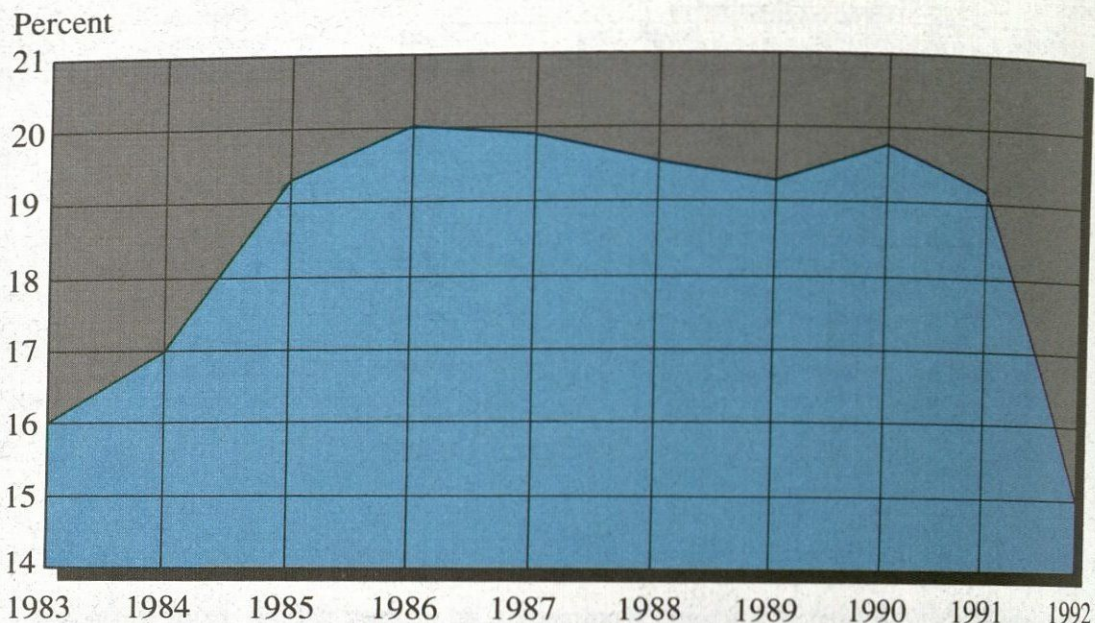
Fiscal Year	Employer Contribution			Total Employer	Employee Contribution (Average)	Total Contribution Rate
	Normal Requirement (A)	Accrued Liability (B)	Health Care Contributions (C)			
92-93	7.90	5.84	.50	14.24	5.48	19.72
91-92	8.00	6.40	.50	14.90	5.46	20.36
90-91	8.28	10.90		19.18	5.69	24.87
89-90	8.44	11.24		19.68	5.53	25.21
88-89	8.63	10.64		19.27	5.37	24.64
87-88	8.72	10.82		19.54	5.34	24.88
86-87	9.13	10.77		19.90	5.29	25.19
85-86	9.16	10.88		20.04	5.27	25.31
84-85	8.35	10.96		19.31	5.25	24.56
83-84	8.75	8.31		17.06	5.25	22.31
82-83	7.93	8.07		16.00	5.25	21.25
81-82	6.93	8.07		15.00	5.25	20.25
80-81	6.93	8.07		15.00	5.25	20.25

The total contribution rate is the total of the employer and employee rates actuarially required for funding of the PSERS.

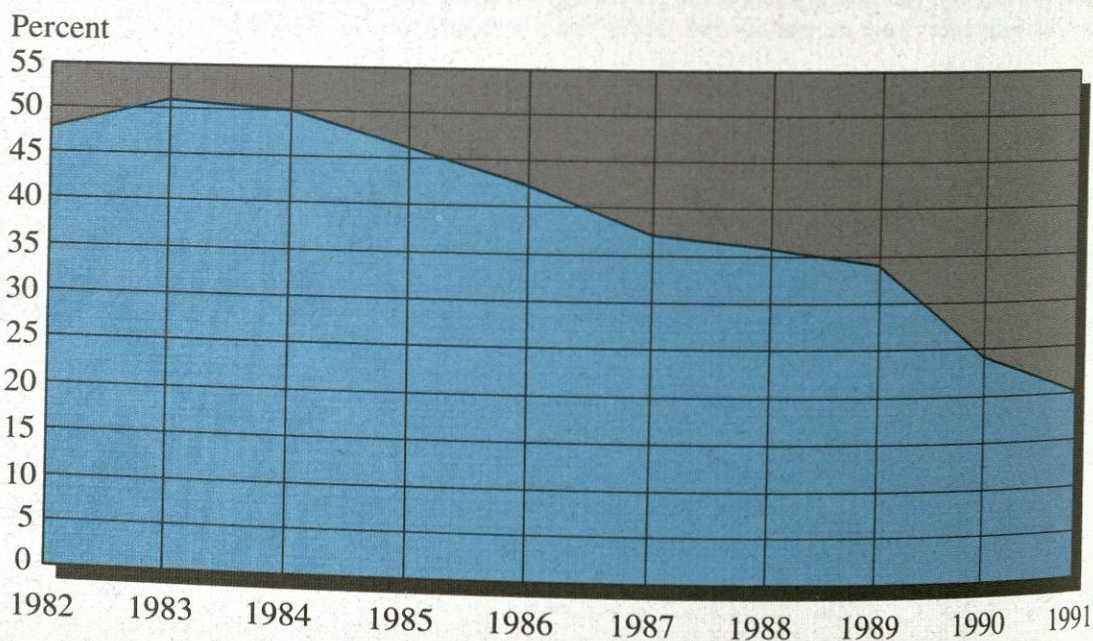
The total employer rate is comprised of a normal requirement, an accrued liability requirement and a health care contribution requirement and is shared equally by the Commonwealth and the Reporting Units:

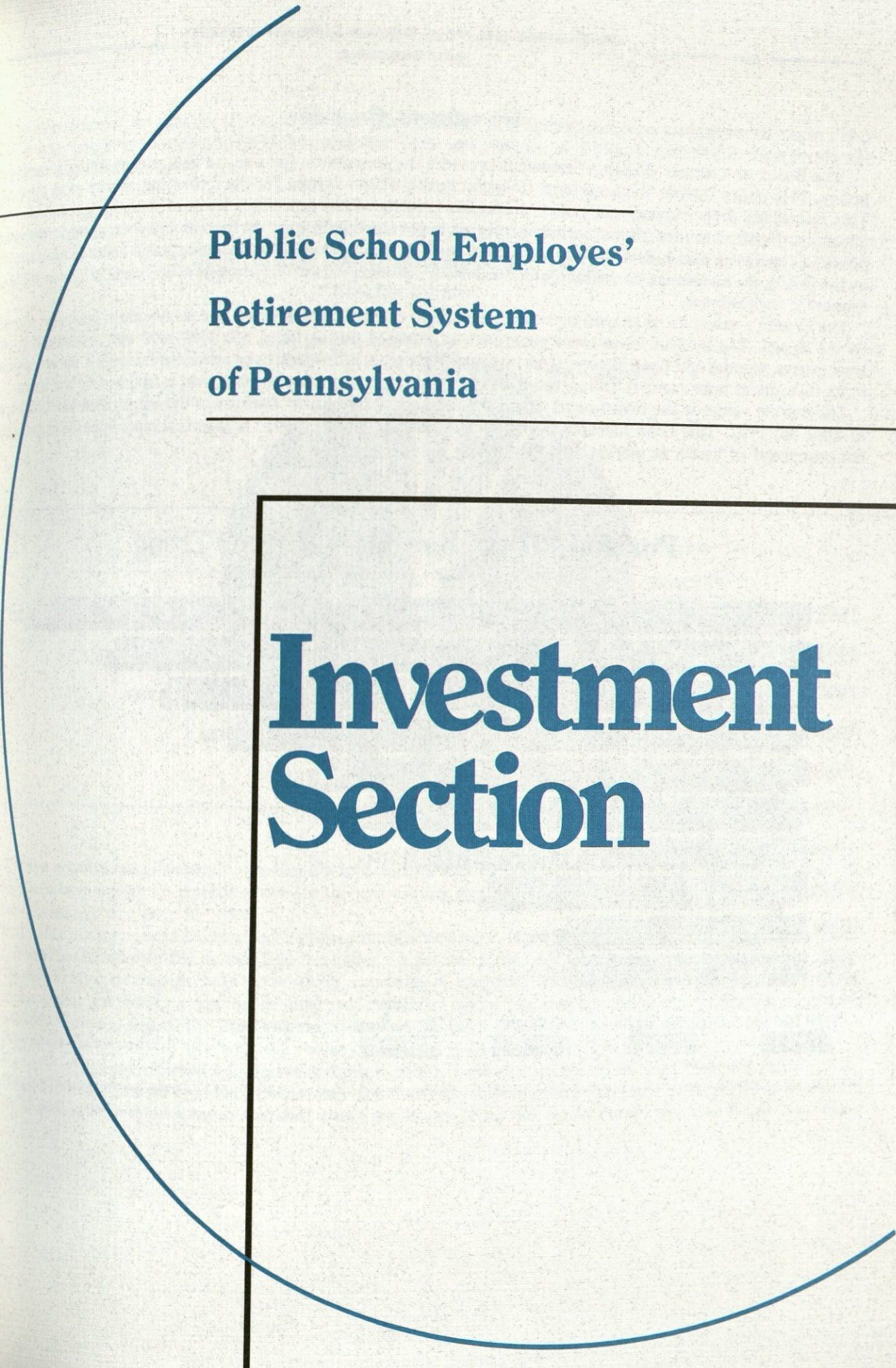
- (A) The normal requirement portion is the percentage of compensation necessary to fund any prospective benefits payable to the member.
- (B) The total accrued liability portion is the percentage of compensation necessary to fund past increased benefits or supplemental annuities.
- (C) The health care contribution portion is the percentage of compensation necessary to fund the health insurance premium assistance program established under the provisions of Act 23-1991.

### Total Employer Contribution Rate — 10 Year Trend



### Unfunded Accrued Liability as Percent of Aggregate Accrued Liability — 10 Year Trend





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**Public School Employes'  
Retirement System  
of Pennsylvania**

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**Investment  
Section**

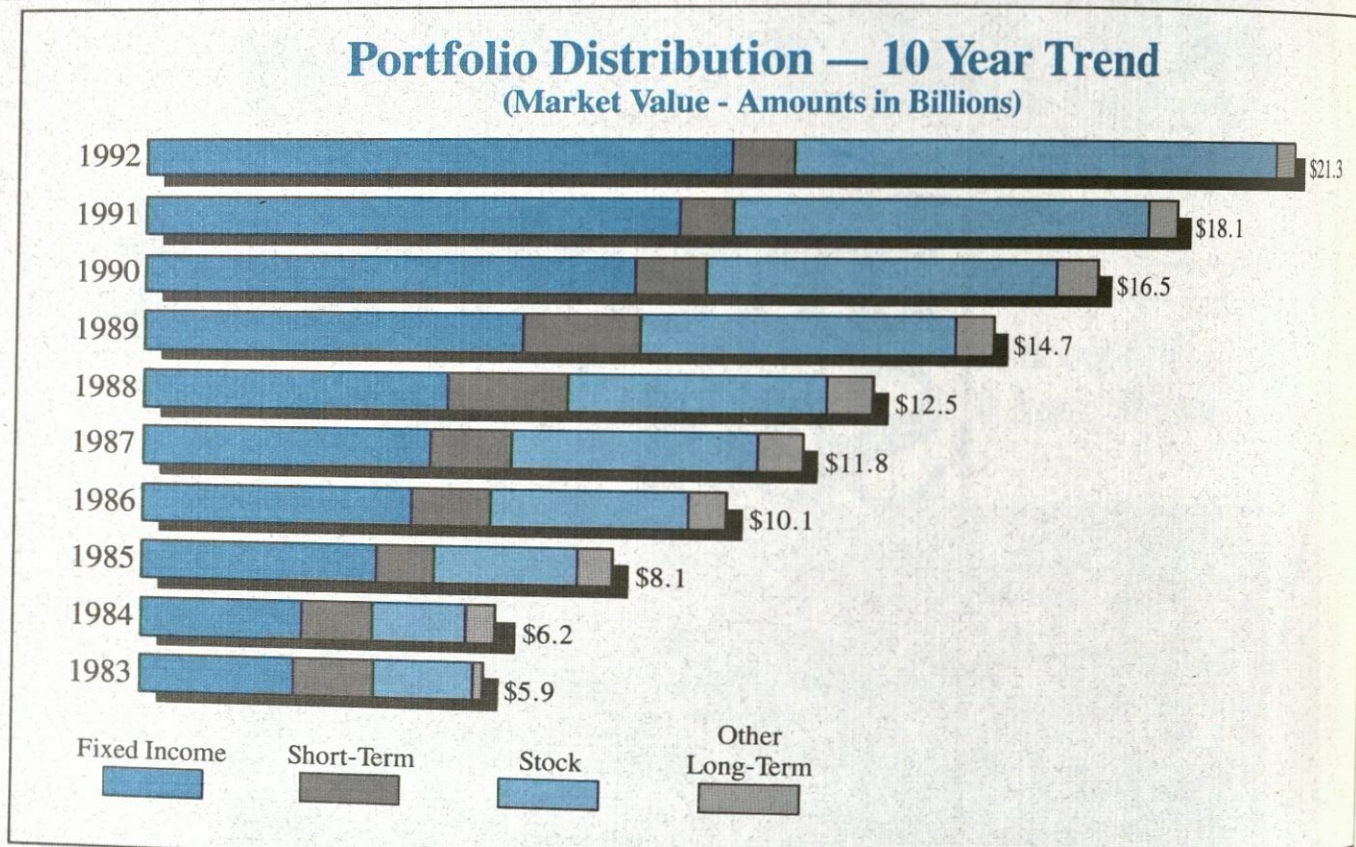


## Investment Overview

The Board of Trustees' Mission Statement provides the foundation for a sound and prudent strategic investment policy. This policy insures the long-term financial health of the System for the retirement security of its members. This financially driven investment policy maximizes returns within acceptable levels of risk through strategic asset allocation decisions to meet the actuarially projected long-term liabilities of the System. From the strategic investment policy, an operating plan is developed to implement the Board's decisions. This operating plan is under constant scrutiny by the Board, the investment consultant, and the System's investment staff to insure its effectiveness in the ever changing economic environment.

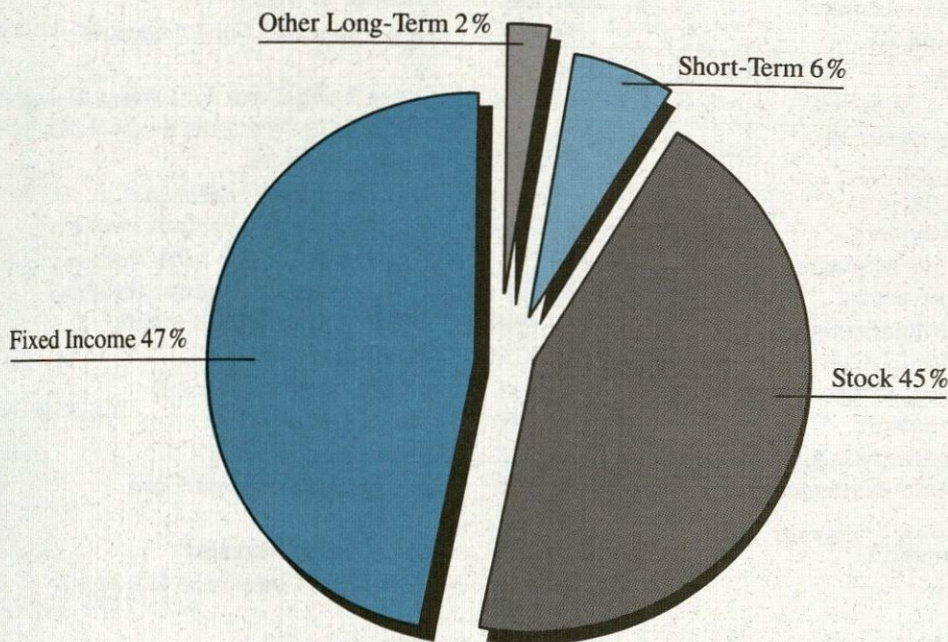
The System's assets are managed by both internal and external professionals under investment guidelines adopted by the Board. The internal investment program was initiated during fiscal year 1989-1990 with investments in two asset classes, equities and fixed income. This investment program is designed to be active and innovative, but conservative in its investment approach, fulfilling the high standards and performance objectives established by the Board.

The market value of the investments of the Public School Employees' Retirement System reached \$21.3 billion as of June 30, 1992. This is an increase from \$18.1 billion at June 30, 1991. A graphical representation showing the ten year trend of assets at market value follows:



The composition of the Fund at market value was: fixed income, \$10 billion; common and preferred stocks, \$9.5 billion; other long-term investments, \$.5 billion; and short-term investments, \$1.2 billion. The distribution by percent is illustrated in the chart below.

### Portfolio Distribution — 1992 (Market Value)



The time weighted rate of return for the Fund's investments was 14.2 percent for the fiscal year ending June 30, 1992. This compares to an 8.1 percent return for the year ending June 30, 1991 and a 9.5 percent annualized return for the five years ending June 30, 1992.

Equities in the domestic portfolio returned 13.9 percent this fiscal year, higher than the 13.4 percent for the Standard and Poor's 500 Index during that period. Equities had a 5.3 percent return for the fiscal year ending June 30, 1991.

The domestic fixed income segment of the portfolio, consisting of corporate and government debentures and mortgage backed securities, returned 14 percent for the fiscal year compared with a 14.2 percent return for the Shearson-Lehman Government Corporate Index. The fixed income return for the prior fiscal year was 11.1 percent.

Other long-term investments returned 16.2 percent compared with 6.6 percent the prior year.

Short-term investments returned 5.5 percent compared to a 5.2 percent return on 90-day Treasury Bills.

The global portfolio, consisting of fixed income and stocks, returned 30.1 percent this year. Total global investments, including global short-term investments, increased from 6 percent to 7.8 percent of the Fund's total assets this fiscal year.

The following chart lists the market value of assets, using a settlement date basis, under management by the System's funded investment advisors at June 30, 1992. The dollar value of cash equivalents held by the managers is also included in the Treasury portfolio total.

**Investment Managers  
Market Value (in thousands)**

<b>Equity Managers</b>		Putnam Advisory Co	244,264
PSERS Equity	2,388,418	Morgan Grenfell Capital Management	233,667
Delaware Investment Advisers	991,933	Latimer & Buck	227,644
Oppenheimer Capital Corp	953,424	Developmental Fund Managers	107,592
Mellon Bank, N.A.	868,610		
Miller, Anderson & Sherrerd	755,210	<b>Other Long-Term Investment Managers</b>	
Dreman Value Management	552,918	Jones Lang Wootton Realty Advisors	230,393
Eagle Asset Management	457,887	Latimer & Buck	226,352
Delta Asset Management	346,101	Morgan Stanley Farmland	52,957
Hudson Capital Advisors	342,719	Commonwealth Venture Partners	18,508
Developmental Fund Managers	316,691	PA Venture Fund APA/Fostin	18,453
Columbus Circle Investors	303,015	Loyalhanna Commonwealth Fund	11,679
Newbold's Asset Management	272,694	CEO Venture Funds I & II	10,661
PNC/AIM Enhanced Index	226,771	CIGNA	4,567
Pilgrim Baxter Greig & Associates	147,003	Edison Venture Fund II	4,330
Dietche & Field Advisors	121,497	PSERS Real Estate	2,530
Duncan Hurst Capital Management	115,193	Genesis Seed Fund	2,000
Morgan Stanley Asset Management	92,765	NEPA Management Corp	882
<b>Fixed Income Managers</b>		<b>Short-Term Manager</b>	
Mellon Bank, N.A.	2,369,235	Treasury, Commonwealth of PA	727,086
PSERS Fixed	1,399,055		
Miller, Anderson & Sherrerd	1,116,228	<b>Miscellaneous</b>	
Pacific Investment Management Co	1,103,242	Global Fund Managers	1,661,853
Glenmede Trust Company	985,499	Mellon Capital Asset Allocation	404,685
Morgan Stanley Asset Management	707,583	Weymouth & Associates	152,201
Criterion Investment Management	398,665	Blue Bell Corporation	100,000
Delaware Investment Advisers	304,779	EAI - Americas Fund	43,097

The System also has four option managers, Oppenheimer Option Management; Acorn Asset Management; Loomis Sayles & Co.; and PSERS Options, who write covered index call options on \$1,300,000,000 of the equity portfolio.

Investment management fees totaled \$38,435,000 compared to \$33,109,000 last fiscal year. A breakdown of investment fees paid follows:

**Summary of Investment Fees  
Year Ended June 30, 1992**

Equity Managers	\$23,058,000
Fixed Income Managers	6,969,000
Real Estate Managers	3,086,000
Option Managers	707,000
Miscellaneous	4,615,000
<b>Total Fees</b>	<b>\$38,435,000</b>

Investment Section

Brokers' fees on investment transactions for the fiscal year ending June 30, 1992 were \$13,703,201. A breakdown of brokers' fees paid follows:

**Summary Schedule of Commissions  
Paid to Brokers  
Year Ended June 30, 1992**

Broker Name	Commissions Paid (\$)	Broker Name	Commissions Paid (\$)
ABLE NOSER	25,466	DERBY SECURITIES	
ABNER HERMAN & BROCK	1,040	DILLON READ & CO	18,850
ACCESS	5,205	DOMINICK INVESTOR SERVICES CORP	63,289
ADAMS COHEN SECURITIES	1,200	DOMINICK & DOMINICK	708
ADAMS HARKNESS & HILL	26,790	DONALDSON LUFKIN & JENRETTE	156,224
ADLER COLEMAN & CO	7,608	DUGGAN & CO INVESTMENT SECURITIES	242,914
ADVEST	57,936	EDWARDS, A G & SONS	60
ALPHA MANAGEMENT	19,358	EPPLER GUERIN & TURNER	41,150
AMDEC SECURITIES	156	EQUITABLE SECURITIES	1,000
AMIVEST CORP	19,692	ERNST & CO	7,854
ANANTHA RAMAN & CO	5,322	EXECUTION SERVICES	27,159
ARNHOLD S BLEICHROEDER	4,634	FACTSET DATA SYSTEM	39,130
ASIEL & CO	390	FAGENSON & COMPANY	17,970
AUTRANET	104,705	FAHNESTOCK & CO	150
B Z W SECURITIES	1,860	FECHTOR DETWILER & CO	120,954
BAIRD, ROBERT W & CO	8,535	FIDELITY BANK	17,895
BALIS & ZORN	3,900	FIDELITY BROKERAGE SERVICES	6,000
BARCLAY'S DE ZOETE WEDD	10,200	FIRST ANALYSIS SECURITIES	5,500
BARON CAPITAL	355	FIRST BOSTON	5,150
BARRETT & COMPANY	300	FIRST HANOVER SECURITIES	219,536
BEAR STEARNS & CO	432,588	FIRST MANHATTAN CO	558
BERNSTEIN, SANFORD C	119,067	FOX PITT KELTON	45,008
BLACK & COMPANY	3,522	FURMAN SELZ MAGER DIETZ & BIRNEY	1,500
BLAIR, WILLIAM & CO	37,570	F. VANN	12,786
BLUNT ELLIS & LOEWI	5,350	GABELLI & CO	1,060
BOSTON INSTITUTIONAL SERVICES	300	GAINES BERLAND	3,285
BRADFORD, J C & CO	15,168	GARRISON BROTHERS	8,750
BRANDT, ROBERT	3,243	GELDERMAN	1,200
BREAN MURRAY, FOSTER SECURITIES	865	GERARD KLAUER & MATTISON	18,620
BRIDGE TRADING COMPANY	54,532	GILDER GAGNON	6,606
BRIMBERG & CO	48,661	GLAZER, C L & CO	7,725
BROADCOURT	1,419,185	GLAZER, C L & CO	4,191
BROUNOFF CLAIRE & CO	2,500	GLOBAL EXECUTION	300
BROWN, ALEX & SONS	90,417	GOLDMAN CAPITAL	14,515
BROWN BROTHERS HARRIMAN & CO	3,000	GOLDMAN SACHS & CO	364,228
BUCKINGHAM RESEARCH	41,835	GOLDSMITH & HARRIS	12,342
CANTOR FITZGERALD & CO	69,747	GOLDSTEIN, L J & CO	17,000
CANTOR WEISS	12,695	GOLDSTEIN, LARRY	1,750
CAPITAL INSTITUTIONAL SERVICES	147,194	GORDON CAPITAL	16,216
CHAPMAN COMPANY	4,080	GORDON HASKETT & CO	4,338
CHARLES, J W SECURITIES	500	GRUNTAL & CO	41,844
CHICAGO CORPORATION	3,190	GRUSS, OSCAR	400
CHRISTOPHER, B C & COMPANY	6,400	HAMBRECHT & QUIST	9,750
CITATION GROUP	126,927	HAMILTON INVESTMENTS	4,950
CLEARY, GULL & REILAND	8,965	HANCOCK JOHN CLEARING/ TUCKER ANTHONY	5,636
CONNING & CO	126	HANIFEN IMHOFF	5,561
CORRESPONDENT SERVICES	4,032	HERZOG HEINE GEDULD	2,262
COSTELLO, F	980	HILLIARD J J B LYONS W L	2,045
COUNTY SECURITIES USA	135,447	HOEFER & ARNETT	540
COWEN & CO	67,451	HOENIG & CO	20,841
CREDIT LYONNAIS SECURITIES U S	2,684	HOWARD WEIL LABOUISSSE FRIEDRICHS	6,080
CROWELL WEEDON & CO	10,855	HUNTLEIGH SECURITIES CORP	1,380
CRULTTENDEN & CO	4,492	I P S	7,200
DAIN BOSWORTH	2,510	INFERRENTIAL BROKERAGE SERVICES	500
DAVIS, MENDEL & REGENSTEIN	588	INSTINET	66,390
DAYTON BROKERAGE CO	6,900	INTERSTATE/JOHNSON LANE	15,868
DEAN WITTER REYNOLDS	46,834	INVEMED ASSOCIATES	9,770

## Investment Section

## Schedule of Commissions (Continued)

Broker Name	Commissions Paid (\$)	Broker Name	Commissions Paid (\$)
INVESTMENT PERFORMANCE SERVICES .....	1,800	ROBINSON-HUMPHREY CO .....	10,149
ISI GROUP .....	18,273	ROCHDALE SECURITIES .....	167,728
JAMES CAPEL SECURITIES .....	37,978	RODGERS BROTHERS .....	9,906
JANNEY MONTGOMERY SCOTT .....	490,184	ROTHCHILD .....	6,858
JEFFERIES & CO .....	136,160	ROTHSCHILD L F & CO .....	864
JESUP, JOSEPHAL SECURITIES CO .....	13,423	ROTHSCHILD SECURITIES .....	798
JOHNSON RICE .....	1,000	ROULSTON RESEARCH .....	16,638
JONES & ASSOCIATES .....	19,971	RUSSELL, FRANK .....	7,313
JOSEPHAL LYON & ROSS .....	56,894	RUTHERFORD, BROWN & CATHERWOOD .....	1,250
KALB VOORHIS COMPANY .....	2,850	RYAN, S.W. ....	75,420
KEEFE BRUYETTE & WOODS .....	2,312	S E I FINANCIAL SERVICES .....	3,971
KELLY CHRISTENSEN .....	2,658	S E I FUNDS EVALUATIONS .....	61,894
KEMPER CAPITAL MARKETS .....	2,430	SAGE RUTTY & CO .....	180
KEMPER CLEARING CORP .....	8,340	SALOMON BROTHERS .....	160,463
KEMPER SECURITIES GROUP .....	5,406	SAPERSTEIN .....	1,872
KIDDER PEABODY & CO .....	271,520	SBCI SWISS BANK CORP INVEST .....	465,653
KING, C L & ASSOCIATES .....	39,307	SCOTT & STRINGFELLOW .....	3,000
KINNARD, JOHN G & CO .....	1,062	SHEARSON LEHMAN BROTHERS .....	763,297
LABE SIMPSONS .....	5,370	SHIELDS CAPITAL CORP .....	20,000
LADENBURG THALMAN & CO .....	11,885	SEIDLER AMDEC SECURITIES .....	630
LANGDEN MCALENNY .....	6,000	SMITH BARNEY HARRIS UPHAM & CO .....	321,234
LAWRENCE, C J MORGAN GRENFELL .....	194,910	SOUNDVIEW FINANCIAL .....	11,400
LAZARD FRERES & CO .....	2,130	SOUTHCOAST CAPITAL .....	3,135
LEGG MASON WOOD WALKER .....	12,384	SOUTHEAST BANK NA .....	1,525
LEWCO SECURITIES .....	7,266	SOUTHEAST RESEARCH .....	150
LYNCH JONES & RYAN .....	1,029,389	SOUTHWEST SECURITIES .....	3,456
MABON NUGENT & CO .....	395,652	SPEAR, LEEDS & KELLOGG .....	8,700
MAKEFIELD SECURITIES .....	3,000	STANDARD & POOR SECURITIES .....	14,550
MCDONALD & COMPANY SECURITIES .....	16,587	STARR SECURITIES .....	1,050
MERRILL LYNCH PIERCE FENNER & SMITH ..	362,265	STEPHENS .....	6,494
MESIROW CAPITAL .....	6,966	STIFEL NICOLAUS & COMPANY .....	234
MONNESS CRESPI HARDT & CO .....	72,305	STURDIVANT & CO .....	36,623
MONTGOMERY SECURITIES .....	149,799	SUTRO & CO .....	8,376
MORAN & ASSOC SECURITIES BROKERAGE ..	378	SWISS BANK .....	269,247
MORGAN, J P SECURITIES ASSET BACKED ...	312	SWORD, WILLIAM & CO .....	2,885
MORGAN, J P SECURITIES CORP .....	2,130	THOMSON INSTITUTIONAL SERVICE .....	15,920
MORGAN KEEGAN & COMPANY .....	27,218	TREND ANALYSIS .....	228
MORGAN STANLEY & CO .....	792,654	TRIAD .....	978
MURPHY MARSEILLES SMITH & NAMMACK ..	4,350	TUCKER ANTHONY .....	15,534
NATHAN & LEWIS SECURITIES .....	14,082	UBS SECURITIES .....	28,479
NATIONAL FINANCIAL SERVICES .....	4,598	U.S. CLEARING CORPORATION .....	36,135
NEEDHAM & CO .....	24,008	VAN KASPER & CO .....	8,832
NEUBERGER & BERMAN .....	36,438	VECTOR SECURITIES .....	8,625
NEWBRIDGE SECURITIES EQUITIES .....	8,742	VOLPE WELTY & CO .....	1,392
NOMURA SECURITIES INTERNATIONAL .....	8,638	W & D SECURITIES .....	31,722
NORC, DAVID .....	504	WAGNER STOTT CLEARING .....	600
O'NEIL, WILLIAM & CO .....	59,625	WAINWRIGHT, H C & CO .....	1,872
OPPENHEIMER & CO .....	258,944	WALL STREET DISCOUNT .....	2,274
PACIFIC CREST .....	19,035	WARBURG, S G & CO .....	144,036
PACIFIC GROWTH .....	2,082	WEDBUSH MORGAN SECURITIES .....	1,250
PAINE WEBBER MITCHELL HUTCHINS .....	269,427	WEEDEN & CO .....	90,907
PENNA MERCHANT GROUP .....	5,250	WEISS PECK & GREER .....	30,307
PENNSYLVANIA GROUP .....	2,052	WELLESLEY RESOURCES .....	8,958
PERSHING & CO .....	137,659	WELLINGTON (H.G.) & CO .....	800
PIPER JAFFRAY & HOPWOOD .....	10,836	WERTHEIM & CO .....	130,665
PORTLAND N W SECURITIES .....	1,830	WERTHEIM & SCHRODER .....	6,433
PRESCOTT BALL & TURBEN .....	2,166	WHEAT FIRST SECURITIES .....	166,697
PRUDENTIAL BACHE SECURITIES .....	178,588	WIG SECURITIES .....	16,250
PUNK SIEGAL KNOELL .....	2,000	WILLIAM MCKAY JORDAN & MILLS .....	13,625
PURCELL GRAHAM & CO .....	1,350	WILSHIRE ASSOCIATES .....	41,291
RAGEN MCKENZIE .....	5,796	YORK SECURITIES .....	87,487
RAUSCHER PIERCE REFSNES .....	22,452		
RAYMOND JAMES & ASSOCIATES .....	19,960		
RBC DOMINION SECURITIES .....	12,251		
REGIONAL CLEARING .....	20,394		
ROBERTSON STEPHENS & COMPANY .....	21,278		
		<b>TOTAL</b>	<b>13,703,201</b>

The next schedule shows the impact of investment transactions on book value for the major asset classes during the fiscal year.

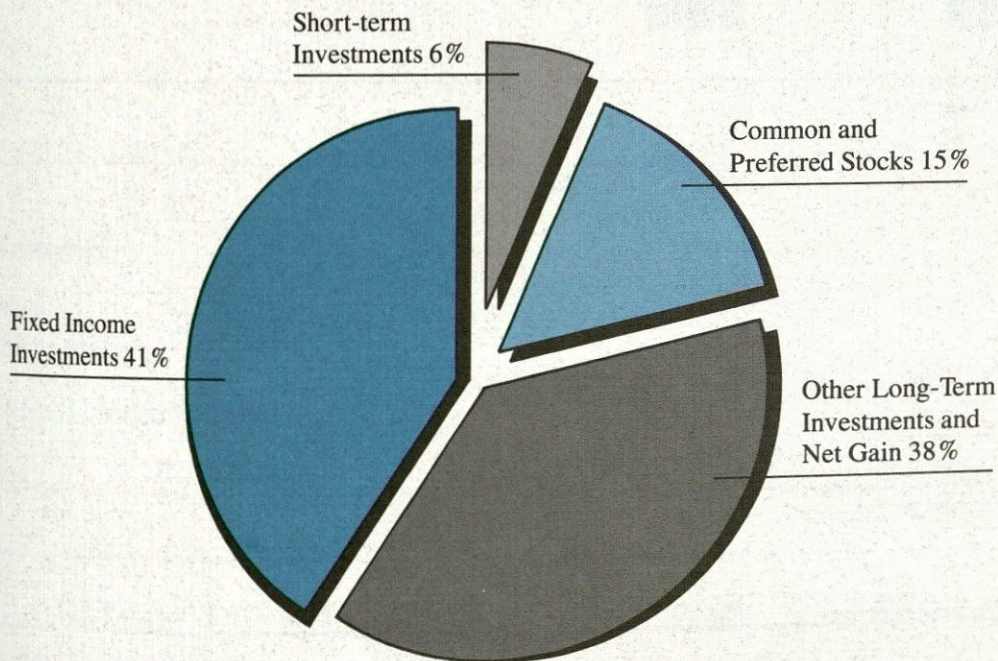
**Summary of Investment Transactions  
Year Ended June 30, 1992  
(Amounts in Millions)**

Type of Investment	Book Value 6/30/91	Purchases	Sales	Gain/ (Loss)	Valuation Reserve	Book Value 6/30/92
Fixed Income	\$ 8,977	\$11,414	(\$11,122)	\$285	(\$ 7)	\$ 9,547
Common and Preferred Stocks	6,455	6,396	(5,128)	436	—	8,159
Other Long-Term Investments	665	15	(2)	0	(108)	570
Short-Term Investments	962	10,555	(10,309)	7	—	1,215
<b>Total</b>	<b>\$17,059</b>	<b>\$28,380</b>	<b>(\$26,561)</b>	<b>\$728</b>	<b>(\$115)</b>	<b>\$19,491</b>

Net investment revenue for the fiscal year ending June 30, 1992 exceeded \$1.7 billion, an increase from the prior fiscal year when net revenue was \$1.2 billion. The components of investment revenue are shown in the following graph.

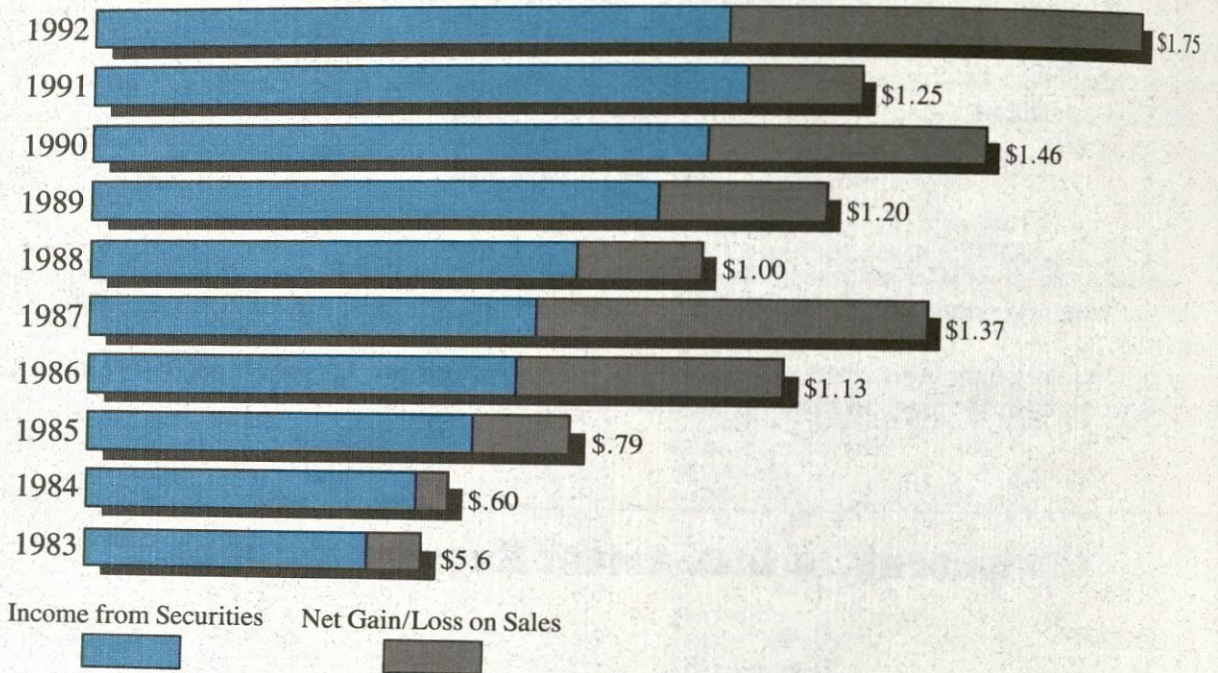
The category other long-term investments and net gain includes other long-term income, income from security lending, gains on option overwriting, and amortization of premiums.

**Components of Investment Revenue — 1992**



The following graph illustrates the ten year trend of the components of the investment revenue. In addition to realized gains and losses from the sale of investments, the category net gain/loss includes income from security lending, gains on option overwriting and amortization of premiums.

### Components of Investment Revenue — 10 Year Trend (Amounts in Billions)



**Portfolio Summary Statistics as of 6/30/92**  
**Trade Date Basis**

Type of Investment	Book Value (\$)	% Book Value	Market Value (\$)	% Market Value
<b>Fixed Income</b>				
Domestic Portfolio				
U.S. Government & Agency Obligations	\$ 4,259,136,999	21.9%	\$ 4,453,864,895	20.9%
Mortgage Backed Securities	2,687,090,541	13.8%	2,852,547,573	13.6%
Corporate and Municipal Bonds	1,165,079,430	6.0%	1,223,038,885	5.7%
Miscellaneous Fixed Income	374,899,632	1.9%	386,848,258	1.8%
Private Placements	90,000,000	0.5%	104,579,500	0.5%
FHA/VA Residential Mortgages	104,699,188	0.5%	107,316,668	0.5%
Equity Participating Commercial Mtgs, net	86,126,389	0.4%	94,150,003	0.4%
FHA Project Mortgages	26,748,185	0.1%	22,472,556	0.1%
Global Portfolio	753,110,914	3.9%	789,062,210	3.7%
	<b>9,546,891,278</b>	<b>49.0%</b>	<b>10,033,880,548</b>	<b>47.2%</b>
<b>Common and Preferred Stock</b>				
Domestic Portfolio				
Common Stock	7,566,448,259	38.9%	8,914,663,898	41.8%
Private Placements	140,000,008	0.7%	142,168,310	0.7%
Preferred Stock	77,227,128	0.4%	79,344,452	0.4%
Global Portfolio	375,790,664	1.9%	388,552,942	1.8%
	<b>8,159,466,059</b>	<b>41.9%</b>	<b>9,524,729,602</b>	<b>44.7%</b>
<b>Other Long-Term Investments</b>				
Real Estate Owned	192,085,156	1.0%	121,199,421	0.6%
Equity Real Estate	253,956,670	1.3%	268,048,398	1.3%
Venture Capital	71,080,232	0.3%	73,040,691	0.3%
Farmland Investments	52,523,231	0.3%	52,523,231	0.2%
	<b>569,645,289</b>	<b>2.9%</b>	<b>514,811,741</b>	<b>2.4%</b>
<b>Short-Term Investments</b>				
Domestic Portfolio				
Health Insurance Account				
Short-Term Investment Fund	7,785,614	0.0%	7,785,614	0.0%
PA Treasury Short-Term Investment Fund	727,087,000	3.7%	727,087,000	3.4%
Global Portfolio	479,907,878	2.5%	483,981,685	2.3%
	<b>1,214,780,492</b>	<b>6.2%</b>	<b>1,218,854,299</b>	<b>5.7%</b>
<b>TOTAL INVESTMENTS</b>	<b>\$19,490,783,118</b>	<b>100.0%</b>	<b>\$21,292,276,190</b>	<b>100.0%</b>



The following asset listings have been prepared from information provided by the custodian banks used by the Public School Employees' Retirement System (System) or from the System's records. Book and market values are always stated in U.S. dollars. The par values listed in the global short-term and fixed income portfolios are in the local currency of that particular asset.

The assets in the domestic fixed income and stock portfolios are assets managed by investment advisors whose primary focus is the United States market. These assets are held by the System's domestic custodian bank. Under the Retirement Code and with authorization by the Board of Trustees, the domestic managers may invest in companies incorporated outside the U.S.. Therefore, the domestic stock portfolio contains American Depository Receipts (ADR's), foreign stocks listed on U.S. exchanges. The domestic fixed income portfolio includes several foreign bonds in the miscellaneous subcategory.

The assets in the global fixed income, stock, and short-term portfolios are assets managed by investment advisors who have been hired specifically for the global markets. These assets are held by the System's global custodian bank. The fixed income and short-term global advisors may invest in the ten countries (including the U.S.) that comprise the Salomon Brothers World Government Bond Index (SBWGBI). The global stock advisors may invest in the twenty countries (including the U.S.) that make up the Morgan Stanley Capital International - Europe, Australia and the Far East Index (MSCI EAFE Index).

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**U.S. Government & Agency Obligations**  
**25 Largest Holdings in Descending Order by Book Value**

Description	Interest Rate (%)	Maturity Date	Par Value (\$)	Book Value (\$)	Market Value (\$)
U S TREASURY NOTE	7.87	02/15/96	286,460,000	300,038,364	305,437,975
U S TREASURY BOND	8.12	08/15/21	146,200,000	148,580,922	151,224,894
U S TREASURY NOTE	8.00	05/15/01	108,115,000	112,552,982	114,229,984
U S TREASURY BOND	8.87	02/15/19	101,220,000	109,874,074	112,796,531
U S TREASURY NOTE	7.37	05/15/96	95,795,000	91,333,126	100,524,399
U S TREASURY NOTE	8.50	05/15/97	88,000,000	89,926,910	96,080,780
U S TREASURY NOTE	8.50	04/15/97	81,095,000	85,288,542	88,494,919
U S TREASURY NOTE	11.75	11/15/93	73,710,000	80,644,969	80,804,588
U S TREASURY NOTE	9.50	10/15/94	75,430,000	79,939,766	82,548,329
RESOLUTION FUNDING	8.87	07/15/20	70,000,000	76,489,000	77,437,500
U S TREASURY NOTE	8.62	10/15/95	73,250,000	75,095,236	79,795,521
U S TREASURY BOND	8.75	08/15/20	67,405,000	68,325,926	74,377,373
U S TREASURY BOND	9.25	02/15/16	59,920,000	66,105,186	68,926,575
U S TREASURY BOND	7.50	11/15/16	68,886,000	64,487,802	66,302,775
U S TREASURY NOTE	7.87	06/30/96	61,935,000	64,458,710	66,076,593
U S TREASURY NOTE	7.75	02/15/01	62,000,000	63,507,969	64,576,720
U S TREASURY NOTE	9.25	08/15/98	59,750,000	63,360,084	67,517,500
U S TREASURY NOTE	8.87	11/15/97	62,300,000	62,384,094	69,133,687
U S TREASURY NOTE	9.00	05/15/98	53,800,000	60,328,468	60,054,250
U S TREASURY BOND	8.50	11/15/00	54,775,000	58,138,022	59,705,688
U S TREASURY NOTE	12.00	08/15/13	42,722,000	57,698,320	59,583,946
U S TREASURY NOTE	8.50	06/30/94	54,910,000	57,429,300	58,685,063
U S TREASURY STRIPPED	0.00	08/15/06	162,350,000	52,142,762	52,822,196
U S TREASURY NOTE	5.50	11/30/93	50,000,000	50,437,500	50,718,500
U S TREASURY BOND STRIPPED	0.00	02/15/15	321,500,000	47,171,347	51,401,420
<b>TOTAL</b>				<b>2,085,739,381</b>	<b>2,159,257,706</b>

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Mortgage Backed Securities**  
**25 Largest Holdings in Descending Order by Book Value**

Description	Interest Rate (%)	Maturity Date	Par Value (\$)	Book Value (\$)	Market Value (\$)
FEDERAL NATIONAL MORTGAGE ASSN .....	8.00	02/25/17	47,314,418	46,817,435	47,991,151
FEDERAL HOME LOAN MORTGAGE .....	8.50	02/01/17	40,471,148	41,050,554	41,751,844
FEDERAL HOME LOAN MORTGAGE .....	8.00	07/01/11	33,077,219	33,361,476	34,126,098
FEDERAL HOME LOAN MORTGAGE .....	7.50	02/01/07	29,076,547	28,891,186	29,376,326
FSA CAP .....	8.20	03/20/13	29,988,685	28,114,886	30,935,128
FEDERAL HOME LOAN MORTGAGE .....	7.50	01/01/17	31,315,006	28,105,218	31,060,415
MID ST TRUST II .....	9.62	04/01/03	25,350,000	25,116,977	27,520,721
GOVERNMENT NATIONAL MORTGAGE ASSN .	8.50	02/15/17	25,138,142	24,097,266	26,120,038
FEDERAL HOME LOAN MORTGAGE .....	8.50	12/01/08	23,647,561	22,556,571	24,645,253
FEDERAL HOME LOAN MORTGAGE .....	10.50	03/01/19	22,308,146	22,331,752	24,134,513
FEDERAL NATIONAL MORTGAGE ASSN REMIC .....	8.00	12/25/05	21,600,000	21,836,250	21,998,088
FEDERAL HOME LOAN MORTGAGE MULTICLASS .....	7.25	02/15/19	21,000,000	20,379,844	20,652,030
GOVERNMENT NATIONAL MORTGAGE ASSN .	9.50	07/15/20	19,939,737	20,337,609	21,428,837
FEDERAL NATIONAL MORTGAGE ASSN .....	9.30	03/25/19	20,000,000	19,756,250	21,662,600
CITICORP MORTGAGE SECURITIES REMIC ...	8.00	02/25/03	19,177,574	19,525,168	19,525,168
FEDERAL NATIONAL MORTGAGE ASSN .....	10.00	12/01/19	17,771,041	19,170,510	19,142,609
FEDERAL NATIONAL MORTGAGE ASSN REMIC .....	7.00	04/25/19	20,000,000	19,068,750	19,275,000
FEDERAL NATIONAL MORTGAGE ASSN .....	7.50	01/25/21	20,000,000	18,909,375	19,587,400
FEDERAL HOME LOAN MORTGAGE MULTICLASS .....	7.25	11/15/05	19,500,000	18,852,578	19,365,840
FEDERAL NATIONAL MORTGAGE ASSN .....	9.00	02/01/17	17,847,778	18,675,531	18,815,616
FEDERAL HOME LOAN MORTGAGE .....	8.00	04/01/22	18,487,198	18,159,428	18,729,750
FEDERAL HOME LOAN MORTGAGE .....	7.00	03/01/17	19,725,738	18,130,213	18,868,852
FEDERAL HOME LOAN MORTGAGE .....	8.50	01/01/17	18,789,239	17,996,264	19,485,004
FEDERAL HOME LOAN MORTGAGE .....	7.00	10/01/03	18,053,240	17,621,655	18,194,236
GOVERNMENT NATIONAL MORTGAGE ASSN .	9.50	12/15/20	16,744,763	17,043,029	17,995,262
<b>TOTAL</b>				<b>585,905,775</b>	<b>612,387,779</b>

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Corporate and Municipal Bonds**  
**25 Largest Holdings in Descending Order by Book Value**

Description	Interest Rate (%)	Maturity Date	Par Value (\$)	Book Value (\$)	Market Value (\$)
GENERAL ELECTRIC CAPITAL .....	3.78	10/06/92	27,500,000	27,219,913	27,219,913
RAILCAR TRUST .....	7.75	06/01/04	25,400,000	25,462,038	26,950,918
SECURED FINANCE .....	9.05	12/15/04	20,750,000	20,400,846	22,560,644
GENERAL MOTORS ACCEPTANCE .....	7.25	07/01/92	20,000,000	17,576,755	19,975,000
GENERAL MOTORS ACCEPTANCE .....	8.80	03/01/21	16,000,000	16,011,577	16,996,160
ASSOCIATES CORP NORTH AMERICA .....	9.70	05/01/97	13,660,000	13,919,420	15,117,249
GENERAL MOTORS ACCEPTANCE .....	8.62	06/15/99	13,500,000	13,902,580	14,370,210
GENERAL ELECTRIC CAPITAL .....	8.70	02/15/03	13,750,000	13,708,325	14,802,425
PHILIP MORRIS .....	9.25	12/01/97	12,000,000	12,107,880	13,172,400
FORD MOTOR CREDIT .....	7.90	08/15/94	12,000,000	11,991,960	12,549,000
TRAVELERS .....	9.50	03/01/02	11,300,000	11,351,800	11,300,000
KOREA DEVELOPMENT BANK .....	7.73	05/05/97	11,175,000	11,144,045	11,144,045
ARCHER DANIELS MIDLAND .....	7.00	05/15/11	12,500,000	11,114,625	11,114,625
HYDRO QUEBEC .....	8.40	01/15/22	11,000,000	10,855,420	10,829,500
TEXAS STATE PUBLIC FINANCE AUTHORITY .....	9.00	12/01/06	10,800,000	10,800,000	10,854,000
GENERAL MOTORS ACCEPTANCE .....	8.87	06/01/10	10,500,000	10,650,748	11,170,530
EASTMAN KODAK .....	9.20	01/15/95	10,350,000	10,299,993	11,124,905
PHILIP MORRIS .....	8.87	07/01/96	10,000,000	10,225,211	10,727,800
USAA CAPITAL .....	8.35	08/06/92	10,000,000	9,988,900	10,000,000
HELLER FINANCIAL .....	7.75	05/15/97	10,000,000	9,979,400	10,123,100
SEARS ROEBUCK & CO .....	10.00	02/03/12	9,000,000	9,830,610	10,077,570
PITTSBURGH NATIONAL .....	6.35	12/15/94	9,500,000	9,500,000	9,623,405
GENERAL MOTORS .....	8.95	07/02/09	9,300,000	9,300,000	9,346,500
ITT FINANCIAL .....	9.25	07/15/01	9,100,000	9,107,462	9,664,928
PHILIP MORRIS .....	9.25	02/15/00	9,100,000	9,089,361	10,047,674
<b>TOTAL</b>				<b>325,538,869</b>	<b>340,862,501</b>

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Miscellaneous Fixed Income**  
**Holdings in Descending Order by Book Value**

Description	Interest Rate (%)	Maturity Date	Par Value (\$)	Book Value (\$)	Market Value (\$)
PIMCO INTL FUNDS .....			12,201,659	124,369,653	123,232,799
PIMCO FUTURES INDEX .....			170,057,868	94,014,633	95,812,444
INTERNATIONAL BANK FOR RECON & DEV ..	9.87	10/01/97	19,250,000	20,855,620	22,039,325
EAI AMERICAS FUND .....	0.00	09/01/99	1,735,400	17,353,997	22,218,270
INTER AMERICAN DEVELOPMENT BANK .....	8.40	09/01/09	15,000,000	14,750,357	16,171,650
INTER AMERICAN DEVELOPMENT BANK .....	8.87	06/01/09	11,650,000	12,014,228	12,914,724
GOVERNMENT OF ISRAEL .....	6.01	05/01/94	10,000,000	10,000,000	10,000,000
BUNDES REPUBLIC .....	7.00	04/20/99	17,500,000	9,746,601	10,738,729
BUNDES REPUBLIC .....	6.75	06/21/99	17,500,000	9,702,388	10,590,775
MUNICIPAL FINANCE AUTHORITY .....	13.75	12/01/05	7,364,000	8,910,095	8,997,409
QUEBEC PROVINCE CANADA .....	9.12	03/01/00	6,600,000	6,750,624	7,214,460
INTER AMERICAN DEVELOPMENT BANK .....	8.50	05/01/01	6,500,000	6,614,655	6,928,870
MOBIL OIL CANADA .....	8.37	02/15/93	6,250,000	6,081,125	6,386,188
ONTARIO PROVINCE CANADA .....	14.62	08/31/92	4,900,000	5,578,600	4,963,749
INTER AMERICAN DEVELOPMENT BANK .....	11.62	12/01/94	4,500,000	5,148,456	5,065,380
ALBERTA PROVINCE CANADA .....	9.25	11/23/94	5,000,000	5,087,100	5,380,450
MONY FUNDING .....	8.12	04/07/97	4,500,000	4,298,850	4,075,313
GOVERNMENT OF ISRAEL .....	6.01	06/01/96	3,300,000	3,300,000	3,300,000
IRELAND REP .....	7.87	12/01/01	3,000,000	3,003,210	3,043,860
INTERNATIONAL BANK FOR RECON & DEV ..	8.75	03/01/97	3,000,000	2,966,040	3,277,500
ONTARIO PROVINCE CANADA .....	8.00	10/17/01	2,400,000	2,401,200	2,449,488
STANDARD OIL .....	7.87	01/13/97	2,000,000	1,952,200	2,046,876
<b>TOTAL</b>				<b>374,899,632</b>	<b>386,848,258</b>

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Fixed Income — Private Placements**  
**Holdings in Descending Order by Book Value**

Description	Interest Rate (%)	Maturity Date	Par Value (\$)	Book Value (\$)	Market Value (\$)
ADULT COMMUNITIES TOTAL SERVICES .....	10.75	06/01/06	50,000,000	50,000,000	56,179,500
AMERICAN PACIFIC .....	11.00	03/31/02	30,000,000	30,000,000	38,400,000
REALEN HOMES .....	10.00	03/31/02	10,000,000	10,000,000	10,000,000
<b>TOTAL</b>				<b>90,000,000</b>	<b>104,579,500</b>

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Fixed Income - Global Portfolio**  
**25 Largest Holdings in Descending Order by Book Value**

Description	Interest Rate (%)	Maturity Date	Par Value (*)	Book Value (\$)	Market Value (\$)
UNITED STATES TREASURY NOTE .....	7.50	11/15/01	50,300,000	50,644,219	51,400,061
UNITED STATES TREASURY BOND .....	8.00	11/15/21	35,950,000	36,748,929	36,792,668
GERMANY (FED REP) .....	7.25	01/20/00	53,000,000	30,282,406	32,929,416
POUND STERLING TREASURY LOAN .....	9.00	10/13/08	11,650,000	20,554,536	22,168,515
SPAIN (GOVERNMENT OF) .....	5.75	03/23/02	2,625,000,000	19,427,324	20,603,748
DENMARK (KINGDOM OF) .....	9.00	11/15/00	120,000,000	19,402,601	20,343,332
UNITED STATES TREASURY NOTE .....	6.75	05/31/97	18,450,000	18,590,058	18,801,657
GERMANY (FED REP) .....	8.75	07/20/00	29,000,000	18,019,393	19,563,196
FRANCE (GOVERNMENT OF) .....	8.25	02/27/04	102,350,000	17,597,281	19,117,411
DUTCH GOVERNMENT .....	8.25	02/15/02	31,000,000	17,128,985	17,923,282
JAPAN GOVERNMENT .....	4.90	03/20/98	2,000,000,000	14,965,891	15,587,097
JAPAN GOVERNMENT .....	4.60	09/22/97	2,000,000,000	14,835,039	15,417,431
GERMANY (FED) UNITY .....	8.50	02/20/01	22,000,000	14,369,693	14,717,045
FRANCE (GOVERNMENT OF) .....	8.50	11/25/02	73,000,000	13,482,162	13,904,865
UNITED STATES TREASURY NOTE .....	8.88	02/15/99	11,600,000	12,749,875	12,894,096
UNITED STATES TREASURY NOTE .....	8.88	05/15/00	11,200,000	12,282,136	12,466,944
FRANCE (GOVERNMENT OF) .....	8.50	03/12/97	69,000,000	12,211,805	13,166,103
DUTCH GOVERNMENT .....	8.50	03/15/01	22,000,000	11,716,242	12,879,577
DUTCH GOVERNMENT .....	8.25	06/15/02	20,000,000	11,318,500	11,576,194
UNITED STATES TREASURY NOTE .....	7.88	08/15/01	11,000,000	11,215,144	11,525,910
GERMANY (FED) UNITY .....	8.00	01/21/02	18,000,000	10,894,974	11,769,885
CANADA GOVERNMENT .....	9.50	10/01/98	11,800,000	10,288,892	10,638,546
GOVERNMENT NATIONAL MORTGAGE ASSN .	9.50	08/15/20	9,513,697	10,080,059	10,224,180
DUTCH GOVERNMENT .....	-6.38	12/15/97	19,600,000	9,689,040	10,411,717
SWEDEN (KINGDOM OF) .....	10.75	01/23/97	55,000,000	9,553,934	10,161,564
<b>TOTAL</b>				<b>428,049,118</b>	<b>446,984,440</b>

\*Stated in local currency

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Common Stock**  
**25 Largest Holdings in Descending Order by Book Value**

Description	No. of Shares	Book Value (\$)	Market Value (\$)
PNC/AIM ENHANCED INDEX .....	199,139,212	154,024,849	153,916,050
INTERNATIONAL BUSINESS MACHINES .....	1,085,400	116,594,512	106,233,580
GENERAL ELECTRIC .....	2,213,699	113,441,037	172,115,188
AMERICAN EXPRESS .....	4,258,856	110,517,585	99,018,402
ATLANTIC RICHFIELD .....	929,300	103,577,769	100,132,089
AMERICAN HOME PRODUCTS .....	1,790,300	102,389,967	128,008,000
EXXON .....	2,069,200	91,266,717	128,031,891
PHILIP MORRIS COMPANIES .....	2,521,200	90,546,343	185,244,655
AMERICAN TELEPHONE & TELEGRAPH .....	2,561,280	85,437,232	110,135,150
GENERAL MOTORS .....	2,147,300	82,357,988	94,481,258
MAS POOLED TRUST FUND .....	2,520,108	77,820,934	78,249,353
FORD MOTOR .....	1,850,250	70,929,667	84,860,229
BANKAMERICA .....	1,955,884	63,134,584	86,792,396
MOBIL .....	1,142,900	61,753,658	70,288,502
SEARS ROEBUCK & CO .....	1,438,600	57,919,767	57,183,324
FEDERAL NATIONAL MORTGAGE ASSN .....	1,491,600	54,130,723	90,983,558
PROCTER & GAMBLE .....	1,495,552	53,037,516	68,796,570
MERCK & CO .....	2,030,500	52,221,493	98,987,028
AMOCO .....	1,125,800	50,922,574	53,757,013
FEDERAL HOME LOAN MORTGAGE .....	2,052,500	49,322,072	81,586,882
HEWLETT-PACKARD .....	818,500	48,342,222	56,374,202
PHILLIPS PETROLEUM .....	2,009,900	48,266,630	48,740,075
COCA COLA .....	2,420,700	47,490,872	96,828,914
AVON PRODUCTS .....	1,122,666	47,065,462	57,537,115
HUMANA .....	1,840,830	46,069,419	38,887,534
<b>TOTALS</b>	<b>244,032,037</b>	<b>1,878,581,592</b>	<b>2,347,168,958</b>

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Stock — Private Placements**  
**Holdings in Descending Order by Book Value**

Description	No. of Share	Book Value (\$)	Market Value (\$)
GUINNESS PEAT AVIATION .....	100,000,000	100,000,000	100,000,000
COLLEGE CONSTR LOAN SER A .....	2,670,941	25,000,008	27,168,310
REALEN HOMES .....	15,000	15,000,000	15,000,000
<b>TOTALS</b>	<b>102,685,941</b>	<b>140,000,008</b>	<b>142,168,310</b>

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Preferred Stock**  
**Holdings in Descending Order by Book Value**

Description	No. of Shares	Book Value (\$)	Market Value (\$)
COOPER INDUSTRIES CONV EXCH .....	760,034	24,039,703	22,325,999
DELTA AIR LINES .....	437,000	21,850,000	21,850,000
TIME WARNER SER D CONV EXCH .....	258,219	11,186,693	13,653,330
FORD MOTOR SER A .....	135,300	9,885,607	10,722,524
CELLULAR COMM .....	200,000	6,309,969	6,309,969
TIME WARNER SER C EXCH .....	44,354	2,066,567	2,201,067
AON CORP SER B .....	17,900	693,763	771,938
UNISYS CUM CONV .....	35,000	644,221	1,045,625
CRAIG CL A .....	58,000	550,605	464,000
<b>TOTALS</b>	<b>1,945,807</b>	<b>77,227,128</b>	<b>79,344,452</b>

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Common Stock - Global Portfolio**  
**25 Largest Holdings in Descending Order by Book Value**

Description	No. of Shares	Book Value (\$)	Market Value (\$)
FUJI PHOTO FILM .....	278,000	6,341,767	6,171,412
CANON INC .....	493,000	5,318,168	5,393,961
ITO YOKADO .....	149,000	4,857,950	5,091,494
WINTERTHUR PTG CERTS .....	8,825	4,562,185	3,616,842
CIE DE ST GOBAIN .....	48,840	4,089,533	5,391,900
MARKS AND SPENCER ORD .....	781,900	3,945,486	4,911,237
HUTCHISON WHAMPOA .....	1,890,000	3,878,936	4,319,999
TOKIO MARINE + FIRE .....	387,000	3,738,069	3,037,581
DEV BANK SINGAPORE .....	515,000	3,623,877	4,513,626
ARGYLL GROUP ORD .....	574,114	3,403,839	3,862,509
LINDE AG .....	6,730	3,323,544	3,667,560
NINTENDO .....	38,000	3,307,300	3,253,787
RANK ORGANISATION ORD .....	265,000	3,282,365	3,318,940
HONG KONG TELECOMM .....	3,094,400	3,213,926	3,536,456
ELSEVIER NV CVA .....	60,300	3,073,221	3,802,482
KEPPEL CORP .....	683,000	2,879,922	3,182,713
MATSUSHITA ELECTRIC INDUSTRIES .....	223,000	2,861,137	2,316,103
REDLAND ORD .....	325,000	2,758,398	2,930,811
DAIWA HOUSE IND CO .....	195,000	2,754,434	2,442,719
EUROTUNNEL/EURO SA UNITS .....	319,500	2,642,966	2,179,696
SONY .....	70,000	2,596,778	2,286,531
MAEDA ROAD CONSTRUCTION .....	114,000	2,573,476	2,485,532
ASTRA AB SER A FREE .....	26,500	2,563,209	2,565,729
SWIRE PACIFIC A .....	776,000	2,561,007	3,682,711
BCO POPULAR ESP .....	24,439	2,558,605	2,729,597
<b>TOTAL</b>	<b>11,346,548</b>	<b>86,710,098</b>	<b>90,691,928</b>

## Investment Section

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Health Insurance Account**  
**Holdings in Descending Order by Book Value**

Description	Interest Rate (%)	Maturity Date	Par Value (\$)	Book Value (\$)	Market Value (\$)
GENERAL MOTORS ACCEPTANCE .....	9.25	03/15/93	2,000,000	2,069,540	2,069,540
MERRILL LYNCH & CO .....	7.50	06/11/93	2,000,000	2,037,740	2,037,740
SHEARSON LEHMAN BROTHERS HOLDINGS ..	4.25	07/15/92	1,700,000	1,678,927	1,678,927
ATLANTIC RICHFIELD .....	9.25	02/15/93	1,000,000	1,029,610	1,029,610
ABBEY NATIONAL NORTH AMERICA .....	4.15	01/15/93	1,000,000	969,797	969,797
<b>TOTAL</b>			<b>7,700,000</b>	<b>7,785,614</b>	<b>7,785,614</b>

**Portfolio Detail Statistics as of June 30, 1992**  
**Trade Date Basis**  
**Short-Term Investments - Global Portfolio**  
**25 Largest Holdings in Descending Order by Book Value**

Description	Interest Rate (%)	Maturity Date	Par Value (*)	Book Value (\$)	Market Value (\$)
UNITED STATES TREASURY NOTE .....	7.00	06/30/93	100,000,000	102,656,250	102,750,000
EURO DEM TIME DEPOSIT .....	9.38	07/03/92	36,612,832	24,120,810	23,995,685
UNITED STATES TREASURY NOTE .....	6.75	05/31/93	20,500,000	21,000,606	20,980,520
CAD CALL DEPOSIT .....	1.00	01/01/00	21,655,227	18,072,764	18,061,856
JAPANESE BONDS .....	7.50	06/21/93	2,000,000,000	16,114,119	16,327,603
CREDIT LOCAL DE FRANCE .....	6.63	03/04/94	2,000,000,000	15,410,824	16,322,449
NIPPON TEL + TEL .....	5.75	12/17/93	1,900,000,000	14,890,698	15,289,785
JAPANESE YEN CASH ACCOUNT .....			1,811,973,391	14,211,660	14,365,922
CREDIT AGRICOLE .....	0.00	02/14/94	18,000,000	13,525,200	14,100,437
NORDISKA INVESTERINGSBAN .....	9.63	12/01/97	13,000,000	13,335,650	13,681,330
CREDITANSTALT BANKVEREIN .....	1.00	05/12/94	13,000,000	13,000,000	12,967,500
TOYOTA MOTOR CREDIT .....	6.30	03/16/96	13,000,000	13,000,000	13,116,480
HOUSING CORP OF NEW ZEALAND .....	10.00	09/15/94	22,500,000	12,969,293	12,934,357
RABOBANK NEDERLAND .....	9.45	10/24/94	10,000,000	10,000,000	10,525,000
JPY CALL DEPOSIT .....	1.00	01/01/00	1,007,922,653	7,920,195	7,991,144
A T + T CREDIT .....	14.50	08/03/92	9,680,000	7,656,615	7,257,920
CANADIAN DOLLAR CASH ACCOUNT .....			8,043,369	6,745,269	6,708,689
SOUTHWESTERN BELL CAPITAL .....	13.00	10/12/92	8,600,000	6,554,696	6,509,105
STUDENT LOAN MARKETING ASSOCIATION ..	1.00	07/05/94	5,000,000	5,150,000	5,137,500
STUDENT LOAN MARKETING ASSOCIATION ..	1.00	04/07/94	5,000,000	5,000,000	5,300,000
POUND STERLING CASH ACCOUNT .....			2,137,625	3,957,902	4,062,557
FRENCH FRANC CASH ACCOUNT .....			20,172,615	3,924,615	3,920,848
GERMANY(FED REP) .....	8.75	05/22/95	4,500,000	2,759,334	2,946,601
HONG KONG DOLLAR CASH ACCOUNT .....			19,956,185	2,578,450	2,577,070
DENMARK (KINGDOM OF) TREASURY BONDS.	9.00	02/20/93	15,000,000	2,356,561	2,527,582
<b>TOTAL</b>				<b>356,911,511</b>	<b>360,357,940</b>

\*Stated in local currency





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