

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, 1993. 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	\$ 4,280,336	\$ —	\$ 4,555,165
Corporate and municipal bonds	1,393,512	—	1,454,331
Common stock	9,139,936	—	11,268,689
Preferred stock	67,188	—	71,983
Mortgage backed securities	2,804,598	—	2,895,400
FHA/VA residential mortgages	—	64,661	64,397
Private placements, fixed income and equity	—	241,500	260,389
Miscellaneous fixed income	281,319	—	297,812
Real estate owned, net	—	262,291	207,875
Equity real estate, net	—	398,740	415,025
Equity participating mortgages, net	—	84,740	91,541
Farmland investments	—	65,160	67,316
Global fixed income	754,397	—	767,752
Global equity	556,701	—	634,790
Global short-term	—	439,825	439,419
Venture capital, net	—	91,947	115,769
Health insurance account short-term investment fund	29,993	—	29,436
Pa. Treasury pooled short-term investment fund	—	665,647	665,647
Other short-term investments	—	146,978	146,962
	\$19,307,980	\$2,461,489	\$24,449,698

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 employee 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 employee 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, 1992, 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 8.5 percent per year compounded annually; (b) projected salary increases of 7.25 percent, which reflects an allowance for inflation of 4 percent, national productivity of one percent and merit or seniority increases of 2.25 percent, and (c) no post retirement benefit increases.

At June 30, 1992, the unfunded pension benefit obligation was \$3,282,377,000 as follows:

	(Amounts in Thousands)
Pension benefit obligation:	
Annuitants and survivor annuitants currently receiving benefits, and terminated members not yet receiving benefits	\$ 7,053,552
Health care payments	32,346
Current members:	
Accumulated member contributions with interest	3,870,987
System-financed vested	3,889,479
System-financed nonvested	8,028,809
Total pension benefit obligation	22,875,173
Less: Net assets available for benefits, at cost (market value is \$21,394,289,000)	19,592,796
Unfunded pension benefit obligation	\$ 3,282,377

(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 employees 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)
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.

Year	Assets	Liabilities	Surplus	Assets	Liabilities	Surplus
1980	100,000	100,000	0	100,000	100,000	0
1981	105,000	105,000	0	105,000	105,000	0
1982	110,000	110,000	0	110,000	110,000	0
1983	115,000	115,000	0	115,000	115,000	0
1984	120,000	120,000	0	120,000	120,000	0
1985	125,000	125,000	0	125,000	125,000	0
1986	130,000	130,000	0	130,000	130,000	0
1987	135,000	135,000	0	135,000	135,000	0
1988	140,000	140,000	0	140,000	140,000	0
1989	145,000	145,000	0	145,000	145,000	0
1990	150,000	150,000	0	150,000	150,000	0

Schedule 1
Analysis of Funding Progress
Years Ended June 30, 1986 through 1992

(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)
1992	\$19,592.8	\$22,875.2	85.65%	\$3,282.4	\$6,098.2	53.83%
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	68.75%	5,652.0	4,641.9	121.76%
1987	11,041.4	16,366.1	67.47%	5,324.7	4,415.1	120.60%
1986	9,348.5	14,870.9	62.86%	5,522.4	4,159.1	132.78%

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.

Financial Section

Schedule 2
Revenues by Source and Expenses by Type
Years ended June 30, 1984 through 1993
(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) 1993	\$408,588	\$ 966,180	14.24%	\$2,107,170	\$3,481,938
(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

Expenses by Type

Fiscal Year	Benefits	Disabilities	Lump-Sums and Installments	Refunds	Adminis- trative	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

(A) Includes Health Insurance Account activity.

Schedule 3
Administrative Expenses
Years ended June 30, 1993 and 1992
(Dollar Amounts in Thousands)

	1993		1992	
	Actual	Budget	Actual	Budget
Personnel costs:				
Salaries and wages	\$ 8,567		\$ 7,011	
Social security contributions	639		531	
Retirement contributions	651		589	
Employees' insurance contributions	2,056		1,515	
Other employe benefits	96		127	
Total personnel costs	12,009	\$12,355	9,773	\$10,052
Operating costs:				
Auditor General services	1		3	
Treasury services	467		618	
Civil Service Commission services	31		30	
Classification and pay services	4		4	
Purchasing services	5		5	
Consultant fees	11		10	
Legal fees	25		12	
Specialized services	964		485	
Printing	165		142	
Postage	697		621	
Telephone and telegraph	202		200	
Dues and subscriptions	23		20	
Electricity	65		55	
Motorized equipment supplies and repair	11		9	
Travel	287		240	
Contracted maintenance services	419		443	
Rental of real estate	917		891	
Rental of equipment	163		201	
Office supplies	359		286	
Miscellaneous expenses	99		96	
Total operating costs	4,915	5,772	4,371	4,915
Fixed charges:				
Furniture and equipment Depreciation	(265)		363	
Total fixed charges	1,386		1,216	
Total administrative expenses	1,121	999	1,579	1,724
Total administrative expenses	\$18,045 ¹	\$19,126 ²	\$15,723	\$16,691 ³

¹ Includes \$417,000 of unbudgeted expenses related to the Health Insurance Account.

² Includes \$18,023,000 related to the 1992-93 appropriation and \$1,103,000 related to the 1991-92 appropriation.

³ Includes \$15,816,000 related to the 1991-92 appropriation and \$875,000 related to the 1990-91 appropriation.

Schedule 4
Administrative Expenses Paid
Through Directed Commissions
Years ended June 30, 1993 and 1992
(Dollar Amounts in Thousands)

	<u>1993</u>	<u>1992</u>
Operating costs:		
Auditor General services	\$ —	\$ —
Treasury services	—	—
Civil Service Commission services	—	—
Classification and pay services	—	—
Purchasing services	—	—
Consultant fees	741	682
Legal fees	—	—
Specialized services	286	270
Printing	—	—
Postage	—	—
Telephone and telegraph	—	—
Dues and subscriptions	24	82
Electricity	—	—
Motorized equipment supplies and repair	—	—
Travel	—	—
Contracted maintenance services	—	—
Rental of real estate	—	—
Rental of equipment	—	—
Office supplies	—	—
Miscellaneous expenses	33	44
Total operating costs	1,084	1,078
Fixed charges:		
Furniture and equipment	1,013	563
Depreciation	—	—
Total fixed charges	1,013	563
Total administrative expenses paid through directed commissions (note 4)	\$2,097	\$1,641

Schedule 5
Summary Schedule of Cash Receipts and
Disbursements
Years ended June 30, 1993 and 1992
(Dollar Amounts in Thousands)

	1993	1992
Cash balance at beginning of year	\$ 34	\$ 6
Add cash receipts:		
Investment sales and maturities	35,633,951	26,440,570
Contributions:		
Employers	498,232	517,206
Employes	390,714	360,809
Commonwealth of Pennsylvania	504,675	622,715
Interest and dividends	1,488,170	1,148,209
Transfers from State Employees' Retirement System	2,153	6,476
Refund of expenditures	8,341	5,817
Other receipts	2,391	1,060
Total cash receipts	38,528,627	29,102,862
Less cash disbursements:		
Investment purchases	37,295,995	28,025,822
Benefit payments	1,141,034	1,002,294
Refunds	11,600	10,806
Transfers to State Employees' Retirement System	21,726	13,888
Administrative expenses	17,521	14,997
Other disbursements	40,784	35,027
Total cash disbursements	38,528,660	29,102,834
Cash balance at end of year	\$ 1	\$ 34

This schedule includes Health Insurance Account activity.

SECTION
THREE

ACTUARIAL

Actuary's Certification Letter

**BUCK
CONSULTANTS**
55 West Monroe Street Suite 1700
Chicago, Illinois 60603

November 22, 1993

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

Introduction

Presented in this report are the results of the actuarial valuation as of June 30, 1992 for the Public School Employees' Retirement System.

The principal results include:

- The employer contribution rate for fiscal year 93/94 which is 13.17%.
- The funded status of the plan determined as of June 30, 1992 based on the accrued liability and the actuarial value of assets as of that date which is 81.7%.
- Annual disclosure as of June 30, 1992 as required by Statement No. 5 of the Governmental Accounting Standard Board.

The valuation was completed based upon membership and financial data submitted by the Retirement System.

Changes Since Last Year

Actuarial Assumptions and Methods

The actuarial assumptions outlined in Table 10, are unchanged from last year except for the annual rate of salary increase. The rate of salary increase was changed to 7¼% by Board action. Provision was made for this change by decreasing the employer rate by .75%.

The Board also elected to change the asset valuation method. The smoothing period for recognizing realized and unrealized gains and losses was shortened from 5 years to 4 years. The impact of this change is a decrease in the employer rate of .40%. The derivation of the actuarial value of assets is shown in Table 5.

Legislative and Administrative Changes

In addition to the changes noted above, two additional actions were taken by the Board.

Implementation of the accelerated payment option was put into effect by way of a Board resolution in September, 1992. The accelerated payment option allows a member to step up his annuity prior to age 65 so that income prior to age 65 before Social Security benefits begin is approximately the same as income after age 65 including Social Security benefits. Provision was made for the cost of this option by increasing the employer rate by .20%. This rate assumes utilization by less than 50% of retiring members.

The Mellow Bill (Act 186 enacted December 21, 1992) provides an early retirement incentive. Members who are at least age 55 with 10 years of service who retire between July 2, 1992 and August 31, 1993 are given an additional 10% of service credit. An employer rate provision of .20% was made for the additional cost of providing this early retirement incentive. This rate provision assumes a 40% utilization by longer service teachers eligible for unreduced benefits.

Summary of Principal Results

Summarized below are the principal financial results for the Public School Employees' Retirement System based upon the actuarial valuation as of June 30, 1992. Comparable results from the June 30, 1991 valuation are also shown. (Dollar amounts in millions.)

Item	June 30, 1992	June 30, 1991
Demographics		
Active		
▶ Number	202,991	202,631
▶ Average Pay	\$ 30,042	\$ 28,351
Annuitants		
▶ Number	105,026	102,924
▶ Average Benefit Payment	\$ 8,213	\$ 7,932
Contribution Rates (as a Percentage of Payroll)		
	(Fiscal Year 93/94)	(Fiscal Year 92/93)
Employer Contribution Rate:		
▶ Total Pension Contribution Rate	12.92%	13.74%
▶ Health Care Contribution Rate	.25	.50
▶ Total	<u>13.17</u>	<u>14.24</u>
Member Average Contribution Rate		
▶ Total	<u>5.51</u> 18.68%	<u>5.48</u> 19.72%
Actuarial Funded Status		
▶ Accrued Liability	\$ 24,569.7	\$ 22,573.9
▶ Actuarial Value of Assets	20,068.3	17,961.8
▶ Unfunded Accrued Liability	<u>4,501.4</u>	<u>4,612.1</u>
▶ Funded Ratio	81.7%	79.6%
GASB No. 5 Disclosure		
▶ Pension Benefit Obligation	\$ 22,875.2	\$ 20,950.5
▶ Book (Cost) Value of Assets	19,592.8	17,597.4
▶ Unfunded Pension Benefit Obligation	<u>3,282.4</u>	<u>3,353.1</u>
▶ Funded Ratio	85.7%	84.0%

Five-Year History of Principal Financial Results

Contribution Rates

The results of the valuation as of June 30, 1992 determine the employer contribution rate for fiscal year 93/94. The total contribution rate payable by the employer is 13.17% of payroll. This includes 12.92% of payroll for pension benefits plus .25% of payroll for the health insurance premium assistance program.

The average contribution rate payable by the members is 5.51%. This rate represents an average of the members who were hired prior to July 22, 1983 contributing 5.25%, and the remaining members who are contributing 6.25%.

Reasons for Change in the Rate

The employer contribution rate decreased from 14.24% for fiscal year 92/93 to 13.17% for fiscal year 93/94. The decrease of 1.07% is due to the following reasons:

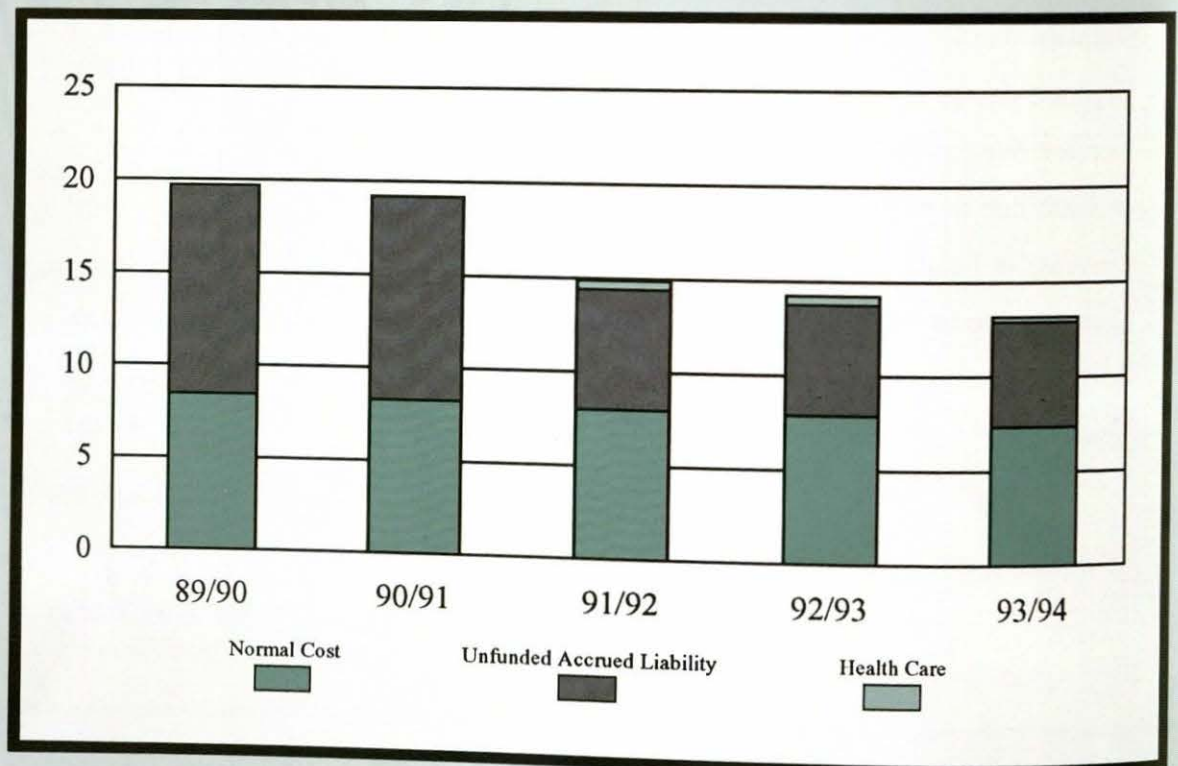
— Decrease due to change in salary increase assumption	(.75)%
— Decrease due to change in asset valuation method	(.40)
— Increase due to accelerated payment option	.20
— Increase due to Mellow Bill	.20
— Decrease in health care contribution rate	(.25)
— Decrease due to other actuarial gains/losses and other experience factors	<u>(.07)</u>
— Total	(1.07)%

Five-Year History of Contribution Rates
(As a % of payroll)

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
93/94	5.51%	7.34%	5.58%	.25%	13.17%
92/93	5.48	7.90	5.84	.50	14.24
91/92	5.46	8.00	6.40	.50	14.90
90/91	5.69	8.28	10.90	—	19.18
89/90	5.53	8.44	11.24	—	19.68

The following chart shows a five-year history of employer contribution rates:

Five-Year History of Employer Contribution Rates
(As a % of payroll)



Funded Ratio

The financing objective of the System is to:

- Fully fund all current costs based on the normal contribution rate determined under the funding method; and
- Liquidate the unfunded accrued liability based on the amortization schedules as required by the retirement code, i.e., a schedule of 20 years for each change in the unfunded accrued liability.

The total contribution rate of 13.17% of payroll payable by employers, when taken together with the contributions payable by the members, is sufficient to achieve the financing objective.

The System's funded status on the funding basis is measured by comparing the actuarial value of assets (based on a 4-year moving average market value) with the accrued liability. The accrued liability is the present value of benefits accumulated to date under the System's funding method and reflects future pay increases for active employees.

On this basis, the System's funded ratio is 81.7% as of June 30, 1992. The funded ratio is based on actuarial value of assets of \$20.1 billion and an accrued liability of \$24.6 billion.

Reasons for Change in the Funded Ratio

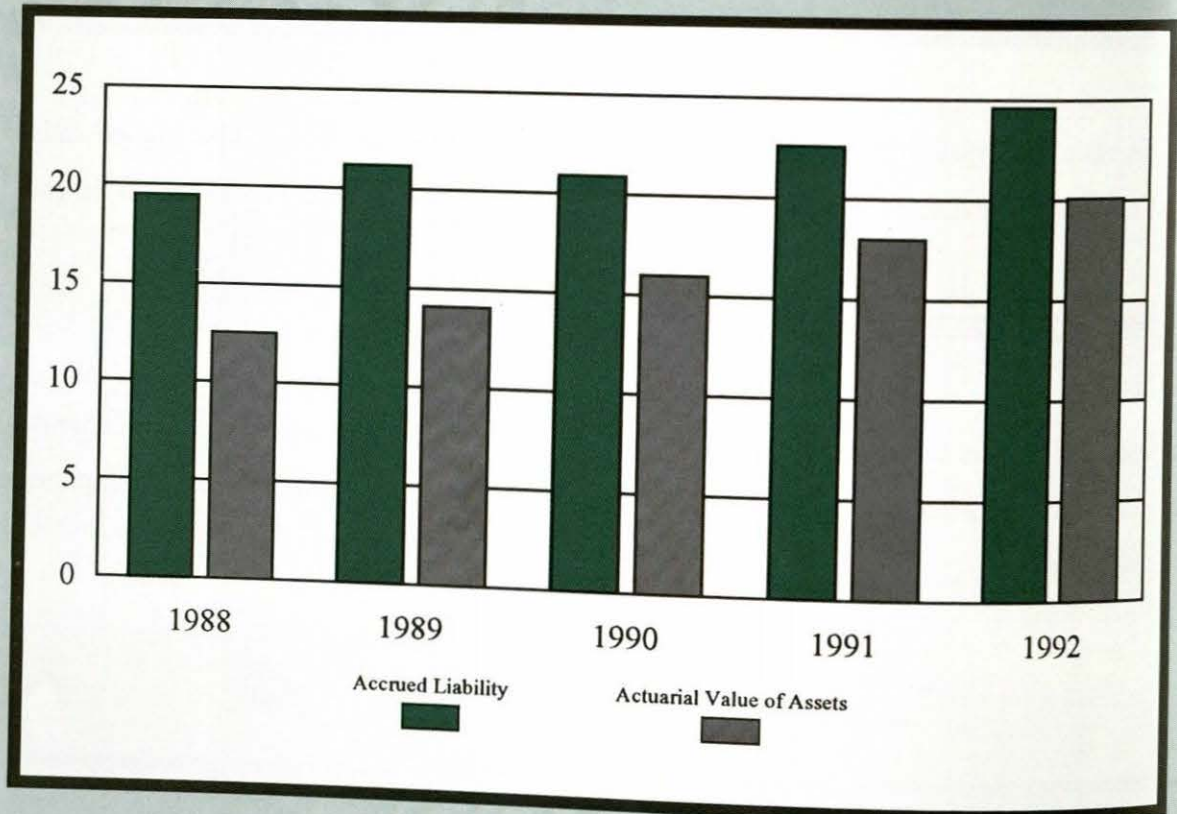
The funded ratio increased from 79.6% as of June 30, 1991 to 81.7% as of June 30, 1992. The increase is due to the net effect of the change in the salary increase assumption, the change in the asset valuation method, the Mellow Bill, the accelerated payment option and experience gains and losses.

**Five-Year History of
Funded Ratio**
(\$ results reported in millions)

Valuation as of June 30	Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio
1992	\$ 24,569.7	\$ 20,068.3	\$ 4,501.4	81.7%
1991	22,573.9	17,961.8	4,612.1	79.6
1990	20,914.3	15,995.6	4,918.7	76.5
1989	21,216.8	14,109.1	7,107.7	66.5
1988	19,501.7	12,544.4	6,957.3	64.3

The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

Five-Year History of Pension Benefit Obligation & Book (Cost) Value of Assets
(Dollar amount in billions)



GASB No. 5 Disclosure

Statement Number 5 of the Governmental Accounting Standards Board sets certain standards of financial accounting and reporting for the annual financial statements of a defined benefit pension plan.

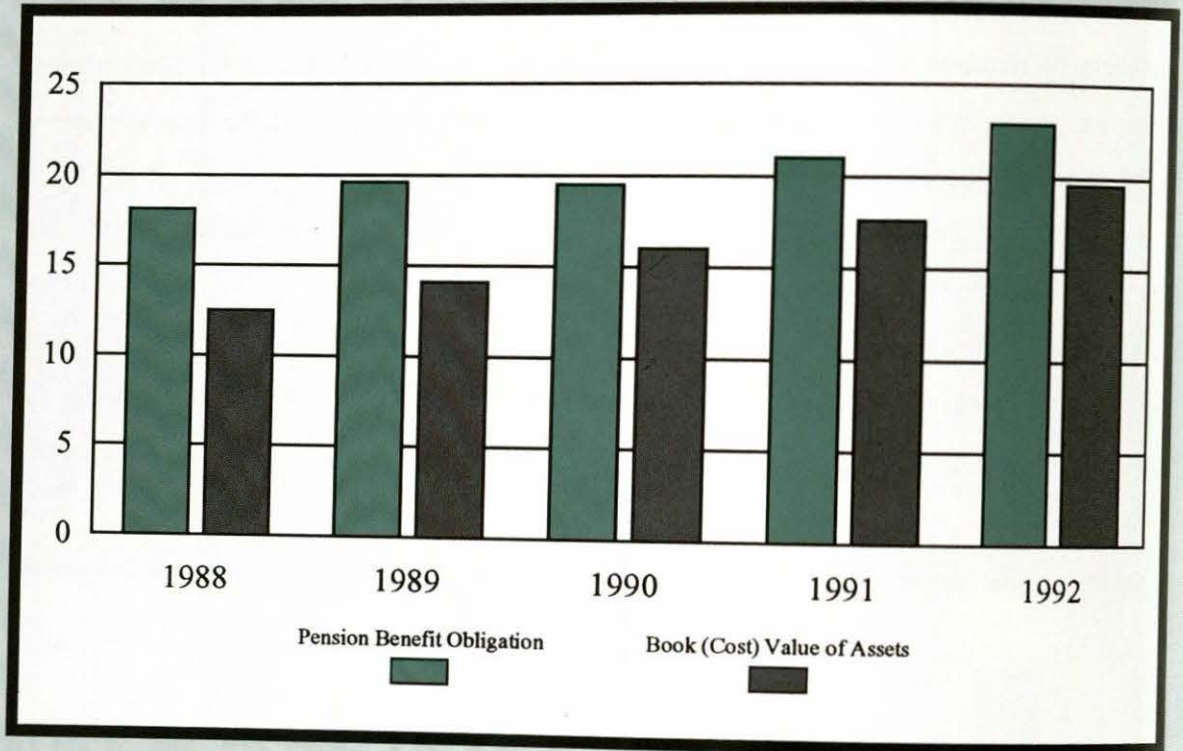
This statement requires the disclosure of the actuarial present value of credited projected benefits, and the effect of any changes in actuarial assumptions or benefit provisions. The actuarial present value of credited projected benefits is a standardized measure of the accrued pension benefit obligation. It is the value of benefits estimated to be payable in the future based on service through June 30, 1992 and projected salary increases. The value of benefits is based on the unit credit cost method which allocates an equal benefit amount (including projected salary increases) to each year of credited and expected future member service. This cost method generates liabilities which are lower than the entry-age normal method used for funding purposes.

**Five-Year History of
 GASB No. 5 Disclosure**
 (\$ results reported in millions)

Valuation as of June 30	Pension Benefit Obligation	Book (Cost) Value of Assets	Unfunded Pension Benefit Obligation	Funded Ratio
1992	\$ 22,875.2	\$ 19,592.8	\$ 3,282.4	85.7%
1991	20,950.5	17,597.4	3,353.1	84.0
1990	19,483.6	15,995.6	3,488.0	82.1
1989	19,601.4	14,109.1	5,492.3	72.0
1988	18,086.5	12,544.4	5,542.1	69.4

The following chart shows a five-year history of the pension benefit obligation and the book (cost) value of assets:

Five-Year History of Accrued Liability & Actuarial Value of Assets
(Dollar amount in billions)



Rate of Return

The investment return of the trust fund (i.e. total return including both realized and unrealized gains and losses) for fiscal years 87/88 through 91/92 is shown below. The return based on the actuarial value of assets used for determining annual contribution rates is also shown.

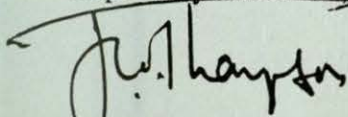
Fiscal Year	Rate of Return Based on	
	Market Value	Actuarial Value
91/92	13.2%	8.2%
90/91	7.0	9.0
89/90	9.2	10.0
88/89	13.8	9.2
87/88	2.6	8.6

The remainder of the report is comprised of the following sections or schedules:

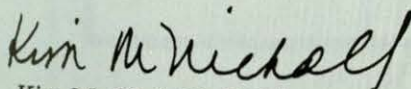
- Table 1 — Summary of Results of Actuarial Valuation as of June 30, 1992
- Table 2 — Determination of Health Care Contribution Rate for Fiscal Year 94/95
- Table 3 — Summary of Market Value of Plan Assets as of June 30, 1992
- Table 4 — Summary of Book (Cost) Value of Plan Assets as of June 30, 1992
- Table 5 — Derivation of Actuarial Value of Assets as of June 30, 1992
- Table 6 — Analysis of Change in Unfunded Accrued Liability
- Table 7 — Pension Benefit Obligation as of June 30, 1992 — GASB Statement No. 5 Disclosure
- Table 8 — Present Value of Accumulated Plan Benefits as of June 30, 1992 — FASB Statement No. 35 Disclosure
- Table 9 — Comparative Summary of Accrued Liability and Book (Cost) Value of Assets — NCGA No. 6 Disclosure
- Table 10 — Description of Actuarial Assumptions and Methods
- Table 11 — Summary of Benefit and Contribution Provisions
- Table 12 — Summary of Membership Data as of June 30, 1992
- Exhibit I — Active Membership Data as of June 30, 1992 - Number and Average Annual Benefit
- Exhibit II — Annuitant and Beneficiary Membership Data as of June 30, 1992 - Number and Average Annual Salary
- Exhibit III — 10-Year History of Membership Data

To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

~~Respectfully submitted,~~



John W. Thompson
Consulting Actuary



Kim M. Nicholl, F.S.A
Consulting Actuary

TABLE 1

**SUMMARY OF RESULTS OF ACTUARIAL VALUATION
AS OF JUNE 30, 1992
(\$ Amounts in Thousands)**

Item	June 30, 1992
Member Data	
1. Number of Members	
a) Active Members	202,991
b) Inactive Members and Vestees	34,601
c) Annuitants and Survivor Annuitants	105,026
d) Total	342,618
2. Annualized Salaries	\$ 6,098,222
3. Annual Annuities	\$ 862,562
Valuation Results	
4. Accrued Liability Before Board Actions	
a) Active Members	\$ 17,435,776
b) Inactive Members and Vestees	287,169
c) Annuitants and Beneficiaries	6,766,383
d) Health Care Payments	32,346
e) Total	\$ 24,521,674
5. Changes in Accrued Liability due to Board Actions	
a) Accelerated Payment Option	\$ 89,000
b) Mellow Bill Early Retirement Incentive	162,000
c) Change in Salary Increase Assumption	(203,000)
d) Total	\$ 48,000
6. Accrued Liability after Board Actions (4) + (5)	\$ 24,569,674
7. Actuarial Value of Assets	\$ 20,068,289
8. Unfunded Accrued Liability	\$ 4,501,385

Item	June 30, 1992
9. Total Normal Cost Rate before Board Actions	13.26%
10. Changes in Normal Cost Rate due to Board Actions	
a) Accelerated Payment Option	.09%
b) Change in Salary Increase Assumption	<u>(.50)</u>
c) Total	(.41)
11. Total Normal Cost Rate After Board Actions (9) + (10)	12.85%
12. Member Contribution Rate	5.51%
13. Employer Normal Cost Rate (11) - (12)	7.34%
Employer Annual Funding Requirement for Fiscal 93/94	
14. Employer Contribution Rate	
a) Normal	7.34%
b) Unfunded Liability	<u>5.58</u>
c) Total Pension Rate	12.92%
d) Health Care	<u>.25</u>
e) Total	13.17%

TABLE 2

**DETERMINATION OF HEALTH CARE CONTRIBUTION RATE
 FOR FISCAL YEAR 94/95
 (\$ Amounts in Thousands)**

1. Estimated Number of Eligible Annuitants in Fiscal 94/95		55,750
2. Annual Health Care Payments During Fiscal 94/95 (1) x \$55 x 12		\$ 36,795
3. Annual Expenses During Fiscal 94/95		<u>200</u>
4. Total Estimated Health Insurance Account Disbursements During Fiscal 94/95		\$ 36,995
5. Estimated Surplus in Health Insurance Account		
a) Fiscal 92/93 Surplus	\$ 12,000	
b) Fiscal 93/94 Surplus	<u>6,000</u>	
c) Total		\$ 18,000
6. Estimated Shortfall in Health Insurance Account (4) - (5)		\$ 18,995
7. Required Health Care Contribution Rate		
(a) Discount of Shortfall to Fiscal 93/94 (6) ÷ 1.085		\$ 17,507
(b) Estimated 93/94 Payroll		\$ 7,225,000
(c) Required Health Care Contribution Rate (a) ÷ (b) (rounded)		.25%

TABLE 3

**SUMMARY OF MARKET VALUE OF PLAN ASSETS
 AS OF JUNE 30, 1992**

(\$ Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 1991	\$ 18,613,839
2. Contributions During Fiscal 91/92	1,322,698
3. Disbursements During Fiscal 91/92	1,024,350
4. Investment Return During Fiscal 91/92	
(a) Gross Investment Return	2,497,825
(b) Expenses	<u>15,723</u>
(c) Net Investment Return (a) - (b)	\$ 2,482,102
5. Market Value of Assets as of June 30, 1992 (1) + (2) - (3) + (4)	21,394,289
6. Rate of Return	13.23%
Asset Allocation by Account	
1. Members' Savings Account	\$ 4,120,704
2. Annuity Reserve Account	7,706,293
3. State Accumulation Account	9,534,946
4. Health Care Account	<u>32,346</u>
5. Total	\$ 21,394,289

TABLE 4

**SUMMARY OF BOOK (COST) VALUE OF PLAN ASSETS
 AS OF JUNE 30, 1992
 (\$ Amounts in Thousands)**

Book (Cost) Value	
1. Book (Cost) Value of Assets as of June 30, 1991	\$ 17,597,400
2. Contributions During Fiscal 91/92	1,322,698
3. Disbursements During Fiscal 91/92	1,024,350
4. Investment Return During Fiscal 91/92	
(a) Gross Investment Return	1,712,771
(b) Expenses	<u>15,723</u>
(c) Net Investment Return (a) - (b)	\$ 1,697,048
5. Book (Cost) Value of Assets as of June 30, 1992 (1) + (2) - (3) + (4)	19,592,796
6. Rate of Return	9.56%
Asset Allocation by Account	
1. Members' Savings Account	\$ 4,120,704
2. Annuity Reserve Account	7,706,293
3. State Accumulation Account	7,733,453
4. Health Care Account	<u>32,346</u>
5. Total	\$ 19,592,796

TABLE 5

DERIVATION OF ACTUARIAL VALUE OF ASSETS AS OF JUNE 30, 1992

1. Market Value of Assets as of June 30, 1992				\$ 21,394,289
2. Determination of Deferred Gain (Loss)				
	<u>Year</u>	<u>Gain (Loss)</u>	<u>% Deferred</u>	<u>Deferred Amount</u>
	91/92	\$ 1,513,000	75%	\$ 1,135,000
	90/91	204,000	50	102,000
	89/90	356,000	25	89,000
	88/89	<u>891,000</u>	- 0 -	<u>- 0 -</u>
	Total	\$ 2,964,000		1,326,000
3. Actuarial Value of Assets (1) - (2)				\$ 20,068,289
4. Rate of Return				8.18%

TABLE 6

ANALYSIS OF CHANGE IN UNFUNDED ACCRUED LIABILITY
(\$ Amounts in Millions)

1. Unfunded Accrued Liability at June 30, 1991		\$ 4,612.1
2. Interest at 8½%		392.0
3. Contributions toward Unfunded Accrued Liability		<u>367.6</u>
4. Expected Unfunded Accrued Liability at June 30, 1992 (1) + (2) - (3)		\$ 4,636.5
5. Unfunded Accrued Liability at June 30, 1992		<u>4,501.4</u>
6. Increase (Decrease) from Expected (5) - (4)		\$ (135.1)
7. Reasons for Increase (Decrease)		
a) Experience (Gains) Losses		
(i) Loss from Investment Return on Actuarial Value of Assets	\$ 57.3	
(ii) Loss from Salary Increases Greater than Expected	38.4	
(iii) Loss from Retirement and Other Separation Experience	21.9	
(iv) Loss from Annuitants' Mortality Experience	<u>25.3</u>	
(v) Total		\$ 142.9
b) Board Actions		
(i) Accelerated Payment Option	\$ 89.0	
(ii) Mellow Bill Early Retirement Incentive	162.0	
(iii) Change in Asset Valuation Method	(326.0)	
(iv) Change in Salary Increase Assumption	<u>(203.0)</u>	
(v) Total		<u>(278.0)</u>
c) Grand Total		\$ (135.1)

TABLE 7

**PENSION BENEFIT OBLIGATION
AS OF JUNE 30, 1992**

**GASB STATEMENT NO. 5 DISCLOSURE
(\$ Amounts in Thousands)**

Item	Amount
1. Vested Pension Benefit Obligation	
a) Annuitants and Beneficiaries	\$ 6,766,383
b) Health Care Payments	32,346
c) Inactive Members and Vesteas	287,169
d) Active Members - Member Financed	3,870,987
e) Active Members - Employer Financed	3,889,479
f) Total Vested	\$ 14,846,364
2. Nonvested Pension Benefit Obligation	\$ 8,028,809
3. Total Pension Benefit Obligation	\$ 22,875,173
4. Book (Cost) Value of Assets	\$ 19,592,796
5. Unfunded Pension Benefit Obligation	\$ 3,282,377

The change in the pension benefit obligation due to changes in actuarial assumptions and benefits is as follows:

Increase/(Decrease)	Amount
1. Increase due to Accelerated Payment Option	\$ 89,000
2. Increase due to Mellow Bill	162,000
3. Decrease due to Change in Salary Increase Assumption	(203,000)
4. Total	\$ 48,000

TABLE 8

**PRESENT VALUE OF ACCUMULATED PLAN BENEFITS
AS OF JUNE 30, 1992**

FASB STATEMENT NO. 35 DISCLOSURE
(\$ Amounts in Thousands)

Item	Amount
1. Present Value of Accumulated Vested Benefits	
a) Annuitants and Beneficiaries	\$ 6,766,383
b) Health Care Payments	32,346
c) Inactive Members and Vestees	287,169
d) Active Members	<u>7,760,466</u>
e) Total Vested	\$ 14,846,364
2. Present Value of Nonvested Accumulated Benefits	\$ 950,639
3. Total Present Value of Accumulated Benefits	\$ 15,797,003

The increase in the accumulated benefit obligation due to changes in benefits is as follows:

Increase	Amount
1. Increase due to Accelerated Payment Option	\$ 89,000
2. Increase due to Mellow Bill	<u>162,000</u>
3. Total	\$ 251,000

TABLE 9

**COMPARATIVE SUMMARY OF ACCRUED LIABILITY AND
BOOK (COST) VALUE OF ASSETS OF SYSTEM
(10 YEARS)**

NCGA NO. 6 DISCLOSURE

(\$ Amounts in Thousands)

Valuation as of June 30	Accrued Liability for:			Book (Cost) Value of Assets	Portion of Accrued Liability Covered by Book (Cost) Value of Assets		
	(1) Active Member Contributions	(2) Annuitants and Beneficiaries	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
1992	\$ 4,120,704	\$ 6,798,729	\$ 13,650,241	\$ 19,592,796	100.0%	100.0%	63.5%
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

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The Public School Employees' Retirement System of Pennsylvania
Actuarial Section

TABLE 10
DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS

ASSUMPTIONS

INTEREST RATE: 8½% per annum, compounded annually (adopted as of June 30, 1990)
Actuarial equivalent benefits are determined based on 4% (since 1960).

SALARY INCREASE: 7¼% per annum, compounded annually. The components are 4% for inflation, 1% for national productivity and 2¼% for merit or seniority increases (adopted as of June 30, 1992).

SEPARATION FROM SERVICE: Illustrative rates of assumed separation from service are as follows (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	
<u>Males</u>						
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
<u>Females</u>						
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

TABLE 10
DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

DEATH AFTER RETIREMENT: The 1984 George B. Buck Mortality Tables (adopted in 1986) for service retirements and dependent beneficiaries. Special mortality tables are used for disability retirements. (The 1963 George B. Buck Mortality Tables, adopted in 1967, are used to determine actuarial equivalent benefits.)

MISCELLANEOUS

OPTION 4 ELECTIONS: 100% of members are assumed to elect a refund of contributions and a reduced annuity. Provision for the accelerated payment option assumes less than 50% utilization.

WITHDRAWAL ANNUITY: 90% of members are assumed to commence payment immediately and 10% are assumed to defer payment to superannuation age.

METHODS

ACTUARIAL COST METHOD: Projected benefit method with level percentage entry age normal cost and open-end unfunded accrued liability. The outstanding balance of the June 30, 1990 unfunded accrued liability is to be amortized over a 20 year period commencing July 1, 1991, with payments increasing 5% annually. Changes in the unfunded accrued liability subsequent to June 30, 1990 are to be amortized over a period of 20 years from the first day of July next following the change, with payments increasing 5% annually.

ASSET VALUATION METHOD: A four-year moving market average value of assets that will spread realized and unrealized gains and losses over a period of 4 years (adopted as of June 30, 1992).

DATA

CENSUS AND ASSETS: The valuation was based on members of the System as of June 30, 1992 and does not take into account future members. All census data was supplied by the System and was subject to reasonable consistency checks. Asset data was supplied by the System.

TABLE 11

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.

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. "Final average salary" means the highest average annual salary for any 3 years 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.

Early Retirement Annuity

Eligibility	Age 55 with 25 years of service.
Amount	Accrued benefit as of date of retirement, reduced 1/4% for each month by which commencement of payments precedes Superannuation Age. Benefit of a joint coverage member is reduced after age at which Social Security benefits become payable.

Withdrawal Annuity

Eligibility	10 years of service.
Amount	Accrued benefit deferred to superannuation retirement age or a reduced benefit payable immediately.

TABLE 11

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Disability Annuity

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

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).

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.

**Normal and
Optional Forms
of Benefits**

Normal Form:	Life annuity
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.

TABLE 11

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS
(Continued)

Option 4: Benefit of equivalent actuarial value, including lump sum payment of member contributions and accelerated payment option (i.e. Social Security level income).

Health Care Premium Assistance

Effective July 1, 1992, participating eligible annuitants receive health insurance premium assistance payments from the Health Insurance Account equal to the lesser of \$55 per month or the actual monthly premium. All administrative expenses necessary to operate the health insurance premium assistance program are to be funded by the Health Insurance Account. The Health Insurance Account is credited with contributions of the Commonwealth and the employers.

CONTRIBUTIONS

By Members

Members who were hired prior to July 22, 1983 contribute at a rate of 5¼% of compensation, while members who were hired on or after July 22, 1983 contribute at a rate of 6¼% 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, supplemental annuity contribution, experience adjustment factor and premium assistance contribution, is shared equally by the Commonwealth and the School Districts.

TABLE 12

SUMMARY OF MEMBERSHIP DATA AS OF JUNE 30, 1992
(\$ Amounts in Thousands)

ACTIVE MEMBERS*

Item	Male	Female	Total
Number of Members	68,333	134,658	202,991
Annual Salaries**	\$ 2,467,859	\$ 3,630,363	\$ 6,098,222
Average Age	45.4	44.6	44.9
Average Service	16.2	11.9	13.3

* Excludes 34,601 inactive members and vestees.

** Salaries of \$6,073,963 were reported for the fiscal year ended June 30, 1992.

ANNUITANTS AND BENEFICIARIES

Item	Number	Annual Annuities	Average Annuities
Retired Annuitants	96,119	\$ 812,837	\$ 8,457
Survivors	4,761	21,017	4,414
Disabled Annuitants	<u>4,146</u>	<u>28,708</u>	<u>6,924</u>
Total	105,026	\$ 862,562	\$ 8,213

EXHIBIT I

ACTIVE MEMBERSHIP DATA AS OF JUNE 30, 1992
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	3,519 \$ 18,199	83 \$ 18,004								3,602 \$ 18,195
25 - 29	7,792 \$ 21,530	2,895 \$ 26,270	101 \$ 20,901							10,788 \$ 22,796
30 - 34	6,524 \$ 18,083	5,566 \$ 27,478	2,629 \$ 29,331	158 \$ 23,217						14,877 \$ 23,640
35 - 39	8,950 \$ 16,432	5,083 \$ 25,924	7,757 \$ 33,104	5,981 \$ 36,782	99 \$ 23,828					27,870 \$ 27,197
40 - 44	9,348 \$ 16,929	6,202 \$ 24,886	4,998 \$ 31,712	13,555 \$ 40,029	10,645 \$ 43,018	89 \$ 27,363				44,837 \$ 32,876
45 - 49	5,986 \$ 16,521	5,139 \$ 23,175	4,492 \$ 26,977	4,591 \$ 36,057	11,330 \$ 44,759	6,926 \$ 46,351	33 \$ 25,842			38,497 \$ 34,644
50 - 54	3,262 \$ 14,711	3,181 \$ 20,034	3,660 \$ 22,623	3,861 \$ 29,792	3,631 \$ 39,518	5,879 \$ 46,088	2,946 \$ 47,463	19 \$ 31,824		26,439 \$ 32,695
55 - 59	2,255 \$ 13,373	2,287 \$ 17,515	2,615 \$ 20,019	3,333 \$ 25,174	2,984 \$ 32,887	2,233 \$ 40,726	2,968 \$ 47,523	1,048 \$ 49,783	5 \$ 31,810	19,728 \$ 29,852
60 - 64	1,501 \$ 12,222	1,483 \$ 16,487	1,577 \$ 18,821	1,997 \$ 23,707	2,122 \$ 30,213	1,422 \$ 37,504	740 \$ 44,232	932 \$ 49,443	232 \$ 49,568	12,006 \$ 27,284
OVER 65	873 \$ 9,304	707 \$ 11,935	656 \$ 14,701	620 \$ 20,309	573 \$ 25,760	424 \$ 30,389	186 \$ 37,902	129 \$ 45,979	179 \$ 49,973	4,347 \$ 20,328
TOTAL	50,010 \$ 17,169	32,626 \$ 23,674	28,485 \$ 27,740	34,096 \$ 34,921	31,384 \$ 41,037	16,973 \$ 44,280	6,873 \$ 46,778	2,128 \$ 49,243	416 \$ 49,529	202,991 \$ 30,042

EXHIBIT II

**ANNUITANT AND BENEFICIARY MEMBERSHIP DATA
AS OF JUNE 30, 1992**

NUMBER AND AVERAGE ANNUAL BENEFIT

Age Last Birthday	Number	Annual Benefit (Thousands)	Average Annual Benefit
Retired Annuitants			
Under 60	12,508	\$ 82,663	\$ 6,609
60 - 64	11,777	145,183	12,328
65 - 69	18,912	180,069	9,521
70 - 74	17,488	128,228	7,332
75 - 79	14,806	102,159	6,900
Over 79	20,628	174,535	8,461
Total	96,119	\$ 812,837	\$ 8,457
Survivors			
Under 60	326	\$ 1,380	\$ 4,232
60 - 64	292	1,532	5,248
65 - 69	530	2,656	5,011
70 - 74	875	4,185	4,783
75 - 79	970	4,204	4,334
Over 79	1,768	7,060	3,993
Total	4,761	\$ 21,017	\$ 4,414
Disabled Annuitants			
Under 60	1,539	\$ 13,068	\$ 8,491
60 - 64	800	5,440	6,800
65 - 69	662	4,046	6,111
70 - 74	567	3,056	5,390
75 - 79	355	1,863	5,247
Over 79	223	1,236	5,543
Total	4,146	\$ 28,709	\$ 6,924

EXHIBIT III

10-YEAR HISTORY OF MEMBERSHIP DATA

ACTIVE MEMBERS

VALUATION AS OF JUNE 30	NUMBER OF ACTIVE MEMBERS	PERCENTAGE CHANGE IN MEMBERSHIP	TOTAL ANNUAL PAYROLL	PERCENTAGE CHANGE IN PAYROLL
1992	202,991	.18%	\$ 6,098,222,000	6.15%
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

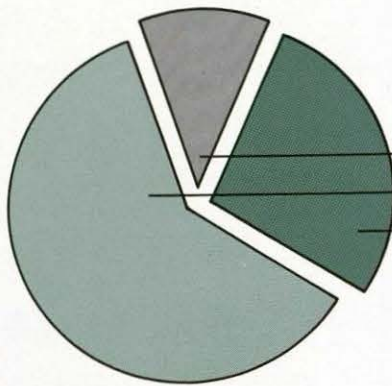
ANNUITANT AND SURVIVOR ANNUITANT MEMBERS

YEAR ENDED JUNE 30	NUMBER ON ROLL	ADDITIONS	DELETIONS	PERCENTAGE CHANGE IN MEMBERSHIP	ANNUAL ANNUITIES (Millions)	PERCENTAGE CHANGE IN ANNUITIES
1992	105,026	5,811	3,709	2.04%	\$ 862.6	5.66%
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

SECTION
FOUR

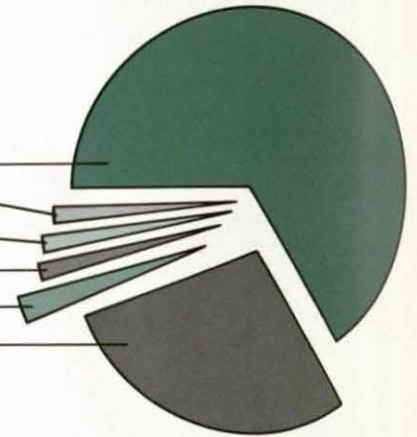
STATISTICAL

Components of Total Revenue and Expense -- 1993



Total Revenue

Member Contributions 12%
 Investment Revenue 60%
 Employer Contributions 28%

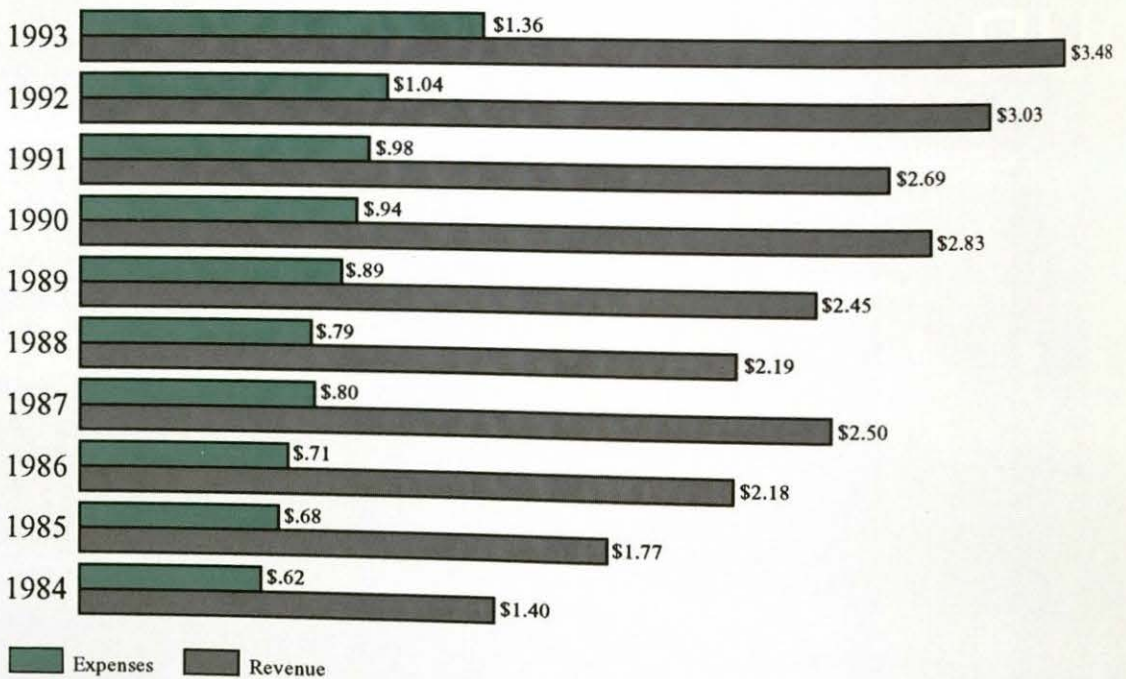


Total Expense

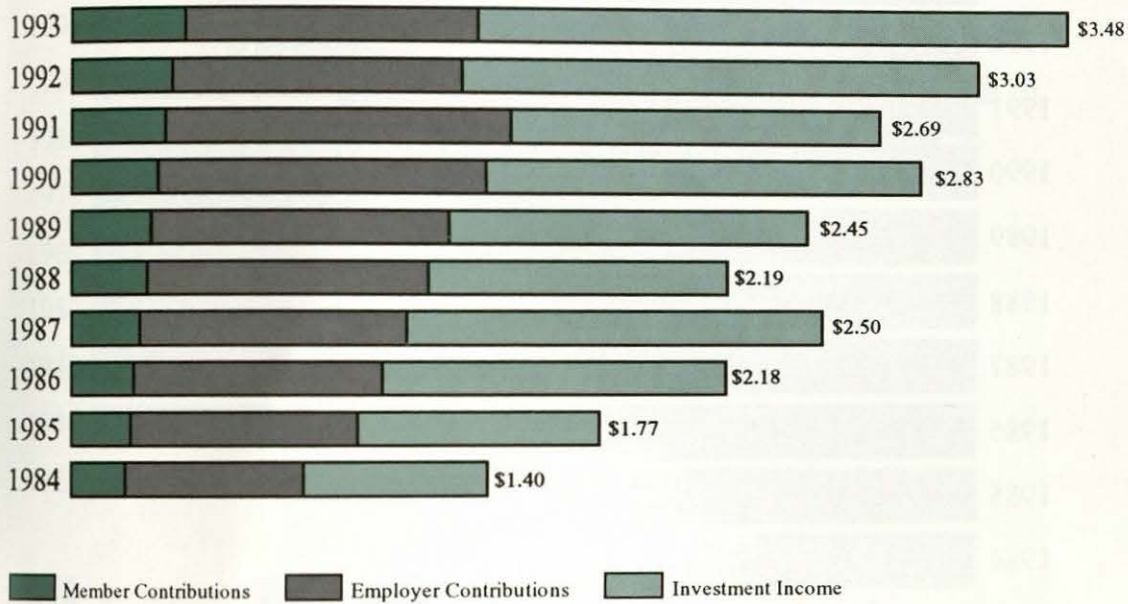
Benefits 67%
 Refunds 1%
 Transfers 1%
 Administrative 1%
 Disabilities 2%
 Lump Sums & Installments 28%

Revenue vs Expense -- 10 Year Trend

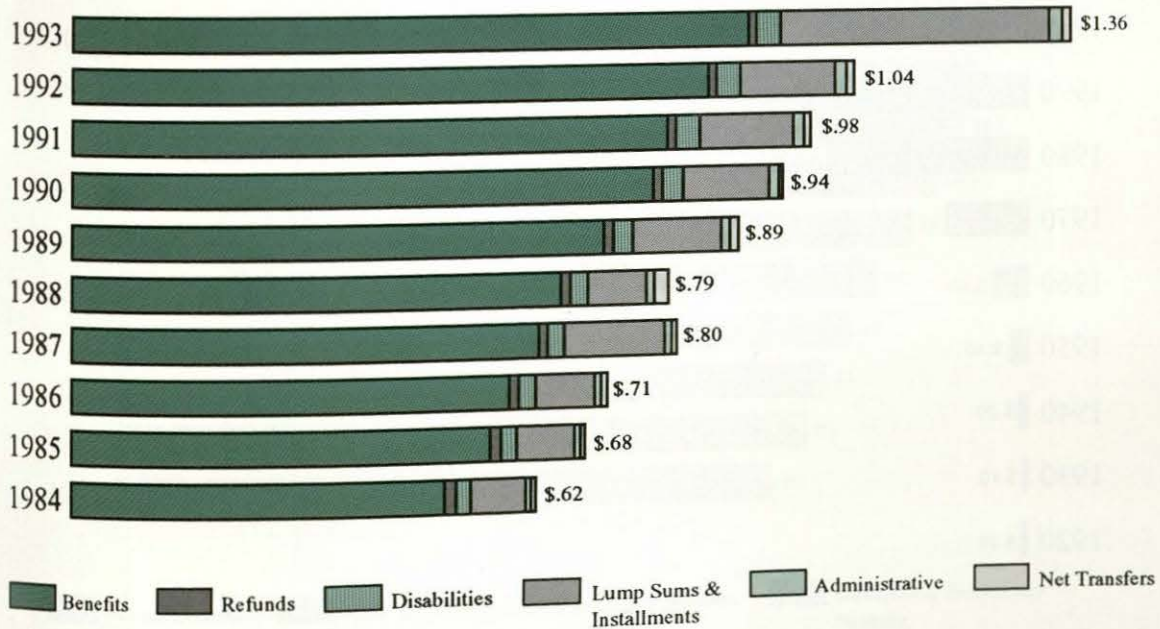
(Amounts in Billions)



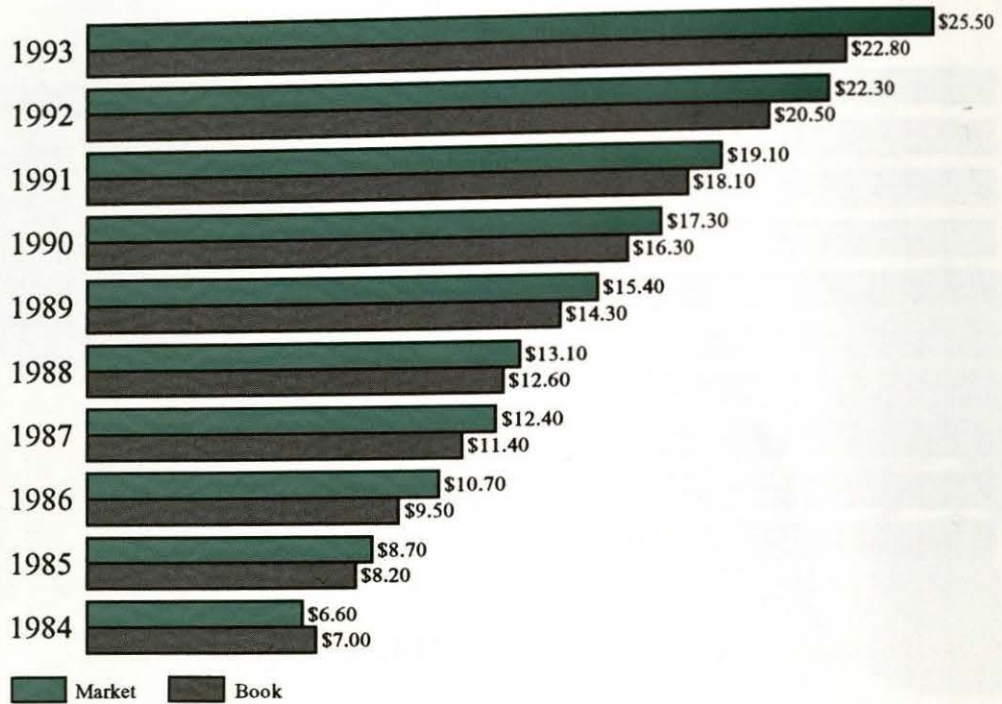
Revenue By Source -- 10 Year Trend (Amounts in Billions)



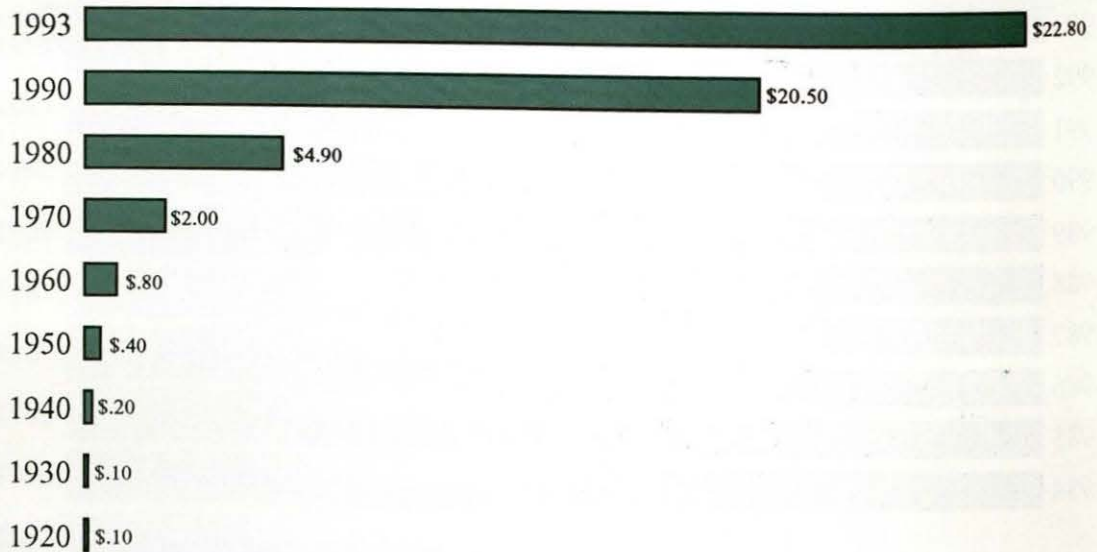
Expense By Type -- 10 Year Trend (Amounts in Billions)



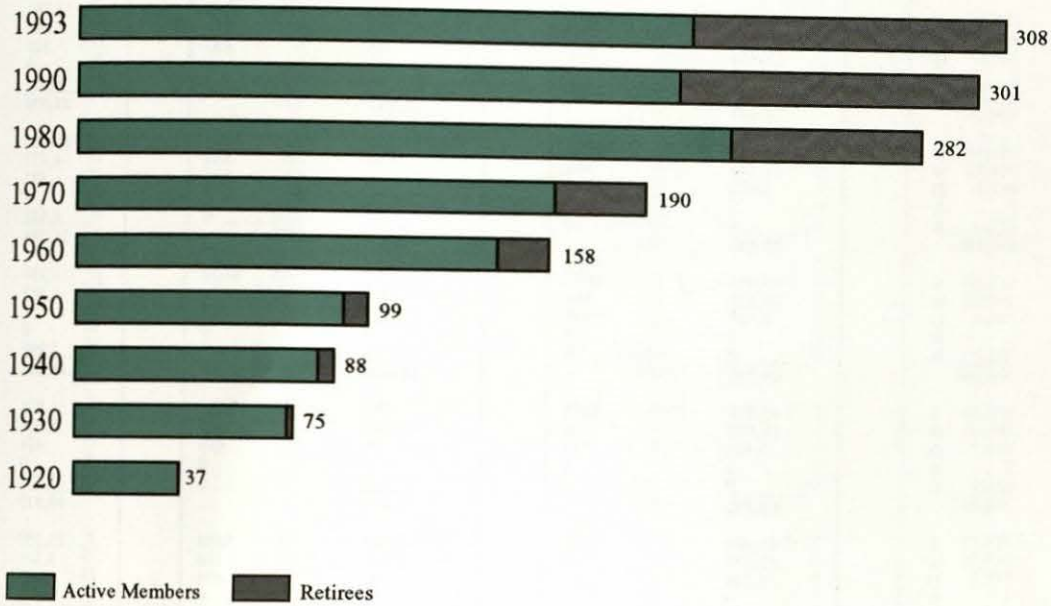
Total Assets -- 10 Year Trend (Amounts in Billions)



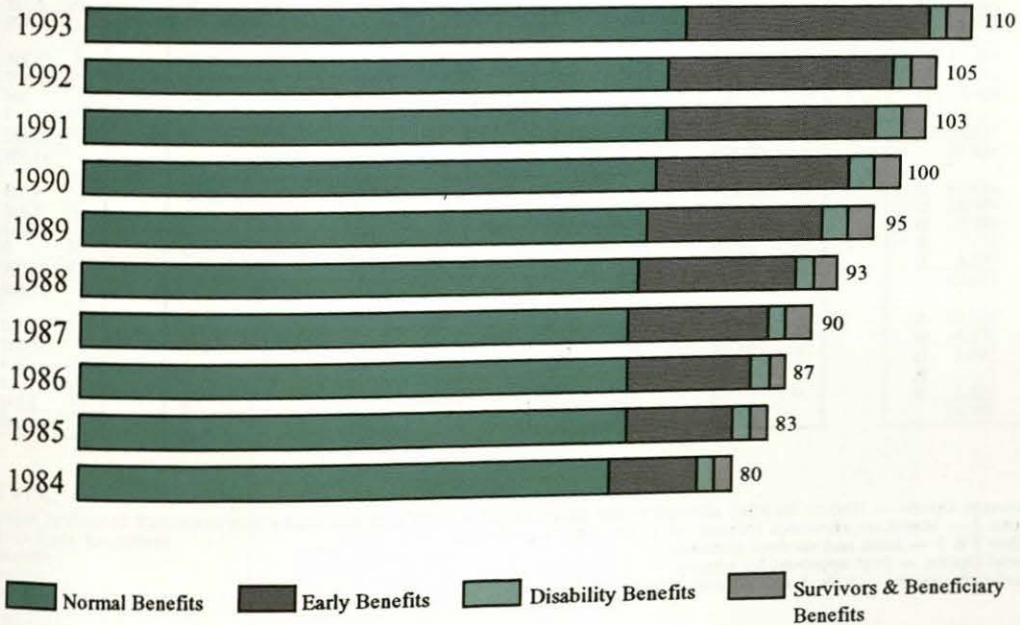
Asset Growth (Book Value - Amounts in Billions)



Total Membership -- Active & Retired (In Thousands)



Retired Members -- 10 Year Trend (In Thousands)



Schedule of Retired Members by Type of Ben

Year	Retirement Type**	Option M*		Option 1*	
		Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit
1993	S	49,132	\$831	8,337	\$694
	W	23,355	716	4,478	494
	D	3,752	586	26	420
	R	2	6	0	0
	B	3	451	0	0
		76,244		12,841	
1992	S	46,052	\$718	7,829	\$633
	W	21,116	629	4,104	434
	D	3,632	562	27	436
	R	2	6	0	0
	B	0	0	0	0
		70,802		11,960	
1991	S	46,063	\$693	7,668	\$624
	W	20,127	595	3,905	418
	D	3,561	538	27	436
	R	2	6	0	0
	B	0	0	0	0
		69,753		11,600	
1990	S	45,728	\$678	7,498	\$621
	W	18,982	559	3,639	403
	D	3,441	524	29	433
	R	2	6	0	0
	B	0	0	0	0
		68,153		11,166	
1989	S	45,064	\$660	7,235	\$618
	W	17,059	509	3,273	376
	D	3,346	507	45	474
	R	3	6	0	0
	B	0	0	0	0
		65,472		10,553	
1988	S	44,840	\$603	7,076	\$566
	W	16,000	467	3,037	345
	D	3,293	462	50	452
	R	3	6	0	0
	B	0	0	0	0
		64,136		10,163	
1987	S	44,608	\$595	6,919	\$565
	W	14,956	449	2,818	336
	D	3,196	447	52	460
	R	3	6	0	0
	B	0	0	0	0
		62,763		9,789	
1986	S	44,047	\$588	6,745	\$565
	W	13,224	403	2,540	315
	D	3,095	440	55	464
	R	4	11	0	0
	B	0	0	0	0
		60,370		9,340	
1985	S	43,418	\$587	6,554	\$568
	W	11,638	378	2,232	300
	D	2,999	433	57	464
	R	4	11	0	0
	B	0	0	0	0
		58,059		8,843	
1984	S	42,918	\$538	6,372	\$526
	W	10,366	363	1,915	291
	D	2,922	390	61	416
	R	4	11	0	0
	B	0	0	0	0
		56,210		8,348	

***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 (

Benefit

Option 2, 3*	
Number of Retirees	Average Mo. Benefit
13,783	\$983
4,692	851
528	741
0	0
<u>4,367</u>	<u>399</u>
23,370	
12,508	\$876
4,177	768
487	699
0	0
<u>4,142</u>	<u>380</u>
21,314	
12,234	\$847
3,962	734
457	662
0	0
<u>3,991</u>	<u>369</u>
20,644	
11,875	\$831
3,726	703
424	648
0	0
<u>3,792</u>	<u>355</u>
19,817	
11,257	\$813
3,311	664
406	612
0	0
<u>3,531</u>	<u>338</u>
18,505	
10,990	\$747
3,038	612
395	558
0	0
<u>3,285</u>	<u>325</u>
17,708	
10,624	\$736
2,801	596
366	548
0	0
<u>3,114</u>	<u>314</u>
16,905	
10,216	\$726
2,477	563
344	531
0	0
<u>2,953</u>	<u>303</u>
15,990	
9,781	\$717
2,148	536
333	523
0	0
<u>2,791</u>	<u>288</u>
15,053	
9,392	\$666
1,888	529
314	472
0	0
<u>2,614</u>	<u>273</u>
14,208	

Year	Retirement Type**	Option SO*		Option BO*	
		Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit
1993	S	341	\$1,754	0	\$ 0
	W	69	1,579	0	0
	D	0	0	0	0
	R	0	0	0	0
	B	159	516	0	0
		<u>569</u>		<u>445</u>	329
1992	S	271	\$1,525	0	\$ 0
	W	60	1,418	0	0
	D	0	0	0	0
	R	0	0	0	0
	B	152	197	0	0
		<u>483</u>		<u>445</u>	324
1991	S	257	\$1,428	0	\$ 0
	W	47	1,400	0	0
	D	0	0	0	0
	R	0	0	0	0
	B	156	192	0	0
		<u>460</u>		<u>449</u>	313
1990	S	290	\$1,281	0	\$ 0
	W	49	1,222	0	0
	D	0	0	0	0
	R	0	0	0	0
	B	157	187	0	0
		<u>496</u>		<u>439</u>	315
1989	S	277	\$1,221	0	\$ 0
	W	29	982	0	0
	D	0	0	0	0
	R	0	0	0	0
	B	151	178	0	0
		<u>457</u>		<u>442</u>	301
1988	S	268	\$1,098	0	\$ 0
	W	24	835	0	0
	D	0	0	0	0
	R	0	0	0	0
	B	156	178	0	0
		<u>448</u>		<u>446</u>	303
1987	S	282	\$1,073	0	\$ 0
	W	24	823	0	0
	D	0	0	0	0
	R	0	0	0	0
	B	150	332	0	0
		<u>456</u>		<u>453</u>	291
1986	S	296	\$1,049	0	\$ 0
	W	21	745	0	0
	D	0	0	0	0
	R	0	0	0	0
	B	147	159	0	0
		<u>464</u>		<u>456</u>	276
1985	S	309	\$1,046	0	\$ 0
	W	21	743	0	0
	D	0	0	0	0
	R	0	0	0	0
	B	139	152	0	0
		<u>469</u>		<u>449</u>	297
1984	S	324	\$ 963	0	\$ 0
	W	21	694	0	0
	D	0	0	0	0
	R	0	0	0	0
	B	141	148	0	0
		<u>486</u>		<u>454</u>	296

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

The Public School Employees' Retirement System of Pennsylvania
Statistical Section

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	Salisbury-Elk Lick	Titusville Area
Panther Valley	Salisbury Township	Towanda Area
Parkland	Saucon Valley	Tredyffrin-Easttown
Pen Argyl Area	Sayre Area	Tri-Valley
Penn Cambria	Schuylkill Haven Area	Trinity Area
Penn Crest	Schuylkill Valley	Troy Area
Penn Delco	Scranton City	Tulpehocken Area
Penn Hills Township	Selinsgrove Area	Tunkhannock Area
Penn Manor	Seneca Valley	Turkeyfoot Valley
Penn Trafford	Shade-Central City	Tuscarora
Pennridge	Shaler Area	Tussey Mountain
Penns Manor	Shamokin Area	Twin Valley
Penns Valley Area	Shanksville-Stonycreek	Tyrone Area
Pennsbury	Sharon City	
Pequea Valley	Sharpsville Area	U
Perkiomen Valley	Shenandoah Valley	Union
Peters Township	Shenango Area	Union Area
Philadelphia	Shikellamy	Union City Area
Philipsburg-Osceola	Shippensburg Area	Uniontown Area
Phoenixville Area	Slippery Rock Area	Unionville-Chadds Ford
Pine Grove Area	Smethport Area	United
Pine-Richland	Solanco	Upper Adams
Pittsburgh	Somerset Area	Upper Darby
Pittston Area	Souderton Area	Upper Dauphin Area
Pleasant Valley	South Allegheny	Upper Dublin
Plum Boro	South Butler County	Upper Merion Area
Pocono Mountain	South Eastern	Upper Moreland Township
Port Allegany	South Fayette Township	Upper Perkiomen
Portage Area	South Middleton	Upper Saint Clair Township
Pottsgrove	South Moreland	
Pottstown	South Park	V
Pottsville Area	South Side Area	Valley Grove
Punxsutawney Area	South Western	Valley View
Purchase Line	South Williamsport Area	
	Southeast Delco	W
Q	Southeastern Greene	Wallenpaupack Area
Quaker Valley	Southern Columbia Area	Wallingford Swarthmore
Quakertown Community	Southern Fulton	Warren County
	Southern Huntingdon	Warrior Run
R	Southern Lehigh	Warwick
Radnor Township	Southern Tioga	Washington
Reading	Southern York County	Wattsburg Area
Red Lion Area	Spring Cove	Wayne Highlands
Redbank Valley	Spring-Ford Area	Waynesboro Area
Reynolds	Spring Grove Area	Weatherly Area
Richland	Springfield	Wellsboro Area
Ridgway Area	Springfield Township	West Allegheny
Ridley	State College Area	West Branch Area
Ringold	Steel Valley	West Chester Area
Riverside	Steelton-Highspire	West Greene
Riverside Beaver County	Sto-Rox	West Jefferson Hills
Riverview	Stroudsburg Area	West Middlesex Area
Rochester Area	Sullivan County	West Mifflin Area
Rockwood Area	Susquehanna Community	West Perry
Rose Tree Media	Susquehanna Township	West Shore
	Susquenita	West York Area
S		Western Beaver County
Saint Clair Area		Western Wayne
Saint Marys Area	T	Westmont Hilltop
	Tamaqua Area	

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 Career & Technical Center
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
Lycoming County Career Consortium
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)

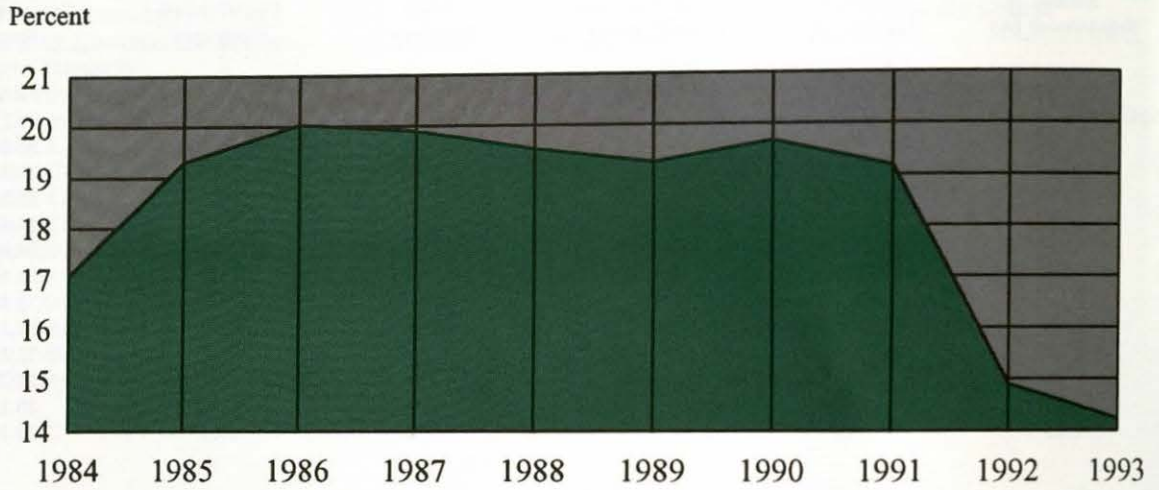
Fiscal Year	Employer Contribution			Total Employer	Employee Contribution (Average)	Total Contribution Rate
	Normal Requirement (A)	Accrued Liability (B)	Health Care Contributions (C)			
93-94	7.34	5.58	.25	13.17	5.51	18.68
92-93	7.90	5.84	.50	14.24	5.48	19.72
91-92	8.00	6.40	.50	14.90	5.46	20.36
90-91	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.

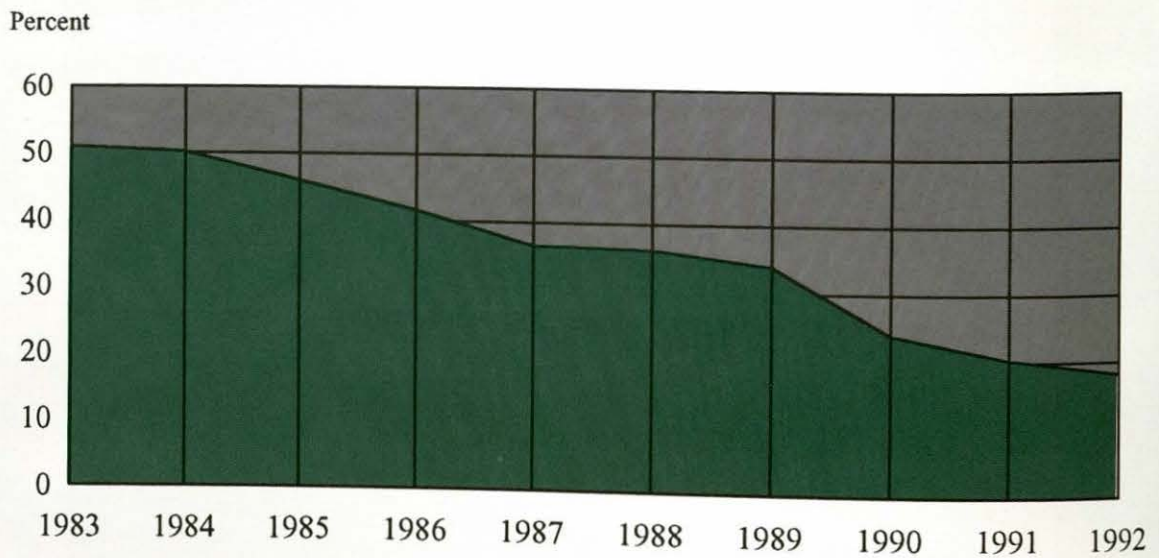
The total employer rate is comprised of a normal requirement, an accrued liability requirement and a health care contribution requirement and is shared equally by the Commonwealth and the Reporting Units:

- (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



SECTION
FIVE

INVESTMENT

Investment Overview

The mission for the Pennsylvania Public School Employees' Retirement System is to provide retirement security for its members. The System's Board of Trustees has established a long range Investment Policy Statement and a series of Investment Objectives and Guidelines covering all the asset classes in which the pension fund invests. This Investment Policy defines the responsibility of the fiduciaries with respect to the Fund, the statutory investment authority, acceptable risk, investment guidelines and performance objectives in which the internal and external investment professionals operate.

The Fund's asset allocation is a well diversified portfolio designed to maximize returns within acceptable levels of risk to meet the long term actuarial return requirements of the System. The Fund's asset allocation is continually monitored by the Board through the Fund's Finance Committee, investment consultant and internal investment staff.

The five year asset allocation of the Fund is as follows:

PSERS Asset Allocation Plan (Actual)
(% at Month/Year)

	<u>6/93</u>	<u>12/92</u>	<u>12/91</u>	<u>12/90</u>	<u>12/89</u>
Fixed Income	37	38	43	50	41
Stock	46	44	42	34	38
Cash	4	6	4	6	13
Real Estate	3	3	3	5	5
Other*	0	2	2	1	1
Non-Traditional Investments**	10	7	6	4	2
Total	100	100	100	100	100

* Includes Venture Capital, Private Placements, and Legg Mason mortgages.

** Includes Absolute Return, Asset Allocation, Derivatives, and Global investments.

The ten year return history of the Fund is as follows:

<u>Fiscal Year</u>	<u>Time Weighted Rate of Return %</u>
1993	13.3
1992	14.2
1991	8.1
1990	9.2
1989	13.8
1988	2.6
1987	12.7
1986	21.5
1985	26.0
1984	1.0

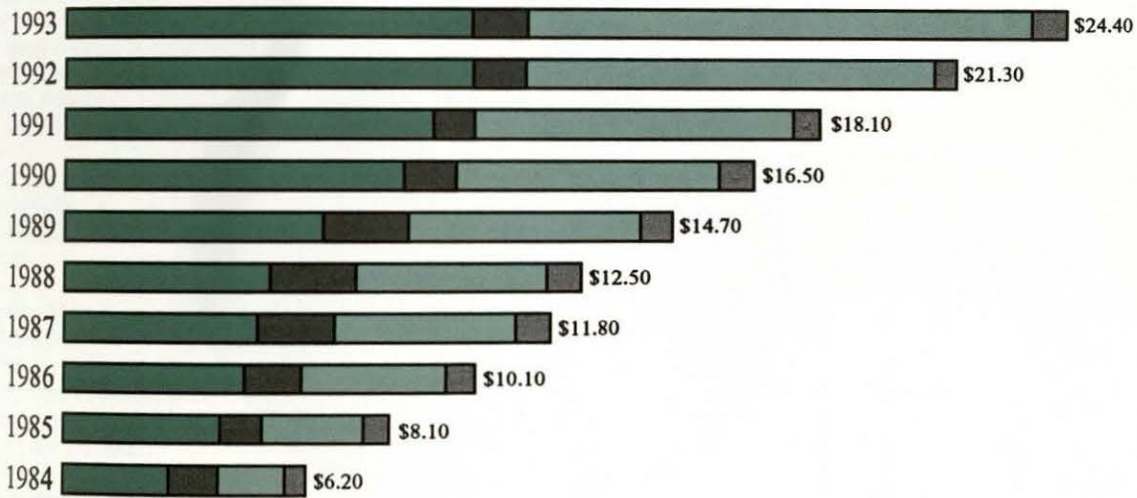
Investment Section

The market value of the System's investments is projected to increase to \$64.9 billion by December 2003. This is a 37.6 percent increase from the current market value at June 30, 1993.

The market value of the investments of the Public School Employees' Retirement System reached \$24.4 billion as of June 30, 1993. This is an increase from \$21.3 billion at June 30, 1992. A graphical representation showing the ten year trend of assets at market value follows:

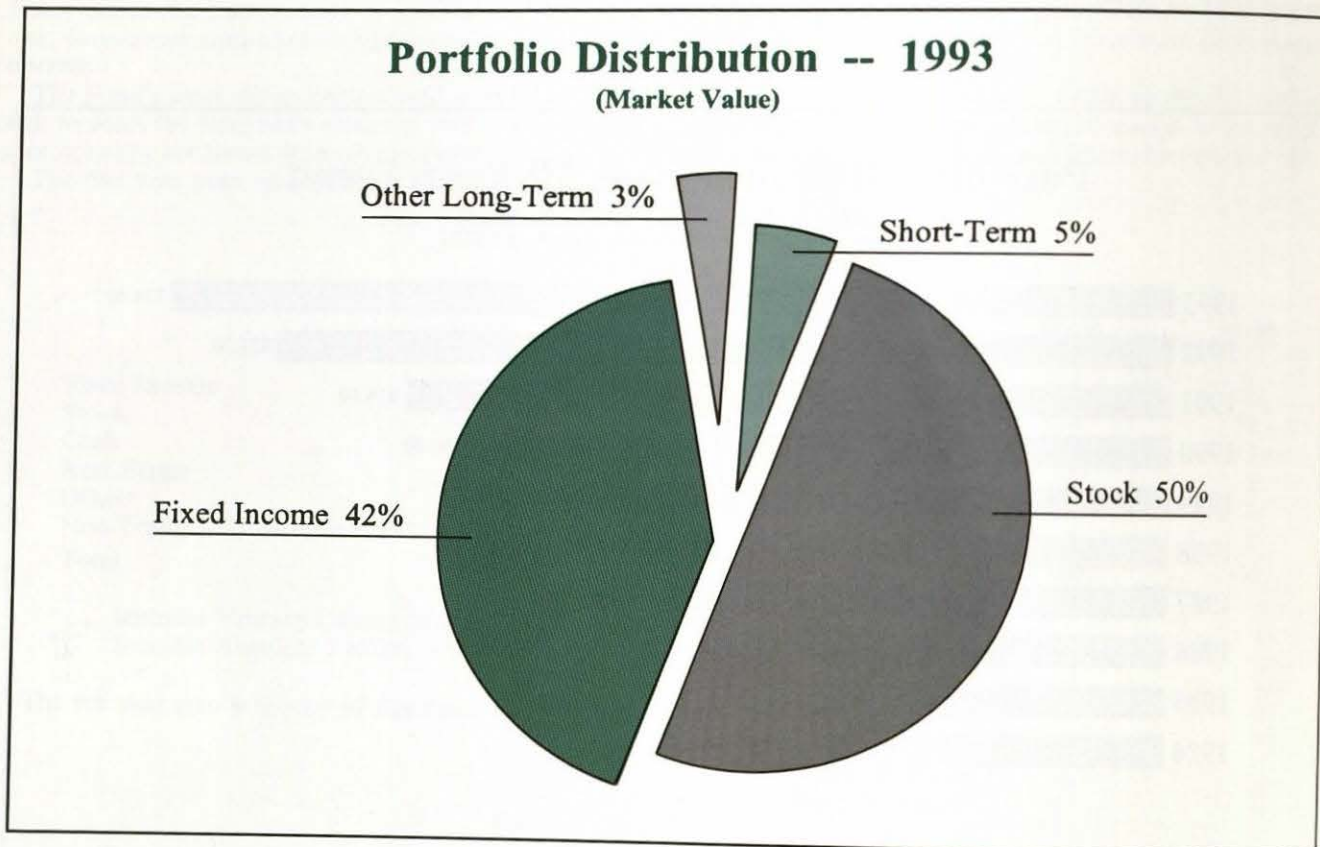
Portfolio Distribution -- 10 Year Trend

(Market Value - Amounts in Billions)



Fixed Income
 Short-Term
 Stock
 Other Long-Term

The composition of the Fund at market value was: fixed income, \$10.2 billion; common and preferred stocks, \$12.1 billion; other long-term investments, \$.8 billion; and short-term investments, \$1.2 billion. The distribution by percent is illustrated in the chart below.



The time weighted rate of return for the Fund's investments was 13.3 percent for the fiscal year ending June 30, 1993. This compares to a 14.2 percent return for the year ending June 30, 1992 and an 11.7 percent annualized return for the five years ending June 30, 1993.

Equities in the domestic portfolio returned 17.1 percent this fiscal year, higher than the 13.6 percent for the Standard and Poor's 500 Index during that period. Equities had a 13.9 percent return for the fiscal year ending June 30, 1992.

The domestic fixed income segment of the portfolio, consisting of corporate and government debentures and mortgage backed securities, returned 11.7 percent for the fiscal year compared with a 13.1 percent return for the Shearson-Lehman Government Corporate Index. The fixed income return for the prior fiscal year was 14 percent.

Other long-term investments returned -3.8 percent compared with a 13.1 percent the prior year.

Short-term investments returned 3.6 percent compared to a 3.4 percent return on 90-day Treasury Bills.

The global portfolio, consisting of fixed income and stocks, returned 26.8 percent this year. Total global investments, including global short-term investments, decreased to 7.5 percent from 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, 1993. The dollar value of the cash equivalents held by the managers is also included in the Treasury portfolio total.

Investment Section

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

Equity Managers		Other Long-Term Investment Managers	
PSERS Equity	4,631,812	Legg Mason	350,731
Oppenheimer Capital Corp	1,107,880	Lehndorff & Babson R/E Council	146,446
Mellon Bank, N.A.	892,817	LaSalle Advisors Limited	113,312
Miller, Anderson & Sherrerd	868,145	RREEF	72,975
Delaware Investment Advisors	738,631	Equitable Real Estate	54,416
Eagle Asset Management	610,496	Morgan Stanley Farmland	53,596
Hudson Capital Advisors	475,174	Sentinel Realty Advisors	48,240
Delta Asset Management	458,930	Landmark Equity Partnership II & III	33,300
Columbus Circle Investors	411,882	PA Venture Fund APA/Fostin I & II	17,810
Pilgrim Baxter Greig & Associates	364,112	Commonwealth Venture Partners I & II	15,102
Dietche & Field Advisors	325,105	Loyalhanna Commonwealth Fund	12,972
PNC/AIM Enhanced Index	265,753	Prudential Agriculture Group	12,907
Developmental Fund Managers	183,506	CEO Venture Funds I & II	9,883
Duncan Hurst Capital Management	157,635	CIGNA	5,126
Birmingham Capital Management	126,230	Edison Venture Fund II	4,656
First Pacific Advisors	111,340	Technology Leaders L.P.	4,542
Munder Capital Management	110,626	PSERS Real Estate	2,651
Roxbury	42,229	NEPA Management Fund I & II	2,267
Numeric L.P.	25,648	Whitehall Street Real Estate	925
Twin Alpha L.P.	24,673	Genesis Seed Fund	790
Jacobs Levy L.P.	24,387		
FX Concepts	2,812		
		Short-Term Manager	
		Treasury, Commonwealth of PA	665,647
Fixed Income Managers		Miscellaneous	
Mellon Bank, N.A.	2,624,431	Global Fund Managers	1,546,998
PSERS Fixed	1,365,968	PSERS Tactical Asset Allocation	410,090
Pacific Investment Management Co	1,193,668	Weymouth & Associates	164,896
Miller, Anderson & Sherrerd	1,168,563	Blue Bell Corporation	100,000
Glenmede Trust Company	1,071,033	EAI - Americas Fund	47,979
Morgan Stanley Asset Management	790,702	Quantilogic Asset Management	26,297
Criterion Investment Management	458,190	Panagora Asset Management	25,160
Morgan Grenfell Capital Management	368,563		
Putnam Advisory Co	274,718		

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 \$41,378,137 compared to \$38,435,000 last fiscal year. A breakdown of investment fees paid follows:

**Summary of Investment Fees
Year Ended June 30, 1993**

Equity Managers	\$19,755,838
Fixed Income Managers	8,256,783
Real Estate Managers	3,946,882
Global Managers	5,048,248
Option Managers	724,586
Miscellaneous	3,645,800
Totals Fees	\$41,378,137

Investment Section

To increase returns and lower the cost of managing the assets, the Board continues to expand the Fund's internal investment program during this fiscal year. The internally managed assets were increased by \$2.5 billion to a total of \$6.4 billion, representing 26.3 percent of the total assets of the Fund. In the future, it is expected that this trend will continue.

Broker's fees on investment transactions for the fiscal year ending June 30, 1993 were \$13,868,010. A breakdown of brokers' fees paid follows:

Summary Schedule of Commissions Year Ended June 30, 1993

Broker Name	Commissions Paid (\$)	Broker Name	Commissions Paid (\$)
ABLE NOSER	175,133	FECHTOR DETWILER & CO	17,050
ABNER HERRMAN & BROCK	3,270	FERRIS CO	1,974
ACCESS	400	FIDELITY CAPITAL MARKETS	2,785
ADAMS COHEN SECURITIES	4,668	FIRST ALBANY	3,030
ADAMS HARKNESS & HILL	4,614	FIRST BOSTON	377,030
ADLER COLEMAN & CO	648	FIRST MANHATTAN CO	32,611
ALPHA MANAGEMENT	9,258	FRIEND (LH) WEINRESS & FRANKSON	7,368
AMIVEST CORP	21,930	FURMAN SELZ MAGER DIETZ & BIRNEY	30,298
ARNHOLD S BLEICHROEDER	1,944	GERARD KLAUER MATTISON & CO	14,310
ASIEL & CO	5,904	GLAZER C. L. & CO	1,000
AUTRANET	27,628	GOLDMAN SACHS & CO	439,184
AXELROD ASSOCIATES	2,820	GOLDSMITH & HARRIS	3,328
BAIRD, ROBERT W & CO	4,959	GOODRICH SECURITIES	24,000
BAUM, GEORGE K. & CO	720	GORDON CAPITAL	3,000
BEAR STEARNS & CO	826,171	GORDON HASKETT & CO	38,433
BERNSTEIN, SANFORD C	172,855	HAMBRECHT & QUIST	16,024
BLAIR, WILLIAM & CO	21,381	HAMILTON INVESTMENTS	4,050
BLUNT ELLIS & LOEWI	3,864	HANIFEN IMHOFF & CO	300
BRADFORD, J C & CO	20,514	HILLARD (JJB)/LYONS (WL)	427
BRANDT, ROBERT	1,670	HOPPER SOLIDAY & CO	1,330
BRIDGE TRADING COMPANY	208,167	HOWARD WEIL LABOUSSE FRIEDRICH	3,750
BRIMBERG & CO	71,313	HUNTLEIGH SECURITIES CORP	840
BROADCOURT CAPITAL	2,120,271	INFERENTIAL BLAKERAGE	12,640
BROKER - COMPANY/AGENT	7,638	INSTINET	169,877
BROWN, ALEX & SONS	73,649	INTERSTATE/JOHNSON LANE	40,139
BURNS FRY HOARE GOVETT	12,852	INVEMED ASSOCIATES	12,586
CANTOR FITZGERALD & CO	121,100	INVESTMENT TECHNOLOGY GRP INC	92,973
CAPEL JAMES SECURITIES	46,044	ISI GROUP	17,542
CAPITAL INSTITUTIONAL SERVICES	107,382	JANNEY MONTGOMERY SCOTT	624,367
CARTWRIGHT SECURITIES	1,050	JEFFERIES & CO	168,313
CATHAY FIN'L CORP	29,688	JOHNSON RICE	12,456
CHICAGO CORPORATION	2,984	JONES & ASSOC CALIF	11,740
CLEARY, GULL & REILAND	6,741	JOSEPHTHAL LYON & ROSS	21,024
CORRESPONDENT SERVICES	45,578	KEANE SECURITIES CO	8,442
COUNTY NATWEST SECURITIES USA	105,038	KEEFE BRUYETTE & WOODS	4,333
COWEN & CO	41,910	KEMPER SECURITIES GROUP	3,992
CROWELL WEEDON & CO	8,425	KIDDER PEABODY & CO	494,925
CRUTTENDEN & CO	1,765	KING, C L & ASSOCIATES	8,487
D L J CAPITAL MARKETS	1,200	KINNARD, JOHN G & CO	3,540
DAIN BOSWORTH	4,878	L I T AMERICA CO	313
DAVIS, MENDEL & REGENSTEIN	8,844	LADENBURG THALMAN & CO	315
DEAN WITTER REYNOLDS	41,262	LAWRENCE, C J MORGAN GRENFELL	195,766
DERBY SECURITIES	6,250	LAZARD FRERES & CO	945
DILLON READ & CO	39,319	LAZARD W R & LAIDLAW	282
DOMINICK INVESTOR SERVICES CORP	80,860	LEGG MASON WOOD WALKER	7,608
DONALDSON LUFKIN & JENRETTE	27,154	LIPPER ANALYTICAL SECURITIES	2,052
EDWARDS, A G & SONS	54,366	LYNCH JONES & RYAN	1,199,892
EQUITABLE SECURITIES	12,114	MABON NUGENT & CO	82,431
ERNST & CO	36,923	MAROLDA NADELL REILLY & CO	450
EWING ALLEN & CO	1,428	MCDONALD & COMPANY SECURITIES	300
EXECUTION SERVICES	148,575	MERRILL LYNCH PIERCE FENNER & SMITH	263,905
FACTSET DATA SYSTEM	26,451	MONNESS CRESPI	15,872
FAGENSON & COMPANY	2,250	MONTGOMERY SECURITIES	184,990
FAHNESTOCK & CO	97,639	MORAN & ASSOC	9,240

The Public School Employees' Retirement System of Pennsylvania

Investment Section

Schedule of Commissions (Continued)

Broker Name	Commissions Paid (\$)	Broker Name	Commissions Paid (\$)
MORGAN KEEGAN & COMPANY	3,150	SHEARSON LEHMAN BROTHERS	470,099
MORGAN, J P SECURITIES CORP	14,154	SHIELDS CAPITAL CORP	4,464
MORGAN STANLEY & CO	414,434	SMITH BARNEY HARRIS UPHAM & CO	273,530
MORRISSEY F J & CO	1,102	SOCIETE GENERALE SECS CORP	16,723
NESBITT THOMPSON SECURITIES	1,176	SOUNDVIEW FINANCIAL GROUP	24,810
NEUBERGER & BERMAN	32,442	SOURCE SECURITIES	234
NEWBRIDGE SEC INC EQUITIES	87,456	SOUTHWEST SECURITIES INC	3,264
NOMURA SECURITIES INTERNATIONAL	1,670	STANDARD & POOR SECURITIES	26,766
OPPENHEIMER & CO	142,229	STEPHENS	2,386
PACIFIC CREST	9,559	STIFEL NICOLAUS & COMPANY	486
PAINE WEBBER JACKSON & CURTIS	179,805	SUTRO & CO	1,404
PARKER/HUNTER	6,000	SWISS AMERICAN SECURITIES	3,750
PENNSYLVANIA GROUP	900	SWISS BANK	923,723
PERRY INVESTMENTS	5,268	TRIAD SECS	3,780
PERSHING DIV DLJ	192,468	TUCKER ANTHONY & RL DAY	39,158
PIPER JAFFRAY & HOPWOOD	7,602	UBS SECURITIES	13,282
PRUDENTIAL BACHE SECURITIES	185,851	U.S. CLEARING CORPORATION	6,738
QUAKER SECS	639	VAN KASPER & CO	10,282
R B C DOMINION SECURITIES	24,954	VOLPE WELTY & CO	3,396
RAUSCHER PIERCE REFSNES	6,636	WAGNER STOTT CLEARING	13,314
RAYMOND JAMES & ASSOCIATES	7,040	WAINWRIGHT, H C & CO	10,406
REGIONAL CLEARING	6,556	WARBURG, S G & CO	37,869
REGIONAL OPS GROUP	8,766	WEEDEN & CO	121,051
REYNDERS GRAY & CO	714	WEISS PECK & GREER	56,510
ROBERTSON STEPHENS & COMPANY	19,072	WERTHEIM SCHRODER	4,020
ROBINSON-HUMPHREY CO	7,294	WESSELS ARNOLD & HENDERSON	3,960
ROCHDALE SECURITIES	438,133	WHEAT FIRST SECURITIES	8,675
RODGERS BROTHERS	1,506	WILLIAMS, MCKAY, JORDAN & MILLS	3,085
ROTHCHILD INC	1,152	WILSHIRE ASSOCIATES	54,444
ROULSTON RESEARCH	6,126	YAEGER SECURITIES	29,722
RUSSELL FRANK SECS INC	795	YORK SECURITIES	60,715
S E I FINANCIAL SERVICES	15,144		
SALOMON BROTHERS	200,853	TOTAL	13,868,010

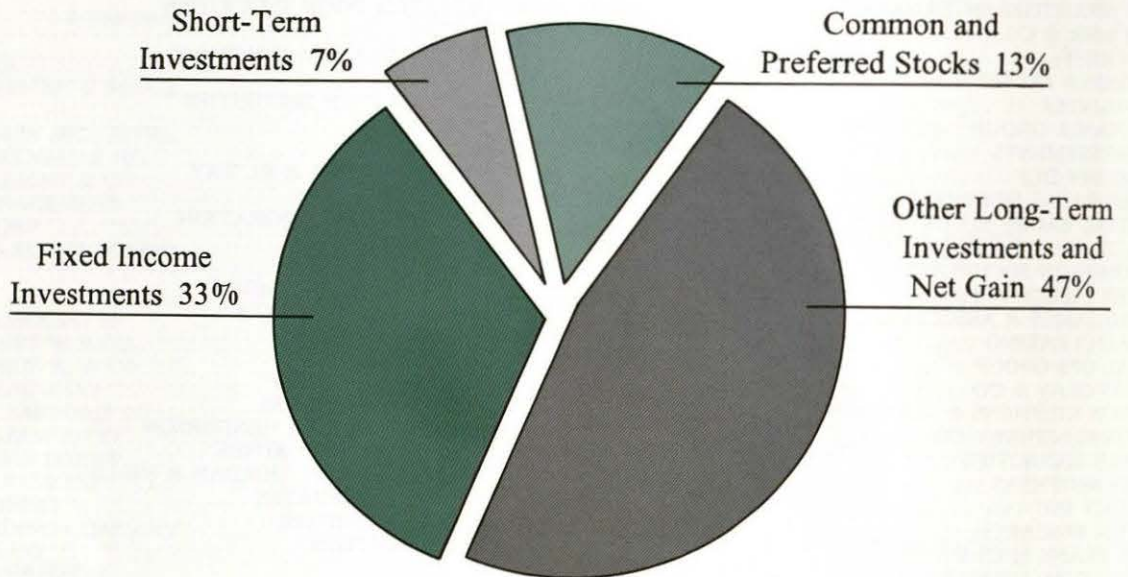
The next schedule shows the impact of investment transactions on book value for the major asset classes during the fiscal year.

**Summary of Investment Transactions
Year Ended June 30, 1993
(Amounts in Millions)**

Type of Investment	Book Value 6/30/92	Purchases	Sales	Gain (Loss)	(Increase)/Decrease in Valuation Reserve	Book Value 6/30/93
Fixed Income	9,547	15,075	(15,234)	374		9,762
Common and Preferred Stock	8,159	7,031	(5,899)	616		9,907
Other Long-Term Investments	570	363	(99)	(5)	(11)	818
Short-Term Investments	1,215	14,735	(14,681)	13		1,282
Total	\$19,491	37,204	(35,913)	998	(11)	21,769

Net investment revenue for the fiscal year ending June 30, 1993 exceeded \$2.1 billion, an increase from the prior fiscal year when net revenue was \$1.7 billion. The components of investment revenue are shown in the following graph.

Components of Investment Revenue -- 1993



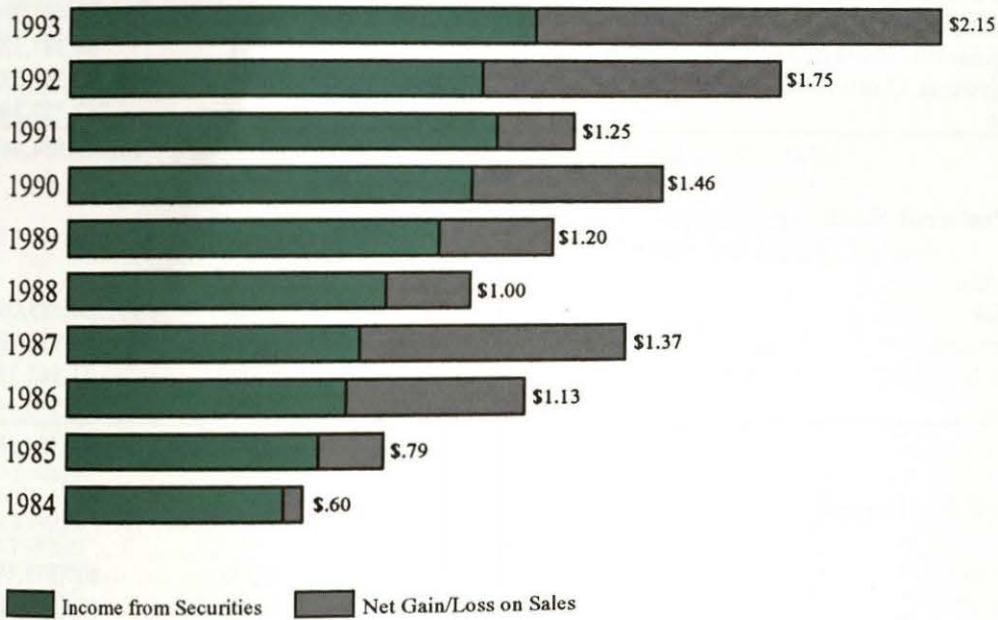
Investment Section

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.

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)



Investment Section

Portfolio Summary Statistics as of 6/30/93
Trade Date Basis

Type of Investment	Book Value (\$)	% Book Value	Market Value (\$)	% Market Value
Fixed Income				
Domestic Portfolio				
U.S. Government & Agency Obligations	\$ 4,280,335,567	19.5%	\$ 4,555,164,889	18.6%
Mortgage Backed Securities	2,804,598,158	12.9%	2,895,399,838	11.8%
Corporate and Municipal Bonds	1,393,512,316	6.4%	1,454,330,747	5.9%
Miscellaneous Fixed Income	281,319,226	1.3%	297,812,270	1.2%
Private Placements	98,500,000	0.5%	114,455,910	0.5%
FHA/VA Residential Mortgages	64,660,658	0.3%	64,397,370	0.3%
Equity Participating Commercial Mtgs, net	84,739,740	0.4%	91,541,092	0.4%
Global Portfolio	754,397,207	3.5%	767,752,346	3.1%
	9,762,062,872	44.8%	10,240,854,462	41.8%
Common and Preferred Stock				
Domestic Portfolio				
Common Stock	9,139,936,452	42.0%	11,268,689,060	46.1%
Private Placements	143,000,008	0.7%	145,932,995	0.6%
Preferred Stock	67,187,508	0.3%	71,982,384	0.3%
Global Portfolio	556,700,998	2.5%	634,790,142	2.6%
	9,906,824,966	45.5%	12,121,394,581	49.6%
Other Long-Term Investments				
Real Estate Owned	262,291,096	1.2%	207,875,118	0.9%
Equity Real Estate	398,739,694	1.9%	415,025,187	1.7%
Venture Capital	91,947,139	0.4%	115,768,438	0.5%
Farmland Investments	65,159,999	0.3%	67,316,328	0.3%
	818,137,928	3.8%	805,985,071	3.4%
Short-Term Investments				
Domestic Portfolio				
Health Insurance Account				
Short-Term Investment Fund	29,993,613	0.1%	29,436,511	0.1%
PA Treasury Short-Term Investment Fund	665,647,000	3.1%	665,647,000	2.7%
Other Short-Term Investments				
PSERS Tactical Asset Allocation	120,664,946	0.6%	120,664,946	0.5%
Quantilogic	26,312,791	0.1%	26,296,623	0.1%
Global Portfolio	439,824,860	2.0%	439,418,812	1.8%
	1,282,443,210	5.9%	1,281,463,892	5.2%
TOTAL INVESTMENTS	\$21,769,468,976	100.0%	\$24,449,698,006	100.0%

Investment Section

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 20 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, 1993
Trade Date Basis
U.S. Government & Agency Obligations
25 Largest Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
U.S.A. TREASURY NOTE	19971031	5.750	165,250,000	167,851,200	170,853,628
U.S.A. TREASURY NOTE	20010515	8.000	136,235,000	146,306,195	157,095,303
U.S.A. TREASURY NOTE	19940215	6.880	140,000,000	144,573,698	142,952,600
U.S.A. TREASURY NOTE	20011115	7.500	124,000,000	131,106,642	139,190,000
U.S.A. TREASURY NOTE	19950228	3.880	119,700,000	119,761,891	119,680,848
U.S.A. TREASURY BOND	20190815	8.130	104,685,000	117,526,373	122,661,508
U.S.A. TREASURY NOTE	19970415	8.500	109,435,000	117,285,123	123,576,191
U.S.A. TREASURY BOND	20160215	9.250	76,120,000	94,502,025	99,110,524
U.S.A. TREASURY NOTE	19941015	9.500	85,930,000	91,535,704	92,079,151
U.S.A. TREASURY NOTE	19960515	7.380	94,250,000	90,878,310	101,716,485
U.S.A. TREASURY NOTE	19971130	6.000	88,600,000	89,988,813	92,434,608
U.S.A. TREASURY NOTE	20010215	7.750	79,570,000	83,146,034	90,361,283
U.S.A. TREASURY BOND	20210815	8.130	76,390,000	81,515,167	89,841,515
U.S.A. TREASURY NOTE	19951015	8.630	63,750,000	64,882,970	69,975,825
U.S.A. TREASURY NOTE	19980415	7.880	57,000,000	63,445,234	63,911,250
U.S.A. TREASURY NOTE	19961115	7.250	59,420,000	63,090,006	64,266,295
U.S.A. TREASURY NOTE	19970831	5.630	60,540,000	63,032,263	63,376,354
U.S.A. TREASURY BOND	20170815	8.880	55,145,000	61,415,008	69,525,713
U.S.A. TREASURY NOTE	19980815	9.250	57,250,000	60,709,035	67,939,720
U.S.A. TREASURY STRIPPED	20150215	0.000	358,170,000	58,612,979	77,211,074
U.S.A. TREASURY NOTE	19940630	8.500	54,560,000	57,617,073	57,168,514
U.S.A. TREASURY NOTE	19960630	7.880	52,545,000	54,512,646	57,586,167
U.S.A. TREASURY NOTE	19990215	8.880	47,665,000	54,267,748	56,125,538
U.S.A. TREASURY NOTE	19970115	8.000	47,000,000	50,715,859	52,067,070
U.S.A. TREASURY NOTE	19971015	8.750	45,000,000	48,526,563	51,714,900
TOTAL				2,176,804,559	2,292,422,064

Portfolio Detail Statistics as of June 30, 1993
Trade Date Basis
Mortgage Backed Securities
25 Largest Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
FEDERAL NATIONAL MORTGAGE ASSN TBA .	20170201	9.000	60,500,000	64,508,125	64,508,125
FEDERAL NATIONAL MORTGAGE ASSN TR 1991-155	20170225	8.000	45,382,464	44,863,714	46,091,792
SEARS SAVINGS BANK VAR	20320525	8.370	38,411,799	39,483,128	39,564,153
FEDERAL HOME LOAN MORTGAGE #220021 ..	20020401	8.750	28,487,395	29,320,492	29,947,374
FEDERAL HOME LOAN MTG GOLD POOL # E48322	20080701	6.500	26,001,492	26,367,138	26,367,138
GOVERNMENT NATIONAL MORTGAGE ASSN .	20001231	9.000	24,420,000	26,342,400	26,320,181
FEDERAL HOME LOAN MORTGAGE #55004	20110701	8.000	25,440,226	25,658,853	26,553,236
MID ST TR II MTG BACKED	20030401	9.630	25,350,000	25,116,977	29,310,938
FEDERAL HOME LOAN MORTGAGE GOLD # E00075	20070201	7.500	24,873,764	24,715,195	25,682,161
GREENWICH CAPITAL MORTGAGE	20230125	5.760	24,149,627	24,511,871	24,511,871
FEDERAL NATIONAL MORTGAGE ASSN REMIC	20200725	9.500	23,505,600	24,328,296	24,262,010
FEDERAL NATIONAL MORTGAGE ASSN PAIROFF	19991231	7.000	23,000,000	23,047,500	23,047,500
RESOLUTION TRUST CORP 1992-11	20241025	7.000	21,952,974	22,492,166	22,492,139
FEDERAL NATIONAL MORTGAGE ASSN #070713	19980101	9.000	21,134,069	22,243,608	22,573,722
FEDERAL HOME LOAN MORTGAGE GOLD # E00150	20071001	7.000	21,540,257	21,459,481	21,742,089
CITICORP MORTGAGE SECURITIES	20180825	5.440	20,677,371	20,716,141	20,716,245
FEDERAL NATIONAL MORTGAGE ASSN TR 1990-86	20190325	9.300	20,000,000	19,756,250	21,368,600
RYLAND MTG SER 2 CL 1-A	20230625	7.200	19,657,652	18,994,207	18,994,207
GOVERNMENT NATIONAL MORTGAGE ASSN TBA	19991231	8.500	17,000,000	18,210,000	18,210,001
FEDERAL HOME LOAN MORTGAGE #186361 ..	20081201	8.500	18,582,028	17,724,738	19,487,902
RESOLUTION TRUST CORP	20220525	7.850	16,752,000	17,265,030	17,264,946
CHASE MORTGAGE FINANCE	20090225	4.750	16,882,263	16,789,938	16,797,852
FNBC 1993-A PASS THRU	20180115	8.080	16,400,000	16,584,087	16,507,748
RESIDENTIAL FUNDING 1992-S43	20221225	7.800	16,470,457	16,583,692	17,010,853
FEDERAL HOME LOAN MORTGAGE #170214 ..	20170201	8.500	15,718,126	15,873,778	16,484,385
TOTAL				622,956,805	635,817,168

Portfolio Detail Statistics as of June 30, 1993
Trade Date Basis
Corporate and Municipal Bonds
25 Largest Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
FORD MOTOR CREDIT	19940815	7.900	27,000,000	27,667,920	28,120,500
FORD MOTOR CREDIT CO	19981115	9.500	24,750,000	25,388,550	25,178,423
SECURED FINANCE	20041215	9.050	21,100,000	20,803,031	25,335,403
SALOMON INC MTN	19930915	VAR	20,000,000	20,205,800	20,059,400
SALOMON INC GEN TERM	19930730	6.710	18,700,000	18,869,796	18,736,839
MERRILL LYNCH & CO VAR	19951218	4.890	15,000,000	15,206,250	15,206,250
SALOMON MTN	19940112	4.800	15,000,000	15,089,850	15,063,000
WACHOVIA BANK MTN	19940114	3.750	15,000,000	15,015,750	15,012,150
PITTSBURGH NATIONAL BANK	19940429	3.800	15,000,000	14,979,150	14,992,969
XEROX CORP	19940615	9.125	13,200,000	14,008,500	13,792,548
NORWEST FINANCIAL	19940615	7.950	12,000,000	12,593,990	12,439,920
GENERAL ELECTRIC CAPITAL	20030215	8.700	12,500,000	12,456,500	14,639,875
PHILIP MORRIS	19971201	9.250	12,000,000	12,107,880	13,575,840
HOUSEHOLD FINANCE VAR	20041220	3.480	12,443,000	11,896,217	12,707,414
SUNTRUST BANKS	19940715	8.875	11,100,000	11,820,947	11,626,917
CIT GROUP HOLDINGS	19940815	8.875	10,895,000	11,620,389	11,479,408
COMMERCIAL CREDIT GROUP	19931101	9.150	11,000,000	11,440,550	11,178,420
ARCHER DANIELS MIDLAND	20120601	7.000	12,500,000	11,114,625	12,317,125
SALOMON INC MTN VAR	19950405	4.120	11,000,000	11,013,200	11,000,000
NATIONAL COP SERVICES	20110102	9.380	10,000,000	10,975,000	10,956,700
TEXAS STATE PUBLIC FINANCE	20061201	9.000	10,800,000	10,800,000	11,988,000
EASTMAN KODAK	19950115	9.200	10,350,000	10,299,993	11,059,389
MERRILL LYNCH & CO VAR	19950621	4.220	10,000,000	10,162,500	10,162,500
SHEARSON LEHMAN HOLDINGS MTN	19950526	3.812	10,000,000	10,000,000	9,990,000
UNITED STATES LEASING INTL MTN	19950213	3.487	10,000,000	10,000,000	9,760,300
TOTAL				355,536,388	366,379,290

Portfolio Detail Statistics as of June 30, 1993
Trade Date Basis
Miscellaneous Fixed Income
25 Largest Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
INTERNATIONAL BANK FOR RECON & DEV ..	19971001	9.880	19,250,000	20,855,620	22,612,398
COOPERATIVE UTILITY TRUST	20170915	10.700	14,250,000	17,641,635	17,583,645
AMERICAS FUND		0.000	1,727,852	17,278,525	24,727,996
NISSAN AUTO RECEIVABLES	19970515	5.300	16,176,997	16,346,350	16,303,339
MBNA CREDIT CARD TRUST 1991 A A	19980630	8.250	15,280,000	16,132,338	16,297,037
STANDARD CREDIT CARD TRUST	19950310	9.000	14,000,000	15,133,125	14,984,340
RAILCAR TRUST	20040601	7.750	15,004,155	15,040,801	16,288,511
INTER AMERICAN DEVELOPMENT	20090901	8.400	15,000,000	14,750,357	18,024,000
TEXAS COMMERCE BANCSHARES	19971130	5.250	13,000,000	12,870,130	12,961,000
DISCOVER CARD TRUST	19960516	8.850	10,770,834	11,136,032	10,986,250
SEARS CREDIT ACCOUNT TRUST	19961216	8.800	10,000,000	10,656,250	10,587,500
GOVERNMENT OF ISRAEL	19940501	6.000	10,000,000	10,000,000	10,000,000
GERMANY (FED REP)	19990621	6.750	17,500,000	9,702,388	10,462,712
DEAN WITTER DISCOVER	20030301	6.880	8,300,000	8,284,606	8,431,472
NORWEST MASTER TRUST	19951215	9.150	7,000,000	7,412,344	7,166,250
DISCOVER CARD TRUST	20000816	6.250	6,800,000	6,839,250	6,972,108
INTER AMERICAN DEVELOPMENT	20010501	8.500	6,500,000	6,614,655	7,496,450
INTER AMERICAN DEVELOPMENT	19941201	11.630	4,500,000	5,148,456	4,953,195
CAPITAL AUTO RECEIVABLES	19950915	3.562	5,000,000	5,006,250	5,004,688
GOVERNMENT OF ISRAEL	20040630	6.230	5,000,000	5,000,000	5,247,800
DISCOVER CARD TRUST	20000315	7.100	5,000,000	4,978,400	5,184,350
FIRST CHICAGO TRUST	19980615	8.400	5,000,000	4,973,500	5,464,050
SALOMON	19931025	6.128	4,000,000	4,056,400	4,032,480
AMERICAN HOUSING	20180825	8.630	3,700,251	3,811,258	3,811,258
GMAC 1992 F GRANTOR TRUST	19970915	4.500	3,632,146	3,634,416	3,640,064
TOTAL				253,303,086	269,222,893

Portfolio Detail Statistics as of June 30, 1993
Trade Date Basis
Fixed Income - Private Placements
Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
ADULT COMMUNITIES TOTAL SERVICES	20060601	10.750	48,500,000	48,500,000	58,267,900
AMERICAN PACIFIC	20020221	11.000	30,000,000	30,000,000	36,188,010
OSIRIS HOLDING	20050531	11.000	10,000,000	10,000,000	10,000,000
REALEN HOMES	20020331	10.000	10,000,000	10,000,000	10,000,000
TOTAL				98,500,000	114,455,910

Portfolio Detail Statistics as of June 30, 1993
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 (\$)
JAPAN	5.000	20020920	8,250,000,000	74,906,424	79,358,533
JAPAN	4.500	20030620	6,177,000,000	53,902,897	56,603,239
ITALY (REPUBLIC OF)	11.500	20030301	58,500,000,000	38,716,312	38,673,557
UNITED STATES TREAS NOTES	6.250	20030215	27,750,000	28,273,314	28,703,768
DENMARK (KINGDOM)	7.000	20041215	139,700,000	21,773,387	21,775,484
UNITED STATES TREAS NOTES	5.125	19980331	20,125,000	20,090,498	20,228,845
UNITED STATES TREAS NOTES	8.875	19990215	16,500,000	18,845,018	19,428,750
UNITED STATES TREAS BONDS	7.125	20230215	16,200,000	16,829,793	17,136,522
TREUHANDANSTALT	6.500	20030423	27,000,000	15,894,822	15,673,182
TREASURY	8.000	20030610	9,550,000	14,532,692	14,601,672
UNITED STATES TREAS BONDS	7.250	20160515	14,000,000	13,725,720	14,931,840
DENMARK (KINGDOM)	9.000	20001115	79,000,000	12,756,968	13,544,175
DENMARK (KINGDOM)	9.000	19981115	71,600,000	11,943,088	12,132,424
SWEDEN (KINGDOM OF)	10.750	19970123	71,000,000	10,889,813	10,025,211
SPAIN (GOVT OF)	10.300	20020615	1,309,510,000	10,324,710	10,160,462
JAPAN	4.800	20021220	1,095,000,000	10,251,247	10,382,159
JAPAN	4.900	20090320	1,155,000,000	9,541,281	10,231,080
SPAIN (GOVT OF)	10.500	20031030	1,250,000,000	9,514,014	9,520,150
TREASURY	9.500	19990115	5,730,000	9,259,110	9,424,230
FRANCE (GOVT OF)	8.125	19990525	49,000,000	9,178,484	9,316,181
SPAIN (KINGDOM OF)	11.600	19970115	1,000,000,000	9,160,348	8,053,917
DENMARK (KINGDOM)	9.000	19961115	57,200,000	9,098,687	9,421,939
JAPAN	6.400	20000320	875,000,000	8,941,442	9,151,706
NEW ZEALAND	10.000	20020315	13,833,000	8,519,007	8,717,654
UNITED STATES TREAS NOTES	4.250	19941031	8,500,000	8,494,258	8,554,485
TOTAL				455,363,334	465,751,165

* Stated in local currency

Portfolio Detail Statistics as of June 30, 1993
Trade Date Basis
Common Stock
25 Largest Holdings in Descending Order by Book Value

Description	No. of Shares	Book Value (\$)	Market Value (\$)
GENERAL ELECTRIC COMPANY	2,492,999	143,404,970	238,704,654
EXXON CORPORATION	2,768,400	140,738,233	183,060,450
PNC/AIM ENHANCED INDEX	122,890,351	139,253,828	144,300,093
AMERICAN TELEPHONE & TELEGRAPH COMPANY	2,724,180	109,863,811	171,623,340
MAS POOLED TRUST FUND	3,419,916	107,660,954	116,755,941
MOBIL CORPORATION	1,666,000	103,623,807	124,533,500
PHILIP MORRIS COMPANIES INCORPORATED	1,933,200	91,073,000	93,760,200
FEDERAL NATIONAL MORTGAGE ASSOCIATION ...	1,714,300	86,876,945	142,072,613
GENERAL MOTORS CORPORATION	2,179,800	80,301,781	97,001,100
INTERNATIONAL BUSINESS MACHINES CORPORATION	893,500	76,771,259	44,116,563
PROCTER & GAMBLE COMPANY	1,918,652	75,075,750	99,769,904
COCA COLA COMPANY	2,842,500	73,652,892	122,227,500
AMERICAN HOME PRODUCTS CORPORATION	1,186,600	71,892,698	76,535,700
MERCK & CO INCORPORATED	2,211,700	69,936,356	78,515,350
WAL MART STORES INCORPORATED	3,354,900	67,873,154	88,066,125
FEDERAL HOME LOAN MORTGAGE CORPORATION	1,800,400	67,745,907	100,597,350
TIME WARNER INCORPORATED	2,468,900	66,749,126	95,361,263
AMERICAN EXPRESS COMPANY	2,556,256	66,328,013	82,439,256
ATLANTIC RICHFIELD COMPANY	586,200	63,449,610	68,145,750
SPRINT CORPORATION	2,302,730	61,135,982	80,883,391
CHRYSLER CORPORATION	1,882,281	61,127,235	88,937,777
BANKAMERICA CORPORATION	1,659,484	59,261,822	75,091,651
CHEMICAL BANKING CORPORATION	1,694,647	54,750,147	69,268,696
AMOCO CORPORATION	1,165,500	54,668,821	63,956,813
NATIONSBANK CORPORATION	1,282,087	52,442,071	63,623,567
TOTAL		2,045,658,172	2,609,348,547

Portfolio Detail Statistics as of June 30, 1993
Trade Date Basis
Stock - Private Placements
Holdings in Descending Order by Book Value

Description	No. of Shares	Book Value (\$)	Market Value (\$)
GPA GROUP PLC	100,000,000	100,000,000	100,000,000
COLLEGE CONSTRUCTION LOAN	2,670,941	25,000,008	27,932,995
REALEN HOMES INC.	15,000	15,000,000	15,000,000
OSIRIS HOLDING CORP	3,000	3,000,000	3,000,000
TOTAL		143,000,008	145,932,995

Portfolio Detail Statistics as of June 30, 1993
Trade Date Basis
Preferred Stock
Holdings in Descending Order by Book Value

Description	No. of Shares	Book Value (\$)	Market Value (\$)
FORD MOTOR COMPANY	326,200	27,620,347	29,439,550
COOPER INDUSTRIES INCORPORATED CONV	493,034	15,594,554	15,715,459
DELTA AIR LINES	294,200	14,710,000	15,224,850
CELLULAR COMMUNICATIONS P R INCORPORATED	200,000	6,309,969	7,300,000
EQUITABLE COMPANIES INCORPORATED	20,600	1,030,000	1,081,500
ACN CORPORATION CONVERSION	17,900	693,763	868,150
UNISYS CORP SER A CONV	35,000	644,220	1,675,625
CRAIG CORPORATION CLASS A	63,000	584,655	677,250
TOTAL		67,187,508	71,982,384

Portfolio Detail Statistics as of June 30, 1993
Trade Date Basis
Common Stock - Global Portfolio
25 Largest Holdings in Descending Order By Book Value

Description	No. of Shares	Book Value (\$)	Market Value (\$)
TELEFONICA DE ESP	797,900	8,467,809	8,518,449
ARGYLL GROUP	1,267,000	7,391,484	6,187,706
ASTRA AB	339,750	6,745,379	6,280,996
NINTENDO CO	71,000	6,126,090	6,389,064
RANK ORGANISATION	548,000	5,991,571	6,441,108
INTL NEDERLANDEN	214,340	5,759,364	7,234,343
CARLTON COMUNCTNS	538,700	5,711,337	6,259,388
KYOCERA CORP	139,000	5,287,623	6,970,698
BARCLAYS	839,900	5,005,819	6,058,708
NORTH WEST WATER	640,000	4,997,752	4,521,124
PACIFIC TELESIS GROUP	94,000	4,601,497	4,570,750
HONG KONG TELECOMM	4,130,800	4,559,761	5,654,571
AOYAMA TRADING CO	106,500	4,559,572	6,588,722
AGA AB	100,000	4,492,914	4,589,458
AEGON NV	113,840	4,359,892	4,914,564
IBERDROLA SA	686,000	4,354,294	4,215,134
BRITISH TELECOM	770,000	4,283,584	4,927,730
ERID BEGHIN SAY	34,000	4,262,134	4,611,430
TAISHO PHARM CO	271,000	4,089,690	5,258,324
SUMITOMO ELEC INDS	392,000	4,074,866	4,041,908
NEXT	1,800,000	4,029,396	4,650,760
ABN AMRO HLDGS NV	140,908	4,021,983	4,092,275
WINTERTHUR	2,000	3,982,408	4,262,422
TOKIO MARINE FIRE	435,000	3,871,166	5,096,910
GIB	90,000	3,847,960	3,361,660
TOTAL		124,875,345	135,698,202

Investment Section

Portfolio Detail Statistics as of June 30, 1993
Trade Date Basis
Health Insurance Account
Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
NORWEST FINANCIAL	19940501	9.750	2,500,000	2,669,275	2,616,200
NATIONAL CREDIT CARD TRUST	19940815	8.750	2,260,000	2,395,247	2,365,226
XEROX CORP	19940615	9.130	2,000,000	2,121,090	2,089,780
EXXON CAPITAL CORP	19941015	8.250	2,000,000	2,114,760	2,102,060
SALOMON	19931004	7.170	2,000,000	2,058,050	2,016,240
PHILIP MORRIS	19940215	7.630	1,700,000	1,762,645	1,737,706
BENEFICIAL CORP MTN	19940610	8.000	1,500,000	1,569,990	1,554,615
MERRILL LYNCH & CO	19930815	9.000	1,200,000	1,255,428	1,206,564
FORD MOTOR CREDIT CO MTN	19941104	9.750	1,000,000	1,070,450	1,000,000
BENEFICIAL FINANCE MTN	19941215	8.910	1,000,000	1,065,400	1,063,350
ASSOCIATES CORP NORTH AMERICA	19940301	9.900	1,000,000	1,065,200	1,038,520
AVCO FINANCIAL SERVICES	19940515	9.750	1,000,000	1,064,950	1,046,090
AMERICAN GENERAL FINANCE	19930915	9.000	1,000,000	1,054,400	1,009,960
CIT GROUP HOLDINGS	19931215	8.750	1,000,000	1,049,630	1,021,350
SOCIETY CORP	19931201	8.250	1,000,000	1,046,830	1,016,270
HOUSEHOLD FINANCE CORP	19940315	8.750	1,000,000	1,045,510	1,032,060
SHEARSON LEHMAN BROS INC	19931001	9.880	1,000,000	1,042,510	1,011,160
FORD MOTOR CREDIT	19930910	7.270	1,000,000	1,034,610	1,006,380
CORESTATES CAPITAL	19940708	5.050	1,000,000	1,010,706	1,012,000
ABBEY NATL TREASURY SERV	19930723	3.600	1,000,000	999,080	999,080
U.S.A. TREASURY BILL	19940505	0.000	1,000,000	968,702	972,020
PHILIP MORRIS MTN	19940329	9.300	500,000	529,150	519,880
TOTAL				29,993,613	29,436,511

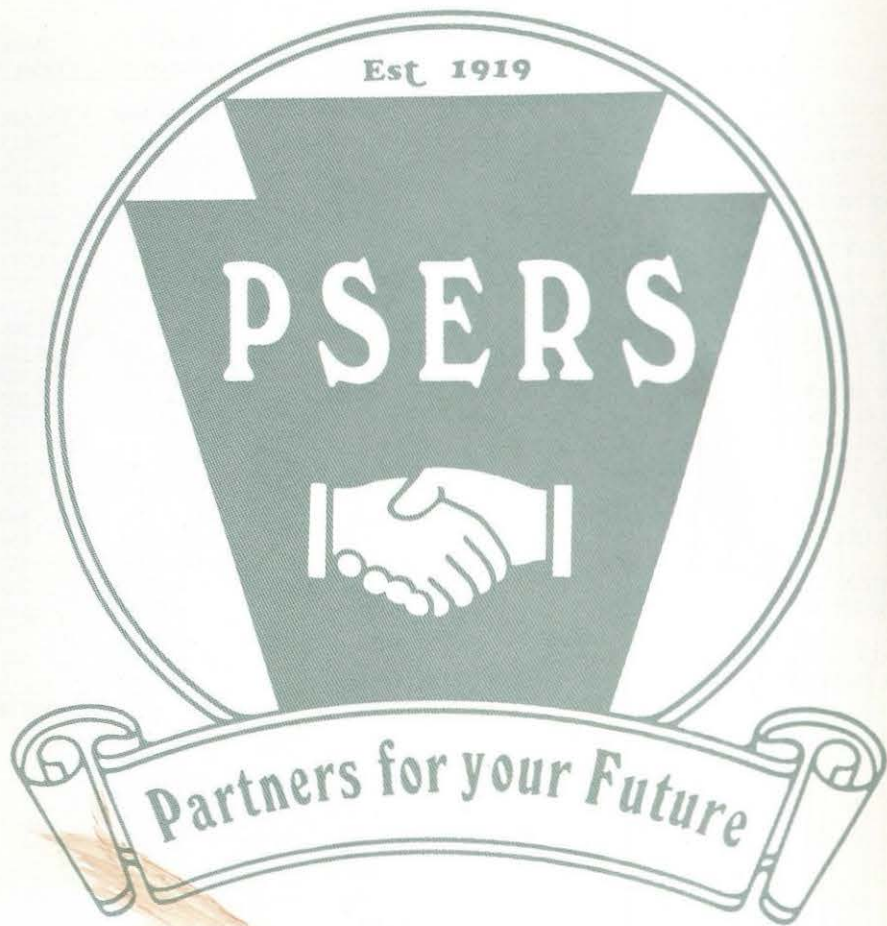
Portfolio Detail Statistics as of June 30, 1993
Trade Date Basis
Other Short-Term Investments
Largest Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
FEDERAL FARM CREDIT BANKS	19940118	0.010	15,000,000	14,488,583	14,488,583
ABBEY NATIONAL NO. AMERICA	19930908	3.250	10,000,000	9,833,889	9,833,889
INTERNATIONAL BANK FOR RECON. & DEV. .	19931213	0.010	10,000,000	9,775,683	9,775,683
US TREASURY BILLS	19930722	0.010	6,000,000	5,958,865	5,958,865
FEDERAL NATIONAL MORTGAGE ASSN.	19940415	0.010	5,000,000	4,861,044	4,861,044
US TREASURY BILLS	19940505	0.010	5,000,000	4,843,508	4,843,508
FEDERAL HOME LOAN BANK	19940408	0.010	5,000,000	4,842,936	4,842,936
US TREASURY BILLS	19930826	0.010	2,000,000	1,984,814	1,984,814
TOTAL				56,589,322	56,589,322

Portfolio Detail Statistics as of June 30, 1993
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 TREAS BILLS	0.010	19931104	111,000,000	109,693,777	109,693,777
UNITED STATES TREAS BILLS	0.010	19930923	78,400,000	77,833,480	77,833,480
UNITED STATES TREAS BILLS	0.010	19931007	50,000,000	49,276,444	49,276,444
UNITED STATES TREAS NOTES	5.375	19940430	28,000,000	28,582,891	28,415,520
UNITED STATES TREAS NOTES	4.625	19941231	20,000,000	20,226,563	20,237,400
UNITED STATES TREAS NOTES	4.250	19940731	16,500,000	16,572,799	16,608,240
PRUDENTIAL HOME MORTGAGE SECS CO ...	6.000	20080525	13,714,347	13,943,514	14,001,491
CHASE MANHATTAN GRANTOR TR	4.200	19990415	12,507,964	12,502,101	12,500,084
FEDERAL NATIONAL MORTGAGE ASSN	5.750	20030325	11,943,011	12,090,433	11,957,940
GMAC 1991 B GRANTOR TR	6.750	19960615	11,448,217	11,761,254	11,712,900
FRENCH FRANC CASH ACCOUNT			48,943,113	8,521,434	8,521,397
CMC SECS CORP	7.400	20041125	7,458,564	7,533,150	7,505,180
FEDERAL HOME LOAN MORTGAGE CORP	8.700	20020515	7,000,000	7,203,438	7,172,760
JAPANESE YEN CASH ACCOUNT			265,687,923	2,470,090	2,490,460
POUND STERLING CASH ACCOUNT			1,058,383	1,596,759	1,580,695
EUROPEAN CURRENCY UNIT (ECU)			1,090,778	1,253,425	1,253,425
DEM TIME DEPOSIT	7.625	19930701	1,507,000	890,636	884,189
DEM/USD JUL 1.69 PUT	0.010	20070307	70,000,000	840,000	840,000
ITALIAN LIRA CASH ACCOUNT			1,023,259,854	666,657	662,355
FRF DEC 16.07 CALL			309,900,000	437,201	355,765
DEUTSCHE MARK CASH ACCOUNT			463,162	269,420	271,747
NETHERLANDS GUILDER CASH ACCOUNT ...			338,129	179,376	176,937
SWISS FRANC			267,443	177,421	176,737
FRF OAT SEPT 8.50 CALL			35,000,000	128,230	165,620
AUSTRALIAN DOLLAR CASH ACCOUNT	3.190		116,742	78,264	77,743
TOTAL				384,728,757	384,372,286

*Stated in local currency



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

Component Unit Financial Report

For The
Fiscal Year Ended June 30, 1993

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

*Wilbur F. Dudley
General Accounting Division Program Manager*

*Douglas A. Bonsall
Director of Communications*

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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, 1993

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

We are pleased to present the seventy-fourth annual Component Unit Financial Report for the Pennsylvania Public School Employees' Retirement System (the System) for the fiscal year ended June 30, 1993. 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 employes of the Commonwealth of Pennsylvania. The System has experienced various benefit modifications over its 76 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 employes and part time public school employes who render at least 80 days or 500 hours of service yearly in any of 634 reporting units in Pennsylvania. As of June 30, 1993, the System had 198,000 active members with an annual active payroll of \$6.7 billion.

The annuitant membership was comprised of over 113,000 retirees and beneficiaries who receive \$73 million each month. The average yearly benefit paid to annuitants is \$8,500. 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 634 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, 1993, the Commonwealth had paid its final contribution for the 1992/93 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 December 1992 the Pennsylvania Legislature enacted the "Mellow Bill", (Act 186 of 1992). This early retirement incentive act instantly had the System's bureaus hard at work changing the manual and automated member benefit systems to enable the proper payment of enhanced retirement benefits to qualifying retirees. The Act called for the crediting of an additional 10 percent of service to members who: (1) were at least 55 years old on August 31, 1993, (2) had at least 10 years of credited service with the System, (3) were not annuitants as of July 1, 1992, (4) terminated service between July 1, 1992 and August 31, 1993, (5) declared intent to retire with their employer prior to April 1, 1993, and (6) filed a retirement application with the System prior to September 1, 1993. This Act dramatically increased the amount of retirement and corollary member data processing in all sections of the Agency; and will result in the adding of roughly 11,000 new benefit recipients to the monthly annuitant payroll.

Another significant change affecting benefit administration during the fiscal year was the July 3, 1992 enactment of the federal "Unemployment Compensation Amendments of 1992". Major benefit systems required significant revamping to enable the System to make member requested "direct rollover" payments to IRS qualified pension plans or Individual Retirement Accounts (IRA). This legislation required the mandatory withholding of 20 percent income tax on certain payments to members not rolled over to the eligible retirement plans.

The administration of the health care program continued to be a major initiative during the 1992/93 fiscal year. Fine-tuning the systems that control the payments to over 34,000 annuitants who received the monthly assistance at June 30, 1993 required a substantial amount of resources from the System's various operational areas. Plans got under way to revamp the System's health care program to provide multiple options to the group medical plan so that adequate coverage for all annuitants, spouses, and dependents can continue to be offered at reasonable cost.

The System's accounting operations were significantly affected by the conversion to a new master trust custodian, Provident Bank, now PNC Bank. Committing resources to enable the change to the new custodian caused temporary delays in reporting of the System's investment and financial activities over the first half of the fiscal year.

The arrival of two independent contractors, Stahura-Brenner Group, Inc. and Tata Unisys LTD spearheaded significant progress in the development of the System's comprehensive business plan to integrate all information and systems. Creating new and improved methods to perform the business of

administering the System's many functions took a major step toward becoming reality with the efforts of the System's staff and the above contractors during the year.

The System's in-house investment program expanded again during the year whereby at June 30, 1993 over \$6.4 billion was under management by internal investment professionals. Continued expansion in the amount of internally managed investment assets is planned, additionally contributing to substantial savings in management fees.

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 \$22.8 billion at book value (\$25.4 billion at market value) as of June 30, 1993. This was an increase of \$2.2 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 19th largest among public and corporate pension funds in the nation. More specific information on the System's assets is detailed in the Balance Sheets included in the **Financial Section**.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly from the investment income of the Fund. For the fiscal year 1992/93, the appropriation was \$18,023,000.

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 1993 totaled \$3,481.9 million detailed as follows:

Revenue Source	1993 (Millions)	1992 (Millions)
Member Contributions	\$ 408.5	\$ 361.7
Employer Contributions	966.2	961.0
Investment Income	2,107.2	1,712.8
Total	\$3,481.9	\$3,035.5

The net increase of \$446.4 million resulted primarily from the increase in investment income. The investment income is detailed in **Note 4** of the financial statements.

The slight increase employer contributions resulted generally from salary increases made to the contributing membership. The employer contribution increase was slowed by the effects of the decrease in the employer contribution rate from 14.40 percent in fiscal year 1991/92 to 13.74 percent in fiscal year 1992/93. 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.

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 1993 and 1992 are shown for comparative purposes.

Expenses	1993 (Millions)	1992 (Millions)
Retirement Benefits	\$ 899.5	\$ 847.0
Disabilities	32.3	31.1
Lump-Sum Payments	384.5	125.2
Refunds	10.9	10.4
Administrative	18.0	15.7
Net Transfers	10.5	10.7
Total	\$1,355.7	\$1,040.1

Pension payments to the System's 113,000 annuitants now exceed \$73 million per month. Expenses to administer the System were \$18.0 million for the year and continue to represent a small fraction of total expenses, constituting only 1.3 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, 1993, member contributions constituted 11.7 percent of the annual funding, employer contributions constituted 27.8 percent and investment earnings accounted for 60.5 percent.

The total employer rate of contribution as a percent of salaries decreased from 14.24 percent for the fiscal year 1992/93 to 13.17 percent for 1993/94. The net favorable actuarial experience during fiscal year 1992/93 was slowed by .40 percent which represents the actuarial requirements caused by the passage of the Mellow Bill and the System's accelerated benefit payments options. The portion of the total employer rate of contribution required to fund the Health Care Premium Assistance Program decreased from .50 percent in fiscal year 1992/93 to .25 percent in fiscal year 1993/94. 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, 1993, the Fund balance increased \$2,126.3 million over the prior year — from \$19,592.8 million to \$21,719.1 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 60 percent of total revenues for the year.

Investments of the System netted \$2,107.2 million in earnings for the year. The investment portfolio totalled \$24.4 billion, at market value, as of June 30, 1993. 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, 1993, the time-weighted rate of return on the System's investments was 13.3 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, 1992. 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.

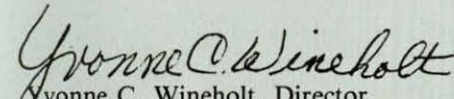
Introductory Section

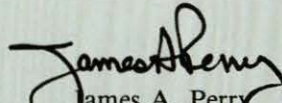
A Certificate of Achievement is valid for a period of one year only. The Public School Employes' Retirement System has received a Certificate of Achievement for the last 10 consecutive years (fiscal years ended June 30, 1983 — June 30, 1992). We believe our current report continues to conform to the Certificate of Achievement program requirements and we will be submitting this report to GFOA to determine eligibility for the 1993 certificate.

A reproduction of this award appears in this **Introductory Section**. Its attainment represents a significant accomplishment by the Retirement System, whose Bureau of Fiscal Control holds general responsibility for the compilation and validity of the financial data and shares with the Bureau of Administration logistical responsibility for the publishing of the component unit financial report.

We are pleased to announce that the Public Pension Coordinating Council has conferred the 1993 Public Pension Principles Achievement Award on the System. The award is given to public pension plans who have demonstrated excellence in a wide variety of pension administration categories. These include general operations, actuarial standards, asset and reporting controls, investments, and communications to membership. The plans receiving this award are held to high pension administration standards; and the selection of our Retirement System indicates the commitment of the Board of Trustees and System staff to the fiduciary responsibilities identified in the Mission Statement.

Respectfully submitted,


Yvonne C. Wineholt, Director
Bureau of Fiscal Control


James A. Perry
Executive Director

Mission Statement



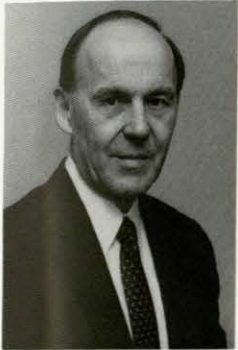
The Board of Trustees of the Public School Employees' Retirement System, empowered by statute with the authority and having fiduciary responsibility to ensure the timely and accurate payment of benefits to the members of the System and to maintain the stability of the Fund, shall:

- 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



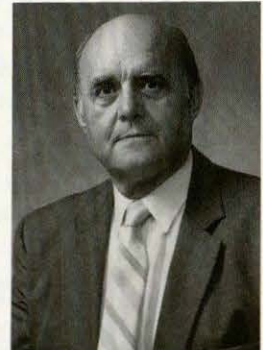
Alma Kay Crawford
Vice Chair



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, 1993

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, 1996)
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, 1996)

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, 1994)
Honorable Steven R. Nickol (term expires November 30, 1994)

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, 1994)
Honorable Roger A. Madigan (term expires November 30, 1994)

1993 Board Committees

Ad-Hoc Committee on Health Care	Appeals	Audit/Budget	Building
Mr. Churchill, Chair Ms. Crawford Mr. Keiser Mr. Oravitz Mr. Schafer (staff)	Mr. Angle, Chair Ms. Caputo Mr. Ciani Ms. Crawford Mr. Keiser Ms. Knoll Mr. Oravitz	Mr. Oravitz, Chair Mr. Angle Mr. Ciani Mr. Keiser Ms. Knoll	Mr. Keiser, Chair Ms. Caputo Ms. Crawford
Election	Finance	Legislative Monitor	Personnel
Ms. Caputo, Chair Mr. Ciani Mr. Fondy Rep. Nickol Mr. Oravitz	Mr. Churchill, Chair Mr. Angle Ms. Caputo Mr. Carroll Mr. Ciani Ms. Crawford Rep. Evans Mr. Fondy Sen. Fumo Mr. Keiser Ms. Knoll Sen. Madigan Mr. Oravitz	Ms. Crawford Rep. Nickol	Mr. Ciani, Chair Mr. Churchill Ms. Crawford Mr. Fondy Sen. Fumo Mr. Keiser Ms. Knoll
Proxy	Real Estate		
Ms. Crawford, Chair Mr. Churchill Mr. Ciani Rep. Evans Mr. Fondy Mr. Keiser Sen. Madigan Rep. Nickol	Mr. Keiser, Chair Mr. Angle Ms. Caputo Mr. Carroll Mr. Churchill Mr. Ciani Ms. Crawford Rep. Evans Mr. Fondy Sen. Fumo Ms. Knoll Sen. Madigan Sen. 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, 1993

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-fourth Component Unit Financial Report for the fiscal year ended June 30, 1993. This report provides an in-depth review of the financial, actuarial, and investment status of the Retirement Fund.

The growth of the Retirement System continues to be steady. At fiscal year end, the market value of assets surpassed \$25.4 billion, active membership approximated 198,000, and annuitants totaled over 113,000 receiving pension benefits in excess of \$73 million per month.

The financial integrity and actuarial soundness of the System are attested by the accompanying reports of the independent auditor and consulting actuary.

The report highlights many of the significant activities of the Retirement System for the year ended June 30, 1993, as well as plans to continue improving services to the active and retired members of the System.

The Board of Trustees is committed to assuring that the retirement funds are managed prudently for the sole benefit of the members.

As is reflected in its Mission Statement, the Board of Trustees is also keenly aware of its responsibilities to the Commonwealth, its taxpayers, and the school districts of the Commonwealth.

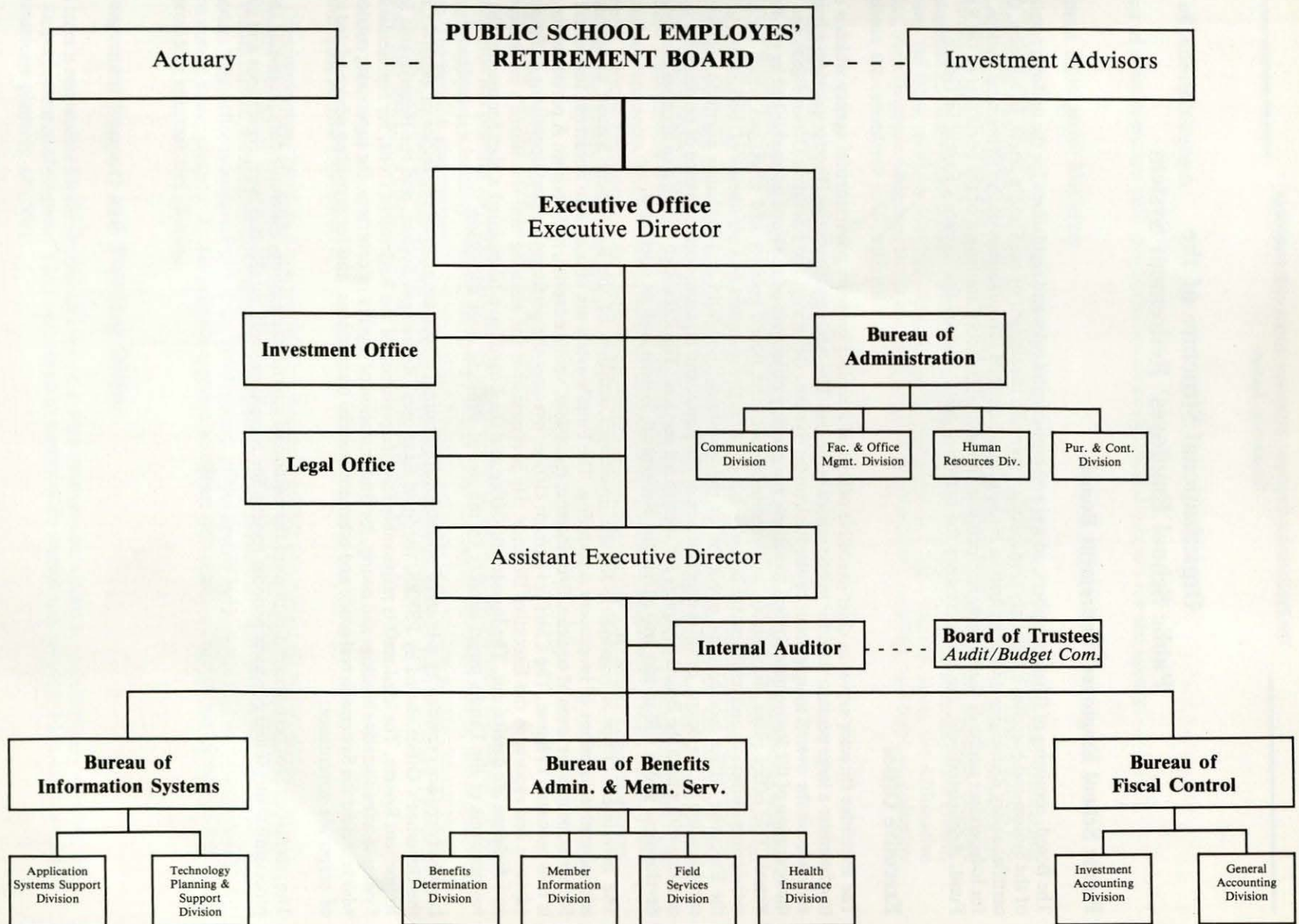
The Board of Trustees appreciates the cooperation extended to it by the Governor's Office and the Legislature which enables and empowers us to meet the challenges which face us currently and to make timely provisions for the challenges ahead.

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 Employes' 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 executive 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 appraises the Board of any development which will in any way affect the Retirement System and its operation.

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 Executive Director. 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 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.

Bureau of Administration

The Bureau of Administration provides administrative services and support for the agency.

Human Resources 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 Employe 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.

Facility and Office Management Division

This division has primary responsibility for the coordination of building management and security at the agency's headquarters building. The division 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.

Communications Division

The Communications Division 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.

Management Support and Planning Office

This team is responsible for the implementation of a work management system to improve agency efficiency and support resource allocations. They participate in agency-wide studies and projects. They monitor and communicate planning activities.

Telecommunications Office

This office analyzes the agency's telecommunication needs and studies technologies to meet those needs. It coordinates installation and maintenance of telephone equipment.

Budget Office

This office develops the agency budget documents and monitors the budget throughout the fiscal year.

Government Relations Office

The staff of the Government Relations Office serves as liaison to members of the House and Senate and to the Governor's administrative offices. This office shares information, educates others relative to PSERS benefits and investment programs, and gains support for agency initiatives and objectives.

Bureau of Benefits Administration and Member Services

The Bureau of Benefits Administration and Member Services provides professional and technical services to over 198,000 active members and 113,000 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 eleven regional 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 the management of the PSERS Group Health Insurance Plan. The Plan is comprised of a Medicare supplement and "traditional" benefits programs. All annuitants, and their eligible dependents, have the option of participating in the Plan. Monthly premiums can be deducted from retirement benefit payments and transferred directly to the Plan's insurance carrier.

The division also administers the premium assistance program which provides up to \$55 per month for eligible annuitants with out-of-pocket premium expenses. This program helps defray the cost of health care for retirees who are receiving a disability benefit from us or are credited with at least 24½ years of service.

Bureau of Fiscal Control

This bureau has responsibility for planning, organizing, and directing a complete accounting and financial reporting system. Fulfilling this responsibility includes: recording of all financial transactions; preparing financial statements; determining and collecting member, employer and Commonwealth contributions; auditing of all payment activities; ensuring compliance with generally accepted accounting principles in the development of agency systems for member related financial transactions; accounting for the investment portfolio transactions; monitoring of investment transactions for legal compliance and adherence to Board guidelines; 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.

General Accounting and Auditing Services Division

The General Accounting and Auditing Services Division has responsibility for the classification, analysis, and reporting of all financial and membership transactions. The division consists of two sections: Financial Accounting and Membership Accounting.

The Financial Accounting 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 section handles all employe and employer billing and receivable procedures and all accounts payable functions.

The Membership Accounting Section — This section is responsible for data quality control functions, account maintenance activities, daily auditing and review activities, and special projects. It collects and reviews membership salary and service data. It 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.

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 \$24 billion investment portfolio by the reconciliation of each investment asset class and income category between the general ledger and the sub-custodial banks. The division consists of three sections: Trading, Reconciliation and Analysis, and Special Investments.

The Trading Section — This section is responsible for the purchase/sale of investment transactions for PSERS. It maintains constant contact with the PSERS advisors, brokers, sub-custodian bank, and the Treasury Department. Staff also helps to prepare various monthly spreadsheets for use by the Reconciliation and Analysis Section in balancing the PSERS assets.

The Reconciliation and Analysis Section - This section is responsible for the daily cash settlement with Treasury and monthly reconciliation with the sub-custodial bank and the general ledger accounts of all asset classes and income categories. It also handles daily tracking of corporate actions through settlement reports and for final review as part of the month-end reconciliation process.

The Special Investments Section - This section is responsible for investments in other asset classes which require specialized knowledge to ensure that the assets are being accurately recorded. The primary focus is real estate and venture capital investments. This section is also involved in the initial phases of new projects/acquisitions. This includes the initial purchase/funding, establishing the asset at the bank and in the general ledger and developing various spreadsheets and procedures to monitor/reconcile the assets/portfolios going forward.

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.

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.

The Staff Support 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.

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.

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.

The development and maintenance of the information resource management program for PSERS is the responsibility of the Information Resource Management (IRM) Section. IRM encompasses both automated and manual information and systems which include: records retention and disposition schedules, vital records protection, information storage and retrieval methods, information management and usage policies and procedures, archival management, information backup, recovery, and security, data standards, data dictionary administration, and critical information identification.

Application Systems Support Division

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

LINC administration provides expertise and assistance in all areas of LINC. The responsibilities include: development of LINC usage standards and procedures, LINC training, technical support in any area of the systems development life cycle for systems using the LINC systems approach, LINC and other LINC-related tools, system design and coding reviews, evaluation and coordination of the implementation of new LINC software releases and LINC related products, and ensuring that proper backup and recovery procedures are set.

Responsibilities for the application systems support function are systems analysis and design which includes: feasibility and workflow analysis, conceptual 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 and associated peripherals. 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), and the programs necessary to perform the verification and editing.

This division has the responsibility for performing research into technical 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
Chief Counsel



Veronica P. Thomas
Director of
Administration



Helen D. Hosler
Director of
Benefits Administration
and Member Services



Yvonne C. Wineholt
Director of
Fiscal Control



Dale W. Houck
Director of
Information Systems

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Investment Advisors

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Investment Advisors (Continued)

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Morgan Grenfell Capital Management (*Fixed Income*)

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Morgan Stanley Asset Management, Inc.
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New York, NY 10020

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Oppenheimer Option Management (*Options*)

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Lester, PA 19113

PNC Financial Corp. Advanced Investment
Management (*Equity & Futures*)

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Pacific Investment Management Co. (*Fixed Income & Futures*)

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Pennsylvania Venture Capital Fund I & II
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RREEF (*Real Estate*)

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State Street Bank & Trust Company (*Global Custodial Bank*)

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Technology Leaders (*Venture Capital*)

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Absolute Return Advisors

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Jacobs Levy Equity Management, Inc.
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Numeric Investors
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Twin Capital Management
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Tactical Asset Allocation Advisors

Panagora Asset Management
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Quantillogic Asset Management Company, Inc.
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Financial Consultant

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Investment Consultant

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Introductory Section

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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. Retirement windows were enacted to allow for early retirement without penalties.
- 1986-Present — 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 — Assets reached \$19.1 billion with an investment income for the year of \$1.2 billion. 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.

1993 — Assets reached \$22.7 billion with a total revenue of \$3.5 billion. The employer contribution rate was reduced to 13.17 percent of payroll. A health insurance administrator began to implement the provisions of Act 23 of 1991 which allowed about 34,000 retirees up to \$55 a month insurance premium assistance. Retirees increased to 113,000. Most new retirees took advantage of the "Mellow Bill" incentives. A new publication went to all retirees, called the *PSERS Retired Member Handbook*.

STANCON

Independent Auditors' Report

KPMG Peat Marwick

Certified Public Accountants

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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, 1993 and 1992, 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, 1993 and 1992, 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 15, 1993

Balance Sheets
June 30, 1993 and 1992
(Amounts in Thousands)

Assets	1993	1992
Investments, at cost (note 4):		
Fixed income investments and mortgage investments, net of valuation reserves of \$7,400 in 1993 and 1992, respectively (market value \$10,240,854 in 1993 and \$10,033,881 in 1992)	\$ 9,762,063	\$ 9,546,891
Common and preferred stocks (market value \$12,121,395 in 1993 and \$9,524,729 in 1992)	9,906,825	8,159,466
Other long-term investments, net of valuation reserves of \$119,150 and \$107,600 in 1993 and 1992, respectively (market value \$805,985 in 1993 and \$514,811 in 1992)	818,138	569,645
Short-term investments (market value \$1,281,464 in 1993 and \$1,218,855 in 1992)	1,282,443	1,214,781
Total investments	21,769,469	19,490,783
Receivables:		
Contributions:		
Employes	72,451	54,576
Employers	151,114	164,551
Commonwealth of Pennsylvania	125,229	148,315
Investment:		
Income	217,342	215,983
Proceeds	443,062	459,968
Other	1,192	803
Total receivables	1,010,390	1,044,196
Cash	1	34
Fixed assets (net of accumulated depreciation of \$3,760 and \$2,374 in 1993 and 1992, respectively)	7,017	7,634
TOTAL ASSETS	\$22,786,877	\$20,542,647
Liabilities and Fund Balance		
Liabilities:		
Accounts payable and accrued expenses	\$ 21,323	\$ 42,144
Installment benefits payable	255,312	60,592
Investment purchases payable	791,177	847,115
Total liabilities	1,067,812	949,851
Unfunded Actuarial Liability (note 1d)		
Fund balance (note 3):		
State Accumulation Account	9,839,024	8,591,543
Members' Savings Account	4,290,330	4,127,436
Reserve for Retirement	7,279,322	6,603,226
Reserve for Disabilities	264,860	238,245
Health Insurance Account	45,529	32,346
Total fund balance	21,719,065	19,592,796
TOTAL LIABILITIES AND FUND BALANCE	\$22,786,877	\$20,542,647

See accompanying notes to financial statements.

Statements of Revenues, Expenses and Changes in Fund Balance
Years ended June 30, 1993 and 1992
(Amounts in Thousands)

Year ended June 30, 1993

	Total	State Accumulation Account	Members' Savings Account	Reserve for Retirement	Reserve for Disabilities	Health Insurance Account
Revenue:						
Contributions:						
Employers	\$ 484,591	\$ 467,609	\$ —	\$ —	\$ —	\$16,982
Employes	408,588	—	408,588	—	—	—
Commonwealth of Pennsylvania	481,589	464,220	—	—	—	17,369
	1,374,768	931,829	408,588	—	—	34,351
Investment revenues, net of related expenses (note 4)	2,107,170	1,557,023	164,750	370,731	13,145	1,521
Total revenue	3,481,938	2,488,852	573,338	370,731	13,145	35,872
Expenses:						
Benefits	1,316,266	—	—	1,260,147	33,847	22,272
Refunds	10,876	—	10,876	—	—	—
Net transfers to (from) State Employes' Retirement System	10,482	9,662	820	—	—	—
Administrative expenses	18,045	17,628	—	—	—	417
Total expenses	1,355,669	27,290	11,696	1,260,147	33,847	22,689
Excess (deficiency) of revenues over expenses	2,126,269	2,461,562	561,642	(889,416)	(20,702)	13,183
Transfers between reserves for:						
Retirements by members	—	(1,258,084)	(403,119)	1,598,760	62,443	—
Annuitants who returned to service	—	5,262	370	(2,474)	(3,158)	—
Actuarial requirements	—	42,742	—	(30,774)	(11,968)	—
Other	—	(4,001)	4,001	—	—	—
Net transfers between reserves	—	(1,214,081)	(398,748)	1,565,512	47,317	—
Fund balance at beginning of year	19,592,796	8,591,543	4,127,436	6,603,226	238,245	32,346
Fund balance at end of year	\$21,719,065	\$9,839,024	\$4,290,330	\$7,279,322	\$264,860	\$45,529

See accompanying notes to financial statements.

Statements of Revenues, Expenses and Changes in Fund Balance (Continued)
Years ended June 30, 1993 and 1992
(Amounts in Thousands)

	Year ended June 30, 1992					
	Total	State Accumulation Account	Members' Savings Account	Reserve for Retirement	Reserve for Disabilities	Health Insurance Account
Revenue:						
Contributions:						
Employers	\$ 475,443	\$ 459,614	\$ —	\$ —	\$ —	\$15,829
Employes	361,654	—	361,654	—	—	—
Commonwealth of Pennsylvania	485,601	469,710	—	—	—	15,891
	1,322,698	929,324	361,654	—	—	31,720
Investment revenue, net of related expenses (note 4)	1,712,771	1,180,662	154,350	365,000	11,976	783
Total revenue	3,035,469	2,109,986	516,004	365,000	11,976	32,503
Expenses:						
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
Total expenses	1,040,073	25,641	11,096	972,051	31,128	157
Excess (deficiency) of revenues over expenses	1,995,396	2,084,345	504,908	(607,051)	(19,152)	32,346
Transfers between reserves for:						
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	—	—	—
Net transfers between reserves	—	(936,745)	(149,403)	1,052,845	33,303	—
Fund balance at beginning of year	17,597,400	7,443,943	3,771,931	6,157,432	224,094	—
Fund balance at end of year	\$19,592,796	\$8,591,543	\$4,127,436	\$6,603,226	\$238,245	\$32,346

See accompanying notes to financial statements.

Notes to Financial Statements
 June 30, 1993 and 1992

(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, 1993, there were 634 reporting units, generally school districts. Membership as of June 30, 1992, the most recent year for which actual amounts are available, consisted of:

Retirees and beneficiaries currently receiving benefits	105,000
Inactive members and vestees entitled to, but not receiving benefits	<u>35,000</u>
	<u>140,000</u>
 Currently employed members:	
Vested	125,000
Nonvested	<u>78,000</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 permitted school employees with at least 30 years of credited service to retire without a reduction in benefits. This so-called "early retirement window" did not require a minimum age in conjunction with length of service for a member to be eligible for full benefits.

On December 21, 1992, an early retirement incentive act, commonly known as the "Mellow Bill" (Act 186 of 1992), provided an additional 10 percent of service credit to a member who meets the following criteria: (1) is at least 55 years of age or older as of August 31, 1993, (2) has at least 10 years of credited service with the System, (3) was not an annuitant as of July 1, 1992, (4) terminates service between July 1, 1992 and August 31, 1993 inclusive, (5) declares intent to retire with their school employer prior to April 1, 1993, and (6) files an application for retirement prior to September 1, 1993. The impact of the Mellow Bill resulted in approximately 11,000 members electing early retirement as of June 30, 1993 and resulted in the System recording a benefit accrual of approximately \$200 million for the refund of contributions and interest of annuitants who elected to retire under the Mellow Bill.

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

Notes to Financial Statements (Continued)

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.

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. In July 1992, participating eligible annuitants started receiving 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 following identifies the amounts required from employers and the Commonwealth for pension benefits and health insurance premium assistance for years ended June 30, 1993 and 1992:

	(Amounts in Thousands)			
	1993		1992	
	Amount	% of Current Covered Payroll	Amount	% of Current Covered Payroll
Employer's and Commonwealth's normal cost	\$ 535,768	7.90	\$ 516,471	8.00
Amortization of unfunded actuarial accrued liability	265,171	3.91	276,095	4.28
Amortization of supplemental annuities	130,890	1.93	136,758	2.12
Health insurance premium assistance	34,351	.50	31,720	.50
	\$ 966,180	14.24	\$ 961,044	14.90

For the year ended June 30, 1993, 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, 1993, employers contributed \$484,591,000 and the Commonwealth contributed \$481,589,000 to the System. The difference between these two amounts results from timing differences in payments to the System. The Commonwealth contribution approximates 7.1 percent of current covered payroll. Employee contributions for the year ended June 30, 1993 were \$408,588,000 and approximate 6 percent of covered payroll. The estimated covered payroll for the year ended June 30, 1993, was approximately \$6,766,328,000.

Notes to Financial Statements (Continued)

Effective July 1, 1993, the combined contribution rate was decreased to 13.17 percent of covered payroll. The rate of 13.17 percent is composed of a pension contribution rate of 12.92 percent for pension benefits and .25 percent for health insurance premium assistance. The decrease in the pension contribution rate is comprised of the following:

- (1) a .75 percent decrease due to a change in the assumed annual rate of salary increase from 7.50 percent to 7.25 percent;
- (2) a .40 percent decrease due to a change in asset valuation method from a 5-year to a 4-year moving average market value;
- (3) a .25 percent decrease in the health care contribution rate from .50 percent to .25 percent;
- (4) a .20 percent increase due to the implementation of accelerated payment option;
- (5) a .20 percent increase due to the Mellow Bill providing for an early retirement incentive; and
- (6) a .07 percent decrease due to other actuarial gains/losses and other experience factors.

(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, 1992, 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 \$110,762,000 from the prior year to \$4,501,385,000.

Significant assumptions underlying the actuarial computations as of June 30, 1992 include: (a) assumed rate of return on investments of 8.50 percent; (b) assumed rate of salary increases of 7.25 percent; (c) assets valued based upon a four 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.

The 7.25 percent assumed rate of salary increase reflects an allowance for inflation of 4 percent, national productivity of 1 percent, and merit or seniority increases of 2.25 percent.

Beginning on July 1, 1991, employer contributions to amortize the unfunded liability on account of active members and supplemental annuity payments to annuitants was rescheduled over a period of 20 years. Changes in the unfunded liability subsequent to July 1, 1991 are amortized over a period of 20 years from the first day of July of the next fiscal year following the change, with payments increasing five percent annually.

(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, net of any valuation reserves.

Other long-term investments are carried at cost as of the trade date, net of any valuation reserves.

Notes to Financial Statements (Continued)

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, global investments, and other short-term 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, 1993 and 1992, the System qualified under the provisions of Section 501(a) of the Internal Revenue Code and was exempt from Federal income taxes.

(d) Compensated Absences

The System records a liability for employes' 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 4 percent interest and the Reserves for Retirement and Disabilities with 5.50 percent interest) are credited to this account. Each year the necessary amounts for the payment of retirement and death benefits, as determined by the actuary, 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 4 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.

Notes to Financial Statements (Continued)

(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, started 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, 1993 and 1992 and the approximate market values follows:

(Amounts in Thousands)

	1993		1992	
	Book Value	Market Value	Book Value	Market Value
Fixed income and mortgage investments				
net of valuation reserves:				
Domestic portfolio:				
U.S. Government and agency obligations	\$ 4,280,336	\$ 4,555,165	\$ 4,259,137	\$ 4,453,865
Mortgage backed securities	2,804,598	2,895,400	2,687,091	2,852,548
Corporate and municipal bonds	1,393,512	1,454,331	1,165,079	1,223,039
Miscellaneous fixed income	281,319	297,812	374,900	386,848
Private placements	98,500	114,456	90,000	104,580
FHA/VA residential mortgages	64,661	64,397	104,699	107,317
Equity participating mortgages, net	84,740	91,541	86,126	94,150
FHA project mortgages	—	—	26,748	22,472
Global portfolio	754,397	767,752	753,111	789,062
	9,762,063	10,240,854	9,546,891	10,033,881
Common and preferred stocks:				
Domestic portfolio:				
Common stock	9,139,936	11,268,689	7,566,448	8,914,664
Private placement	143,000	145,933	140,000	142,168
Preferred stock	67,188	71,983	77,227	79,344
Global portfolio	556,701	634,790	375,791	388,553
	9,906,825	12,121,395	8,159,466	9,524,729
Other long-term investments net of valuation reserves:				
Real estate owned, net	262,291	207,875	192,085	121,199
Equity real estate, net	398,740	415,025	253,957	268,048
Venture capital, net	91,947	115,769	71,080	73,041
Farmland investments	65,160	67,316	52,523	52,523
	818,138	805,985	569,645	514,811
Short-term investments:				
Domestic portfolio:				
Health Insurance Account short-term investment fund	29,993	29,436	7,786	7,786
Pa. Treasury short-term investment fund	665,647	665,647	727,087	727,087
Other short-term investments	146,978	146,962	—	—
Global portfolio	439,825	439,419	479,908	483,982
	1,282,443	1,281,464	1,214,781	1,218,855
	\$21,769,469	\$24,449,698	\$19,490,783	\$21,292,276

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, and farmland. The real estate investments are geographically distributed. Real estate investments include office space (35 percent), hotels (11 percent), retail (39 percent), farmland (9 percent), industrial space (1 percent), and residential (5 percent). No individual investment represents more than 10 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, 1993 and 1992 are as follows:

	(Amounts in Thousands)	
	1993	1992
Fixed income and mortgage investments	\$ 713,648	\$ 725,388
Common and preferred stocks	287,392	251,471
Other long-term investments	46,460	39,062
Short-term investments	142,068	106,798
Stock index option writing gain (loss)	(4,122)	12,922
Securities lending income	5,593	2,591
Valuation provision	(40,500)	(115,000)
	1,150,539	1,023,232
Net gain on investment transactions	998,009	727,974
Total investment revenues before investment expenses	2,148,548	1,751,206
Investment expenses	(41,378) *	(38,435) *
Net investment revenues	\$2,107,170	\$1,712,771

* The amounts for investment expenses do not reflect \$2,097,000 and \$1,641,000 in 1993 and 1992 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.

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, 1993, 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.