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Public School Employees' Retirement System of Pennsylvania
(A Component Unit of the Commonwealth of Pennsylvania)
PO Box 125
Harrisburg, Pennsylvania 17108
Telephone: 717-787-8540

Comprehensive Annual Financial Report

for the
Fiscal Year Ended June 30, 1995

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

James A. Perry
Executive Director

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1995

Report prepared by the Public School Employees' Retirement System staff

Committee Co-Chairpersons

Wilbur F. Dudley
General Accounting Division Program Manager

Douglas A. Bonsall
Director of Communications

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public School Employes'
Retirement System,
Pennsylvania

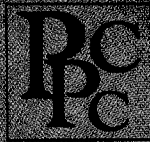
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1994

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



President

Executive Director



**Public Pension Coordinating Council
Public Pension Principles
1994 Achievement Award**

Presented to

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

In recognition of instituting professional standards for public pension systems as established by the Public Pension Principles
developed by the Public Pension Coordinating Council, a coalition of:
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

[Signature]



Public School

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Intro

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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, 1995

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

We are pleased to present the seventy-sixth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 1995. 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, PSERC).

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 throughout its 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 635 reporting units in Pennsylvania. As of June 30, 1995, the System had 211,000 active members with an annual active payroll of \$7.4 billion.

The annuitant membership was comprised of 116,000 retirees and beneficiaries who receive over \$100 million each month. The average yearly benefit paid to annuitants is \$10,500. 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 635 reporting units contribute. The System is administered by a staff of 282. 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 LLP 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

Investment market conditions were very favorable during the fiscal year ended June 30, 1995. The market value of assets of the Pennsylvania Public School Employees' System increased from \$26 billion to approximately \$30 billion from July 1, 1994 to June 30, 1995. PSERS' investment portfolio has grown at an annualized rate of return of 10.8 percent over the five-year period ended June 30, 1995. For the one-year period ended June 30, 1995, PSERS' investment portfolio earned a rate of return of 17.1 percent. PSERS maintains its position as one of the twenty largest pension systems in the nation.

The System's funded ratio (actuarial assets divided by actuarial liabilities) declined slightly from 87.3 percent to 86.6 percent according to the most recent actuarial valuation for the period ended June 30, 1994. The decrease is primarily attributed to improved pension benefits enacted with Act 29 of 1994 which included a cost of living adjustment for retirees. Over the five-year period ended June 30, 1994 (most recent actuarial valuation), the funded status of the System has significantly improved from 76.5 percent to 86.6 percent. Another measure of a pension System's funded status has been established by Statement No 5 of the GASB. This is a standardized disclosure measure used by most public pension funds for comparative purposes. Under the GASB Statement No. 5 standards, PSERS' funded status is 89.3 percent as of June 30, 1994.

The Board has continued to fulfill 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 strength of the System with respect to the long-term funding status. Of utmost importance to the Board is to assure that required reserves are available for payment of current and prospective retirement benefits.

Major Initiatives

PSERS Business System

One of the priorities at the Public School Employees' Retirement System is the design and development of a new business environment. Often referred to as PBS, the PSERS Business System is a comprehensive redesign and rewrite of PSERS member-related and employer-related business and computer systems. The design of PBS involves an exhaustive review of what services PSERS provides to its members and how those services are to be provided. The design also reflects a complete re-thinking of how PSERS interacts with its employer reporting units. PBS is being developed at this time for many reasons. PSERS has experienced multiple legislative changes to the Public School Employees' Retirement Code as well as changes to federal statutes affecting the Retirement System. The pension benefits have become more and more complex over time while our member service expectations have continually heightened. The employer reporting unit's environment has also become more complex and both PSERS and the sponsoring employers have only limited resources to meet the increasing demands. Another key element promoting development at this time is the significant improvements in automated technologies which will help provide the solutions to a better business system.

The development of PBS is the direct result of meetings with, and incorporating the ideas of school business managers, payroll clerks, benefits staff of the employers, software providers, PSERS members and annuitants, collaborative groups representing all of PSERS' membership and employer organizations and finally, PSERS' staff. As a result of PBS, PSERS' active, inactive and vested members will receive more informative and more accurate Statements of Account. PSERS' annuitants will receive Benefit Statements showing their pension benefits and related deductions on a periodic basis. All of PSERS' membership and the employer reporting units will have easier access to information stored at PSERS. The employer will see a significant reduction of paper documents and will be able to report or adjust information over the phone. The employers will also have on-line access to member-related and employer-related information maintained at PSERS. We are very excited about the potential capabilities of the PSERS Business System and look forward to its implementation beginning in 1997.

Federal Tax Qualification

The Public School Employes' Retirement System, as a governmental plan, is subject to both State and Federal law. At the federal level, PSERS is most impacted by the Internal Revenue Code (IRC). One of the chief advantages of complying with the various IRC requirements that apply to governmental plans, is that the plan, and its members, receive favorable tax treatment. Such a plan is known as a qualified plan. It is this qualified status, for example, that allows PSERS' members to exclude (for federal tax purposes) from their current income the mandatory member contributions required by the Public School Employes' Retirement Code (PSERC). After the recodification of the PSERC in 1975, PSERS applied for and obtained a qualification letter from the Internal Revenue Service (IRS). Since that time, PSERS has acted and been treated by the IRS as a tax qualified governmental plan.

Notwithstanding PSERS' current qualified status, the Public School Employes' Retirement Board believes it is time to revisit the issue. This action is motivated not only by numerous amendments to both the IRC and PSERC, but also the perception of increased interest by the IRS in the activities of governmental plans in general. Accordingly, the Board directed its staff and counsel to research the requirements for continued favorable tax treatment of PSERS as a qualified plan under the IRC. As a result of the Board's initiative and its staff's efforts, a tax compliance proposal has been prepared in final amendment form for adoption by the Pennsylvania General Assembly.

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 \$25.9 billion at book value (\$29.7 billion at market value) as of June 30, 1995. Based on market valuation of its assets, the System is the 13th 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 1994/95, the appropriation was \$23,091,000.

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 1995 totaled \$3,010.0 million detailed as follows:

Revenue Source	1995 (Millions)	1994 (Millions)
Member Contributions	\$ 428.6	\$ 404.2
Employer Contributions	825.6	926.8
Investment Income	1,755.8	1,810.9
Total	\$ 3,010.0	\$ 3,141.9

The net decrease of \$131.9 million includes a decrease of \$101.2 million in employer contributions. The decrease is attributable to the decrease in the employer contribution rate from 13.17 percent in fiscal year 1993/94 to 11.06 percent in fiscal year 1994/95. The decrease in the employer rate was primarily caused by the effects of changing the member's salary increase assumption and the change to a new actuarial asset averaging valuation method. A decrease in investment income of 3 percent was largely due to lower net transaction gains/losses.

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. Expenses by type for 1995 and 1994 are shown for comparative purposes.

Expenses	1995 (Millions)	1994 (Millions)
Retirement Benefits	\$ 1,251.8	\$ 1,115.8
Disabilities	37.3	32.6
Lump-Sum Payments	112.6	222.9
Refunds	13.0	10.9
Net Transfers	1.3	3.8
Administrative	23.9	23.3
Total	\$ 1,439.8	\$ 1,409.3

Pension payments to the System's 116,000 annuitants now exceed \$100 million per month. Budgeted expenses to administer the System were \$23.9 million for the year and continue to represent a small fraction of total expenses, constituting only 1.7 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, 1995, member contributions constituted 14.3 percent of the annual funding, employer contributions constituted 27.4 percent and investment earnings accounted for 58.3 percent.

The total employer rate of contribution as a percent of salaries increased from 11.06 percent for the fiscal year 1994/95 to 11.72 percent for 1995/96. This increase results from the increased benefit provisions included in Act 29 of 1994. The portion of the total employer rate of contribution required to fund the Health Care Premium Assistance Program increased from .45 percent in fiscal year 1994/95 to .62 percent in fiscal year 1995/96. 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, 1995, the Fund balance increased \$1,570.1 million over the prior year - from \$23,451.7 million to \$25,021.8 million after meeting the retirement obligations of the System.

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

Investments

Earnings from the investment portfolio represent a major source of revenue to the System, accounting for over 58 percent of total revenues for the year.

Investments of the System netted \$1,755.8 million in earnings for the year. The investment portfolio totaled \$28.7 billion, at market value, as of June 30, 1995.

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, 1995, the time-weighted rate of return on the System's investments was 17.1 percent. The five-year annualized rate of return was 10.8 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, 1994. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one-year only. The Public School Employees' Retirement System has received a Certificate of Achievement for the last 12 consecutive years (fiscal years ended June 30, 1983 - June 30, 1994). 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 1995 certificate.

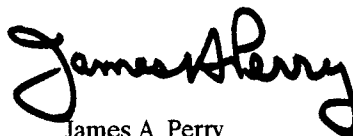
A reproduction of this award appears in this **Introductory Section**. Its attainment represents a significant accomplishment by the Retirement System, whose Bureau of Fiscal Control holds general responsibility for the compilation and validity of the financial data and shares with the Communications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

We are pleased to announce that the Public Pension Coordinating Council has conferred the *1994 Public Pension Principles Achievement Award* on the System. The award is given to the 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,



Arthur J. Granito
Assistant Executive Director
for Financial Management



James A. Perry
Executive Director

Mission Statement



of Trustees of the Public School Employees System, empowered by statute with the authority and fiduciary responsibility to ensure the timely and payment of benefits to the members of the System and the stability of the Fund, shall:

to collect contributions to the Fund

to invest the assets of the Fund, and

to 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.



Bernard J. Freitag
Chair



Vincent J. Fumo



Steven R. Nickol

Administrative Organization
PSERS Board of Trustees



Alma Kay Crawford
Vice Chair



Mary Ann Caputo



Dennis Ciani



Dwight Evans



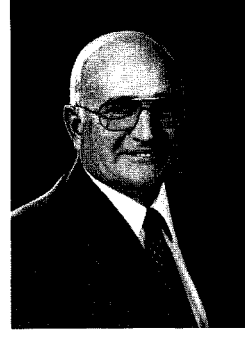
Eugene W. Hickok



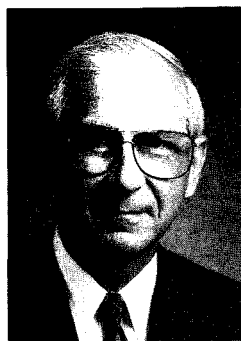
Kenton W. Keiser



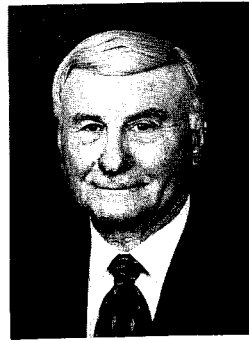
Catherine Baker Knoll



Roger A. Madigan



Joseph V. Oravitz



Samuel M. Sanzotto



Frederick Tecce



Melva Vogler

PSERS Board of Trustees
as of June 30, 1995

Secretary of Education of the Commonwealth of Pennsylvania (ex officio)
Honorable Eugene W. Hickok

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

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

Two Members Appointed by the Governor of the Commonwealth of Pennsylvania
Dr. Samuel M. Sanzotto (term expires 12/31/96)
Mr. Frederick Tecce, Esq. (term expires 12/31/97)

Three Members Elected from Among the Professional Contributors of the System for a Term of Three Years
Mr. Bernard J. Freitag (term expires 12/31/95)
Mr. Dennis Ciani (term expires 12/31/97)
Ms. Melva Vogler (term expires 12/31/96)

One Member Elected from Among the Nonprofessional Contributors of the System for a Term of Three Years
Ms. Mary Ann Caputo (term expires 12/31/97)

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 12/31/95)

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 12/31/96)

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 11/30/96)
Honorable Steven R. Nickol (term expires 11/30/96)

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 11/30/96)
Honorable Roger A. Madigan (term expires 11/30/96)

1995 Board Committees

Ad-Hoc Committee on Health Care

Ms. Crawford, Chair
Ms. Knoll
Sen. Fumo
Rep. Nickol
Mr. Oravitz
Dr. Sanzotto
Ms. Vogler

Appeals

Ms. Caputo, Chair
Mr. Ciani
Ms. Crawford
Mr. Keiser
Ms. Knoll
Mr. Oravitz
Dr. Sanzotto
Ms. Vogler

Audit/Budget

Mr. Oravitz, Chair
Ms. Caputo
Mr. Ciani
Sen. Fumo
Mr. Keiser
Ms. Knoll
Sen. Madigan
Dr. Sanzotto

Building

Mr. Keiser, Chair
Ms. Caputo
Mr. Ciani
Ms. Knoll
Ms. Vogler

Corporate Relations

Ms. Crawford, Chair
Mr. Ciani
Mr. Keiser
Ms. Knoll
Sen. Madigan
Rep. Nickol
Ms. Vogler

Election

Ms. Vogler, Chair
Ms. Caputo
Mr. Ciani
Ms. Knoll
Rep. Nickol

Finance

Mr. Keiser, Chair
Ms. Caputo
Mr. Ciani
Ms. Crawford
Rep. Evans
Sen. Fumo
Ms. Knoll
Sen. Madigan
Rep. Nickol
Mr. Oravitz
Dr. Sanzotto
Mr. Tecce
Ms. Vogler

Legislative Monitor

Ms. Crawford, Chair
Rep. Nickol

Personnel

Mr. Ciani, Chair
Ms. Caputo
Sen. Fumo
Mr. Keiser
Ms. Knoll
Ms. Vogler

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

Telephone (717) 787-8540

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

December 1, 1995

The Honorable Thomas J. Ridge
 Governor of Pennsylvania

Members of the Legislature
 Members of the Retirement System

Dear Governor Ridge, 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-sixth *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 1995. The 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. The market value of assets surpassed \$29.6 billion at fiscal year end; active membership approximates 211,000 and annuitants total 116,000 receiving pension benefits of approximately \$100 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.

This report highlights many of the significant activities of the Retirement System for the year ended June 30, 1995, 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.

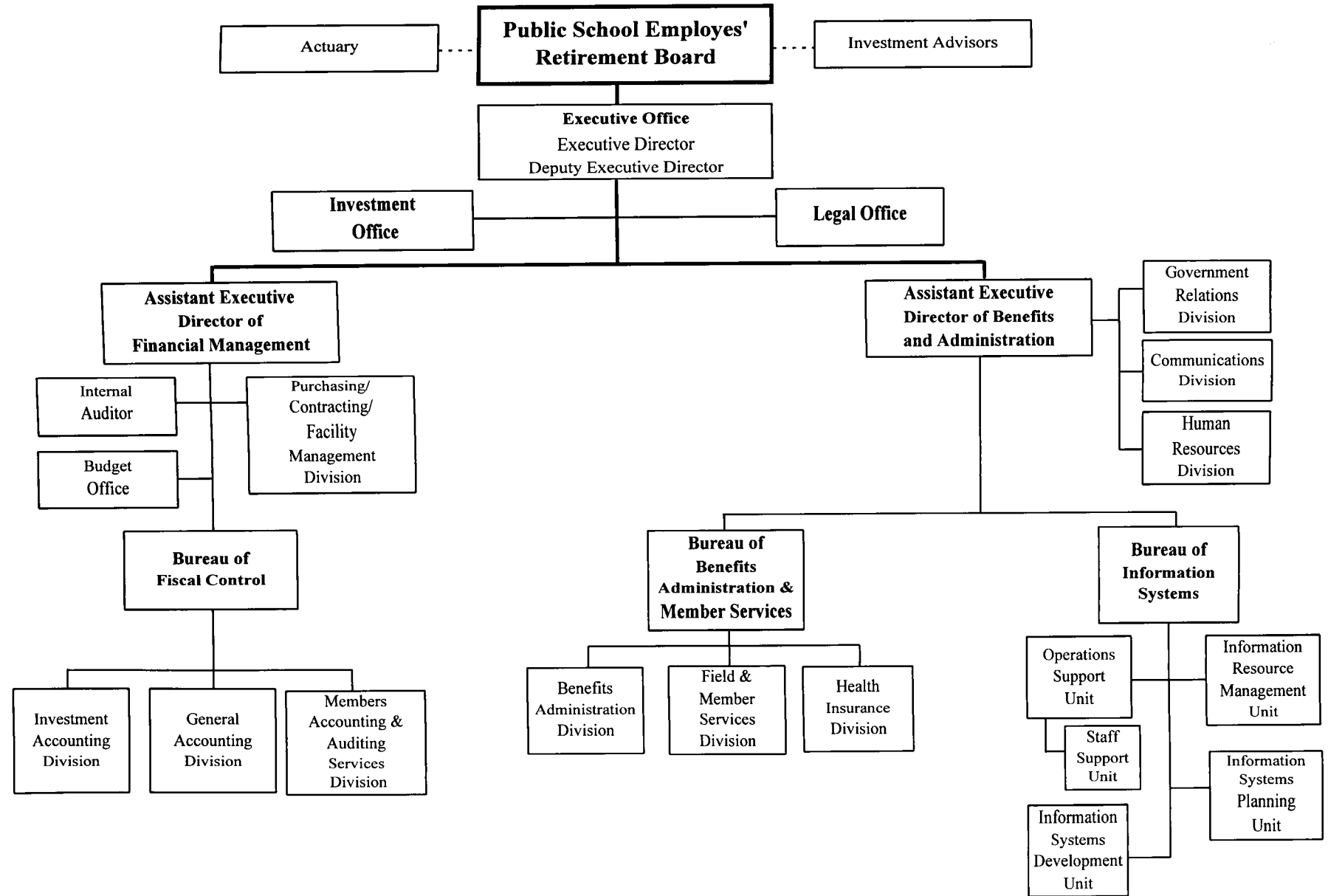
The Board of Trustees appreciates the cooperation extended to it by the Governor's Office and the Legislature which enables and empowers us to meet the challenges which face us currently and to make timely provisions for the challenges ahead.

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.

Bernard J. Freitag

Bernard J. Freitag
 Chair
 Board of Trustees

ORGANIZATIONAL CHART OF THE
 PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM



Organizational Structure of the Public School Employees' Retirement System

Public School Employees' Retirement Board of Trustees

The Board, consisting of fifteen members, is an independent administrative board of the Commonwealth. The members of the Board stand in a fiduciary relationship to the members of the Pennsylvania Public School Employees' Retirement System regarding the investments and disbursements of moneys of the Fund. The members of the Board, as trustees of the Fund, have exclusive control and management of the Fund and full power to invest the Fund, subject to observance of such standards of fiduciary conduct. The Board also performs other functions as are required for the administration and execution of the Public School Employees' Retirement Code such as certifying contribution rates, authorizing the actuarial valuation and independent audit of the System, and publishing an annual financial statement of the condition of the Retirement Fund. In addition, the Board reviews the activities performed by the System's Executive Director.

Executive Office

The Executive Office is responsible for the overall management of the Retirement System to achieve the primary objectives of the Fund as established by the Retirement Board. The Executive Director serves as chief executive officer responsible for the establishment, installation, and maintenance of modern management techniques to provide an efficient control of moneys and paperwork for 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 Deputy Executive Director and the Assistant Executive Directors provide administrative and managerial assistance in the overall management of the Public School Employees' Retirement System. The Assistant Executive Director of Benefits Administration has responsibility for managing the Bureau of Benefits Administration and Member Services, the Bureau of Information Systems, and general administrative functions including the Human Resources Division, Government Relations Division, Communications Division, Management Support and Planning Office, Telecommunications Office and the Mailroom. The Assistant Executive Director of Financial Management has responsibility for overseeing the management of the financial operations of the System including the Bureau of Fiscal Control, Internal Audit, Budget Office, and Purchasing, Contracting and Facility Management Division.

As part of the Executive Office, the Investment Office is responsible for the investment activities of the Retirement System. The Fund's assets are allocated to numerous investment advisors for investment in equities, fixed income, real estate, venture capital, and other off Balance Sheet investments. A portion of the portfolio is managed in-house.

Legal services are provided by a team of professional personnel through the Governor's Office of General Counsel and are shared by PSERS, the State Employees' Retirement System, and the Pennsylvania Municipal Retirement System. The legal staff is responsible for representing the System in all administrative hearings and other litigation matters and providing counsel on a wide variety of matters including the interpretation of the Retirement Code, the form and legality of all System contracts, corporate governance issues and the structure and implementation of the System's varied financial investments.

Bureau of Benefits Administration and Member Services

The Bureau of Benefits Administration and Member Services provides professional and technical service to over 211,000 active members and 116,000 retirees from the moment of enrollment through the process of retirement. The Bureau also administers the \$1.3 billion dollar annuitant payroll. The bureau is organized into three divisions: Benefits Administration, Field Services and Member Service Center, and Health Insurance.

Division of Benefits Administration

The Division of Benefits Administration is responsible for the processing of all member related functions. The division is comprised of four centers: the Central Processing Center, the Benefits Processing Center, the Exception Processing Center, and the Refund and Closing Center. The Central Processing Center is a multifunctional area responsible for a variety of retirement processes: determining eligibility for membership, vesting, retirement, and purchase of service; processing tax forms, electronic transfers, and direct rollovers; and calculating retirement estimates. The Exception Processing Center handles the reconciliation of the payroll and the processing of difficult and unusual calculations which require special handling. The Benefit Processing Center calculates and processes payment for all types of retirement benefits. This center is also responsible for the calculation and billing of 14 types of service which are purchasable for retirement purposes. The Refund and Closing Center calculates and processes for payment the refund of contributions and interest to terminating members not eligible for retirement benefits and processes all death benefit payments.

Division of Field Services and Member Services

The field program services both active and retired PSERS members and over 600 reporting units through seven field offices located throughout the Commonwealth of Pennsylvania. Each field representative is a liaison of PSERS with the members and the reporting units.

The Member Service Center handles the majority of phone and general correspondence relative to a member's record in the System. This center answers the PSERS general telephone number and is a vital link between PSERS and reporting units, members, SERS, and other retirement systems.

Division of Health Insurance

This division is responsible for all aspects of the PSERS Health Insurance and Premium Assistance Program. The PSERS Health Options Insurance Program is a statewide plan which provides group insurance coverage for all school retirees and their eligible dependents. Reimbursement of up to \$55 per month is provided to all eligible annuitants through the Premium Assistance Program.

Bureau of Fiscal Control

The Bureau of Fiscal Control has responsibility for planning, organizing and directing a complete accounting and financial reporting system. Oversight is provided for new systems development and maintenance of existing systems, ensuring appropriate accounting controls. The Bureau is the liaison for other state and federal agencies, reporting units, financial consultants, actuaries, and investment advisors for all accounting matters. The Bureau is organized into three divisions: General Accounting, Members' Accounting and Auditing Services, and Investment Accounting.

General Accounting Division

The General Accounting Division has the responsibility of recording all financial transactions for the investment, pension and health care operations of the system. The Division maintains PSERS General Ledger, audits and processes administrative expenses, and prepares interim and annual financial statements. It determines and collects all cash contributions to the Fund and also reconciles and monitors the financial activities of the third party administrator for the Health Options Program.

Members' Accounting and Auditing Services Division

The Members' Accounting and Auditing Services Division has responsibility for collecting and accounting for member contributions reported by 635 reporting units and for maintaining the 300,000 employee savings accounts. It also performs a 100 percent audit function of all retirement, refund, and death benefit calculations prior to processing for payment. The Division maintains a data quality/data conversion function for member data required in the new PSERS Business System design.

Investment Accounting Division

The Investment Accounting Division has responsibility for processing, monitoring, and recording all investment transactions to guarantee adherence to guidelines and objectives prescribed by the Board. It serves as intermediary with the custodial bank, the State Treasury Department, brokers, the investment evaluator, and investment consultants. The Division accounts for the \$25 billion investment portfolio by reconciling each investment asset class and income category between the PSERS General Ledger and the sub-custodial bank.

Bureau of Information Systems

The Bureau of Information Systems has the responsibility for planning, administering, and controlling all information systems activities within PSERS. Additionally, the Bureau implements agency policies and objectives across all information systems activities by providing

professional services for feasibility studies, systems development, application training, data communications, information management, automated technology resource selection, and computer operations. The bureau also formulates short-term and long-range automated technology plans to permit the agency to meet directed missions. The Bureau is organized into five units: Information Systems Planning Unit, Information Systems Development Unit, Operations Support Unit, Staff Support Unit, and the Information Resource Management Unit.

Information Systems Planning Unit

The Information Systems Planning Unit is responsible for managing system projects and processes. Specifically, the unit plans, defines, monitors, and controls all information system projects. Additionally, this unit participates in setting automated technology short-term and long-range direction, monitoring the effectiveness of bureau activities and recommending business process improvements.

Information Systems Development Unit

This unit is responsible for the development and maintenance of all application systems and the technical support of all automated technology resources within the agency.

Operations Support Unit

The Operations Support unit is responsible for the operation and control of all computer mainframe resources.

Staff Support Unit

The Staff Support unit is responsible for providing user assistance and training for application systems, microcomputers and mainframe resources.

Information Resource Management Unit

The Information Resource Management unit is responsible for the development and maintenance of the agency's information resource management and disaster recovery programs.

Administrative Staff



James A. Perry
Executive Director



Jeffrey B. Clay
Deputy Executive
Director



Arthur J. Granito
Assistant Executive
Director for Financial
Management



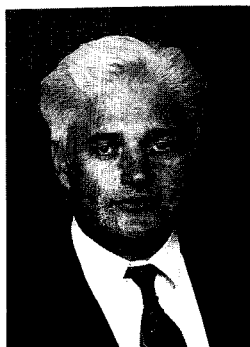
Veronica P. Thomas
Assistant Executive
Director for Benefits and
Administration



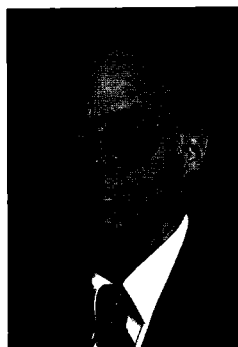
Helen D. Hosler
Director of Benefits
Administration and
Member Services



Dale W. Houck
Director of Information
Systems



John C. Lane
Chief
Investment Officer



Thomas E. Ross
Chief Counsel



Yvonne C. Wineholt
Director of
Fiscal Control

PROFESSIONAL CONSULTANTS**Investment Advisors**

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(*Options & Futures*)
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Advanced Investment Management, L.P.
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Aetna Realty Investors (*Real Estate*)
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Bankers Trust (*Tactical Asset*)
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Bastion Capital Corporation
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Birmingham Capital Management Co. (*Equity*)
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Columbus Circle Investors
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Metro Center
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Stamford, CT 06902

Corestates Bank (*Security Lending*)
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Delta Asset Management (*Equity*)
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Timonium, MD 21093

Hudson Capital Advisors (*Equity*)
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New York, NY 10022

IDS International, Inc. (*Equity*)
IDS Tower 10
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Keystone Minority Capital Fund, L.P.
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Keystone Venture (*Venture Capital*)
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Leonard Green & Partners L.P.
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Los Angeles, CA 90071

Liberty Investment Management (*Equity*)
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2502 Rocky Point Drive
Tampa, FL 33607

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

Marathon Asset Management Limited (*Equity*)
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London, WC2H 8AD, England

Martin Currie Investment Management Ltd.
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Saltire Court
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Edinburgh, EH1 2ES, Scotland

Mellon Bank, N.A. (*Equity*)
One Mellon Bank Center, Room 3946
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Metric Institutional Realty Advisors
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(Fixed Income)
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(Farmland)
1221 Avenue of the Americas, 21st Floor
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Morgan Stanley Real Estate Fund, II, L.P.
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NEPA Management Corporation
(Venture Capital)
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Lehigh University
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Numeric Investors L.P. (Absolute Return)
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Oppenheimer Capital Corp. (Equity)
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Quantilogic Asset Management Company, Inc.
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Rogge Global Partners (Fixed Income)
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Rorer Asset Management (Equity)
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New York, NY 10178

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Dr. Jonathan Tocks, M. D.
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Enola, PA 17025

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

A History of the Public School Employees' Retirement System

- 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 of Trustees 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, 1989, and 1994.

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 with a profound effect on the System:
- PSERS 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 loss of annuity was changed from 60 to 75 days. The Tax Equity and Fiscal Responsibility Act had

History (Continued)

significant impact on the members and automated systems. The first of several retirement "windows" was enacted.

- 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 contribution 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 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.

History (Continued)

- 1990 - The 100,000th annuitant was added to the payroll. The investment and legal staffs were expanded.
- 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 expansion 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 annual 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. The number of 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*.
- 1994 - Assets reached \$25 billion. More than \$1 billion was paid out in benefits. The System celebrated its 75th anniversary with a Diamond Jubilee program at The Forum. For the 11th consecutive year, the *PSERS Component Unit Financial Report* received the prestigious *Certificate of Achievement for Excellence in Financial Reporting* by the Government Finance Officers Association of the United States and Canada. The System was also one of 13 recipients of the *Public Pension Principles 1993 Achievement Award* from the Public Pension Coordinating Council.

History (Continued)

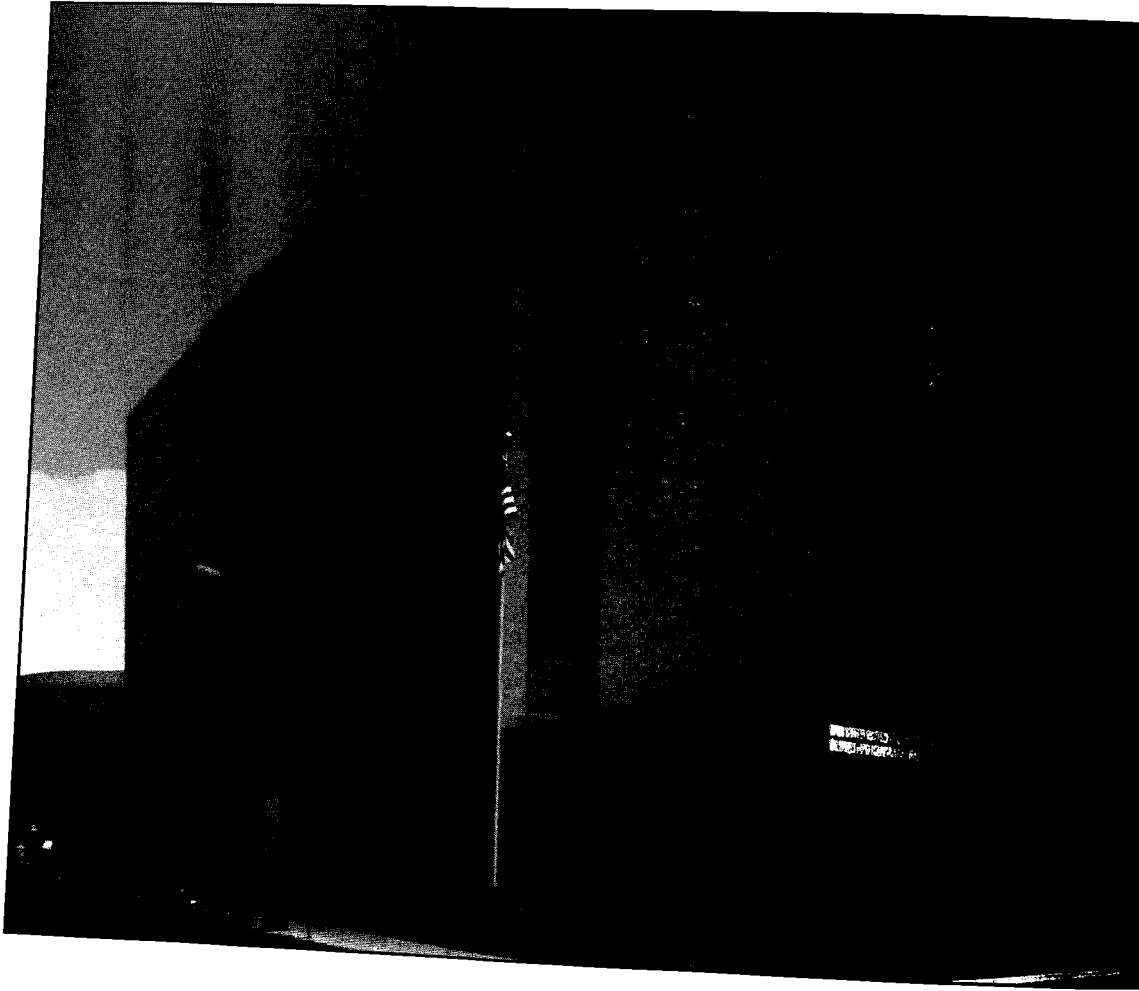
Act 29 of 1994 provided:

- a cost-of-living adjustment for most retirees
- extended the "30 and out" window until July 1, 1997, retroactive to July 1, 1993
- extended the "Mellow Bill" incentives to include those who terminated service between May 15, 1992 and July 1, 1992 (previous dates were limited to July 1, 1992 until August 31, 1993)
- allowed eligible members to elect to eliminate the "frozen annuity"
- allowed members over normal retirement age to apply for a disability benefit
- instituted employer contributions ratio changes
- granted premium assistance to members who terminated employment on or after their 62nd birthday with at least 15 years of service
- the PSERS Board of Trustees was given increased authority to invest the Fund as "prudent persons."

- 1995 - Assets reached \$30 billion at market value as the staff prepared for an agency-wide conversion to the PSERS Business System, known as PBS, a sweeping new process for serving the membership.

CL

PSERS Headquarters Building



The headquarters of the Public School Employes' Retirement System is located at 5 North Fifth Street in downtown Harrisburg, Pennsylvania near the State Capitol complex. In addition, field offices are maintained in Brookville, Mechanicsburg, Pittsburgh, Reading, Warminster, Wilkes-Barre, and Williamsport.

Public School

ement System



Financial S...ion

Fifth Street in
eld offices are
es-Barre, and

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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, 1995 and 1994, 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 overall 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 as of June 30, 1995 and 1994, 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 LLP

October 27, 1995

Balance Sheets
June 30, 1995 and 1994
(Amounts in Thousands)

Assets:	1995	1994
Investments, at cost (note 4):		
Fixed income and mortgage investments, net of valuation reserves of \$0 and \$4,200 in 1995 and 1994, respectively (market value \$7,950,364 in 1995 and \$9,518,753 in 1994)	\$ 7,747,588	\$ 9,650,473
Common and preferred stocks (market value \$18,057,565 in 1995 and \$12,851,256 in 1994)	14,561,523	11,394,134
Other long-term investments, net of valuation reserves of \$120,686 and \$131,026 in 1995 and 1994, respectively (market value \$1,429,076 in 1995 and \$1,083,719 in 1994)	1,350,534	1,083,114
Short-term investments (market value \$1,308,285 in 1995 and \$1,623,127 in 1994)	1,306,776	1,622,394
Total investments	24,966,421	23,750,115
Receivables:		
Contributions:		
Employes	80,563	73,966
Employers	132,345	145,286
Commonwealth of Pennsylvania	109,709	142,968
Investment:		
Income	194,570	182,858
Proceeds	414,698	309,284
Other	5,212	1,707
Total receivables	937,097	856,069
Cash	176	1
Fixed assets (net of accumulated depreciation of \$6,559 and \$5,162 in 1995 and 1994, respectively)	6,506	6,630
TOTAL ASSETS	25,910,200	24,612,815
Liabilities and Fund Balance		
Liabilities:		
Accounts payable and accrued expenses	20,000	16,904
Benefits payable	9,910	43,391
Investment purchases payable	858,481	1,100,845
Total liabilities	888,391	1,161,140
Unfunded actuarial liability (note 1)		
Fund balance (note 3):		
State Accumulation Account	10,122,840	7,966,036
Members' Savings Account	5,089,724	4,589,189
Reserve for Retirement	9,401,094	10,560,921
Reserve for Disabilities	361,692	296,198
Health Insurance Account	46,459	39,331
Total fund balance	25,021,809	23,451,675
TOTAL LIABILITIES AND FUND BALANCE	\$ 25,910,200	\$ 24,612,815

See accompanying notes to financial statements.

Statements of Revenues, Expenses and Changes in Fund Balance
Years ended June 30, 1995 and 1994
(Amounts in Thousands)

	Year ended June 30, 1995					
	Total	State Accumulation Account	Members' Savings Account	Reserve for Retirement	Reserve for Disabilities	Health Insurance Account
Revenues:						
Contributions:						
Employers	\$ 414,822	\$ 397,521	\$ -	\$ 195	\$ -	\$ 17,106
Emploees	428,584	-	428,584	-	-	-
Commonwealth of Pennsylvania	410,800	394,086	-	-	-	16,714
	1,254,206	791,607	428,584	195	-	33,820
Investment revenues, net of related expenses (note 4)	1,755,767	1,050,155	189,969	496,890	17,403	1,350
Total revenue	3,009,973	1,841,762	618,553	497,085	17,403	35,170
Expenses:						
Benefits	1,401,679	-	-	-	-	-
Refunds	13,008	-	-	1,330,762	44,034	26,885
Net transfers to State Employees' Retirement System	1,263	1,221	42	-	-	-
Administrative expenses	23,889	22,730	-	-	-	1,159
Total expenses	1,439,839	23,951	13,050	1,330,762	44,034	28,042
Excess (deficiency) of revenues over expenses	1,570,134	1,817,811	605,503	(833,677)	(26,631)	7,128
Transfers between reserves for:						
Retirements by members	-	(994,250)	(118,976)	1,009,396	103,830	-
Annuitants who returned to service	-	9,602	2,533	(8,080)	(4,055)	-
Actuarial requirements	-	1,334,067	-	(1,326,417)	(7,650)	-
Other	-	(10,426)	11,475	(1,049)	-	-
Net transfers between reserves	-	338,993	(104,968)	(326,150)	92,125	-
Fund balance, at beginning of year	23,451,675	7,966,036	4,589,189	10,560,921	296,198	39,331
Fund balance, at end of year	\$ 25,021,809	\$ 10,122,840	\$ 5,089,724	\$ 9,401,094	\$ 361,692	\$ 46,459

See accompanying notes to financial statements.

Statements of Revenues, Expenses and Changes in Fund Balance (Continued)
Years ended June 30, 1995 and 1994
(Amounts in Thousands)

Year ended June 30, 1994

	Total	State Accumulation Account	Members' Savings Account	Reserve for Retirement	Reserve for Disabilities	Health Insurance Account
Revenues:						
Contributions:						
Employers	\$ 465,021	\$ 456,260	\$ -	\$ -	\$ -	\$ 8,761
Employes	404,183	-	404,183	-	-	-
Commonwealth of Pennsylvania	461,798	453,032	-	-	-	8,766
	1,331,002	909,292	404,183	-	-	17,527
Investment revenues, net of related expenses (note 4)	1,810,919	1,121,453	174,115	499,271	14,567	1,513
Total revenue	3,141,921	2,030,745	578,298	499,271	14,567	19,040
Expenses:						
Benefits	1,371,306	-	-	1,309,127	37,952	24,227
Refunds	10,851	-	10,851	-	-	-
Net transfers to State Employees' Retirement System	3,843	3,702	141	-	-	-
Administrative expenses	23,311	22,300	-	-	-	1,011
Total expenses	1,409,311	26,002	10,992	1,309,127	37,952	25,238
Excess (deficiency) of revenues over expenses	1,732,610	2,004,743	567,306	(809,856)	(23,385)	(6,198)
Transfers between reserves for:						
Retirements by members	-	(3,012,745)	(275,487)	3,212,643	75,589	-
Annuitants who returned to service	-	7,256	385	(3,547)	(4,094)	-
Actuarial requirements	-	(865,587)	-	882,359	(16,772)	-
Other	-	(6,655)	6,655	-	-	-
Net transfers between reserves	-	(3,877,731)	(268,447)	4,091,455	54,723	-
Fund balance, at beginning of year	21,719,065	9,839,024	4,290,330	7,279,322	264,860	45,529
Fund balance, at end of year	\$ 23,451,675	\$ 7,966,036	\$ 4,589,189	\$ 10,560,921	\$ 296,198	\$ 39,331

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 1995 and 1994

(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 governmental 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, 1995, there were 635 reporting units, generally school districts. Membership as of June 30, 1994, the most recent year for which actual amounts are available, consisted of:

Retirees and beneficiaries currently receiving benefits	115,000
Inactive members and vestees entitled to, but not receiving benefits	36,000
	151,000
Currently employed members:	
Vested	119,000
Nonvested	87,000
	206,000

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

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 accountability, as defined by GASB Statement No. 14, *The Financial Reporting Entity*, is considered a component unit of the Commonwealth of Pennsylvania, a 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 Pennsylvania 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 with at least 1 year of service; (b) age 60 and 30 or more years of service; or (c) 35 or more years of service regardless of age. On April 29, 1994, Act 29 was signed into law which permitted school employees with at least 30 years of credited service to retire without a reduction in benefits until June 30, 1997 (retroactive to July 1, 1993). This early retirement window did not require a minimum age in conjunction with length of service for a member to be eligible for full benefits. In addition to the early retirement window, Act 29 provided for the following benefit changes:

Notes to Financial Statements (Continued)

- Granted a cost-of-living adjustment beginning July 1, 1994 for those who retired on or before June 30, 1992 (excluding those members who retired under the "Mellow Bill," Act 186 of 1992).
- Allowed members who terminated service between May 15, 1992 and July 1, 1992 to become eligible for an additional 10% service credit.

Benefits are generally equal to 2% 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 5 years of eligible service. Such benefits are equal to 2% 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 2% of final average salary times the number of years 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. In addition, under Act 29, members over normal retirement age may apply for disability benefits.

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.

The System provides a health insurance premium assistance program for all eligible annuitants, as defined in the Code and amended by Act 29, who elect to participate. Under this program, an employer contribution rate for premium assistance was established in order to provide reserves in the Health Insurance Account which are sufficient for the payment of premium assistance. Participating eligible annuitants are eligible to receive premium assistance payments equal to the lesser of \$55 per month, or the actual monthly premium.

(c) Contributions

The contribution policy is set by the Code and requires contributions by active members, employers and the Commonwealth. The rate of contribution for most active members was set by law at 5.25% of the member's compensation. For members joining the System on or after July 22, 1983, the rate of contribution is 6.25%. 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

Notes to Financial Statements (Continued)

compensation of all active members during the period for which the amount is determined. The following identifies the amounts required from employees, employers and the Commonwealth for pension benefits and health insurance premium assistance for the years ended June 30, 1995 and 1994:

	(Amounts in thousands)			
	1995		1994	
	Amount	% of current covered payroll	Amount	% of current covered payroll
Employers' contribution to cover normal cost rate	\$ 428,584	5.55 *	\$ 404,183	5.51
Employers' and Commonwealth's normal cost	479,971	6.43	516,579	7.34
Amortization of unfunded actuarial accrued liability and supplemental annuities	312,076	4.18	392,713	5.58
Health insurance contribution	33,575	0.45	17,527	0.25
Employers' and the Commonwealth contributions	825,622	11.06	926,819	13.17
Total contributions	\$ 1,254,206	16.61	\$ 1,331,002	18.68

* To determine the actuarially required pension contribution for employers and the Commonwealth to fund the normal cost rate, the actuary used a projected employees' contribution rate of 5.5% of covered payroll for the year ended June 30, 1995. Employees' contributions for the year ended June 30, 1995 were \$428,642 and approximated 5.8% of current covered payroll.

For the year ended June 30, 1995, 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, 1995, employers contributed \$414,822,000 and the Commonwealth contributed \$410,800,000 to the System. The difference between these two amounts primarily results from employer contributions for lump-sum payments and other miscellaneous contribution revenue. The Commonwealth contribution approximates 5.53% of current covered payroll. The estimated covered payroll for the year ended June 30, 1995 was approximately \$7,428,571,000.

Effective July 1, 1995, the combined contribution rate for employers and the Commonwealth was increased from 11.06% to 11.72% of covered payroll. The rate of 11.72% is composed of a pension contribution rate of 11.10% for pension benefits and .62% for health insurance premium assistance. The increase in the contribution rate is composed of the following:

- (1) a .05% increase in the health care contribution rate;
- (2) a .07% decrease due to other actuarial gains/losses and other experience factors; and
- (3) a .68% increase due to the implementation of the provisions of Act 29.

Effective July 1, 1995, school entity employers will pay the Commonwealth's share of the contribution rate rather than the current equal sharing between the employers and the Commonwealth. Employers will be reimbursed by the Commonwealth in an amount equal to the Commonwealth's share as determined by the income aid ratio (as defined in Act 29).

Notes to Financial Statements (Continued)

b) 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, 1994, 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 increased by \$493,571,000 from the prior year and was \$3,796,758,000. The increase is primarily attributed to the enactment of Act 29 which provided certain benefit improvements, including a cost-of-living adjustment for annuitants.

Significant assumptions underlying the actuarial computations as of June 30, 1994 include: (a) assumed rate of return on investments of 8.50%; (b) assumed rate of salary increases of 6.75%, which reflects an allowance for inflation of 4%, national productivity of 1%, and merit or seniority increases of 1.75%; (c) assets valued using a five-year moving market average; (d) no postretirement benefit increases assumed in the future; and (e) mortality, vesting, retirement age, and withdrawal estimates based on tables furnished by the actuary.

Beginning on July 1, 1991, employer contributions to amortize the unfunded liability on account of active members and supplemental annuity payments to annuitants 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 fiscal year following the change, with payments increasing 5% annually.

(2)

Summary of Significant Accounting Policies

The financial statements of the System are prepared on the accrual basis of accounting and conform with 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 fair value and losses are charged against investment income.

Short-term investments, principally investments in the State Treasury investment pool, certain global investments, and other short-term investments, are carried at cost, which approximates market value.

Futures contracts, foreign exchange contracts, and options are marked-to-market daily with changes in market value recognized as part of short-term and other investment income, and stock index option gain (loss). Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral.

(b) Fixed Assets

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

(c) Federal Income Taxes

The Internal Revenue Service issued a determination letter dated March 3, 1978 which stated that the Plan and its underlying trust qualify under the provisions of Section 501(a) of the Internal Revenue Code and therefore are exempt from federal income taxes. The Plan has been amended since receiving the determination letter. However, in the opinion of the System, the Plan has operated within the terms of the Plan and remains qualified under the applicable provisions of the Internal Revenue Code.

(d) Compensated Absences

The System follows Statement No. 16 of the Governmental Accounting Standards Board (GASB), *Accounting for Compensated Absences* (GASB No. 16), which provides accrual basis standards for measuring vacation leave, sick leave, and other compensated absences liabilities. GASB No. 16 requires that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if the leave is attributed to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

(e) Reclassifications

Certain reclassifications were made to the 1994 financial statements to conform with the 1995 financial statement presentation.

(f) New Accounting Standards

Effective July 1, 1995, the System adopted the provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* (GASB No. 25) and GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans* (GASB No. 26).

Notes to **Financial Statements** (Continued)

GASB No. 25 establishes a financial reporting framework for defined benefit pension plans that distinguishes between two categories of information: (a) current financial information about plan assets and financial activities; and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due. Plan investments are recorded at fair value under the provisions of GASB No. 25. Had the System adopted the provisions of GASB No. 25 effective July 1, 1994, fund balance (including the Health Insurance Account) would have been approximately \$28,800,679,000 at June 30, 1995.

GASB No. 26 establishes financial reporting standards for postemployment healthcare plans. GASB No. 26 requires that defined benefit pension plans that administer postemployment healthcare plans present (a) a statement of postemployment healthcare plan net assets; (b) a statement of changes in postemployment healthcare plan net assets; and (c) notes to the financial statements. Plan investments are recorded at fair value under the provisions of GASB No. 26. Had the System adopted the provisions of GASB No. 26 effective July 1, 1994, plan assets, liabilities, and fund balance related to the health insurance account would have been approximately \$46,368,000, \$80,000, and \$46,288,000 at June 30, 1995.

(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 4% interest and the reserves for retirement and disabilities with 5.50% interest) are credited to this account. Each year, the necessary amounts, as determined by the actuary for the payment of retirement and death benefits, are transferred from the State Accumulation Account to the Reserve for Retirement and Reserve for Disabilities. All administrative expenses necessary for the operation of the System, except for health insurance account expenses, are paid from the State Accumulation Account.

(b) **Members' Savings Account**

The Members' Savings Account is credited with all contributions made by active members of the System. Interest is added to the member's individual account at an annual rate of 4%.

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% 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 Statutory 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% 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 and amended by Act 29, are to receive health insurance premium assistance payments from this account equal to the lesser of \$55 per month or the actual monthly premium. The Health Insurance Account pays all administrative expenses necessary to operate the health insurance premium assistance program.

(4) Investments

The Board of Trustees (the Board) has the 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. Act 29 allows the Board to invest the funds of the System via the "prudent person standard" which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would manage their own affairs. Prior to Act 29, the Board was limited to investing in specific types of assets with minimal flexibility.

Notes to Financial Statements (Continued)

A summary of investment securities at June 30, 1995 and 1994 and the approximate market values follows:

	(Amounts in thousands)			
	1995		1994	
	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	\$ 1,544,707	\$ 1,591,792	\$ 3,544,534	\$ 3,470,699
Mortgage-backed securities	2,014,424	2,041,678	2,494,112	2,463,597
Corporate and municipal bonds	941,420	953,310	1,563,646	1,515,585
Miscellaneous fixed income	470,628	480,414	507,857	510,964
Private placements	132,056	141,954	136,340	154,629
Global portfolio	2,644,353	2,741,216	1,403,984	1,403,279
	7,747,588	7,950,364	9,650,473	9,518,753
Common and preferred stocks:				
Domestic portfolio:				
Common stock	11,094,221	14,410,576	10,358,065	11,665,362
Private placements	172,000	186,573	168,000	177,359
Preferred stock	29,395	38,040	52,164	58,404
Global portfolio	3,265,907	3,422,376	815,905	950,131
	14,561,523	18,057,565	11,394,134	12,851,256
Other long-term investments, net of valuation reserves:				
Real estate owned, net	637,817	607,935	329,800	298,918
Equity real estate, net	370,151	398,184	490,009	488,977
Venture capital, net	191,076	255,442	111,386	141,694
Farmland investments	76,490	84,107	76,919	75,570
Limited partnerships	75,000	83,408	75,000	78,560
	1,350,534	1,429,076	1,083,114	1,083,719
Short-term investments:				
Domestic portfolio:				
Health Insurance Account short-term investment fund	31,167	30,996	29,776	28,944
PA Treasury short-term investment fund	640,670	640,670	392,345	392,345
Other short-term investments	420,790	421,347	100,855	100,816
Global portfolio	214,149	215,272	1,099,418	1,101,022
	1,306,776	1,308,285	1,622,394	1,623,127
	\$ 24,966,421	\$ 28,745,290	\$ 23,750,115	\$ 25,076,855

* Market Valuations - Fixed income investments and stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services; securities which are not traded on national security exchanges are valued by the respective fund manager or other third parties based on similar securities sales; real estate and farmland are primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of the projected future net income stream; and venture capital private placements, and limited partnerships are based on values established by independent advisors.

Notes to Financial Statements (Continued)

The System's real estate investments consist of real estate owned, equity real estate, commercial and residential mortgages, and farmland. The real estate investments are geographically distributed. Real estate investments include office space (21%), hotels (8%), retail (55%), farmland (8%), and residential (7%). No individual investment represents more than 8% of total real estate investments.

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, 1995 and 1994 are as follows:

	(Amounts in thousands)	
	1995	1994
Fixed income and mortgage investments	\$ 546,604	\$ 728,604
Common and preferred stocks	364,862	298,115
Other long-term investments	81,519	69,970
Stock index option writing gain (loss)	(28,808)	17,902
Securities lending income	6,865	6,144
Short-term and other investments	241,783	(4,286)
Valuation provision	(6,060)	(18,593)
	1,206,765	1,097,856
Net gain on investment transactions	591,078	755,466
Total investment revenues before investment expenses	1,797,843	1,853,322
Investment expenses	(42,076) *	(42,403) *
Net investment revenues	\$ 1,755,767	1,810,919

* The amounts for investment expenses do not reflect \$3,126 and \$2,491 in 1995 and 1994, respectively, (amounts also in thousands) which were paid on behalf of the System through the use of directed commissions.

Investment expenses are primarily composed of investment management fees.

During the fiscal year ended June 30, 1995, 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.

The System's investments are categorized below to give an indication of the level of credit (counterparty) risk assumed by the System at June 30, 1995. 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 for which the securities are held by the System or its agent in the System's name.

Notes to Financial Statements (Continued)

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.

	(Amounts in thousands)		
	Category 1	Not Categorized	Market Value
U.S. Government and agency obligations	\$ 1,544,707	\$ —	\$ 1,591,792
Corporate and municipal bonds	941,420	—	953,310
Common stock	11,094,221	—	14,410,576
Preferred stock	29,395	—	38,040
Mortgage-backed securities	2,014,424	—	2,041,678
Private placements – fixed income and equity	—	304,056	328,527
Miscellaneous fixed income	470,628	—	480,414
Real estate owned, net	—	637,817	607,935
Equity real estate, net	—	370,151	398,184
Farm and investments	—	76,490	84,107
Global fixed income	2,644,353	—	2,741,216
Global equity	3,265,907	—	3,422,376
Global short-term	214,149	—	215,272
Venture capital, net	—	191,076	255,442
Limited partnerships	—	75,000	83,408
Health Insurance Account short-term investment fund	—	31,167	30,996
PA Treasury short-term investment fund	—	640,670	640,670
Other short-term investments	420,790	—	421,347
	\$ 22,639,994	\$ 2,326,427	\$ 28,745,290

In accordance with a contract between the Commonwealth and the custodial agent, the System participates in a securities lending program. Under this program, the custodian, acting as the lending agent, loans securities to independent brokers or dealers in exchange for collateral in an amount not less than 102% of the market value of securities loaned except for non-U.S. corporations for which 105% of the market value is required. Collateral is marked-to-market daily. If the market value of the collateral held falls below the minimum guidelines for securities loaned, additional collateral is obtained. In lieu of securities or cash, the borrower may deliver to the lending agent irrevocable bank letters of credit for collateral. If the collateral obtained consists in whole or in part of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Commonwealth.

Under the securities lending program, the lending agent provides indemnification to the Commonwealth if the borrowers fail to return the underlying securities (and the collateral is inadequate to replace the loaned securities) or fail to pay income distributions on them. For the year ended June 30, 1995, there were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses.

Notes to Financial Statements (Continued)

The Commonwealth will earn the greater of 85% of income realized from security lending by the lending agent or \$1,000,000 per month. The System's income from securities lending represents their pro-rata share from participating in the program.

As of June 30, 1995, the market value of loaned securities was \$2,945,867,000. The market value of the associated collateral was \$3,028,927,000. The System's income from securities lending was \$6,865,000 for the year ended June 30, 1995.

(5)

Financial Instruments with Off-Balance Sheet Risk

The System enters into a variety of financial contracts, which include options and futures. The System also enters into foreign exchange positions, such as forward and spot contracts to hedge foreign currency exposure. The System is not a dealer but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. Contracts used to enhance performance are fully collateralized, eliminating the use of leverage in the portfolio. The System is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. As the System generally enters into transactions only with high quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through careful selection of executing brokers and an extensive process of review of all documentation. The System is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, by buying or selling instruments or entering into offsetting positions.

The contract or notional amounts of derivatives indicate the extent of the System's involvement in the various types and uses of derivative financial instruments and do not measure the System's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the number of open contracts, and aggregate notional or contractual amounts for the System's derivative financial instruments at June 30, 1995.

	<u>(Dollar amounts in thousands)</u>	
	Number of contracts	Notional or contractual amount
Futures contracts		
Foreign exchange forward and spot contracts	11,558	\$ 1,638,305
Options - calls purchased	676	6,136,015
Options - puts purchased	74,155	117,152
Options - calls sold	86,180	86,122
Options - puts sold	125,352	1,038,456
	90,376	366,004

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk.

Notes to Financial Statements (Continued)

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise. The System only utilizes exchange listed index and equity options and primarily call options which settle in cash. The System has authorized investment managers to write covered call stock index options up to an amount of \$1,775,000,000 of the equity portfolio.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. These contracts primarily consist of forward contracts. The \$6,136,015,000 of foreign currency contracts outstanding at June 30, 1995 consist of "buy" contracts, which represent the U.S. dollar equivalent of commitments to purchase foreign currency commitments, of \$2,504,542,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies, of \$3,631,473,000.

The System also invests in mortgage-backed securities such as collateralized mortgage obligations (CMOs) and interest-only strips in part to maximize yields and in part to hedge against a rise in interest rates. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The carrying value and market value of CMOs and interest-only strips at June 30, 1995 are \$932,455,000 and \$943,332,000, and \$46,074,000 and \$39,969,000, respectively.

(6)

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), 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 System's 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. 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.

(7)

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 threatened and pending litigation will not have a material effect on the financial statements of the System.

Notes to Financial Statements (Continued)

(8)
Funding Status and Progress

The amount shown below 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 as discussed in note 1.

The pension benefit obligation was determined as part of the actuarial valuation at June 30, 1994, 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% per year compounded annually, (b) projected salary increases of 6.75%, which reflects an allowance for inflation of 4%, national productivity of 1% and merit or seniority increases of 1.75%, and (c) no postretirement benefit increases.

At June 30, 1994, the unfunded pension benefit obligation was \$2,811,197,000 as follows:

	(Amounts in Thousands)
Pension benefit obligation:	
Annuitants and survivor annuitants currently receiving benefits, and terminated members not yet receiving benefits	\$ 9,821,881
Health care payments	39,331
Current members:	
Accumulated member contributions with interest	4,324,422
System-financed vested	4,116,912
System-financed nonvested	7,960,326
Total pension benefit obligation	26,262,872
Less net assets available for benefits, at cost (market value is \$24,778,415)	23,451,675
Unfunded pension benefit obligation	\$ 2,811,197

(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 immediately following the Notes to the Financial Statements.

Schedule 1 Analysis of Funding Progress Years ended June 30, 1986 through 1994

(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)
1994	\$ 23,451.7	\$ 26,262.9	89.30% **	\$ 2,811.2	\$ 6,855.8	41.00%
1993	21,719.1	23,864.1	91.01%	2,145.0	6,766.3	31.70%
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%

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 the percentage, the stronger the System.

Information prior to 1986 is unavailable.

The decrease in the percentage funded is due to the enactment of Act 29 as discussed in note 1.

Schedule 2
Revenues by Source and Expenses by Type
Years ended June 30, 1986 through 1995
(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) 1995	\$ 428,584	\$ 825,622	11.06%	\$ 1,755,767	\$ 3,009,973
(A) 1994	404,183	926,819	13.17%	1,810,919	3,141,921
(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

Expenses by Type

Fiscal Year	Benefits	Disabilities	Lump-Sums and Installments	Refunds	Administrative	Net Transfers	Total Expenses
(A) 1995	\$ 1,251,816	\$ 37,283	\$ 112,580	\$ 13,008	\$ 23,889	\$ 1,263	\$ 1,439,839
(A) 1994	1,115,788	32,600	222,918	10,851	23,311	3,843	1,409,311
(A) 1993	899,463	32,326	384,477	10,876	18,045	10,482	1,355,669
(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

(A) Includes Health Insurance Account activity.

Schedule 3
Schedule of Administrative Expenses
Years ended June 30, 1995 and 1994
(Dollar Amounts in Thousands)

	1995		1994	
	Actual	Budget	Actual	Budget
Personnel costs:				
Salaries and wages	\$ 10,462		\$ 9,541	
Social security contributions	782		717	
Retirement contributions	814		733	
Employees' insurance contributions	1,936		1,548	
Other employe benefits	404 ¹		1,698 ¹	
Total personnel costs	14,398	\$ 14,719	14,237	\$ 12,838
Operating costs:				
Auditor General services	3		4	
Treasury services	916		839	
Civil Service Commission services	35		34	
Classification and pay services	5		12	
Purchasing services	15		8	
Consultant fees	7		9	
Legal fees	65		42	
Specialized services	1,918		2,536	
Printing	278		317	
Postage	943		655	
Telephone and telegraph	251		218	
Dues and subscriptions	50		41	
Electricity	50		39	
Motorized equipment supplies and repairs	10		11	
Travel	264		276	
Contracted maintenance services	649		661	
Rental of real estate	1,310		1,046	
Rental of equipment	357		562	
Office supplies	346		254	
Miscellaneous expenses	315		226	
Total operating expenses	7,787	8,014	7,790	7,200
Fixed charges:				
Furniture and equipment	307		(118)	
Depreciation	1,397		1,402	
Total fixed charges	1,704	2,665	1,284	1,266
Total administrative expenses	\$ 23,889 ²	\$ 25,398 ³	\$ 23,311 ²	\$ 21,304 ⁴

Includes \$1,583 related to costs incurred upon adoption of GASB Statement No. 16, *Accounting for Compensated Absences* in 1994 and \$231 in 1995.

Includes unappropriated expenses of \$1,397 and \$1,011 related to the Health Insurance Account for years ended June 30, 1995 and 1994.

Includes \$23,091 related to the 1994-95 appropriation and \$2,307 related to the 1993-94 appropriation.

Includes \$20,602 related to the 1993-94 appropriation and \$702 related to the 1992-93 appropriation.

Schedule 4
Administrative Expenses Paid
Through Directed Commissions
Years ended June 30, 1995 and 1994
(Dollar Amounts in Thousands)

	<u>1995</u>	<u>1994</u>
Operating costs :		
Consultant fees	\$ 588	\$ 944
Specialized services	646	271
Dues and subscriptions	59	63
Miscellaneous expenses	45	123
Total operating costs	1,338	1,401
Fixed charges :		
Furniture and equipment	1,788	1,090
Total fixed charges	1,788	1,090
Total administrative expenses paid through directed commissions (note 4)	\$3,126 *	\$ 2,491

* In addition to having administrative expenses paid, the System received \$3,283 (amount in thousands) in cash rebates from directed commissions.

Schedule 5
Summary Schedule of Cash Receipts and
Disbursements
Years ended June 30, 1995 and 1994
(Dollar Amounts in Thousands)

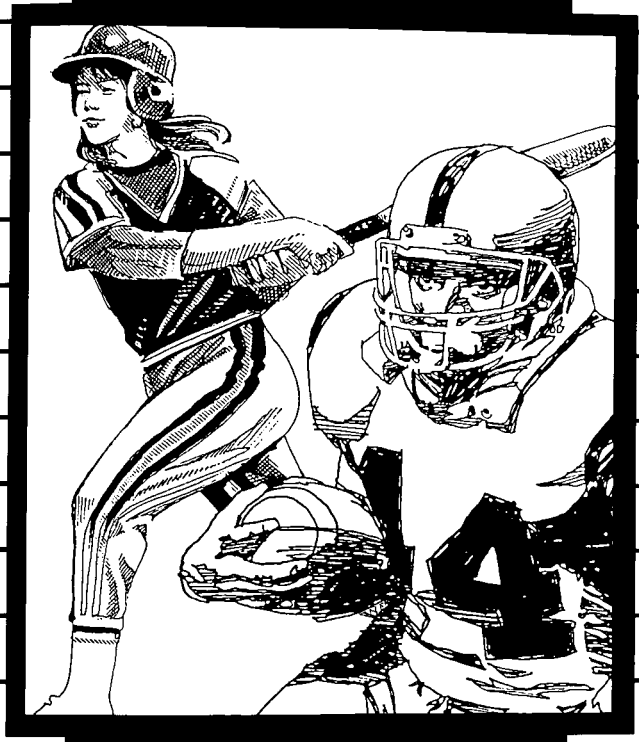
	<u>1995</u>	<u>1994</u>
Cash balance at beginning of year	\$ 1	\$ 1
Add cash receipts:		
Investment sales and maturities	50,913,449	38,176,333
Contributions:		
Employers	425,057	469,519
Employees	421,875	402,668
Commonwealth of Pennsylvania	444,059	444,059
Interest and dividends	1,200,926	1,128,605
Transfers from State Employees' Retirement System	6,671	1,806
Refund of expenditures	8,736	9,663
Other receipts	3,786	1,171
Total cash receipts	53,424,559	40,633,824
Less cash disbursements:		
Investment purchases	51,895,931	38,954,603
Benefit payments	1,443,256	1,595,876
Refunds	13,110	10,883
Transfers to State Employees' Retirement System	8,738	6,638
Administrative expenses	23,280	20,642
Other disbursements	40,069	45,182
Total cash disbursements	53,424,384	40,633,824
Cash balance at end of year	\$ 176	\$ 1

Schedule includes Health Insurance Account activity.



Public School

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Actuary's Certification Letter

BUCK CONSULTANTS

55 West Monroe Street Suite 1700
Chicago, Illinois 60603

January 17, 1995

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, 1994 for the Public School Employees' Retirement System of Pennsylvania.

The principal results include:

- The employer contribution rate for fiscal year 95/96 which is 11.72%.
- The funded status of the plan determined as of June 30, 1994 based on the accrued liability and the actuarial value of assets as of that date which is 86.6%.
- Annual disclosure as of June 30, 1994 as required by Statement No. 5 of the Governmental Accounting Standards 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.

valuation reflects the liability for the changes introduced by Act 29. Fiscally significant changes are as

- A cost-of-living increase effective July 1, 1994 was granted to pensioners who retired on or before June 30, 1992. Members who were credited with an additional 10% of their credited service (i.e., "Mellow" retirees) are not eligible. Based on the data reported for the valuation, 80,289 eligible recipients were receiving additional supplemental annuities as of July 1, 1994.
- Members who terminate with at least 30 years of service during the period July 1, 1993 to July 1, 1997 can retire with unreduced benefits.
- The initial eligibility date for the 10% Mellow retirement incentive was retroactively changed from July 1, 1992 to May 15, 1992. The valuation data includes 2,479 annuitants affected by this change.
- Rehired members can elect to eliminate the effect of the frozen present value.
- The accelerated payment option was eliminated.
- Health care premium assistance was extended to members with 15 or more eligibility points who terminate school service and retire after attaining superannuation age.

Contribution Rates

Results of the valuation as of June 30, 1994 determine the employer contribution rate for fiscal year 95/96. The employer contribution rate payable by the employer is 11.72% of payroll. This includes 11.10% of payroll for pension benefits plus .62% of payroll for the health insurance premium assistance program.

The average contribution rate payable by the members is 5.59%. 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

Reasons for Change in the Rate

The employer contribution rate increased from 11.06% for fiscal year 94/95 to 11.72% for fiscal year 95/96.

The increase of 0.66% is due to the following reasons:

• Increase in health care contribution rate	.05%
• Decrease due to other actuarial gains/losses and other experience factors	(.07)
• Act 29 changes	
— Cost-of-living adjustment	.53
— Extension of "30 and Out" window	.14
— Mellow retroactivity	.04
— Frozen present value elimination	.01
— Elimination of accelerated payment option	(.21)
— Health insurance premium assistance eligibility	<u>.17</u>
• Total	.66%

Summary of Principal Results

Summarized below are the principal financial results for the Public School Employees' Retirement System based on the actuarial valuation as of June 30, 1994. Comparable results from the June 30, 1993 valuation are also shown. (Dollar amounts in millions.)

Item	June 30, 1994	June 30, 1993
Demographics		
Active Members		
Number	206,540	197,997
Average Pay	\$ 33,337	\$ 32,064
Beneficiaries		
Number	115,031	113,212
Average Benefit Payment	\$ 10,307	\$ 9,345
Contribution Rates (as a Percentage of Payroll)		
	(Fiscal Year 95/96)	(Fiscal Year 94/95)
Employer Contribution Rate:		
Total Pension Contribution Rate	11.10%	10.61%
Health Insurance Contribution Rate	<u>0.62</u>	<u>0.45</u>
Total	11.72	11.06
Member Average Contribution Rate	<u>5.59</u>	<u>5.55</u>
Funded Rate	17.31%	16.61%
Actuarial Funded Status		
Accrued Liability		
Actuarial Value of Assets	\$ 28,348.3	\$ 25,947.0
Unfunded Accrued Liability	<u>24,551.5</u>	<u>22,643.8</u>
Funded Ratio	3,796.8	3,303.2
	86.6%	87.3%
ASB No. 5 Disclosure		
Pension Benefit Obligation		
Book (Cost) Value of Assets	\$ 26,262.9	\$ 23,864.1
Unfunded Pension Benefit Obligation	<u>23,451.7</u>	<u>21,719.1</u>
Funded Ratio	2,811.2	2,145.0
	89.3%	91.0%

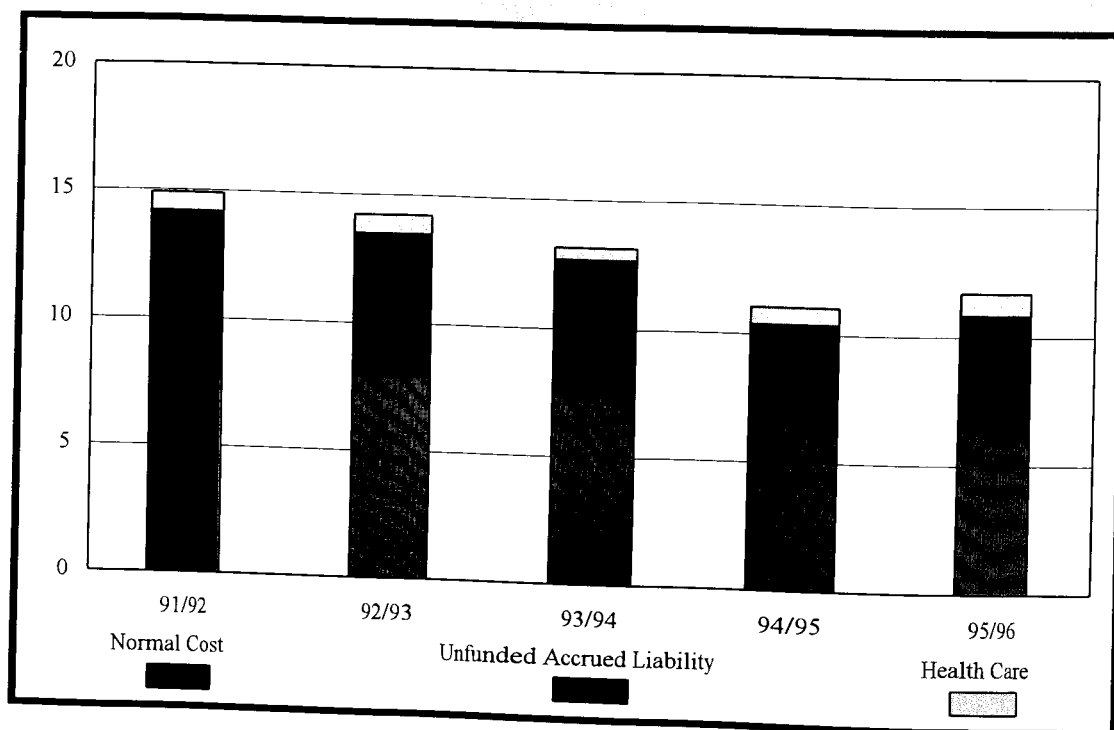
Five-Year History of Principal Financial Results

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

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
95/96	5.59%	6.43%	4.67%	.62%	11.72%
94/95	5.55	6.43	4.18	.45	11.06
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

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

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 normal contribution rate of 11.72% 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 the 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 members.

On this basis, the System's funded ratio is 86.6% as of June 30, 1994. The funded ratio is based on an actuarial value of assets of \$24.6 billion and an accrued liability of \$28.3 billion.

Reasons for Change in the Funded Ratio

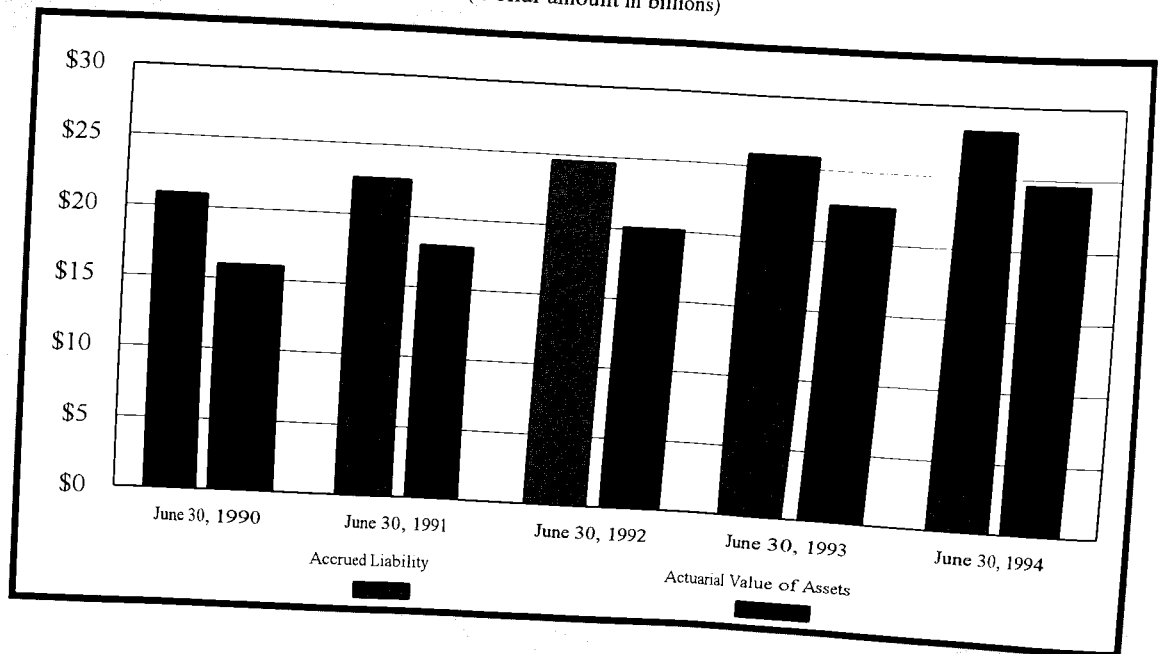
The funded ratio decreased from 87.3% as of June 30, 1993 to 86.6% as of June 30, 1994. The decrease is due to the effect of plan amendments (Act 29), and experience gains and losses.

**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
1994	\$ 28,348.3	\$ 24,551.5	\$ 3,796.8	86.6%
1993	25,947.0	22,643.8	3,303.2	87.3
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

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

Five-Year History of Accrued Liability & Actuarial 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.

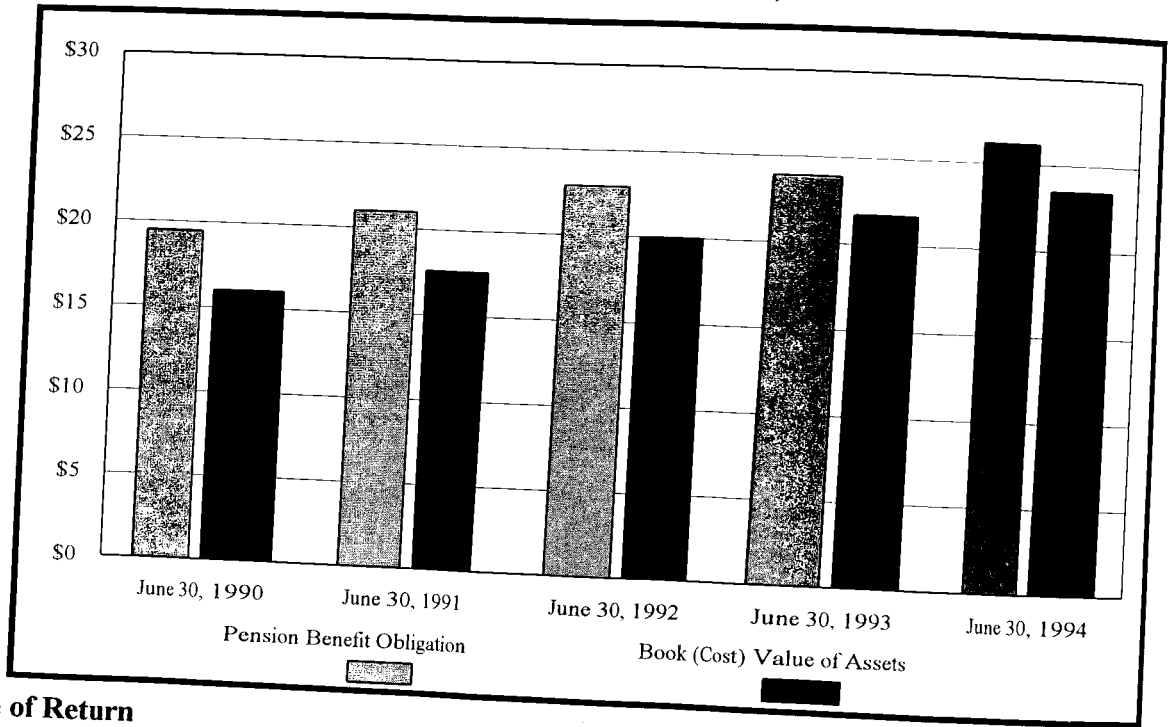
This statement requires the disclosure of the actuarial present value of credited projected benefits and the effect of any changes in actuarial assumptions or benefit provisions. The actuarial present value of credited projected benefits is a standardized measure of the accrued pension benefit obligation. It is the value of benefits estimated to be payable in the future based on service through June 30, 1994 and projected salary increases. The value of benefits is based on the projected 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
1994	\$ 26,262.9	\$ 23,451.7	\$ 2,811.2	89.3%
1993	23,864.1	21,719.1	2,145.0	91.0
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

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

Five-Year History of Pension Benefit Obligation & Book (Cost) 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 89/90 through 93/94 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
93/94	1.8%	8.7%
92/93	13.9	10.3
91/92	13.2	8.2
90/91	7.0	9.0
89/90	9.2	10.0

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, 1994
- Table 2 — Determination of Health Care Contribution Rate for Fiscal Year 95/96
- Table 3 — Summary of Market Value of Plan Assets as of June 30, 1994
- Table 4 — Summary of Book (Cost) Value of Plan Assets as of June 30, 1994
- Table 5 — Derivation of Actuarial Value of Assets as of June 30, 1994
- Table 6 — Analysis of Change in Unfunded Accrued Liability
- Table 7 — Pension Benefit Obligation as of June 30, 1994 — GASB Statement No. 5 Disclosure
- Table 8 — Present Value of Accumulated Plan Benefits as of June 30, 1994 — 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, 1994
- Exhibit I — Active Membership Data as of June 30, 1994 - Number and Average Annual Salary
- Exhibit II — Annuitant and Beneficiary Membership Data as of June 30, 1994 - Number and Average Annual Benefit
- 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 principles of practice prescribed by the Actuarial Standards Board. Our qualifications include membership in the American Academy of Actuaries and experience in performing valuations for public retirement systems.

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, 1994
(\$ Amounts in Thousands)**

Item	June 30, 1994
Member Data	
1. Number of Members	
a) Active Members	206,540
b) Inactive Members and Vestees	35,918
c) Annuitants and Survivor Annuitants	<u>115,031</u>
d) Total	357,489
2. Annualized Salaries	\$ 6,885,337
3. Annual Annuities	\$ 1,185,648
Valuation Results	
4. Accrued Liability	
a) Active Members	\$18,487,061
b) Inactive Members and Vestees	298,829
c) Annuitants and Beneficiaries	9,523,052
d) Health Care Payments	<u>39,331</u>
e) Total	\$28,348,273
5. Actuarial Value of Assets	\$24,551,515
6. Unfunded Accrued Liability (4) - (5)	\$3,796,758
7. Total Normal Cost Rate	12.02%
8. Member Contribution Rate	5.59%
9. Employer Normal Cost Rate (7) - (8)	6.43%
Employer Annual Funding Requirement for Fiscal 95/96	
10. Employer Contribution Rate	
a) Normal	6.43%
b) Unfunded Accrued Liability	<u>4.67</u>
c) Total Pension Rate	11.10%
d) Health Insurance	<u>.62</u>
e) Total	11.72%

TABLE 2

**DETERMINATION OF HEALTH INSURANCE CONTRIBUTION RATE
FOR FISCAL YEAR 95/96
(\$ Amounts in Thousands)**

1. Estimated Number of Eligible Annuitants in Fiscal 96/97	77,500
2. Estimated Number of Eligible Annuitants Who Elect Coverage	70,000
3. Annual Health Insurance Payments During Fiscal 96/97 (2) x \$55 x 12	\$ 46,200
4. Annual Expenses During Fiscal 96/97	<u>924</u>
5. Total Estimated Health Insurance Account Disbursements During Fiscal 96/97	\$47,124
6. Required Health Insurance Contribution Rate	\$ 7,591,000
(a) Estimated 95/96 Payroll	
(b) Required Health Insurance Contribution Rate (5) / (6a)	.62%

TABLE 3

**SUMMARY OF MARKET VALUE OF PLAN ASSETS
AS OF JUNE 30, 1994
(\$ Amounts in Thousands)**

Market Value	
1. Market Value of Assets as of June 30, 1993	\$ 24,399,294
2. Contributions During Fiscal 93/94	1,331,002
3. Disbursements During Fiscal 93/94	1,386,000
4. Investment Return During Fiscal 93/94	
(a) Gross Investment Return	\$ 457,429
(b) Expenses	<u>23,311</u>
(c) Net Investment Return (a) - (b)	\$ 434,118
5. Market Value of Assets as of June 30, 1994 (1) + (2) - (3) + (4)	24,778,414
6. Rate of Return	1.78%
Asset Allocation by Account	
1. Members' Savings Account	\$4,589,189
2. Annuity Reserve Account	10,857,119
3. State Accumulation Account	9,292,775
4. Health Care Account	<u>39,331</u>
5. Total	\$ 24,778,414

TABLE 4

**SUMMARY OF BOOK (COST) VALUE OF PLAN ASSETS
AS OF JUNE 30, 1994
(\$ Amounts in Thousands)**

Book (Cost) Value	
1. Book (Cost) Value of Assets as of June 30, 1993	\$ 21,719,065
2. Contributions During Fiscal 93/94	1,331,002
3. Disbursements During Fiscal 93/94	1,386,000
4. Investment Return During Fiscal 93/94	
(a) Gross Investment Return	1,810,919
(b) Expenses	<u>23,311</u>
(c) Net Investment Return (a) - (b)	\$ 1,787,608
5. Book (Cost) Value of Assets as of June 30, 1994 (1) + (2) - (3) + (4)	23,451,675
6. Rate of Return	8.24%
Asset Allocation by Account	
1. Members' Savings Account	\$ 4,589,189
2. Annuity Reserve Account	10,857,119
3. State Accumulation Account	7,966,036
4. Health Care Account	<u>39,331</u>
5. Total	\$ 23,451,675

TABLE 5

DERIVATION OF ACTUARIAL VALUE OF ASSETS AS OF JUNE 30, 1994
(\$ Amounts in Thousands)

1. Market Value of Assets as of June 30, 1994				\$ 24,778,414
2. Determination of Deferred Gain (Loss)				
	<u>Year</u>	<u>Gain (Loss)</u>	<u>% Deferred</u>	<u>Deferred Amount</u>
	93/94	\$ (598,024)	66 2/3 %	\$ (398,683)
	92/93	1,876,745	33 1/3 _	625,582
	91/92	1,513,028	- 0 -	- 0 -
	Total	\$ 2,791,749		226,899
3. Actuarial Value of Assets (1) - (2)				\$ 24,551,515
4. Rate of Return				8.68%

TABLE 6

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

1. Unfunded Accrued Liability at June 30, 1993		\$	3,303.2
2. Interest at 8½%			280.8
3. Contributions toward Unfunded Accrued Liability			<u>356.8</u>
4. Expected Unfunded Accrued Liability at June 30, 1994 (1) + (2) - (3)		\$	3,227.2
5. Unfunded Accrued Liability at June 30, 1994			<u>3,796.8</u>
6. Increase (Decrease) from Expected (5) - (4)		\$	569.6
7. Reasons for Increase (Decrease)			
a) Experience (Gains) Losses			
(i) Gain from Investment Return on Actuarial Value of Assets	\$ (40.3)		
(ii) Loss from Salary Increases Greater than Expected	57.1		
(iii) Gain from Retirement and Other Separation Experience	(47.4)		
(iv) Loss from Annuitants' Mortality Experience	5.0		
(v) Total		\$	(25.6)
b) Act 29 Amendments			<u>595.2</u>
c) Grand Total			\$569.6

TABLE 7

**PENSION BENEFIT OBLIGATION
AS OF JUNE 30, 1994**

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

Item	Amount
1. Vested Pension Benefit Obligation	
a) Annuitants and Beneficiaries	\$ 9,523,052
b) Health Care Payments	39,331
c) Inactive Members and Vestees	298,829
d) Active Members - Member Financed	4,324,422
e) Active Members - Employer Financed	4,116,912
f) Total Vested	<u>\$ 18,302,546</u>
2. Nonvested Pension Benefit Obligation	\$ 7,960,326
3. Total Pension Benefit Obligation	\$ 26,262,872
4. Book (Cost) Value of Assets	\$ 23,451,675
5. Unfunded Pension Benefit Obligation	\$ 2,811,197

The change in the pension benefit obligation due to amendments (Act 29) is as follows:

Increase/(Decrease)	Amount
1. Increase due to Act 29	\$ <u>505,845</u>
2. Total	\$ 505,845

TABLE 8**PRESENT VALUE OF ACCUMULATED PLAN BENEFITS
AS OF JUNE 30, 1994****FASB STATEMENT NO. 35 DISCLOSURE**
(\$ Amounts in Thousands)

Item	Amount
1. Present Value of Accumulated Vested Benefits	
a) Annuitants and Beneficiaries	\$ 9,523,052
b) Health Care Payments	39,331
c) Inactive Members and Vestees	298,829
d) Active Members	8,441,334
e) Total Vested	\$ 18,302,546
2. Present Value of Nonvested Accumulated Benefits	\$ 1,246,616
3. Total Present Value of Accumulated Benefits	\$ 19,549,162

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) Member Contributions	(2) Annuitants and Beneficiaries	(3) Active and Inactive Members (Employer Financed)		(1)	(2)	(3)
1994	\$ 4,589,189	\$ 9,523,052	\$ 14,236,032	\$ 23,451,675	100.0%	100.0%	65.6%
1993	4,290,330	8,409,769	13,246,864	21,719,065	100.0	100.0	68.1
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

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: 6¾% per annum, compounded annually. The components are 4% for inflation, 1% for national productivity and 1¾% for merit or seniority increases (adopted as of June 30, 1993).

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	
Males						
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
Females						
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

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.

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

METHODS

Calculations: The actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the Retirement System, and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

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 three-year moving market average value of assets that will spread realized and unrealized gains and losses over a period of 3 years (adopted as of June 30, 1993).

Determination of Health Care Contribution Rate: Rate necessary to establish reserves sufficient to provide premium assistance payments for all participating eligible annuitants for the subsequent fiscal year.

DATA

Census and Assets: The valuation was based on members of the System as of June 30, 1994 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.

BENEFITS

Superannuation Annuity

Eligibility Age 62, or age 60 with 30 years of service, or 35 years of service regardless of age.

Amount 2% of final average salary times years of service. Minimum of \$100 per year of service. "Final average salary" means the highest average annual salary for any three 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. The 1/4% reduction does not apply if the member terminates with at least 30 years of service during the period July 1, 1993 to July 1, 1997.

Withdrawal Annuity

Eligibility 10 years of service.

Amount Accrued benefit deferred to superannuation retirement age or a reduced benefit payable immediately.

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 33-1/3% of such salary, except that the benefit cannot be greater than the benefit member would have had at superannuation retirement age (or at current age, if later). 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 includes interest (less annuity payments received prior to death 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.
Option 4:	Benefit of equivalent actuarial value, including lump sum payment of member contributions.

Summary of Benefit and Contribution Provisions (Continued)

Health Care Premium Assistance

Eligibility	<p>Retired members who:</p> <ul style="list-style-type: none"> (a) have 24 1/2 or more years of service, or (b) are disability annuitants, or (c) have 15 or more years of service and who both terminated school service and retired after attaining superannuation age.
Amount	<p>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.</p>

CONTRIBUTIONS

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

TABLE 12

SUMMARY OF MEMBERSHIP DATA AS OF JUNE 30, 1994
(\$ Amounts in Thousands)

ACTIVE MEMBERS*

Item	Male	Female	Total
Number of Members	66,841	139,699	206,540
Annual Salaries**	\$ 2,645,173	\$ 4,240,164	\$ 6,885,337
Average Age	45.0	44.2	44.5
Average Service	15.8	11.9	13.2

* Excludes 35,918 inactive members and vestees.

** Salaries of \$6,680,693 were reported for the fiscal year ended June 30, 1994.

ANNUITANTS AND BENEFICIARIES

Item	Number	Annual Annuities	Average Annuities
Retired Annuitants	105,313	\$ 1,124,298	\$ 10,676
Survivors	5,218	25,424	4,872
Disabled Annuitants	<u>4,500</u>	<u>35,926</u>	<u>7,984</u>
Total	115,031	\$ 1,185,648	\$ 10,307

EXHIBIT I

ACTIVE MEMBERSHIP DATA AS OF JUNE 30, 1994
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	4,308 \$ 19,947	119 \$ 21,020								4,427 \$ 19,976
25 - 29	9,462 \$ 24,602	3,518 \$ 30,102	92 \$ 23,545							13,072 \$ 26,075
30 - 34	5,971 \$ 19,602	6,230 \$ 31,131	2,263 \$ 33,196	134 \$ 24,881						14,598 \$ 26,678
35 - 39	8,629 \$ 17,110	5,980 \$ 28,643	5,755 \$ 36,941	4,408 \$ 39,588	135 \$ 25,480					24,907 \$ 28,484
40 - 44	9,445 \$ 18,161	8,336 \$ 27,495	4,405 \$ 35,309	10,616 \$ 44,248	11,163 \$ 47,627	73 \$ 29,107				44,038 \$ 35,419
45 - 49	5,960 \$ 18,082	6,143 \$ 26,459	4,588 \$ 31,811	4,593 \$ 39,225	12,165 \$ 49,493	9,764 \$ 51,661	48 \$ 34,353			43,261 \$ 39,402
50 - 54	3,364 \$ 16,147	4,244 \$ 23,179	3,489 \$ 26,653	3,901 \$ 31,608	3,995 \$ 42,829	7,997 \$ 51,662	4,581 \$ 53,314	25 \$ 32,571		31,596 \$ 37,925
55 - 59	1,980 \$ 13,744	2,428 \$ 19,814	2,101 \$ 23,081	3,577 \$ 28,058	2,405 \$ 36,079	2,079 \$ 43,975	2,320 \$ 52,330	1,006 \$ 54,304	9 \$ 28,897	17,905 \$ 32,319
60 - 64	1,140 \$ 12,772	1,543 \$ 18,612	1,186 \$ 20,290	1,673 \$ 25,122	1,626 \$ 32,148	981 \$ 37,865	414 \$ 49,570	387 \$ 54,659	109 \$ 55,735	9,059 \$ 27,215
OVER 65	931 \$ 10,260	744 \$ 13,779	619 \$ 15,547	501 \$ 20,817	404 \$ 26,564	256 \$ 31,376	105 \$ 43,651	60 \$ 49,994	57 \$ 54,420	3,677 \$ 18,848
TOTAL	51,190 \$ 18,917	39,285 \$ 26,749	24,498 \$ 31,290	29,403 \$ 37,543	31,893 \$ 45,717	21,150 \$ 49,942	7,468 \$ 52,543	1,478 \$ 53,855	175 \$ 53,927	206,540 \$ 33,337

EXHIBIT II**ANNUITANT AND BENEFICIARY MEMBERSHIP DATA
AS OF JUNE 30, 1994****NUMBER AND AVERAGE ANNUAL BENEFIT**

Age Last Birthday	Number	Annual Benefit (Thousands)	Average Annual Benefit
Retired Annuitants			
Under 60	15,660	\$ 178,696	\$ 11,411
60 - 64	15,046	246,610	16,390
65 - 69	20,701	239,061	11,548
70 - 74	18,321	157,666	8,606
75 - 79	14,676	110,919	7,558
Over 79	20,909	191,346	9,151
Total	105,313	\$ 1,124,298	\$ 10,676
Survivors			
Under 60	408	\$ 2,001	\$ 4,905
60 - 64	307	2,056	6,696
65 - 69	585	3,429	5,861
70 - 74	963	4,917	5,106
75 - 79	1,035	4,763	4,602
Over 79	1,920	8,258	4,301
Total	5,218	\$ 25,424	\$ 4,872
Disabled Annuitants			
Under 60	1,791	\$ 17,828	\$ 9,954
60 - 64	841	6,305	7,497
65 - 69	688	4,757	6,914
70 - 74	552	3,272	5,928
75 - 79	367	2,150	5,858
Over 79	261	1,614	6,186
Total	4,500	\$ 35,926	\$ 7,984

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
1994	206,540	4.31%	\$ 6,885,337,000	8.46%
1993	197,997	(2.46)	6,348,565,000	4.11
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

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
1994	115,031	4,866	3,047	1.61%	\$ 1,185.6	12.06%
1993	113,212	12,258	4,072	7.79	1,058.0	22.65
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	6,439	2,315	2.73	710.2	11.77
1988	92,924	4,852	2,315	2.82	635.4	4.44
1987	90,377	5,818	3,271	2.82	608.4	6.51
1986	86,646	6,671	2,940	4.31	571.2	5.15
1985	82,888	6,586	2,828	4.53	543.2	3.07
		6,051	2,879	3.98		



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Public School

ment System

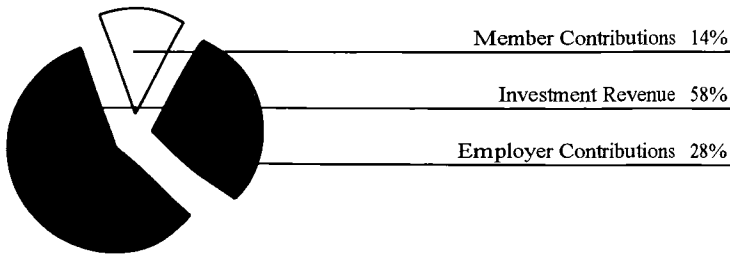


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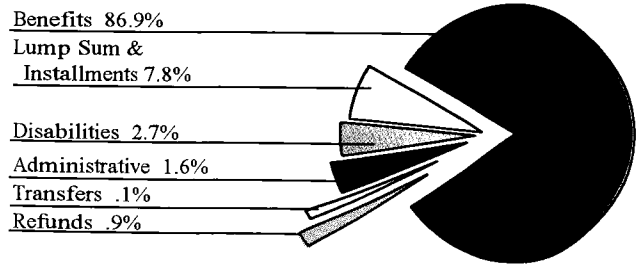


Components of Total Revenue and Expense - 1995

Total Revenue

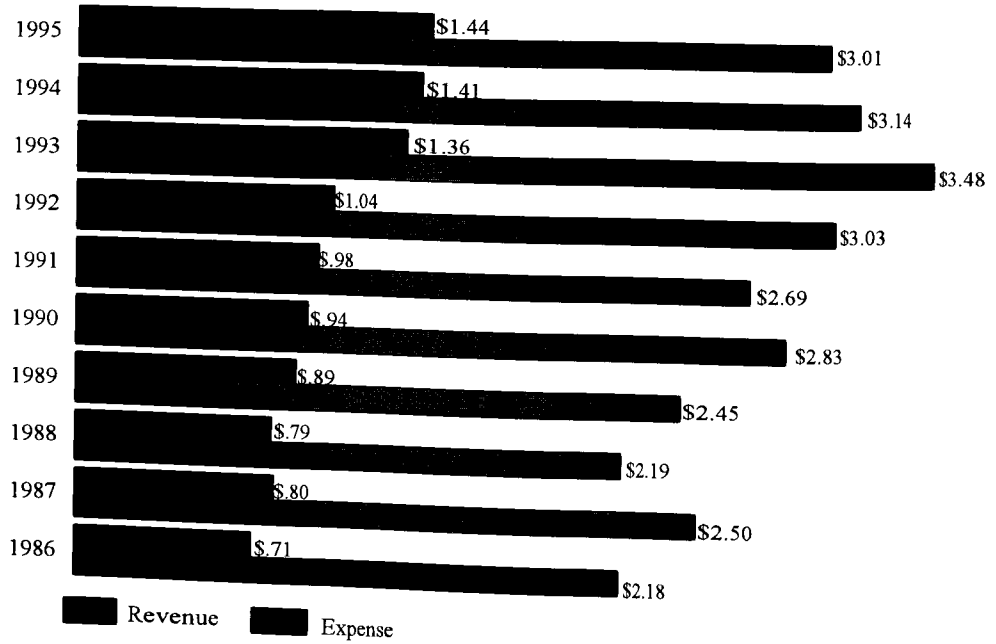


Total Expense

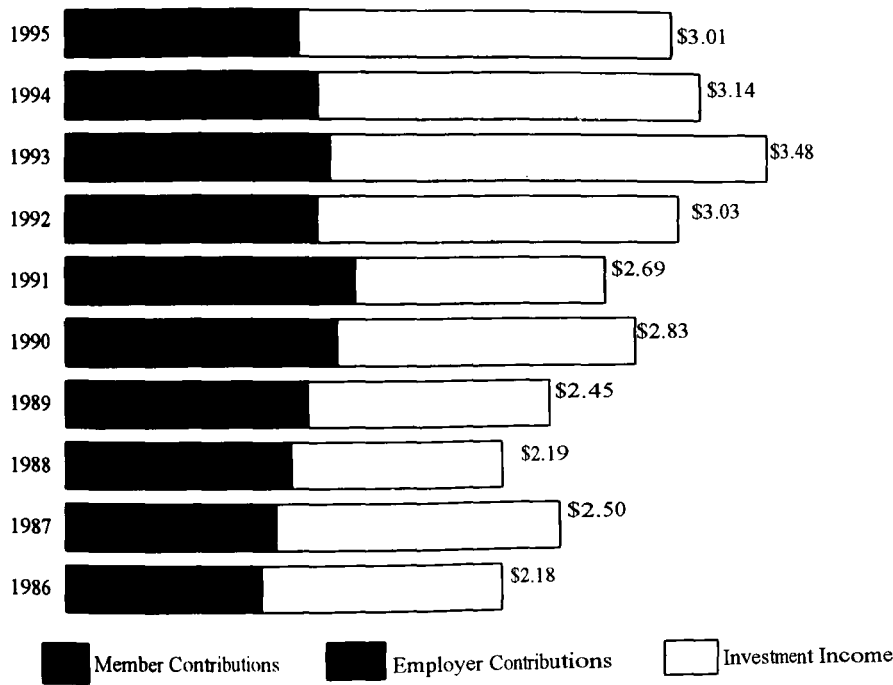


Revenue vs. Expense - 10 Year Trend

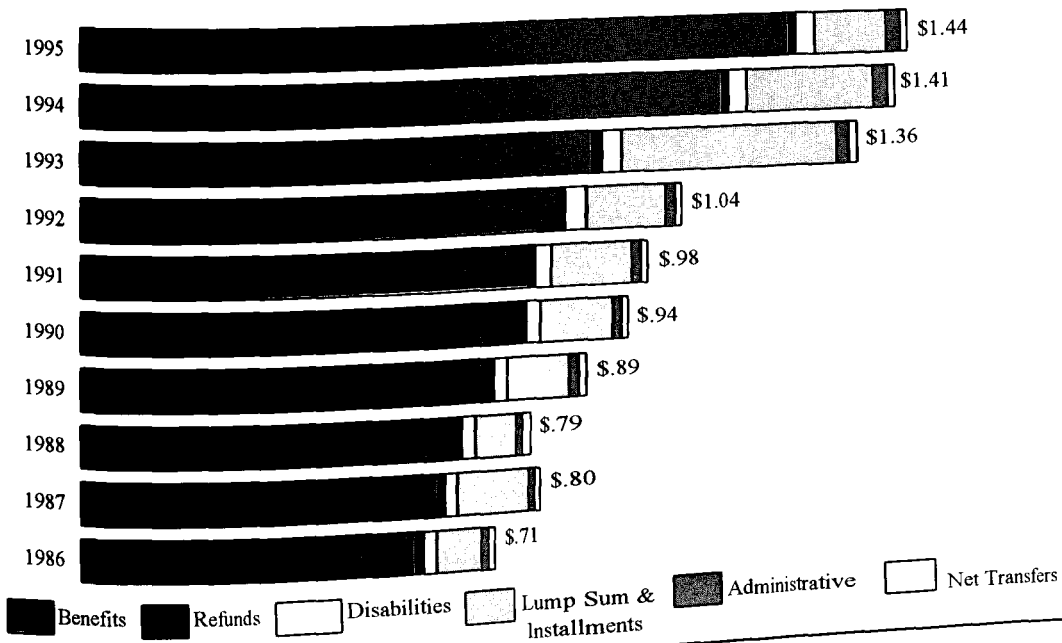
(Amounts in Billions)



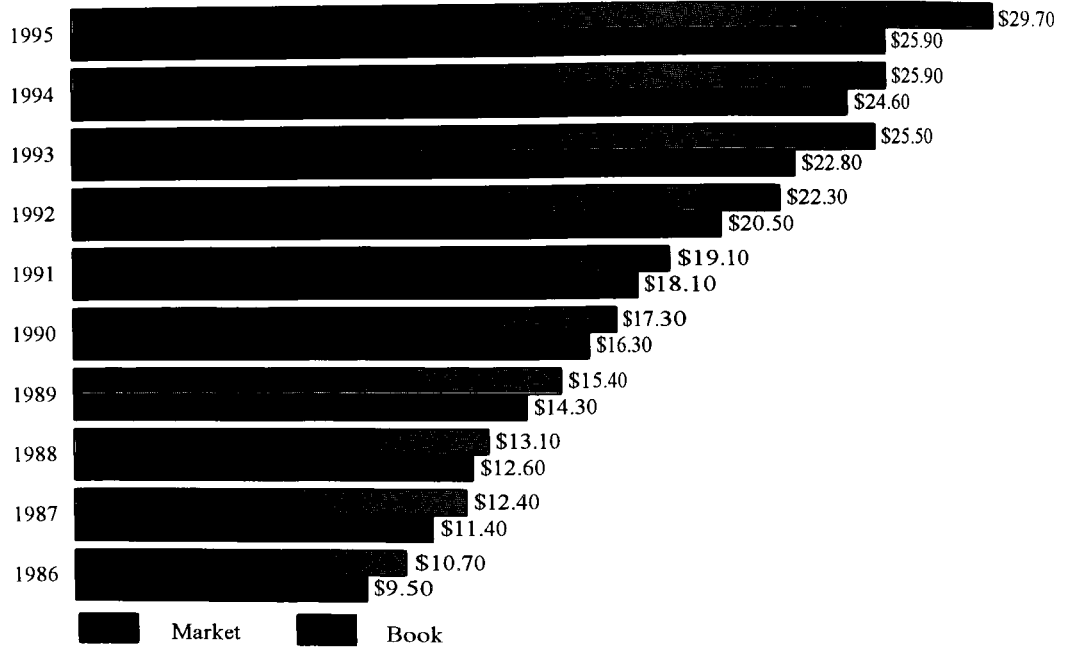
Revenue By Source - 10 Year Trend (Amounts in Billions)



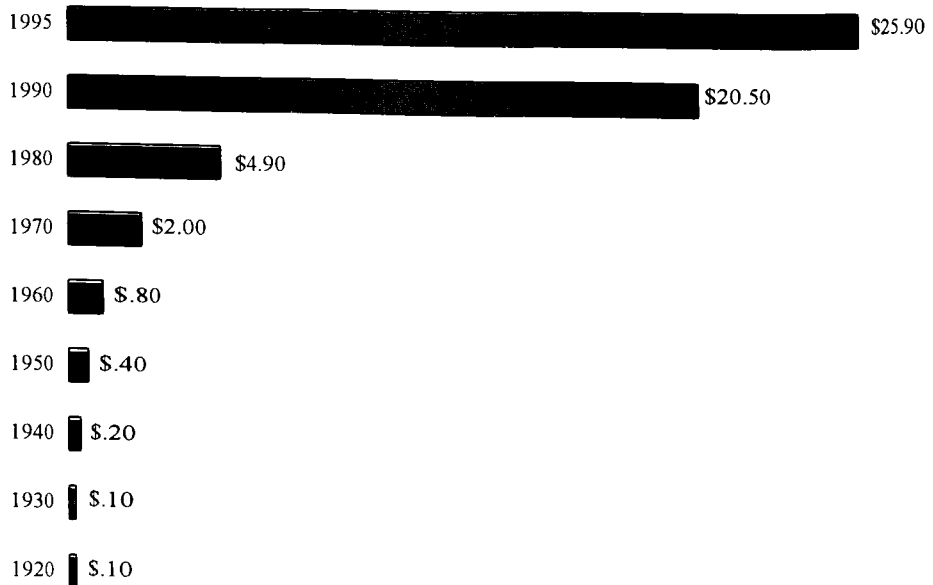
Expense By Type - 10 Year Trend (Amounts in Billions)



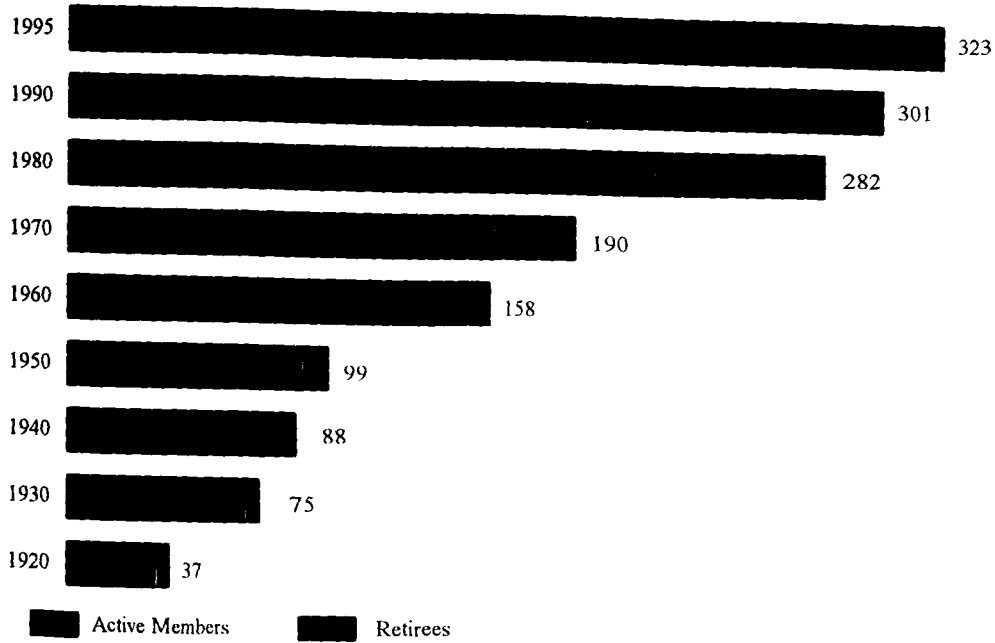
Total Assets - 10 Year Trend (Amounts in Billions)



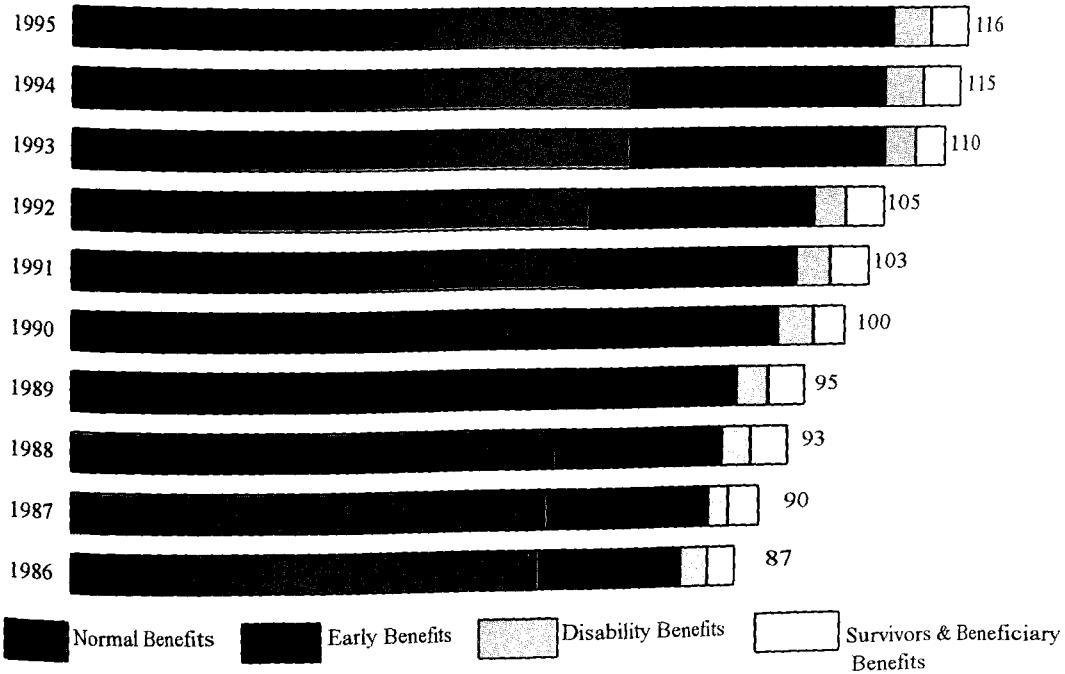
Asset Growth (Book Value - Amounts in Billions)



Total Membership - Active & Retired (In Thousands)



Retired Members - 10 Year Trend (In Thousands)



Schedule of Retired Members by Type of Benefit

Year	Retirement Type**	Option M*		Option 1*		Option 2, 3*	
		Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit
1995	S	48,589	\$952	8,256	\$767	14,028	\$1,116
	W	24,805	800	4,712	536	5,060	949
	D	4,044	676	21	454	605	866
	R	2	6	0	0	0	0
	B	21	751	0	0	4,813	436
		77,461		12,989		24,506	
1994	S	49,272	\$939	8,387	\$768	14,064	\$1,102
	W	23,807	756	4,595	522	4,807	904
	D	3,907	646	22	456	573	812
	R	2	6	0	0	0	0
	B	12	629	0	0	4,583	418
		77,000		13,004		24,027	
1993	S	49,132	\$831	8,337	\$694	13,783	\$983
	W	23,355	716	4,478	494	4,692	851
	D	3,752	586	26	420	528	741
	R	2	6	0	0	0	0
	B	3	451	0	0	4,367	399
		76,244		12,841		23,370	
1992	S	46,052	\$718	7,829	\$633	12,508	\$876
	W	21,116	629	4,104	434	4,177	768
	D	3,632	562	27	436	487	699
	R	2	6	0	0	0	0
	B	0	0	0	0	4,142	380
		70,802		11,960		21,314	
1991	S	46,063	\$693	7,668	\$624	12,234	\$847
	W	20,127	595	3,905	418	3,962	734
	D	3,561	538	27	436	457	662
	R	2	6	0	0	0	0
	B	0	0	0	0	3,991	369
		69,753		11,600		20,644	
1990	S	45,728	\$678	7,498	\$621	11,875	\$831
	W	18,982	559	3,639	403	3,726	703
	D	3,441	524	29	433	424	648
	R	2	6	0	0	0	0
	B	0	0	0	0	3,792	355
		68,153		11,166		19,817	
1989	S	45,064	\$660	7,235	\$618	11,257	\$813
	W	17,059	509	3,273	376	3,311	664
	D	3,346	507	45	474	406	612
	R	3	6	0	0	0	0
	B	0	0	0	0	3,531	338
		65,472		10,553		18,505	
1988	S	44,840	\$603	7,076	\$566	10,990	\$747
	W	16,000	467	3,037	345	3,038	612
	D	3,293	462	50	452	395	558
	R	3	6	0	0	0	0
	B	0	0	0	0	3,285	325
		64,136		10,163		17,708	
1987	S	44,608	\$595	6,919	\$565	10,624	\$736
	W	14,956	449	2,818	336	2,801	596
	D	3,196	447	52	460	366	548
	R	3	6	0	0	0	0
	B	0	0	0	0	3,114	314
		62,763		9,789		16,905	
1986	S	44,047	\$588	6,745	\$565	10,216	\$726
	W	13,224	403	2,540	315	2,477	563
	D	3,095	440	55	464	344	531
	R	4	11	0	0	0	0
	B	0	0	0	0	2,953	303
		60,370		9,340		15,990	

* OPTIONS:

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

Schedule of Retired Members by Type of Benefit (Continued)

Year	Retirement Type**	Option SO*		Option BO*		Total Retirees	% Increase of Retirees
		Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit		
1995	S	353	\$2,006	0	\$ 0	71,226	-1.2%
	W	78	1,754	0	0	34,655	4.1%
	D	0	0	0	0	4,670	3.7%
	R	0	0	0	0	2.0	0.0%
	B	146	250	464	375	5,444	4.7%
		<u>577</u>		<u>464</u>		<u>115,997</u>	<u>0.8%</u>
1994	S	356	\$1,959	0	\$ 0	72,079	0.7%
	W	70	1,661	0	0	33,279	2.1%
	D	0	0	0	0	4,502	4.6%
	R	0	0	0	0	2	0.0%
	B	152	221	452	351	5,199	4.5%
		<u>578</u>		<u>452</u>		<u>115,061</u>	<u>1.4%</u>
1993	S	341	\$1,754	0	\$ 0	71,593	7.4%
	W	69	1,579	0	0	32,594	10.7%
	D	0	0	0	0	4,306	3.9%
	R	0	0	0	0	2	0.0%
	B	159	516	445	329	4,974	5.0%
		<u>569</u>		<u>445</u>		<u>113,469</u>	<u>8.1%</u>
1992	S	271	\$1,525	0	\$ 0	66,660	0.7%
	W	60	1,418	0	0	29,457	5.1%
	D	0	0	0	0	4,146	2.5%
	R	0	0	0	0	2	0.0%
	B	152	197	445	324	4,739	3.1%
		<u>483</u>		<u>445</u>		<u>105,004</u>	<u>2.0%</u>
1991	S	257	\$1,428	0	\$ 0	66,222	1.3%
	W	47	1,400	0	0	28,041	6.2%
	D	0	0	0	0	4,045	3.9%
	R	0	0	0	0	2	0.0%
	B	156	192	449	313	4,596	4.7%
		<u>460</u>		<u>449</u>		<u>102,906</u>	<u>2.8%</u>
1990	S	290	\$1,281	0	\$ 0	65,391	2.4%
	W	49	1,222	0	0	26,396	11.5%
	D	0	0	0	0	3,894	2.6%
	R	0	0	0	0	2	-33.3%
	B	157	187	439	315	4,388	6.4%
		<u>496</u>		<u>439</u>		<u>100,071</u>	<u>4.9%</u>
1989	S	277	\$1,221	0	\$ 0	63,833	1.0%
	W	29	982	0	0	23,672	7.1%
	D	0	0	0	0	3,797	1.6%
	R	0	0	0	0	3	0.0%
	B	151	178	442	301	4,124	6.1%
		<u>457</u>		<u>442</u>		<u>95,429</u>	<u>2.7%</u>
1988	S	268	\$1,098	0	\$ 0	63,174	1.2%
	W	24	835	0	0	22,099	7.3%
	D	0	0	0	0	3,738	3.4%
	R	0	0	0	0	3	0.0%
	B	156	178	446	303	3,887	4.6%
		<u>448</u>		<u>446</u>		<u>92,901</u>	<u>2.8%</u>
1987	S	282	\$1,073	0	\$ 0	62,433	1.8%
	W	24	823	0	0	20,599	12.8%
	D	0	0	0	0	3,614	3.4%
	R	0	0	0	0	3	-25.0%
	B	150	332	453	291	3,717	4.5%
		<u>456</u>		<u>453</u>		<u>90,366</u>	<u>4.3%</u>
1986	S	296	\$1,049	0	\$ 0	61,304	2.1%
	W	21	745	0	0	18,262	13.9%
	D	0	0	0	0	3,494	3.1%
	R	0	0	456	0	4	0.0%
	B	147	159	0	276	3,556	5.2%
		<u>464</u>		<u>456</u>		<u>86,620</u>	<u>4.5%</u>

**** 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 Height 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
Cannon-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
Commadore 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
Eric City
Everett Area
Exeter Township

F

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

Schedule of Employers (Continued)

G

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

H

Halifax Area
 Hamburg Area
 Hampton Township
 Hanover Area
 Hanover Public
 Harbor Creek
 Harmony
 Harrisburg City
 Hatboro-Horsham
 Haverford Township
 Hazleton Area
 Hempfield
 Hempfield Area
 Hermitage
 Highlands
 Hollidaysburg 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
 Midd-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

Schedule of Employers (Continued)

O

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

P

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

Q

Quaker Valley
Quakertown Community

R

Radnor Township
Reading

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

S

Saint Clair Area
Saint Marys Area
Salisbury-Elk Lick
Salisbury Township
Saucon Valley
Sayre Area
Schuylkill Haven Area
Schuylkill Valley
Scranton City
Selinsgrove Area
Seneca Valley
Shade-Central City
Shaler Area
Shamokin Area
Shanksville-Stonycreek
Sharon City
Sharpsville Area
Shenandoah Valley
Shenango Area
Shikellamy
Shippensburg Area
Slippery Rock Area
Smethport Area
Solanco
Somerset Area
Souderton Area
South Allegheny
South Butler County
South Eastern
South Fayette Township
South Middleton
South Moreland
South Park
South Side Area
South Western
South Williamsport Area
Southeast Delco
Southeastern Greene
Southern Columbia Area
Southern Fulton
Southern Huntingdon

Southern Lehigh
Southern Tioga
Southern York County
Spring Cove
Spring-Ford Area
Spring Grove Area
Springfield
Springfield Township
State College Area
Steel Valley
Steeltown-Highspire
Sto-Rox
Stroudsburg Area
Sullivan County
Susquehanna Community
Susquehanna Township
Susquenita

T

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

U

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

V

Valley Grove
Valley View

Schedule of Employers (Continued)

W

Wallenpaupack Area
 Wallingford Swarthmore
 Warren County
 Warrior Run
 Warwick
 Washington
 Wattsburg Area
 Wayne Highlands
 Waynesboro Area
 Weatherly Area
 Wellsboro Area
 West Allegheny
 West Branch Area
 West Chester Area
 West Greene

West Jefferson Hills
 West Middlesex Area
 West Mifflin Area
 West Perry
 West Shore
 West York Area
 Western Beaver County
 Western Wayne
 Westmont Hilltop
 Whitehall-Coplay
 Wilkes-Barre Area
 Wilkinsburg
 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
 Wyoming Area

Y

York
 York Suburban
 Yough

Area Vocational Technical Schools

Admiral Peary
 Altoona
 Armstrong
 Beaver County
 Bedford-Everett
 Berks Career & Technical Center
 Bethlehem
 Bradford County
 Bucks County
 Butler County
 Carbon County
 Career Institute of Technology
 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 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

Schedule of Employers (Continued)

Intermediate Units

Allegheny #3	Central Susquehanna #16	Northeastern Education #19
Appalachia #8	Chester County #24	Northwest Tri County #5
Arin #28	Colonial Northampton #20	Pittsburgh Mt. Oliver #2
Beaver Valley #27	Delaware County #25	Riverview #6
Berks County #14	Intermediate Unit #1	Schuylkill #29
Blast #17	Lancaster Lebanon #13	Seneca Highlands #9
Bucks County #22	Lincoln #12	Tuscarora #11
Capital Area #15	Luzerne #18	Westmoreland #7
Carbon Lehigh #21	Midwestern #4	
Central #10	Montgomery County #23	

Colleges/Universities

Bloomsburg University	Lehigh County Community College
Bucks County Community College	Lock Haven University
Bulter County Community College	Luzerne County Community College
California University	Mansfield University
Cheyney University	Millersville University
Clarion University	Montgomery County Community College
Community College of Allegheny County	Northampton County Area Community College
Community College of Beaver County	Pennsylvania College of Technology
Community College of Delaware County	Pennsylvania State University
Community College of Philadelphia	Reading Area Community College
East Stroudsburg University	Shippensburg University
Edinboro University	Slippery Rock University
Harrisburg Area Community College	University of Pittsburgh
Indiana University	West Chester University
Kutztown University	Westmoreland County Community College

Other

Berks County Eamed Income Tax Bureau	Scotland School for Veterans Children
Department of Education - Commonwealth of Pennsylvania	Scranton School for the Deaf
Lycoming County Career Consortium	Thaddeus Stevens School of Technology
Northern Area Special Purpose School	Washington County Alternative School
Overbrook School for the Blind	Western Pennsylvania School for the Blind
Pennsylvania Council on Vocational Education	Western Pennsylvania School for the Deaf
Pennsylvania School Boards Association	York County High School
Pennsylvania School for the Deaf	

Components of Total Contribution Rate (In Percentages)

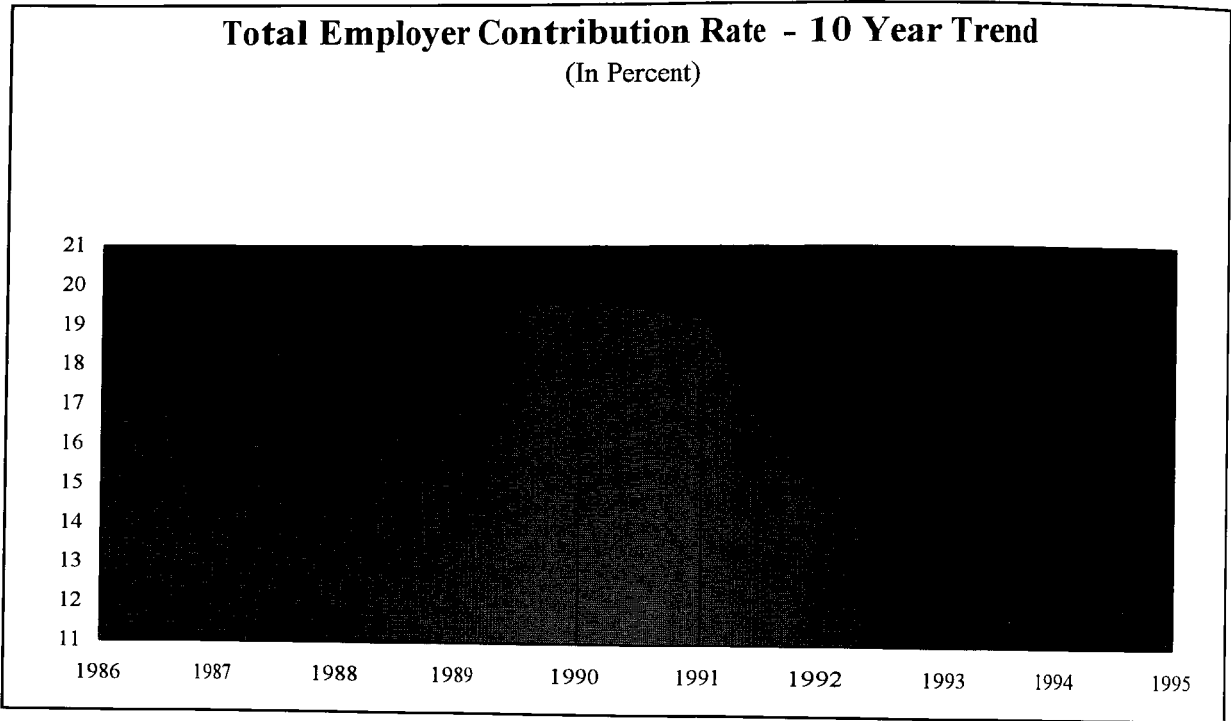
Fiscal Year	Employer Contribution			Total Employer	Employee Contribution (Average)	Total Contribution Rate
	Normal Requirement (A)	Accrued Liability (B)	Health Care Contribution (C)			
83-86	6.43	4.67	.62	11.72	5.59	17.31
84-85	6.43	4.18	.45	11.06	5.55	16.61
85-84	7.34	5.58	.25	13.17	5.51	18.68
86-89	7.90	5.84	.50	14.24	5.48	19.72
87-92	8.00	6.40	.50	14.90	5.46	20.36
88-91	8.28	10.90		19.18	5.69	24.87
89-90	8.44	11.24		19.68	5.53	25.21
90-89	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

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

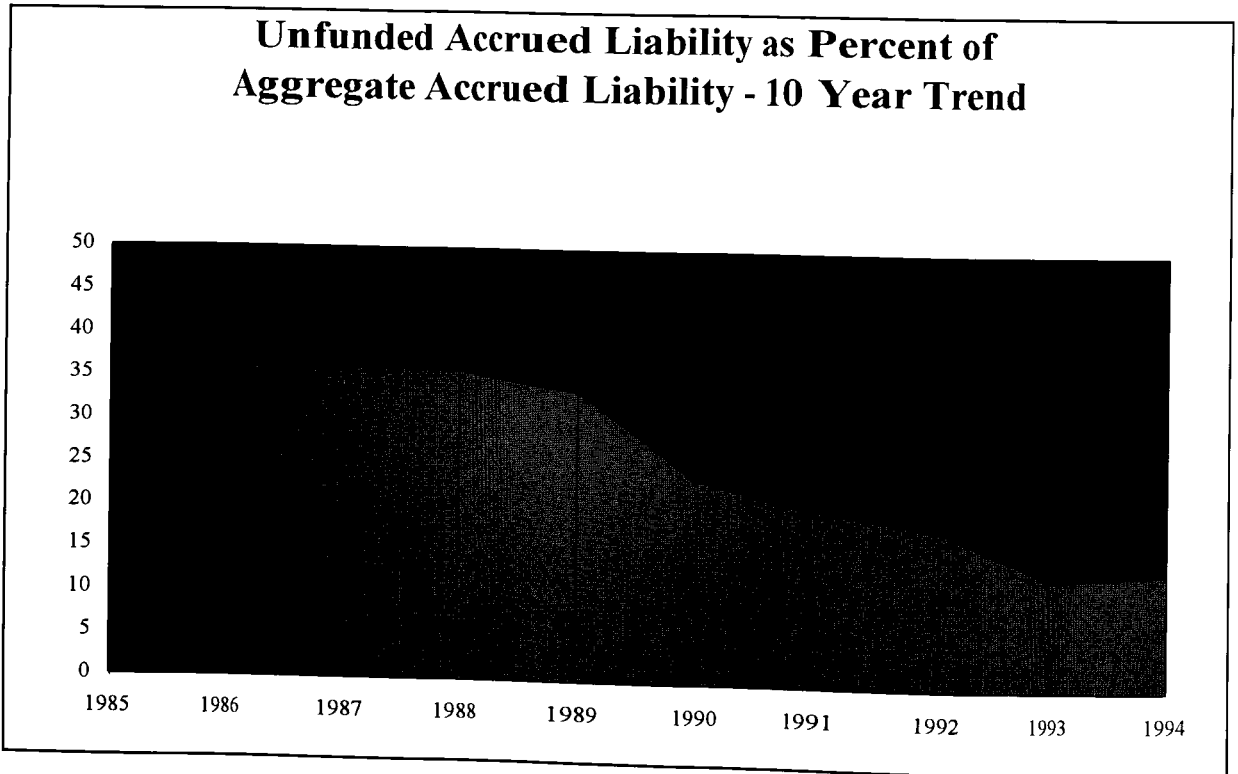
The total employer rate is comprised of a normal requirement, an accrued liability requirement and a health care contribution requirement and is shared equally by the Commonwealth and the reporting unit.

- (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 of 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 provision of Act 23-1991.

Total Employer Contribution Rate - 10 Year Trend
(In Percent)

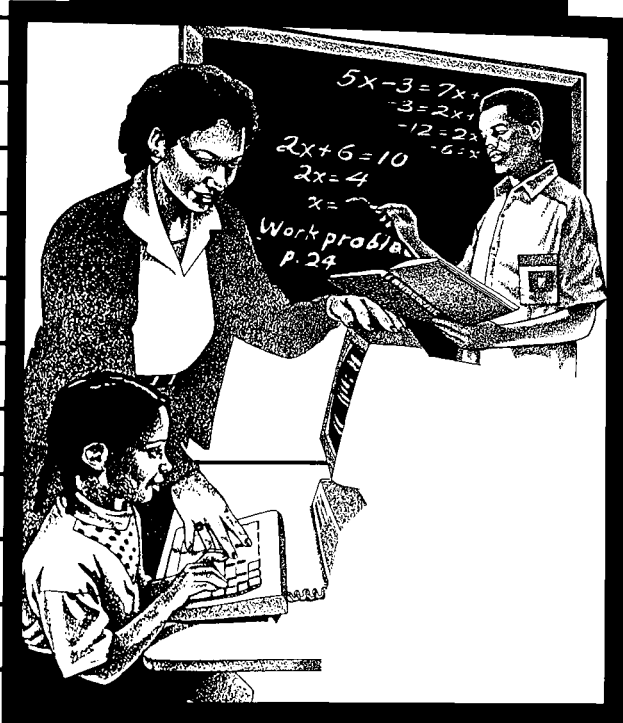


Unfunded Accrued Liability as Percent of Aggregate Accrued Liability - 10 Year Trend



Public School

ment System



Investment Solutions

Investment Overview

The mission for the Pennsylvania Public School Employes' 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.

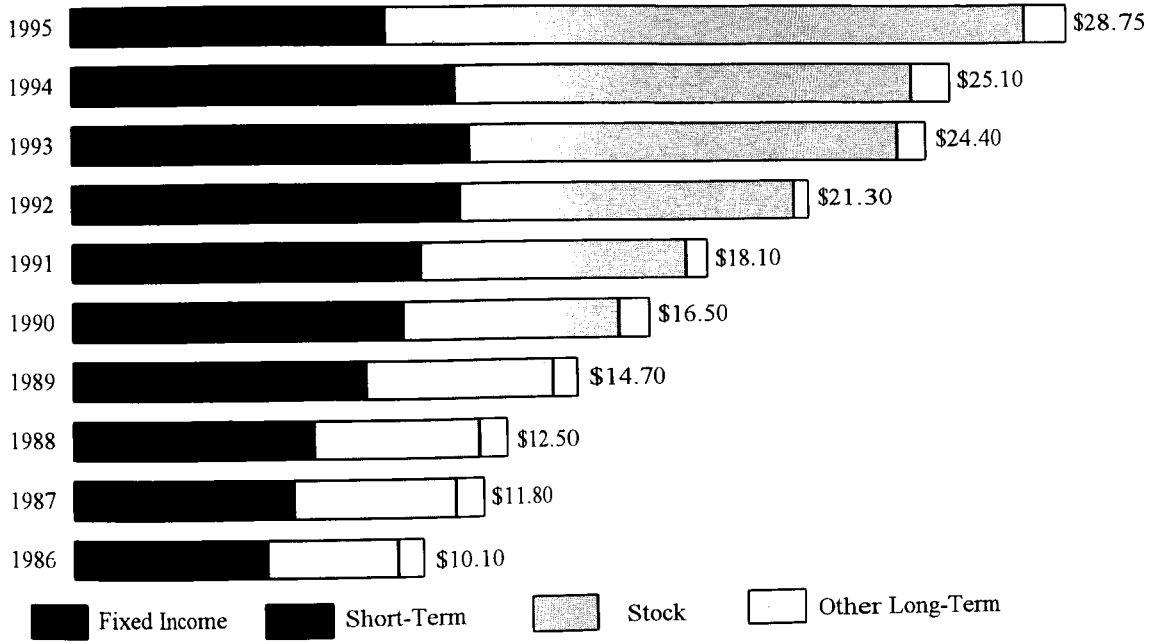
The ten-year return history of the Fund is as follows:

Fiscal Year	Time Weighted Rate of Return %
1995	17.1
1994	1.9
1993	13.3
1992	14.2
1991	8.1
1990	9.2
1989	13.8
1988	2.6
1987	12.7
1986	21.5

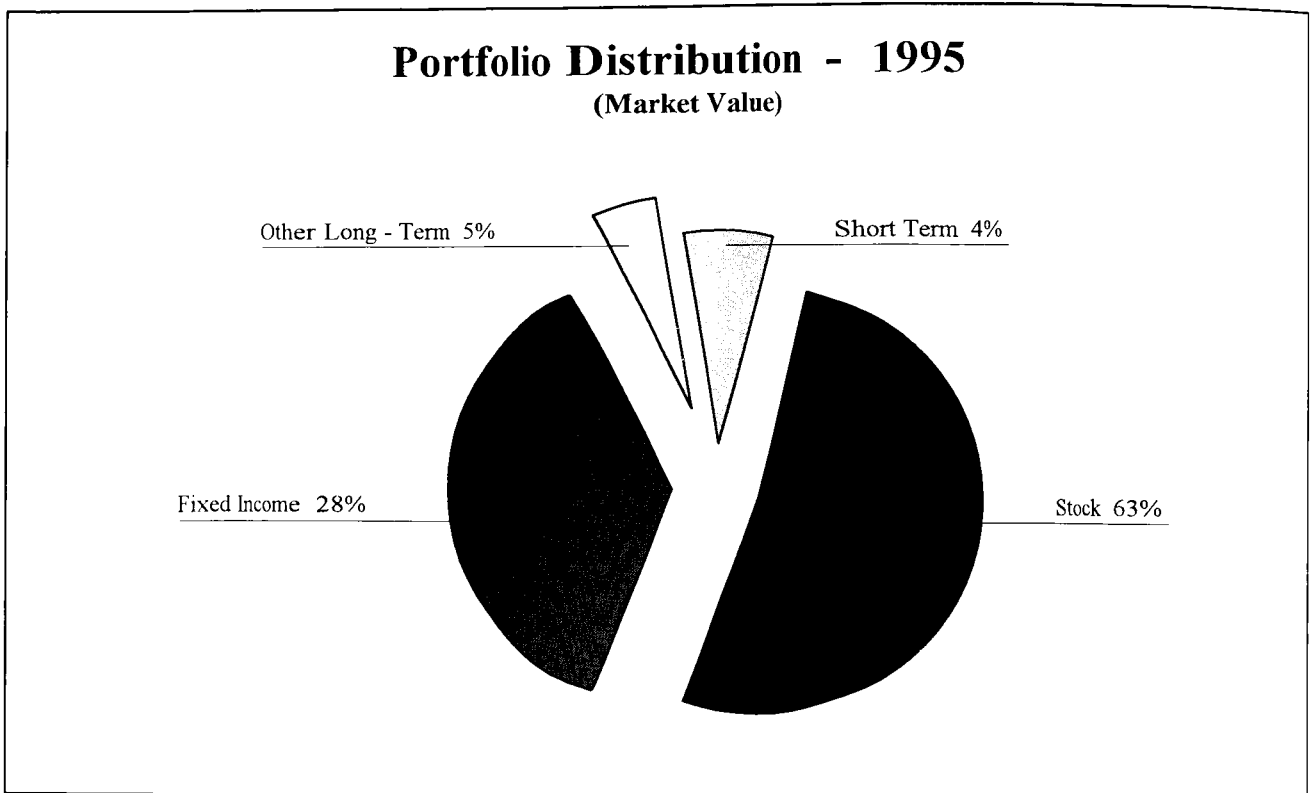
The market value of the System's investments is projected to increase to \$67 billion by December 2005. This is a 133 percent increase from the market value at June 30, 1995.

The market value of the investments of the Pennsylvania Public School Employees' Retirement System reached \$28.7 billion as of June 30, 1995. This is an increase from \$25.1 billion at June 30, 1994. A graphical representation showing the ten-year trend of assets at market value follows:

Portfolio Distribution - 10 Year Trend (Market Value - Amounts In Billions)



The composition of the Fund at market value was fixed income, \$8.0 billion; common and preferred stocks, \$18.0 billion; other long-term investments, \$1.4 billion; and short-term investments, \$1.3 billion. The distribution by percent is illustrated in the chart below:



The time-weighted rate of return for the Fund's investments was 17.1 percent for the fiscal year ending June 30, 1995 compared to a 1.9 percent return for the fiscal year ended June 30, 1994. The time-weighted rate of return for the five years ending June 30, 1995 was 10.8 percent.

Equities in the domestic portfolio returned 24.3 percent this fiscal year, compared to a 26.0 percent return for the Standard and Poor's 500 Index during that period. Equities had a 2.1 percent return for the fiscal year ending June 30, 1994.

The domestic fixed income segment of the portfolio, consisting of U.S. government obligations, corporate and municipal bonds, returned 12.0 percent for the fiscal year compared with a 12.5 percent return for the Shearson-Lehman Aggregate Bond Index. The fixed income return for the prior fiscal year was -0.8 percent.

Other long-term investments, including absolute return investments, returned 9.5 percent compared to 9.2 percent the prior year.

Short-term investments returned 5.9 percent compared to 5.5 percent on 90-day Treasury Bills. Short-term investments returned 2.9 percent for the prior fiscal year.

The tactical asset allocation investments, consisting of short-term, fixed income, stocks and other off-balance sheet investments, returned 17.7 percent compared to -0.2 percent the prior year.

The global portfolio, consisting of fixed income and stocks, returned 6.8 percent this year. Total global investments, including global short-term investments, increased to 22.2 percent from 13.8 percent of the Fund's total assets this fiscal year.

The following chart lists the market value of assets, using a trade date basis, under management by the System's funded investment advisors at June 30, 1995.

Investment Managers

Market Value (in thousands)

As of 6/30/95

Domestic Equity Managers		Real Estate Managers	
PSERS Equity	7,756,211	LaSalle Advisors Ltd	270,022
Oppenheimer Capital Corp.	905,555	Legg Mason Real Estate Services	240,640
Mellon Bank, N.A.	849,705	L&B Real Estate Counsel	216,705
Miller Anderson & Sherrerd	842,057	The RREEF Funds	172,188
Liberty Investment Management	728,220	Equitable Real Estate Investment Management, Inc.	83,723
Hudson Capital Advisors	563,582	Morgan Stanley Asset Management, Inc.	70,681
Delta Asset Management	542,399	Whitehall Street Real Estate	67,384
Columbus Circle Investors	508,421	Sentinel Real Estate Corporation	52,440
Dietche & Field Advisors	427,947	Prudential Agricultural Group	27,480
Pilgrim Baxter Greig & Associates	407,736	Aetna Realty Investors	19,297
Advanced Investment Management L.P.	261,936	PSERS Real Estate	2,665
Roxbury Capital Management	223,722	Tiger Real Estate Fund L.P.	753
Duncan Hurst Capital Management	217,043		
First Pacific Advisors, Inc.	156,518	Absolute Return Managers	
Birmingham Capital Management Co.	136,051	WR Investment Partners Futures Fund L.P.	50,139
Valenzuela Capital Management	36,804	Numeric Investors L.P.	33,269
Woodford Capital Management	17,240		
Emerald Advisors	16,936	Venture Capital Managers	
Paradigm Asset Management	16,403	Landmark Ventures, Inc.	63,464
Globalt, Inc.	16,237	Pennsylvania Venture Capital Funds (APA/Fostin)	40,050
Sturdivant & Co.	15,791	Landmark Ventures, Inc.	38,269
Rorer Asset Management	13,431	Commonwealth Venture Partners	21,282
TSA Capital Management	-	CEO Venture Funds	14,556
		Edison Venture Funds	14,548
		Technology Leaders L.P.	12,822
Global Equity Managers		Loyalhanna Commonwealth Venture Fund	8,633
Scudder, Stevens & Clark	791,772	Grotech Capital	7,328
IDS International, Inc.	726,950	Spectrum Equity Investors L.P.	6,344
Putnam Companies	512,009	Keystone Venture	5,532
WorldInvest Ltd.	438,652	NEPA Management Corporation	4,689
Marathon Asset Management Limited	380,059	TPG Partners L.P.	4,331
Martin Currie Investment Management Ltd.	296,311	Heritage Partners, Inc.	3,955
Rowe Price-Fleming International	295,722	Franklin Venture Capital	3,031
PSERS Global Equity	105,350	TDH III	2,805
Clemente Capital	12,755	CIGNA Investments, Inc.	1,573
		Bastion Capital Corporation	1,446
Domestic Fixed Income Managers		Leonard Green & Partners L.P.	719
PSERS Fixed	1,835,151	Keystone Minority Capital Fund L.P.	67
Pacific Investment Management	1,165,945		
Morgan Grenfell Capital Management	918,615	Short-Term Manager	
Miller Anderson & Sherrerd	893,407	Treasury Short-term	640,670
		PSERS Health Care	30,996
Global Fixed Income Managers			
Strategic Fixed Income	698,066	Miscellaneous	
Rogge Global Partners	599,578	PSERS Tactical Asset Allocation	738,982
Putnam Companies	587,687	Weymouth & Associates	172,199
WorldInvest Ltd.	299,766	Blue Bell Corporation	142,328
Fiduciary Trust International	187,024	Bankers Trust Tactical Asset Allocation	21,724
		Quantilogic Asset Management Company, Inc.	15,959
		PSERS Private Investments	14,000
		Panagora Asset Management	838
		TOTAL	28,745,290

All uninvested cash allocated to investment managers is reflected above in Treasury Short-term. Only TSA Capital Management held Treasury short-term investments at June 30, 1995.

The System also has two option managers, Acorn Derivatives Management and PSERS Options, which write covered index call options on \$1.8 billion of the equity portfolio and fixed income futures options on \$35 million of the fixed income portfolio.

Total investment management fees were \$42.1 million compared to \$42.2 million last fiscal year. A breakdown of investment fees paid follows:

Summary of Investment Fees Year Ended June 30, 1995

Equity Managers	\$ 16,834,329
Global Managers	9,043,851
Real Estate Managers	6,261,281
Miscellaneous	4,798,238
Fixed Income Managers	4,498,089
Option Managers	640,013
Total Fees	\$ 42,075,801

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, 1995 (Amounts in Millions)

Type of Investment	Book Value 6/30/94	Purchases	Sales	Gain/ (Loss)	Decrease in Valuation Reserve	Book Value 6/30/95
Fixed Income	\$ 9,651	\$ 17,634	\$ (19,504)	\$ (37)	\$ 4	\$ 7,748
Common and Preferred Stock	11,394	10,241	(7,671)	597		14,561
Other Long-Term Investments	1,083	332	(87)	12	10	1,350
Short-Term Investments	1,622	23,189	(23,523)	19		1,307
Total	\$ 23,750	\$ 51,396	\$ (50,785)	\$ 591	\$ 14	\$ 24,966

Note: The beginning Book Values were modified due to reclassifications of assets on July 1, 1994. The sum of the revised beginning Book Values (\$23,750) agrees to the total Book Value reported at June 30, 1994.

To increase returns and lower the cost of managing the assets, the Board continued to expand the Fund's internal investment program during this fiscal year. The internally managed assets represented 36.5 percent of the System's total assets at June 30, 1995 compared to 30.2 percent at June 30, 1994.

Broker's fees on investment transactions for the fiscal year ending June 30, 1995 were \$28.7 million. A breakdown of the 200 brokers' fees paid in descending order follows:

Summary Schedule of Brokers' Fees Year Ended June 30, 1995

Broker Name	Commissions Paid (\$)	Broker Name	Commissions Paid (\$)
SMITH NEW COURT	4,928,985	MONTGOMERY SECURITIES	101,018
BEAR, STEARNS & CO	2,435,639	KIDDER PEABODY & CO	99,987
LYNCH JONES & RYAN	1,899,992	PERSHING DIV OF DL & J	99,685
HOENIG & CO	1,552,175	CAZENOVE INC	96,795
BROADCOURT CAPITAL CORP	1,210,885	SMITH BARNEY HARRIS UPHAM & CO	96,495
CITATION GROUP	960,715	PHILEO ALL	96,206
MORGAN STANLEY & CO	833,715	WEISS PECK & GREER	87,790
INSTINET CORP	629,249	DONALDSON, LUFKIN AND JENRETTE	87,419
DLEINWORT BENSON INC.	623,984	CANTOR FITZGERALD & CO	84,769
ROCHDALE SECURITIES CORP	575,955	COWEN & COMPANY	80,895
WARBURG, S G & CO	571,693	BROWN, ALEX & SONS	80,633
GOLDMAN, SACHS & CO	561,100	JARDINE FLEMMING	78,759
JANNEY, MONTGOMERY & SCOTT INC.	535,312	ORD MINNETT	78,308
MERRILL LYNCH	524,552	YAMAICHI INTERNATIONAL EUROPE LTD	74,667
SALOMON BROTHERS	521,584	ERNST & CO	73,892
FIRST BOSTON CORP	438,247	CAPITAL INSTITUTIONAL SERVICES	70,168
BRIDGE TRADING COMPANY	401,384	FURMAN SELZ MAGER DIETZE & BIRNEY	70,112
COUNTY NATWEST SECURITIES	369,854	ANZ MCCAUGHAN SEC	69,790
PAINE WEBBER JACKSON & CURTIS	360,679	WARBURG ROWE & PITMAN	66,543
CAPEL JAMES & CO	314,827	BAIN SECURITIES	62,580
INVESTMENT TECHNOLOGY GROUP	305,614	WERE, J B & SON/AUSTRALIA	59,066
BERNSTEIN, SANFORD C & CO	302,604	SCHROEDER INV MGMT	55,239
LEHMAN BROTHERS	253,008	WILLIAM BLAIR & CO	55,169
CARR, W I & SONS CO OVERSEAS	226,658	ENSKILDA SECURITIES	53,394
DAIWA SECURITIES	197,640	YORK SECURITIES	51,541
ABEL NOSER	192,191	S B C I SECURITIES	50,438
KLEINWORT BENSON INC	189,778	POTTER WARBURG SECURITIES	49,305
KIM ING SECURITIES	183,721	ROBERT FLEMING SECURITIES	48,450
BARCLAY'S DEZOETE WEDD	175,431	NIKKO SECURITIES CO LTD	48,323
NEUBERGER & BERMAN INC.	173,365	CREDIT RESEARCH & TRADING	47,737
UBS SECURITIES	170,223	WEEDEN & CO	43,952
MORGAN, J P INC.	157,249	LEWCO SECURITIES CORP	42,956
BARING SECURITIES	154,760	DEAN WITTER AND COMPANY	41,909
CROSBY	151,799	KEMPEN & CO	39,788
CREDIT LYONNAIS SECURITIES	144,932	CORRESPONDENT SERVICES CO	38,375
OPPENHEIMER & CO INC.	144,856	SHEARSON LEHMAN BROTHERS	37,918
JEFFERIES & CO INC.	136,241	QUANTITATIVE ANALYSIS SERVICE	34,811
PRUDENTIAL BACHE SECURITIES	128,923	ROBERTSON COLMAN STEPHENS & WOOD	34,534
NOMURA SECURITIES INTERNATIONAL	127,857	PETERCAM, BRUSSELS	34,113
GOH, G K SECURITIES LTD	115,351	LAWRENCE CJ MORGAN GRENFELL	32,320
BZW SECURITIES	114,493	BANK JULIUS BAER	31,737
DEUTSCHE BANK CAPITAL CORP	114,168	MCINTOSH & CO	31,316
MORGAN GRENFELL	110,389	DAI ICHI SECURITIES	30,544
HOARE GOVETT LTD	102,642	HAGLOFF	30,195
FAHNESTOCK & COMPANY	101,503	AUTRANET	29,817

Summary Schedule of Broker Fees (Continued)

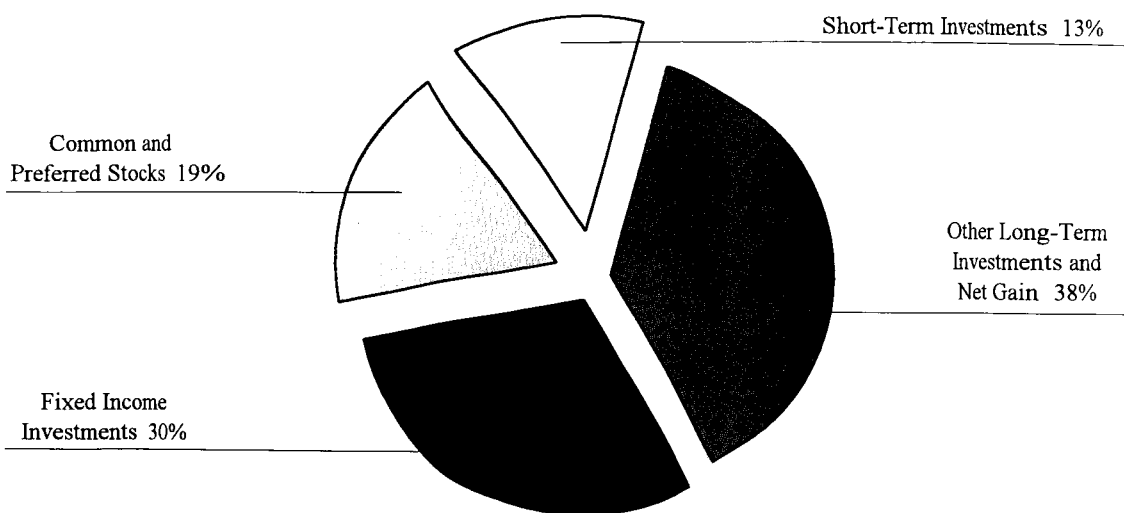
Broker Name	Commissions Paid (\$)	Broker Name	Commissions Paid (\$)
UNIDENTIFIED BROKER TRANSACTIONS	29,428	KANKAKU SECS (EUROPE) LTD	10,087
MILLER TABAK HIRSCH & CO	29,354	DBS SECURITIES	10,061
JONES & ASSOCIATES	28,950	PETERBROECK VAN CAMPENHOUT	10,009
FACTSET DATA SYSTEMS	28,867	JOSEPH L LYONS & ROSS	9,893
ISI CORPORATION	28,153	ASESSORES BURSATILES	9,683
FIDELITY CAPITAL MARKETS	27,648	ALBERTININ	9,636
DILLON, READ & CO INC.	27,233	DRESDNER BANK A G	9,365
GILDER GAGNON & CO INC.	26,900	SOUTHWEST SECURITIES	9,155
CHEUVREUX	26,827	PEREGRINE	9,144
DOYLE PATE	26,111	PARIBAS SECURITIES	8,888
GOLDSMITH & HARRIS	25,695	PIPER, JAFFRAY & HOPWOOD INC.	8,707
NEWBRIDGE SECURITIES	25,307	WASSERSTEIN PERELLA	8,494
ASTAIRE & CO	25,087	KEEFE, BRUYETTE & WOODS INC.	8,115
WAKO INTERNATIONAL EUROPE	24,657	THAMESWAY INVESTMENT SERVICES	7,931
WHEAT FIRST SECURITIES INC.	24,627	ASIA EQUITY	7,817
MORAN & ASSOC. INC.	23,850	CHEVEAUX, J PARIS	7,746
JOHNSON RICE & CO	23,333	WERTHEIM/LEWCO	7,656
SOCIETE GENERALE	22,473	NCB STOCKBROKERS	7,340
GLAZER, C L & CO	21,905	DOMINION SECURITIES INC.	7,200
CCF ELYSEE	21,563	INTERSTATE/JOHNSON LANE CORP	6,848
VAN KASPER	21,490	PASFIN	6,845
MONESS CRESPI HARDT	20,850	RAYMOND JAMES & ASSOCIATES	6,810
ROULSTON RESEARCH CORP	19,338	MABON NUGENT & COMPANY	6,752
HG ASIA SECURITIES LTD	18,167	WILSHIRE ASSOCIATES INC	6,750
MORGAN GUARANTY TRUST	17,680	F&G INVERSIONES BURSATILES	6,682
H LUNDENS FONDS	17,290	CARNEGIE INTERNATIONAL LONDON	6,671
MAXWELL Y ESPINOSA	17,020	CARL MARKS	6,645
ROBINSON-HUMPHREY CO INC.	16,468	TUCKER ANTHONY & RL DAY	6,630
SCHRODER SECURITIES INC.	16,321	FOX PITT KELTON	6,565
EXECUTION SERVICES INC.	16,272	CAISSE DE DEPOT ET CONS	6,543
SCOTIA MCLEOD USA INC	16,171	MCDONALD & CO	6,515
EUROMOBLAIRE	16,013	FIDUCIARY FINANCIAL SERVICES	6,402
SWISS BANK CORP	15,824	BURNS FRYE HOARE GOVETT	6,343
SUMMIT SECURITIES	15,024	AUERBACK GRAYSON	6,296
WARBURG SECURITIES LTD LONDON	14,909	FINANHUSET OLD NORWAY	6,295
FIRST MANHATTAN CO	14,857	WESSEL, ARNOLD & HENDERSON	6,285
SOUNDVIEW FINANCIAL GROUP INC.	14,784	CATHAY FINANCIAL CORP	6,105
SARASIN SECURITIES	14,777	BARCLAY'S BANK INTERNATIONAL	5,532
UBS PHILLIPS & DREW	14,329	EQUITABLE SECURITIES	5,491
LIPPER ANALYTICAL DISTRIBUTORS	13,470	BAYERISCHE VEREINSBK	5,455
GERARD KLAUER MATTISON & CO	13,159	ADAMS HARKNESS & HILL	5,278
PICTET & CIE	12,928	GORDON CAPITAL	5,201
IMI SECURITIES	12,895	WERTHEIM SCHRODER & CO	5,158
MEESPIERSON	12,862	INTERMOBILE	4,959
FLEMING MA	12,052	CONNING AND COMPANY	4,874
SWISS AMERICAN SECURITIES	12,051	NEW JAPAN SECURITIES CO LTD	4,855
PIERSON HELDRING PIERSON	11,942	BHF SECURITIES	4,795
TONGE RM CO	11,809	SIGECO	4,768
NESBITT THOMPSON SECURITIES	11,390	CHICAGO CORPORATION	4,734
SHIELDS CAPITAL CORP	11,232	FRANKEL, STUART & CO	4,720
SASSO, J M	10,984	RUSSELL, FRANK CO	4,716
F&G INSTITUTIONAL	10,526	VONTOBEL	4,587
BAIRD, ROBERT W & CO INC.	10,496	DAVY STOCKBROKERS	4,520
STANDARD & POORS SECURITIES	10,428	PEEL HUNT & CO	4,478
KING, C L & ASSOCIATES	10,175	WOOD GUNDY INC.	4,437

Portfolio Summary Statistics as of 6/30/95
Trade Date Basis

Type of Investment	Book Value (\$)	% Boo Value	Market Value (\$)	% Market Value
Fixed Income				
Domestic Portfolio				
U.S. Government & Agency Obligations	\$ 1,544,706,714	6.2%	\$ 1,591,792,345	5.5%
Mortgage Backed Securities	2,014,424,244	8.1%	2,041,677,764	7.1%
Corporate and Municipal Bonds	941,420,586	3.8%	953,309,793	3.4%
Miscellaneous Fixed Income	470,627,853	1.8%	480,413,853	1.7%
Private Placements	132,055,909	0.5%	141,953,478	0.5%
Global Portfolio	2,644,353,052	10.6%	2,741,216,255	9.5%
	7,747,588,358	31.0%	7,950,363,488	27.7%
Common and Preferred Stock				
Domestic Portfolio				
Common Stock	11,094,221,361	44.3%	14,410,576,390	50.2%
Private Placements	172,000,008	0.7%	186,573,000	0.6%
Preferred Stock	29,394,611	0.1%	38,039,998	0.1%
Global Portfolio	3,265,907,331	13.2%	3,422,375,850	11.9%
	14,561,523,311	58.3%	18,057,565,238	62.8%
Other Long-Term Investments				
Real Estate Owned, net	637,816,923	2.6%	607,935,457	2.1%
Equity Real Estate, net	370,150,820	1.5%	398,183,725	1.4%
Venture Capital, net	191,075,686	0.8%	255,442,378	0.9%
Farmland Investments	76,489,712	0.3%	84,106,656	0.3%
Limited Partnerships	75,000,000	0.3%	83,408,122	0.3%
	1,350,533,141	5.5%	1,429,076,338	5.0%
Short-Term Investments				
Domestic Portfolio				
Health Insurance Account			30,996,105	0.1%
Short-Term Investment Fund	31,167,323	0.1%	640,669,780	2.2%
PA Treasury Short-Term Investment Fund	640,669,780	2.5%	421,346,465	1.5%
Other Short-Term Investments	420,790,518	1.7%	215,272,103	0.7%
Global Portfolio	214,149,065	0.9%	1,308,284,453	4.5%
	1,306,776,686	5.2%	1,308,284,453	4.5%
Total Investments	\$ 24,966,421,496	100.0%	\$ 28,745,289,517	100.0%

Net investment revenue for the fiscal year ending June 30, 1995 exceeded \$1.8 billion, equal to the prior fiscal year's net investment revenue. The components of net investment revenue are shown in the following graph.

Components of Investment Revenue - 1995



The category other long-term investments and net gain includes other long-term income, income from security lending, losses on option overwriting and net gain on investment transactions.

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

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



The following asset listings have been prepared from information provided by the custodian bank used by the 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 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 (ADRs), foreign stocks listed on U.S. exchanges. The domestic fixed income portfolio includes 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 to invest in the global markets. These assets are held by the System's custodian bank. The fixed income and short-term global advisors may invest in the countries (including the U.S.) that comprise the J. P. Morgan World Government Bond Index. The global stock advisors may invest in the 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, 1995
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 NOTES	04/30/00	6.875	79,662,000	79,495,506	82,076,555
U.S.A. TREASURY NOTES	11/30/98	5.125	85,000,000	79,193,717	82,821,450
U.S.A. TREASURY NOTES	11/15/10	12.750	56,710,000	78,856,064	83,744,791
U.S.A. TREASURY NOTES	05/31/00	6.250	77,800,000	78,080,888	78,626,236
U.S.A. TREASURY NOTES	07/31/98	5.250	76,400,000	74,511,375	74,955,276
U.S.A. TREASURY NOTES	07/15/97	8.500	70,632,000	74,396,307	74,163,600
U.S.A. TREASURY BONDS	08/15/17	8.875	52,950,000	60,927,716	65,922,750
U.S.A. TREASURY BONDS	08/15/22	7.250	50,945,000	50,214,735	54,320,106
U.S.A. TREASURY STRIPPED	05/15/98	0.000	59,100,000	49,817,253	50,046,471
U.S.A. TREASURY BONDS	08/15/20	8.750	37,225,000	42,936,837	46,223,027
U.S.A. TREASURY BONDS	02/15/25	7.625	34,420,000	38,778,206	38,872,915
U.S.A. TREASURY BONDS	08/15/19	8.125	32,245,000	37,254,005	37,515,123
U.S.A. TREASURY BONDS	08/15/23	6.250	42,000,000	36,191,287	39,670,260
U.S.A. TREASURY NOTES	09/30/96	7.000	31,655,000	31,891,100	32,090,256
FEDERAL HOME LOAN BANKS	12/23/97	7.890	31,870,000	31,870,000	33,264,313
U.S.A. TREASURY NOTES	10/31/96	6.875	31,285,000	31,157,905	31,700,465
U.S.A. TREASURY NOTES	02/28/97	6.750	30,335,000	30,606,780	30,766,364
U.S.A. TREASURY BONDS	05/15/09	9.125	27,350,000	30,602,086	32,345,751
U.S.A. TREASURY NOTES	05/15/04	7.250	26,705,000	28,757,924	28,511,860
U.S.A. TREASURY NOTES	02/15/03	6.250	25,555,000	25,863,212	25,622,976
U.S.A. TREASURY BONDS	08/15/13	12.000	16,100,000	22,683,732	23,747,502
U.S.A. TREASURY STRIPPED	05/15/98	0.000	25,000,000	20,820,250	21,155,500
U.S.A. TREASURY NOTES	02/28/98	5.125	19,390,000	19,065,823	19,032,448
U.S.A. TREASURY NOTES	08/31/97	5.625	18,920,000	18,881,569	18,828,427
U.S.A. TREASURY NOTES	11/15/97	8.875	17,595,000	18,260,311	18,744,129
Total of 25 Largest Holdings				1,091,114,588	1,124,768,551
Total System Holdings - U.S. Government & Agency Obligations				1,544,706,714	1,591,792,345

Portfolio Detail Statistics as of June 30, 1995
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 (\$)
GNMA 30 YR JULY TBA	01/01/99	8.500	50,000,000	52,101,563	51,906,000
FHLMC GOLD 30 YR JULY TBA	01/01/99	7.000	51,500,000	51,053,516	50,485,965
FNMA 30 YR JULY TBA	01/01/99	7.000	44,500,000	44,158,359	43,735,045
GNMA 30 YR AUG TBA	01/01/99	5.500	40,700,000	40,427,203	40,318,438
FNMA #190025	09/01/23	6.669	32,961,090	33,414,305	32,919,889
FHLMC	07/15/18	6.250	33,000,000	32,582,344	32,582,344
FHLMC	09/15/23	8.000	28,137,800	29,154,924	29,154,897
GNMA #008457	07/20/24	6.000	25,480,639	25,771,277	25,787,171
MID ST TRUST II	04/01/03	9.625	25,350,000	25,116,977	28,583,381
GNMA #008608	03/20/25	7.000	20,468,415	20,666,703	20,826,613
MID ST TRUST IV	10/01/15	8.330	19,640,391	19,895,236	20,775,606
RESOLUTION TRUST MORTGAGE	06/25/24	6.418	19,070,780	19,544,561	19,197,600
FEDERAL HOUSING AUTH HUNTON PAIGE	01/01/12	8.360	19,650,367	19,527,552	19,527,552
FNMA GTD	06/25/15	5.400	19,551,000	18,619,273	18,848,337
FNMA GTD	11/25/03	7.015	17,181,680	17,858,209	17,659,546
FHLMC	06/15/09	6.000	20,000,000	17,753,120	18,668,600
FNMA #250083	07/01/24	7.000	18,951,895	17,737,789	18,626,112
FNMA #250058	06/01/24	6.500	19,423,635	17,608,739	18,670,969
FHLMC GOLD 30 YR JULY TBA	01/01/99	7.000	16,425,000	16,204,289	16,147,746
CWMBS	07/25/25	7.725	15,863,528	16,136,182	16,195,670
FNMA REMIC	08/25/21	7.000	17,205,284	16,113,824	16,231,982
RESOLUTION TRUST MORTGAGE	10/25/24	7.000	16,128,711	16,108,550	16,320,239
AMERICAN MORTGAGE	09/25/22	8.188	14,842,025	15,577,151	14,898,186
GNMA #008398	04/20/24	4.500	15,583,634	14,539,997	15,357,204
CITICORP MORTGAGE SECURITIES	08/25/18	6.727	14,097,787	14,124,221	14,149,385
Total of 25 Largest Holdings				611,795,864	617,574,477
Total System Holdings - Mortgage Backed Securities				2,014,424,244	2,041,677,764

Portfolio Detail Statistics as of June 30, 1995
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 MTN	11/09/98	6.520	26,550,000	26,503,535	26,252,109
LOS ANGELES COUNTY CA PENSION	06/30/05	8.570	22,500,000	22,646,080	25,096,275
SALOMON MTN	12/26/95	6.642	20,000,000	20,000,000	20,019,000
RURAL HOUSING TRUST 1987 1	04/01/26	3.330	19,970,310	16,110,156	18,927,261
CHEMICAL WASTE	08/16/10	0.000	41,000,000	15,266,500	15,990,000
MERRILL LYNCH & CO	12/18/95	7.937	15,000,000	15,206,250	15,105,300
PRIME PROPERTY FUND	07/23/03	6.633	14,500,000	14,499,420	14,318,750
LEHMAN BROTHERS HOLDINGS	03/01/15	8.800	12,750,000	12,738,143	13,798,050
FORD MOTOR CREDIT MTN	10/15/96	6.500	12,500,000	12,506,950	12,506,875
PHILIP MORRIS	07/01/96	8.875	12,000,000	12,225,240	12,290,640
ARCHER DANIELS MIDLAND	03/01/13	7.125	12,000,000	12,088,270	12,026,280
WASTE MANAGEMENT	04/13/12	0.000	33,000,000	11,146,550	12,045,000
BANK AMERICA	05/17/99	6.625	11,000,000	11,041,250	11,068,750
FORD MOTOR CREDIT	01/01/96	4.670	11,100,000	10,777,767	11,033,844
CALIFORNIA ST	10/01/19	6.250	10,000,000	10,737,200	10,694,400
HUNTINGTON NATL BANK COLUMBUS OH	11/02/95	6.270	10,000,000	10,003,396	10,004,100
MBNA AMERICAN BANK NORTH AMERICA	12/04/95	4.600	10,000,000	10,000,000	9,932,000
ORANGE COUNTY CALIF PENSION	09/01/08	6.000	10,000,000	10,000,000	7,500,000
BEAR STEARNS	09/15/95	6.562	10,000,000	9,997,000	10,004,000
HOUSEHOLD FINANCE MTN	08/16/96	4.551	9,378,698	9,384,294	9,737,590
ENHANCE FINANCIAL SERVICES GROUP	03/01/03	6.750	8,600,000	8,764,070	8,501,616
MERRILL LYNCH & CO	07/28/95	5.500	8,575,000	8,569,941	8,570,541
TOYOTA MOTOR CREDIT MTN	06/03/96	6.070	8,025,000	8,025,000	8,023,796
BEAR STEARNS	09/15/95	6.250	8,000,000	8,000,000	8,003,200
ALUMINUM COMPANY OF AMERICA	02/01/01	5.750	8,000,000	7,968,080	7,711,600
Total of 25 Largest Holdings				314,205,092	319,160,977
Total System Holdings - Corporate and Municipal Bonds				941,420,586	953,309,793

Portfolio Detail Statistics as of June 30, 1995
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 (\$)
THE MALL AT STEAMTOWN MORTGAGE LOAN	11/13/04	8.500	50,127,916	50,127,916	50,492,439
ONE STATE STREET MORTGAGE LOAN	09/30/18	12.000	40,939,151	40,939,151	42,351,884
PENNA INITIATIVE-SMALL BUSINESS LOANS	Various	Various	26,371,015	26,371,015	26,466,453
CARCO AUTO LOAN MASTER TRUST	05/15/00	5.640	20,150,000	20,135,694	20,135,694
STANDARD CREDIT CARD MASTER TRUST I	07/07/95	5.875	20,000,000	19,964,063	20,000,000
SEARS CREDIT ACCOUNT TRUST	05/15/98	8.600	16,000,000	16,147,500	16,314,880
PENNA INITIATIVE-MEDIUM SIZED LOANS	Various	Various	14,205,155	14,205,155	14,270,720
BRITISH PROVINCE OF COLUMBIA	01/02/96	6.120	13,700,000	13,082,815	13,082,815
AMERICAN EXPRESS MASTER TRUST	08/15/02	7.600	13,000,000	12,566,580	13,580,840
PREMIER AUTO TRUST	04/04/00	8.050	12,500,000	12,484,375	13,042,875
HOUSEHOLD CREDIT CARD TRUST	07/15/97	6.700	12,000,000	12,040,625	12,011,160
HOUSEHOLD CREDIT CARD TRUST	12/15/97	6.310	10,000,000	10,007,813	10,003,100
MBNA MASTER CREDIT CARD TRUST	07/15/98	6.213	10,000,000	10,000,000	10,000,000
GMAC AUSTIN FINANCE	12/06/96	6.270	9,500,000	9,508,075	9,500,000
CHOICE CREDIT CARD MASTER TRUST	04/15/99	6.425	7,500,000	7,538,508	7,528,125
DISCOVER CARD MT 1	02/16/00	6.700	7,410,000	7,224,231	7,460,907
STANDARD CREDIT CARD MASTER TRUST I	10/15/98	6.300	7,000,000	7,032,266	7,019,670
FORD CREDIT AUTO LEASE TRUST	10/15/98	6.350	7,000,000	6,993,438	7,015,260
PREMIER AUTO TRUST	05/04/97	7.350	7,000,000	6,992,890	7,050,260
ADVANTA CREDIT CARD MASTER TRUST	04/30/99	6.213	7,000,000	6,989,063	6,989,010
QUEBEC PROVINCE CANADA	07/15/23	7.500	8,000,000	6,967,430	7,747,120
CAISSE NATIONALE DE CREDIT AGRICOLE	12/15/96	4.370	6,500,000	6,440,234	6,332,690
HYDRO QUEBEC	02/01/21	9.400	5,875,000	6,086,916	6,924,450
PREMIER AUTO TRUST	11/02/97	6.500	6,000,000	5,983,594	6,033,720
STANDARD CREDIT CARD MASTER TRUST I	02/07/97	4.650	6,000,000	5,865,000	5,861,220
Total of 25 Largest Holdings				341,694,347	347,215,292
Total System Holdings - Miscellaneous Fixed Income				470,627,853	480,413,853

Portfolio Detail Statistics as of June 30, 1995
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	06/01/06	10.750	43,000,000	43,000,000	48,940,000
AMERICAN PACIFIC	02/21/02	11.000	30,000,000	30,000,000	33,113,000
GPA GROUP PLC FLOATING SECURED NOTE	10/29/01	Variable	22,289,398	22,289,398	22,560,967
GPA GROUP PLC SECURED CONV NOTE	10/29/01	8.000	19,766,511	19,766,511	19,766,511
REALLEN HOMES	03/31/02	10.000	10,000,000	10,000,000	10,573,000
POCONO SPRINGS COMPANY	05/19/04	12.000	7,000,000	7,000,000	7,000,000
Total System Holdings - Fixed Income - Private Placements				132,055,909	141,953,478

Portfolio Detail Statistics as of June 30, 1995
Trade Date Basis
Fixed Income - Global Portfolio
25 Largest Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (*)	Book Value (\$)	Market Value (\$)
GERMANY (FEDERAL REPUBLIC)	01/04/24	6.250	211,400,000	131,347,010	129,364,175
JAPAN	09/20/04	4.600	9,783,700,000	113,924,118	131,498,008
U.S.A. TREASURY NOTES	08/15/04	7.250	84,960,000	90,225,715	90,787,408
JAPAN	06/20/05	4.000	4,477,000,000	57,469,537	57,441,654
CANADA GOVERNMENT	06/01/04	6.500	84,123,000	55,454,859	55,689,064
GERMANY (FEDERAL REPUBLIC)	09/15/99	6.750	73,600,000	54,003,032	54,429,422
TREUHANDANSTALT	09/09/04	7.500	82,250,000	53,616,288	61,123,478
TREASURY	12/07/05	8.500	30,000,000	49,200,995	47,846,319
FRANCE (GOVERNMENT OF)	11/25/02	8.500	228,290,000	47,542,149	49,896,412
JAPAN	03/20/02	5.500	4,201,900,000	46,707,774	58,217,848
U.S.A. TREASURY BONDS	08/15/23	6.250	54,250,000	46,364,949	51,240,753
DUTCH GOVERNMENT	04/15/10	7.500	72,000,000	45,663,826	47,067,989
U.S.A. TREASURY NOTES	04/30/00	6.750	38,440,000	38,654,038	39,605,116
U.S.A. TREASURY NOTES	02/15/05	7.500	35,115,000	38,344,632	38,237,075
FRANCE (GOVERNMENT OF)	11/12/99	7.000	185,780,000	37,463,286	38,179,212
DENMARK (KINGDOM)	11/15/00	9.000	201,690,000	36,556,831	38,754,431
GERMANY (FEDERAL REPUBLIC)	01/04/24	6.250	58,465,000	35,261,664	35,777,088
U.S.A. TREASURY NOTES	05/31/00	6.250	32,868,000	33,176,456	33,217,058
DENMARK (KINGDOM)	12/15/04	7.000	198,500,000	31,601,809	33,135,822
CONVERSION	07/12/11	9.000	18,325,000	31,401,522	30,392,256
GERMANY (FEDERAL REPUBLIC)	06/20/16	6.000	50,900,000	31,397,082	30,882,986
TREASURY	11/06/01	7.000	20,731,000	31,011,374	30,754,735
GERMANY (FEDERAL REPUBLIC)	01/03/05	7.375	40,849,000	30,448,143	30,191,361
ITALY (REPUBLIC OF)	01/01/05	9.500	58,790,000,000	30,176,096	30,380,814
JAPAN	03/20/15	5.000	2,122,000,000	29,744,483	30,487,818
Total of 25 Largest Holdings				1,226,757,668	1,274,598,302
Total System Holdings - Fixed Income - Global Portfolio				2,644,353,052	2,741,216,255

*Stated in local currency

Portfolio Detail Statistics as of June 30, 1995
Trade Date Basis
Common Stock
25 Largest Holdings in Descending Order by Book Value

Description	No. of Shares	Book Value (\$)	Market Value (\$)
AT & T CORPORATION	3,554,680	158,292,661	188,398,040
INTERNATIONAL BUSINESS MACHINES	1,618,900	124,281,218	155,414,400
GENERAL ELECTRIC COMPANY	3,609,398	107,564,082	203,479,812
MAS POOLED TRUST FUNDS	8,764,546	104,910,111	121,476,603
MERCK & COMPANY INCORPORATED	2,905,500	101,113,594	142,732,688
ROYAL DUTCH PETROLEUM COMPANY	939,300	100,188,815	114,477,188
EXXON CORPORATION	1,945,300	97,047,638	137,386,813
DU PONT E I DE NEMOURS & COMPANY	1,706,700	96,827,065	117,335,625
GENERAL MOTORS CORPORATION	2,326,200	95,036,530	109,040,625
CITICORP	2,538,990	92,835,787	146,944,046
WAL MART STORES INCORPORATED	4,194,100	88,744,368	112,192,175
PHILIP MORRIS COMPANIES INCORPORATED	1,714,300	85,459,703	127,501,063
JOHNSON & JOHNSON	1,709,800	77,805,360	115,411,500
COCA COLA COMPANY	2,447,700	77,414,914	156,040,875
INTEL CORPORATION	2,525,600	76,934,841	159,902,050
PEPSICO INCORPORATED	2,346,600	71,557,432	106,770,300
FEDERAL NATIONAL MORTGAGE ASSOCIATION	1,271,900	70,690,851	120,194,550
MOBIL CORPORATION	1,048,300	67,569,391	100,636,800
AMERICAN INTERNATIONAL GROUP INCORPORATED	905,837	65,373,732	103,265,418
PROCTER & GAMBLE COMPANY	1,514,352	65,047,925	108,844,050
COLUMBIA / HCA HEALTHCARE CORPORATION	1,653,555	61,470,849	71,516,254
AMOCO CORPORATION	1,205,300	61,132,835	80,303,113
MICROSOFT CORPORATION	1,052,200	60,093,614	95,092,575
WARNER LAMBERT COMPANY	807,200	58,594,737	69,721,900
EASTMAN KODAK COMPANY	1,346,650	58,198,436	81,640,656
Total of 25 Largest Holdings		2,124,186,489	3,045,719,119
Total System Holdings - Common Stock		11,094,221,361	14,410,576,390

Portfolio Detail Statistics as of June 30, 1995
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	33,787,000
TEMPEST REINSURANCE COMPANY	250,000	25,000,000	25,000,000
REALEN HOMES CONV PFD	15,000	15,000,000	15,000,000
POCONO SPRINGS COMPANY SER C PFD	6,764,059	7,000,000	7,000,000
AMERICAN PACIFIC WARRANTS	2,142,857	0	4,286,000
POCONO SPRINGS CO PFD WARRANTS	1,186,963	0	0
REALEN HOMES WARRANTS	36,885	0	1,500,000
Total System Holdings - Stock - Private Placements		172,000,008	186,573,000

Portfolio Detail Statistics as of June 30, 1995
Trade Date Basis
Preferred Stock
Holdings in Descending Order by Book Value

Description	No. of Shares	Book Value (\$)	Market Value (\$)
FORD MOTOR COMPANY	149,400	11,539,343	14,510,475
NEWS CORPORATION LIMITED SPONSORED ADR	515,000	8,490,786	10,300,000
CELLULAR COMMUNICATIONS INCORPORATED	200,000	6,309,969	9,100,000
UNISYS CORPORATION PREFERRED SERIAL A CONV	68,900	1,887,289	2,956,240
CRAIG CORPORATION CLASS A PREFERRED	63,000	584,655	590,625
TRIPLE D ASSOCIATES INCORPORATED	115,789	115,789	115,789
EXOCELL INCORPORATED	104,211	104,211	104,211
WESTMEADE HEALTHCARE INCORPORATED CLASS D	156,316	93,790	93,790
TRIPLE D ASSOCIATES INCORPORATED CLASS B CONV	69,474	69,474	69,474
CONSOLVE INCORPORATED SERIES D	6,579	57,895	57,895
WESTMEADE HEALTHCARE INCORPORATED CLASS C	67,654	46,343	46,343
EXOCELL INCORPORATED CLASS B	26,574	34,812	34,812
WESTMEADE HEALTHCARE INCORPORATED CLASS B	28,947	20,263	20,263
CONSOLVE INCORPORATED SERIES E	35,068	16,833	16,833
TRIPLE D ASSOCIATES INCORPORATED CLASS C CONV	11,579	11,579	11,579
EXOCELL INCORPORATED CLASS C	7,719	11,578	11,579
EXOCELL INCORPORATED WARRANTS	4,342	1	1
WESTMEADE HEALTHCARE INC WARRANTS	1,737	1	1
TELEDYNE INCORPORATED PREFERRED SERIES E	6	0	88
Total System Holdings - Preferred Stock		29,394,611	38,039,998

Portfolio Detail Statistics as of June 30, 1995
Trade Date Basis
Common Stock - Global Portfolio
25 Largest Holdings in Descending Order by Book Value

Description	No. of Shares	Book Value (\$)	Market Value (\$)
KYOCERA CORPORATION	444,000	30,222,707	36,503,183
HUTCHISON WHAMPOA	7,573,000	29,454,888	36,604,839
BROKEN HILL PROPERTY	1,935,852	25,135,223	23,766,356
SOC ELF AQUITAINE	325,077	23,980,914	24,041,240
HSBC HOLDINGS	2,071,754	23,816,630	26,574,656
SWIRE PACIFIC	3,319,000	22,668,731	25,308,022
MITSUBISHI HEAVY INDUSTRY	3,032,000	21,924,170	20,570,461
MATSUSHITA ELECTRIC INDUSTRIES	1,242,000	20,659,571	19,310,249
NESTLE SA	21,587	20,336,217	22,465,477
VEBA AG	54,930	19,291,230	21,569,237
mitsui FUDOSAN COMPANY	1,698,000	18,840,124	19,420,001
DEV BANK SINGAPORE	2,002,000	18,375,097	22,777,495
HONG KONG TELECOMMUNICATIONS	10,783,200	18,116,155	21,322,496
SANDOZ AG	28,040	16,859,570	19,324,251
UNITED O/SEAS BANK	2,148,660	16,778,953	20,294,876
ASTRA AB	671,700	16,666,987	20,709,268
SUMITOMO ELECTRIC INDUSTRIES	1,270,000	16,409,843	15,108,364
TOKIO MARINE & FIRE	1,315,000	15,768,601	15,055,125
MARTIN CURRIE	1,522,479	15,300,000	17,204,013
RTZ CORPORATION	1,175,000	15,161,053	15,318,975
SUMITOMO METAL INDUSTRIES	4,605,000	15,136,562	11,987,103
INTL NEDERLANDEN	367,150	15,102,886	20,293,217
UTD ENGINEERS BHD	2,731,000	15,095,978	17,362,861
SIEBE	1,686,167	14,890,283	16,779,182
BRITISH AIRWAYS	2,300,630	14,798,255	15,079,498
Total of 25 Largest Holdings		480,790,628	524,750,445
Total System Holdings - Common Stock - Global Portfolio		3,265,907,331	3,422,375,850

Portfolio Detail Statistics as of June 30, 1995
Trade Date Basis
Health Insurance Account
25 Largest Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
MERRILL LYNCH	07/08/95	8.600	2,000,000	2,145,440	2,000,240
KFW INTERNATIONAL FINANCE MTN	05/16/96	9.580	2,000,000	2,067,200	2,062,140
SHEARSON LEHMAN HOLDINGS MTN	09/05/95	5.820	2,000,000	2,051,060	1,996,460
MOBIL	10/01/95	6.750	1,850,000	1,875,678	1,852,424
MELLON FINANCIAL	11/15/95	6.125	1,500,000	1,491,510	1,499,760
PACIFIC GAS & ELECTRIC	12/22/95	9.850	1,000,000	1,029,360	1,015,920
CIT GROUP HOLDINGS	06/15/96	8.875	1,000,000	1,025,420	1,024,160
CIT GROUP HOLDINGS	02/15/96	8.750	1,000,000	1,024,240	1,015,250
KOREA DEVELOPMENT BANK MTN	05/05/97	7.750	1,000,000	1,023,900	1,020,156
MCI COMMUNICATIONS	11/07/96	7.625	1,000,000	1,018,760	1,017,290
KOREA DEVELOPMENT BANK MTN	03/12/96	8.900	1,000,000	1,017,010	1,018,020
BENEFICIAL MTN	01/19/96	9.000	1,000,000	1,016,260	1,014,550
NORTHERN TRUST BANK MTN	08/05/95	4.950	1,000,000	1,013,610	998,880
HOUSEHOLD CREDIT CARD TRUST	07/15/97	6.700	1,000,000	1,001,875	1,000,930
DRESNER YANKEE C D	03/15/96	6.650	1,000,000	1,001,468	1,001,468
FIRST BANK SIOUX FALLS SD	07/11/95	6.030	1,000,000	1,000,000	1,000,156
MERRILL LYNCH	05/13/96	6.520	1,000,000	1,000,000	1,003,960
SOCIETY BANK N A	04/25/96	6.000	1,000,000	995,340	998,610
FORD MOTOR CREDIT MTN	12/11/95	6.125	1,000,000	994,696	1,000,310
WASTE MANAGEMENT	07/01/95	4.875	1,000,000	993,060	1,000,000
INTERNATIONAL LEASE FINANCE	01/15/96	5.750	1,000,000	987,810	997,500
DAYTON HUDSON MTN	04/01/96	4.830	1,000,000	975,880	991,500
CHRYSLER FINANCIAL MTN	01/24/97	5.080	1,000,000	962,510	982,560
FLORIDA POWER & LIGHT MTN	06/04/96	4.900	950,000	923,562	942,011
THAILAND KINGDOM MTN	09/30/96	4.730	900,000	879,057	884,109
Total of 25 Largest Holdings				29,514,706	29,338,364
Total System Holdings - Health Insurance Account				31,167,323	30,996,105

Portfolio Detail Statistics as of June 30, 1995
Trade Date Basis
Other Short-Term Investments
25 Largest Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Book Value (\$)	Market Value (\$)
LANDESBANK HESSEN THURIGEN	12/08/95	7.140	25,000,000	25,035,060	25,035,060
U.S.A. TREASURY BILL	08/03/95	0.000	20,000,000	19,361,485	19,909,602
U.S.A. TREASURY BILL	05/30/96	0.000	20,000,000	18,974,000	19,000,600
STATE STREET BANK & TRUST POOL & OTHER	Various	Various	15,381,900	15,312,154	15,293,065
NATIONAL WESTMINSTER	09/18/95	5.980	15,000,000	15,000,000	15,000,000
H.J. HEINZ	12/18/95	5.620	15,000,000	14,578,500	14,578,500
DEUTSCHE BANK	11/27/95	6.890	10,000,000	10,025,083	10,025,083
SOCIETE GENERALE NEW YORK	07/10/95	6.830	10,000,000	10,017,945	10,017,945
DEN DANSKE BANK	10/11/95	6.350	10,000,000	10,004,881	10,004,881
FUJI BANK	08/30/95	6.020	10,000,000	10,002,755	10,002,755
NORDEUTSCHE LANDESBANK	09/11/95	6.440	10,000,000	10,002,281	10,002,281
SOCIETE GENERALE NEW YORK	09/12/95	6.040	10,000,000	10,001,447	10,001,447
CIBC NEW YORK	09/05/95	5.950	10,000,000	10,001,299	10,001,299
KREDITBANK	07/13/95	6.310	10,000,000	10,000,951	10,000,951
BANC ONE	09/11/95	5.960	10,000,000	10,000,536	10,000,536
SANWA BANK	07/31/95	6.040	10,000,000	10,000,230	10,000,230
SHIZOUKA BANK	06/17/96	0.000	10,000,000	10,000,000	10,000,000
ABBAY NATIONAL NORTH AMERICA	10/31/95	6.220	10,000,000	9,999,250	9,999,250
HANSON FINANCE UK PLC	09/05/95	5.880	10,000,000	9,861,167	9,861,167
GREENWICH ASSET FUNDING	09/01/95	5.720	10,000,000	9,855,411	9,855,411
ABBAY NATIONAL NORTH AMERICA	09/07/95	5.800	10,000,000	9,853,389	9,853,389
GENERAL ELECTRIC CAPITAL	10/06/95	5.840	10,000,000	9,811,822	9,811,822
MONSANTO	10/17/95	5.800	10,000,000	9,806,667	9,806,667
MARSH & MCLENNAN	07/24/95	6.321	10,000,000	9,751,733	9,751,733
MONSANTO	12/13/95	5.580	10,000,000	9,716,350	9,716,350
Total of 25 Largest Holdings				296,974,396	297,530,024
Total System Holdings - Other Short-Term Investments				420,790,518	421,346,465

Portfolio Detail Statistics as of June 30, 1995
Trade Date Basis
Global Short-Term Investments
25 Largest Holdings in Descending Order by Book Value

Description	Maturity Date	Interest Rate (%)	Par Value (*)	Book Value (\$)	Market Value (\$)
DEUTSCHE MARK CASH ACCOUNT	N/A	Variable	41,413,515	28,924,779	29,920,422
AUSTRALIAN DOLLAR CASH ACCOUNT	N/A	Variable	24,678,163	17,798,381	17,492,640
U.S.A. TREASURY BILL	08/31/95	0.000	16,000,000	15,538,810	15,848,391
U.S.A. TREASURY BILL	09/14/95	0.000	15,000,000	14,791,467	14,791,467
U.S.A. TREASURY BILL	08/10/95	0.000	13,665,000	13,562,892	13,562,892
JAPANESE YEN CASH ACCOUNT	N/A	Variable	892,738,205	10,550,420	10,515,174
COMMERZBANK AG NY BRANCH	09/15/95	5.890	10,000,000	10,000,000	10,000,000
U.S. WEST CAPITAL FUNDING	09/14/95	5.908	10,000,000	9,851,267	9,851,267
CONSOLIDATED COAL	09/15/95	5.840	10,000,000	9,849,133	9,849,133
ITALIAN LIRA CASH ACCOUNT	N/A	Variable	14,787,286,380	9,052,896	9,033,161
DEUTSCHE MARK TIME DEPOSIT	07/03/95	4.625	10,456,493	7,527,964	7,554,603
HONG KONG DOLLAR CASH ACCOUNT	N/A	Variable	57,150,262	7,388,689	7,386,134
NETHERLANDS GUILDER CASH ACCOUNT	N/A	Variable	7,211,224	6,318,016	6,329,278
BAUSCH & LOMB	09/05/95	5.950	6,172,000	6,089,477	6,089,477
CANADIAN TREASURY BILL	07/20/95	7.860	8,315,000	5,948,479	5,935,594
ABBEY NATIONAL NORTH AMERICA	11/30/95	5.780	5,000,000	4,999,548	4,999,548
FRENCH FRANC CASH ACCOUNT	N/A	Variable	24,523,545	4,981,465	5,059,000
UNITED PARCEL SERVICE	09/13/95	5.885	5,000,000	4,927,500	4,927,500
MONSANTO	09/18/95	5.850	5,000,000	4,926,063	4,926,063
MCGRAW HILL	10/13/95	5.910	5,000,000	4,906,556	4,906,556
MALAYSIAN RINGGIT CASH ACCOUNT	N/A	Variable	11,044,493	4,497,032	4,530,162
POUND STERLING CASH ACCOUNT	N/A	Variable	1,714,645	2,734,663	2,727,829
FRENCH FRANC TIME DEPOSIT	07/05/95	7.000	12,842,307	2,639,273	2,649,260
DANISH KRONE CASH ACCOUNT	N/A	Variable	12,020,584	2,209,456	2,225,609
CANADIAN DOLLAR CASH ACCOUNT	N/A	Variable	1,763,749	1,298,912	1,283,776
Total of 25 Largest Holdings				211,313,138	212,394,936
Total System Holdings - Global Short-Term Investments				214,149,065	215,272,103

*Stated in local currency

N/A is not applicable

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