Comprehensive Annual
Financial Report
Fiscal Year Ended June 30, 1998

PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM
A Component Unit of the Commonwealth of Pennsylvania

Front Cover:
P. Roy Dwyer of Drexel Hill, Pennsylvania, attended high school in St. Paul, Minnesota at Saint Thomas Military Academy, studied at West Chester University and attended graduate school at West Chester University and Widener University. He taught Social Studies at Interboro High School in Prospect Park, PA for thirty-six years. He was the Social Studies Department Chair for twenty-four years and the Assistant Athletic Director for twenty-two years. He won Chester County Art Association's 1st place award in 1955 for use of the black & white medium. He has exhibited with Lansdowne Art Alliance in Pennsylvania and Rehoboth Art League and West Bay Arts in Delaware.

Retired..Water Color

Introduction

The Public School Employes' Retirement System (PSERS) held an Open House to celebrate the 1996 PSERS Art Acquisition Project on September 27, 1996. PSERS is so pleased with the success of the project and the positive comments on the use of this artwork in last year's *Comprehensive Annual Financial Report*, the System decided to feature this project a second time as a part of this year's 1998 *Comprehensive Annual Financial Report*.

An art jury, made up of fellow members of the System, met at the end of March 1996, to select the entries to become a permanent part of PSERS' art collection. With over 140 entries from both active and retired members of the System, 53 pieces were selected for permanent display in the System's headquarters in Harrisburg as well as PSERS' regional offices throughout the Commonwealth of Pennsylvania. This is the second such project PSERS has held, the first successful event having taken place in 1990. Between both projects, PSERS currently has over one hundred pieces of art hanging on its walls, all primarily donated by either active or retired members of the System.

The selections you see here in the 1998 *Comprehensive Annual Financial Report* are a sampling of artwork from both Art Acquisition Projects. With each piece of artwork, you will see a brief biography of the artist, the title of the piece and the art medium. The Board of Trustees and staff of PSERS are very proud of its membership's special contributions.

Public School Employes' Retirement System of Pennsylvania
(A Component Unit of the Commonwealth of Pennsylvania)
PO Box 125
Harrisburg, Pennsylvania 17108-0125

Telephone:
Toll Free - 1-888-773-7748
(1-888-PSERS4U)
Local - 717-787-8540

Comprehensive Annual Financial Report

for the
Fiscal Year Ended June 30, 1998

Report prepared by the Public School Employes' Retirement System staff

Chairperson

Wilbur F. Dudley, Jr. *General Accounting Division Program Manager*

This *Comprehensive Annual Financial Report* for the Fiscal Year Ended June 30, 1998, and the *Comprehensive Annual Financial Report* for the Fiscal Year Ended June 30, 1997 are Year 2000 readiness disclosures as defined in Section 3(9) of the Year 2000 Information and Readiness Disclosures Act, Pub. L. 105-271, (the "Act").

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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, 1997

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.

Douglas R Ellsworth
President

Jeffrey L. Esser
Executive Director

Public Pension Coordinating Council

Public Pension Principles

1998 Achievement Award

Presented to

Public School Employes' Retirement System of Pennsylvania

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

Presented by the Public Pension Coordinating Council, a confederation 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)

Scott Engmann
Chairman

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. Regional field offices are also maintained in Brookville, Mechanicsburg, Pittsburgh, Fleetwood, Warminster, Wilkes-Barre, and Williamsport. An additional regional field office will open in Johnstown during 1999.

This building was built and first occupied by PSERS in 1987 and is the first home of the System built specifically for its use. It is owned by the Five North Fifth Street Corporation, a holding entity formed by PSERS, and is managed by Property Management Inc.

Public School Employes' Retirement System

Albert Ondush of Clarks Summit, Pennsylvania, graduated from Kutztown University and also studied at the Art Students League in New York, Everett Raymond Kinstler Workshop in Maine, Truro Center for the Arts in Cape Cod, Edgar Whitney Workshop on Long Island and the John Pike Watercolor School in Woodstock. He retired with over 28 years of service as an art instructor in the Senior High School and Adult Education program in the Abington Heights School District.

Peonies..Water Color

Introductory Section

Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM

Mailing Address
PO Box 125
Harrisburg PA 17108-0125

Toll-Free - 1-888-773-7748
(1-888-PSERS4U)
Local - (717) 787-8540

Building Location
5 North 5th Street
Harrisburg PA 17101

December 1, 1998

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

We are pleased to present the seventy-ninth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employes' Retirement System (the System, PSERS) for the year ended June 30, 1998. 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 Employes' 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 640 reporting entities in Pennsylvania. As of June 30, 1998, the System had nearly 220,700 active members with an annual active payroll of $8.2 billion.

The annuitant membership was comprised of over 126,800 retirees and beneficiaries who receive $110 million each month. The average yearly benefit paid to annuitants is $13,040. The average benefits for each option type are detailed in the **Statistical Section** of this report.

The System is a governmental cost-sharing multi-employer defined benefit pension plan, to which 640 reporting units contribute. The System is administered by a staff of 290. 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 **Investment Section** containing an overview of the System's investment activities; the **Actuarial Section** containing the opinion of the independent actuarial firm and the results of their latest actuarial valuation; and the **Statistical Section** containing significant data pertaining to the System.

The Pennsylvania Public School Employes' 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 an unqualified opinion as evidenced in the **Independent Auditors Report** in the **Financial Section** of this report.

Economic Summary

Investment market conditions continued to be favorable during the fiscal year ended June 30,1998. The total net assets at fair value of the Pennsylvania Public School Employes' Retirement System increased from $39.4 billion to approximately $44.9 billion from July 1, 1997 to June 30, 1998. For the one-year period ended June 30, 1998, PSERS' investment portfolio earned a rate of return of 16.0 percent. PSERS maintains its position as one of the twenty largest public pension systems in the nation.

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

The 1997/98 fiscal year began with a very favorable report from the Fund's actuary which disclosed that the Public School Employes' Retirement System (PSERS) has achieved a fully funded actuarial status. This is a major milestone in PSERS' nearly eighty year history.

Much of the attention during the 1997/98 year was on the development of legislative initiatives for a cost-of-living adjustment for retirees and for reestablishment of a 30 & Out early retirement window for active members of PSERS. Major pension benefit enhancements, such as a cost-of-living adjustment or an early retirement window, require substantial personnel resources to accomplish. From the development of the legislative language, through the calculation of benefit costs, to the computer programming changes and the direct communication with the plan participants, many individuals become involved in the multitude of operations needed to effectively design and implement these benefit enhancements. All of the efforts are orchestrated to produce a timely and accurate pension benefit pursuant to the mission of the Public School Employes' Retirement System.

In late 1998 the PSERS Board of Trustees (Board) took action in two key management personnel matters. The Board selected Mr. Dale H. Everhart as the System's incoming Executive Director effective January 30, 1999. The Board also created the position of Chief Technology Officer and hired Mr. Paul J. Bart to fill that post.

These major initiatives and several other operational initiatives are highlighted in this section of the *Letter of Transmittal.*

Fully Funded Status

The actuarial valuation for the fiscal year ended June 30, 1997 (refer to **Actuarial Section**) reported that the Public School Employes' Retirement System achieved a 105.0 percent fully funded status. This means that the current assets of the pension plan plus future normal contributions are sufficient to cover pension benefits for existing members and retirees of the plan under the current benefit and actuarial assumption structure.

Historically, PSERS was only 50 percent funded in 1982. Over the past 16 years, the net assets of the Fund have grown from $6 billion to over $44.9 billion. This has been accomplished through a combination of proper funding by the employers, the members and the Commonwealth and favorable investment market conditions throughout much of that period. Favorable results have also permitted substantial reductions in the employer contribution rate from a high of 20.04 percent in fiscal year 1985/86 to the current fiscal year 1998/99 rate of 6.04 percent. Members currently contribute at a composite average rate of 5.69 percent.

Cost-of-Living Adjustments

In June 1998, the General Assembly passed and Governor Ridge signed Act 88 into law which provides a cost-of-living adjustment to all retirees who retired before July 1, 1998. The monthly annuity increases range from 1.86 percent for annuitants whose effective dates of retirement was from July 1, 1996 to June 30, 1997, up to 25 percent for annuitants who retired before July 1, 1969.

Since the recodification of the Public School Employes' Retirement Code in 1975, there have been six cost-of-living adjustments enacted for the retirees of the System.

Early Retirement Window

In March 1998, the General Assembly passed and Governor Ridge signed Act 41 into law which created two windows for early retirement. The first window was open from April 2, 1998 until July 10, 1998 and the second window will extend from April 1, 1999 through June 30, 1999.

The early retirement windows permit a member to retire without actuarial reduction due to age if the member had at least 30 years of credited service, terminated school service and filed an application for retirement within the window periods.

Approximately 48,000 members will be eligible to take advantage of this early retirement incentive which is commonly referred to as the "30 and Out window."

Operational Initiatives

PSERS has successfully renovated all mission critical application systems to meet with the Year 2000 compliancy regulations. Implementation of PSERS' Business System (PBS) was put on hold by the PSERS Board of Trustees (Board) due to Year 2000 issues and other initiatives within the agency, and a decision was made to automate the Board meeting process to give the Trustees access to the PSERS Board documents via a computer intranet. A new imaging record retrieval system was implemented and is fully operational. The conversion of microfilmed records is 90% complete. PSERS developed and implemented automated quarterly reporting spreadsheets for the elimination of paper method reporting and implemented system changes and procedures for all charter school accounting and reporting activities. Accounting, reporting and reconciliation procedures were developed for the $4.8 billion Global Asset Allocation Program whose money managers were funded by the System in April of 1998.

Federal Tax Qualification

The Public School Employes' Retirement System, as a governmental plan, is subject to both State and Federal laws. 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. 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.

PSERS Postemployment Healthcare Operations

In addition to providing the statutory required health insurance premium assistance benefits, PSERS acts as the sponsor to the PSERS Health Options Program (HOP). The HOP is a voluntary health insurance program offered to System annuitants, survivor annuitants, and their dependents. PSERS pursues innovative methods to help control healthcare costs while attempting to maintain quality healthcare services to its participants. The fiscal year brought changes to the structure of the HOP including new contractual arrangements with healthcare service providers and with consultants retained by PSERS to assist in the logistics of administering the program. The HOP strives to provide valuable services to PSERS annuitants in a cost effective manner.

Compliance with Accounting Standards

The Government Accounting Standards Board issues accounting pronouncements as part of its mission to provide consistent and meaningful guidance in the accounting for public employe retirement systems and their employers. The presentation of the basic financial statements and the related footnotes and required supplementary information in the **Financial Section** of this *Comprehensive Annual Financial Report* are in compliance with the applicable GASB statements. The format presents the financial results of the business activities of the System in a manner which we believe are useful to the readers of this report.

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 fair value of the System's net assets totaled $44.9 billion as of June 30, 1998. Based on this valuation of its assets, the System is the 14th largest public pension fund in the nation and the 21th largest among public and corporate pension funds in the nation. More specific information on the System's assets is detailed in the Statements of Plan Net Assets 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 1997/98, the appropriation was $29,186,000.

Additions To Net Assets

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 net investment income for 1998 totaled $7,505.3 million detailed as follows:

Type of Net Asset Additions	**1998 (Millions)**	**1997 (Millions)**
Member Contributions	**$ 578.3**	$ 559.1
Employer Contributions	**731.1**	844.6
Net Investment Income	**6,195.9**	6,147.4
Total	**$ 7,505.3**	$ 7,551.1

The decrease in total net asset additions of $45.8 million is primarily attributable to the decrease in employer contributions and is a result of the decrease in the employer contribution rate from 10.60 percent in fiscal year 1996/97 to 8.76 percent in fiscal year 1997/98. The employer rate change was a result of favorable actuarial experience.

Net asset addition details are provided in the **Supplemental Schedule 1** of the **Financial Section** in this report.

Deductions From Plan Net Assets

The largest single factor of net asset deductions relates to the purpose for which the System was created: payment of benefits. Deductions by type for fiscal years 1998 and 1997 are shown for comparative purposes.

Type of Net Asset Deduction	1998 (Millions)	1997 (Millions)
Retirement Benefits	**$ 1,611.1**	$ 1,445.5
Lump-Sum Payments	**376.6**	384.2
Refunds	**20.5**	17.3
Net Transfers	**7.1**	12.1
Administrative	**29.9**	26.9
Total	**$ 2,045.2**	$ 1,886.0

A ten-year trend in deductions from plan net assets by type is presented in **Supplemental Schedule 1** of the **Financial Section.**

The administrative expenses shown above reflect the costs paid through the System's legislatively enacted budget appropriation. Payment of HOP administrative expenses are made through the use of a designated portion of HOP participant premiums. The System has major costs related to the administration of its investment activities that are defined as investment expenses rather than administrative expenses. Some of these investment expenses are not included in the normal annual administrative expense appropriation. They are funded either by payment through a Commonwealth non-budgeted appropriation or by use of investment broker commission rebate program. A detailed breakdown of these expenses by expenditure category appears in the **Financial Section (Supplemental Schedule 2).**

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, 1998 member contributions constituted 7.7 percent of the annual funding, employer contributions constituted 9.7 percent and investment earnings accounted for 82.6 percent.

The System's funded ratio (actuarial assets divided by actuarial liabilities) increased from 95.4 percent to 105.0 percent according to the most recent actuarial valuation for the period ended June 30, 1997. The increase is primarily attributed to increases in actuarial assets and actuarial experience gains. Over the five-year period ended June 30, 1997, the funded status of the System has significantly improved from 87.3 percent to 105.0 percent.

The total employer rate of contribution as a percent of salaries decreased from 8.76 percent for the fiscal year 1997/98 to 6.04 percent for 1998/99. This decrease results from actuarial experience gains. The portion of the total employer rate of contribution required to fund the Healthcare Premium Assistance Program is .15 percent in fiscal year 1997/98 and fiscal year 1998/99. 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, 1998, the net assets available for pension and postemployment healthcare benefits increased $5,460.1 million over the prior year - from $39,397.3 million to $44,857.4 million after meeting the retirement obligations of the System.

The results of the latest actuarial valuation (as of June 30, 1997) 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.

The System is pleased to report that it has achieved a fully funded status as of June 30, 1997. This means that PSERS has sufficient net assets to cover all accrued liabilities at that date. Since no unfunded liabilities remain, all new contributions will be supporting current service of members

Investments

Earnings from the investment portfolio represent a major source of revenue to the System, accounting for over 82 percent of total revenues for the year.

Investments of the System netted $6,195.9 million in additions to net assets for the year. The investment portfolio totaled $44.9 billion, at fair value, as of June 30, 1998.

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, 1998, the time-weighted rate of return on the System's investments was 16.0 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** and **Investment Section** of this report.

Other Information

In compliance with Act 77 of December 20, 1995, actuarial tables and the computational procedures used by the System in calculating annuities and other benefits were published on July 26, 1997 in the *Pennsylvania Bulletin* (Vol. 27, No.30).

This *Comprehensive Annual Financial Report* for the Fiscal Year Ended June 30, 1998 is a year 2000 readiness disclosure as defined in Section 3(9) of the Year 2000 Information and Readiness Disclosures Act, Pub. L. 105-271, (the "Act").

System Awards

Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting

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 Employes' Retirement System for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 1997. The *Certificate of Achievement* is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a *Certificate of Achievement*, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a comprehensive annual 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 Employes' Retirement System has received a *Certificate of Achievement* for the last 15 consecutive years (fiscal years ended June 30, 1983 - June 30, 1997). 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 1998 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*.

Public Pension Coordinating Council - Public Pension Principles Achievement Award

We are pleased to announce that the Public Pension Coordinating Council has conferred the 1998 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. A reproduction of this award appears in this **Introductory Section**.

Respectfully submitted,

James A. Perry
Executive Director

Arthur J. Granito
Arthur J
Assistant Executive Director for Financial Management

Mission Statement

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

1. *effectively collect contributions to the Fund,*

2. *prudently invest the assets of the Fund, and*

3. *diligently obtain and maintain the long-term, optimum value of the total Fund for the members of the System, the Commonwealth and its taxpayers, and the school districts of the Commonwealth.*

Adopted
4/26/85

Administrative Organization

PSERS Board of Trustees

PSERS Board of Trustees
as of June 30, 1998

1998 Board Committees

Appeals

Ms. Caputo, Chair
Ms. Hafer
Mr. Hassall
Dr. Hickok
Rep. Nickol
Mr. Oravitz
Ms. Simpson

Health Care

Dr. Sanzotto, Chair
Ms. Caputo
Rep. Evans
Sen. Madigan
Mr. May
Mr. Oravitz
Ms. Simpson

Finance

Mr. Tecce, Chair
Sen. Fumo
Ms. Hafer
Rep. Nickol
Mr. Oravitz
Dr. Sanzotto
Ms. Vogler

Elections

Rep. Nickol, Chair
Ms. Caputo
Rep. Evans

Audit/Budget

Ms. Simpson, Chair
Rep. Evans
Rep. Nickol
Mr. Oravitz
Ms. Vogler

Personnel

Mr. Oravitz, Chair
Sen. Fumo
Ms. Hafer
Mr. Hassall
Dr. Hickok
Sen. Madigan
Dr. Sanzotto

Building/5 N Fifth St.

Mr. Tecce, Chair
Ms. Caputo
Ms. Simpson

Technology Steering

Dr. Hickok, Chair
Sen. Fumo
Mr. Oravitz

(Ad hoc)
Member Relations

Ms. Simpson, Chair
Ms. Caputo
Mr. May

(Ad hoc)
Bylaws/Policy

Dr. Hickok, Chair
Ms. Caputo
Rep. Evans
Sen. Madigan
Dr. Sanzotto

(Ad hoc)
Member Relations

Rep. Evans, Chair
Rep. Evans
Rep. Nickol

(Agency)
Board Automation/
Computerization

Ms. Vogler, Chair
Rep. Evans
Dr. Sanzotto
Mr. Clay
Ms. Fuller-Smith
Mr. Lane

(Agency)
Final Retirement
Calculation

Ms. Thomas, Chair
Mr. Oravitz
Mr. Perry
Mr. Serine
Ms. Vogler

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

Chairman's Report

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM
Telephone (717) 720-4749

Kenton W. Keiser, Chairman of the Board

December 1, 1998

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 Employes' Retirement System (PSERS), I am pleased to present this seventy-ninth *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 1998. The report provides an in-depth review of the financial, actuarial and investment status of the Retirement Fund and the PSERS Health Options Program.

The System is pleased to announce that as of June 30:

1. The funded status of the pension plan as reported in the System's June 30, 1997 Actuarial Valuation was 105.0%.
2. The net assets held in trust for pension benefits were $44.8 billion at fair value.
3. Net assets held in trust for postemployment healthcare benefits were $81.6 million at fair value.
4. The active contributing membership of the System numbered approximately 220,700.
5. The number of annuitants totaled over 126,000 and received in excess of $1.9 billion in pension benefits during the year.

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

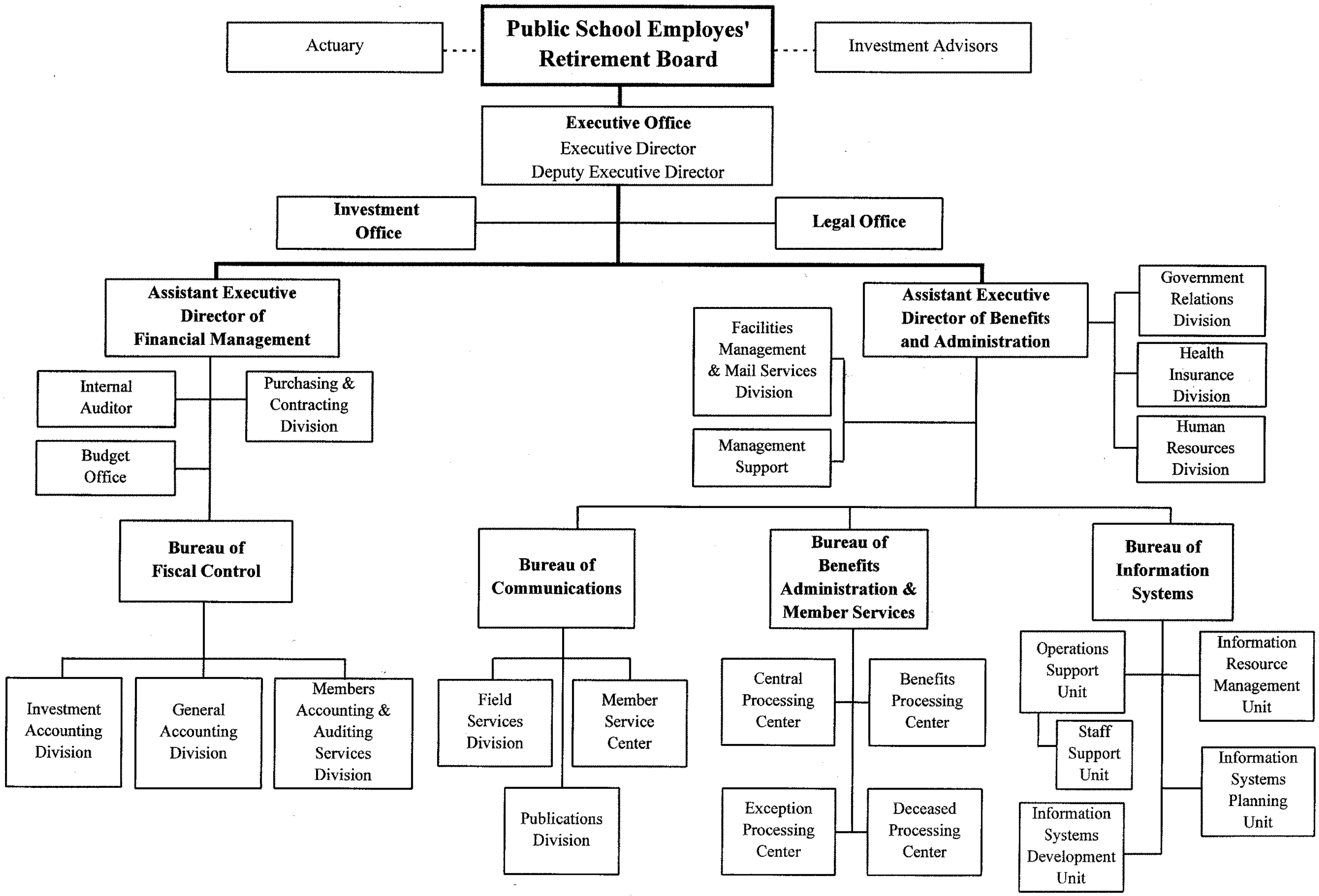
The Board of Trustees appreciates the cooperation extended to it by the Governor's Office and the Legislature which enables and empowers us to meet the challenges which face us currently and make timely provisions for the challenges ahead.

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

Kenton W. Keiser

Kenton W. Keiser
Chair
Board of Trustees

ORGANIZATIONAL CHART OF THE PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM



Organizational Structure of the Public School Employes' Retirement System

Public School Employes' 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 Employes' 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. The Board also performs other functions as are required for the administration and execution of the Public School Employes' 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.

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 apprises 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 Employes' Retirement System. The Assistant Executive Director of Benefits and Administration has responsibility for managing the Bureau of Benefits Administration and Member Services, the Bureau of Communications, the Bureau of Information Systems, and the Health Insurance Division. This person also oversees general administrative functions including the Human Resources Division, Government Relations Division, Facilities Management and Mail Services Division, and Management Support. 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 and Contracting 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, and alternative 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. 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 220,000 active members and 126,000 retirees from the moment of enrollment through the process of retirement. The Bureau also administers the $1.5 billion dollar annuitant payroll.

This Bureau is responsible for processing all member related functions. The division is comprised of four centers: the Central Processing Center, the Exception Processing Center, the Benefits Processing Center and the Deceased Processing 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 Benefits 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 Deceased Processing Center calculates and processes for payment all death benefit payments.

Bureau of Communications

The Bureau of Communications is responsible for ensuring that effective communications takes place with the members, the employers, the Legislature, the Governor's Office, other governmental organizations, professional organizations, and the public.

Field Services Division

The Field Services Division provides services to both active and retired PSERS members and over 640 reporting entities through seven field offices located throughout the Commonwealth of Pennsylvania. Each field representative is a liaison of PSERS with the members and the employers.

Member Service Center

The Member Service Center handles the majority of phone and general correspondence inquiries 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.

Publications Division

The Publications Division is responsible for the development, production, and distribution of all printed and audiovisual materials for the System's external and internal audiences. Publications include newsletters, handbooks, pamphlets, annual reports, and presentation hand-outs.

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, and 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 contribution data reported by 640 reporting entities and for maintaining the 300,000 member 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, recording and reporting all investment transactions. It serves as intermediary with the custodial bank, the State Treasury Department, brokers, investment managers, the investment evaluator and investment consultants. The Division accounts for the $44.9 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.

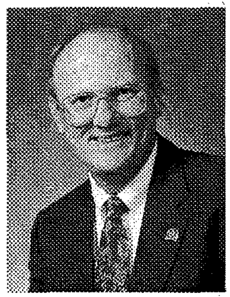
Information Resource Management Unit

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

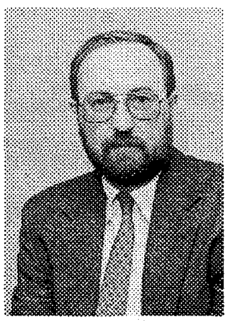
Health Insurance Division

This division is responsible for all aspects of the PSERS Health Insurance and Premium Assistance Program. The PSERS Health Options Program is a statewide plan which provides group insurance coverage for all school retirees and their eligible annuitants through the Premium Assistance Program.

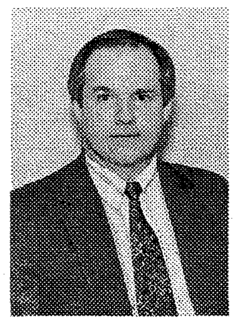
Administrative Staff



James A. Perry
Executive Director



Jeffrey B. Clay
Deputy Executive Director



Arthur J. Granito
Assistant Executive Director for Financial Management

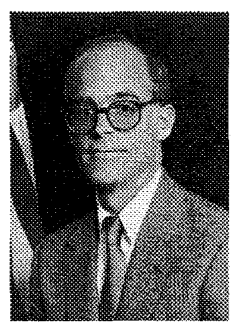
John C. Lane
Chief Investment Officer

Veronica P. Thomas
Assistant Executive Director for Benefits and Administration

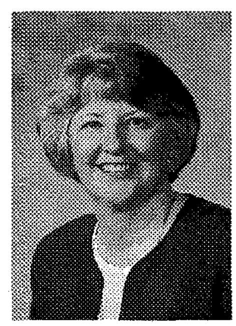
Douglas A. Bonsall
Director of Communications

Helen D. Hosler
Director of Benefits Administration and Member Services

Dale W. Houck
Director of Information Systems



Thomas E. Ross
Chief Counsel



Yvonne C. Wineholt
Director of Fiscal Control

A History of the Public School Employes' Retirement System

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

-- the Public School Employes' Retirement Board 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 employes 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. An electronic 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 the 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 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 early retirement "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 most 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 contribution for fiscal years ended June 30, 1970, 1971, 1972, and 1973. *(No interest was paid.)* Retiring or refunding members were given the option to withdraw their contributions and interest in up to four installments. Legislation enabled the Board to deduct for child and spousal support.

1985-1986 After many years of steady increases, the System's unfunded accrued liability was decreased.

1986 The Board adopted a resolution on divestment of assets in companies doing business in South Africa. Mandatory retirement counseling was enacted. The conversion of all retirement records to microfiche was begun, and the correspondence unit was established to answer mail and telephone calls more efficiently. The employer contribution 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. A retirement "window" was enacted by the State Legislature to allow for early retirement without penalties. A provision in the U.S. Tax Reform Act eliminated the "three-year rule" for taxation of retirement benefits.

1987 The System moved into a new headquarters building at 5 North Fifth Street, Harrisburg. The early retirement "window" was extended through June 30, 1989.

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. The early retirement "window" was extended to September 30, 1991.

1989 Assets topped $14 billion making PSERS the 14th largest public pension fund nationwide, with investment income of $1 billion for the year. Active membership was 195,000. Retirees numbered 96,000.

1990 The 100,000th annuitant was added to the payroll. The investment and legal staffs were expanded.

1991 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 inc 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.*

1993 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. Most new retirees took advantage of the "Mellow Bill" incentives. A new publication went to all retirees, called the *PSERS Retired Member Handbook*.

1994 The System celebrated its 75th anniversary with a Diamond Jubilee program. Assets reached $25 billion. More than $1 billion was paid out in benefits. The System was one of 13 recipients of the *Public Pension Principles 1993 Achievement Award* from the Public Pension Coordinating Council.

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 l, 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 school employment and retired 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 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. For the 13th 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.

1996 The PSERS headquarters building continued to be repaired because of an October 1995 crane accident that damaged the top floor of the building. No one was injured but all fifth floor employes were relocated to other floors or other buildings for many months.

1997 An interim actuarial valuation reported that PSERS is fully funded as of June 30, 1997. This means that the Fund has sufficient assets to meet all accrued liabilities to date. The final actuarial valuation was presented to the Board of Trustees in December 1997 for the year which ended June 30, 1997. PSERS' priority as the year 2000 approaches is to deal with the computer requirements of the changing date, a common task around the world. Thirty-two percent more members than in Fiscal Year 1995-96 retired before the close of the early retirement "30-and-out window." Net assets fell just shy of $40 billion, active members numbered 215,100, retirees numbered 124,000, and benefits totaled $1.7 billion.

1998 Act 41 was signed into law on April 2, 1998 providing a "30 & Out" retirement window for school employes. The act provides school employes with two distinct "30 & Out" windows - the first from April 2, 1998 through July 10, 1998, and the second from April 1, 1999 through June 30, 1999.

Act 88 was signed into law in June 1998 providing the following:

-- *one year opportunity for the purchase of certain maternity leaves*
-- *cost-of-living adjustments for retirees who retired before July 1, 1997*
-- *PSERS Board of Trustees with the flexibility to waive benefit adjustments in cases of hardship*

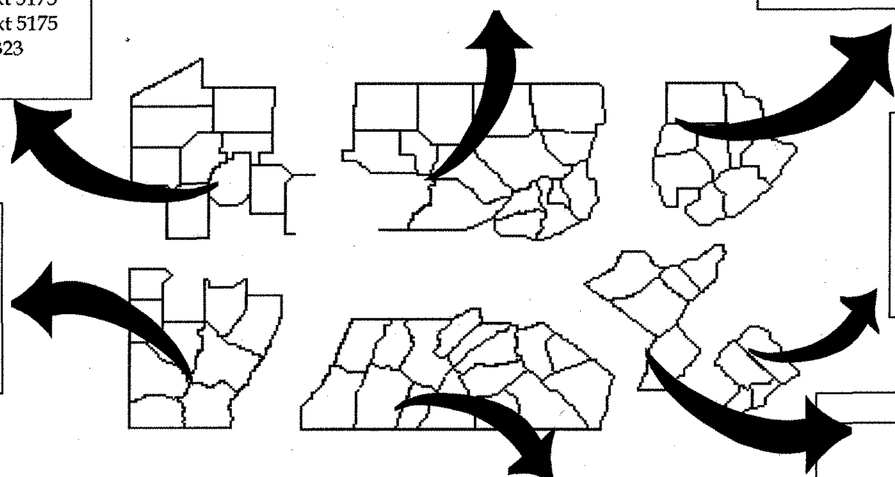
Regulation 43-6 provides members who are retiring a limited opportunity to change the terms of their retirement plan. PSERS began initial construction of the PSERS Internet web site. PSERS implemented toll free telephone service and extended Member Service Center hours. PSERS successfully renovated all mission critical application systems to meet with the Year 2000 compliancy regulations.

PSERS REGIONAL OFFICES

NORTHWEST
U.S. Post Office Building
65 White Street, P.O.Box 493
Brookville, PA 15825-0493
Toll-free: 1-888-PSERS4U ext 5175
(1-888-773-7748) ext 5175
Local Phone (814) 849-3323
FAX (814) 849-3261

NORTHCENTRAL
222 Williamsport Building
460 Market Street
Williamsport, PA 17701-6322
Toll-free: 1-888-PSERS4U ext 5275
(1-888-773-7748) ext 5275
Local Phone (717) 327-3773
FAX (717) 327-3438

NORTHEAST
142 Wilkes-Barre Township Blvd.
Business Route 309
Wilkes-Barre, PA 18702
Toll-free: 1-888-PSERS4U ext 5375
(1-888-773-7748) ext 5375
Local Phone (717) 826-2003
FAX (717) 820-4868



SOUTHWEST
4 Station Square, Suite 506
Pittsburgh, PA 15219-1119
Toll-free: 1-888-PSERS4U ext 5775
(1-888-773-7748) ext 5775
Local Phone (412) 488-2031
FAX (412) 488-2338

SOUTHEAST
605 Louis Drive
Warminster, PA 18974-2825
Toll-free: 1-888-PSERS4U ext 5575
(1-888-773-7748) ext 5575
Local Phone (215) 443-3495
FAX (215) 443-3487

SOUTHCENTRAL
Three Crossgate Drive, Suite 101
Mechanicsburg, PA 17055-2459
Toll-free: 1-888-PSERS4U ext 5675
(1-888-773-7748) ext 5675
Phone (717) 795-9270
FAX (717) 795-9281

CENTRAL-EAST
110 W. Arch Street
Suite 204
Fleetwood, PA 19522
Toll-free: 1-888-PSERS4U ext 5475
(1-888-773-7748) ext 5475
Local Phone (610) 944-9113
FAX (610) 944-9275

Public School Employes' Retirement System

Charles Barr of Martinsburg, Pennsylvania, earned his Master Degree in Education from Indiana University of Pennsylvania. He is a retired member of PSERS and served over 33 years in the Spring Cove School District as an Art Instructor. He is a member of PASR and a number of local art groups. His specialty is watercolor.

Dick School House...Water Color

Financial Section

Table of Contents

Financial Statements and Supplemental Schedules June 30, 1998 and 1997
and other Supplementary Information

Note: Other Supplementary Information is a supporting schedule included in the Financial Section prepared by the PSERS staff. This schedule is not audited by the independent auditors as part of their audit of the financial statements of the System. This schedule is presented here in response to disclosure recommendations made by the Government Finance Officers Association of the United States and Canada.

Independent Auditors' Report

KPMG Peat Marwick LLP

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

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

We have audited the accompanying statements of plan net assets of the Commonwealth of Pennsylvania Public School Employes' Retirement System (a component unit of the Commonwealth of Pennsylvania) as of June 30, 1998 and 1997, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Pennsylvania Public School Employes' Retirement System as of June 30, 1998 and 1997, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The information included in Required Supplemental Schedules 1 and 2 is not a required part of the basic financial statements 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 the 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 Supplemental Schedules 1 and 2 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

KPMG Peat Marwick LLP

October 16, 1998

Statements of Plan Net Assets

Years ended June 30, 1998 and 1997
(Dollar Amounts in Thousands)

	1998		
		Postemployment Healthcare	
	Pension	Premium Assistance	Health Options Program
Assets:			
Receivables:			
Members	$ 62,662	$ 1,962	$ –
Employers	217,863	3,934	–
Investment income	185,199	1,069	–
Investment proceeds	446,657	–	–
Miscellaneous	2,164	69	165
Total Receivables	914,545	7,034	165
Investments, at fair value:			
Short-term investments	1,055,049	69,343	19,257
Fixed income and mortgage investments	10,299,451	–	–
Common and preferred stocks	31,131,124	–	–
Other long-term investments	2,391,510	–	–
Total Investments	44,877,134	69,343	19,257
Security lending collateral pool	5,061,402	–	–
Fixed assets (net of accumulated depreciation of $10,736, $10, and $0, respectively)	6,812	3	–
Total Assets	50,859,893	76,380	19,422
Liabilities:			
Accounts payable and accrued expenses	35,420	237	5,483
Due to Commonwealth of Pennsylvania	–	–	–
Benefits payable	42,002	8	–
Participant premium advances	–	–	8,428
Investment purchases payable	945,366	–	–
Obligations under securities lending	5,061,402	–	–
Total Liabilities	6,084,190	245	13,911
Net assets held in trust for pension and postemployment healthcare benefits (A schedule of funding progress is presented on page 51)	$ 44,775,703	$ 76,135	$ 5,511

See accompanying notes to financial statements.

Statements of Plan Net Assets

Years ended June 30, 1998 and 1997
(Dollar Amounts in Thousands)

	1997		
		Postemployment Healthcare	
	Pension	Premium Assistance	Health Options Program
Assets:			
Receivables:			
Members	$ 68,008	$ 2,870	$ –
Employers	244,880	14,850	–
Investment income	209,515	1,093	–
Investment proceeds	326,950	–	–
Miscellaneous	10,229	27	–
Total Receivables	859,582	18,840	–
Investments, at fair value:			
Short-term investments	898,659	72,132	18,937
Fixed income and mortgage investments	9,544,968	–	–
Common and preferred stocks	26,696,695	–	–
Other long-term investments	2,053,985	–	–
Total Investments	39,194,307	72,132	18,937
Security lending collateral pool	5,727,379	–	–
Fixed assets (net of accumulated depreciation of $9,306, $9, and $0, respectively)	5,578	5	–
Total Assets	45,786,846	90,977	18,937
Liabilities:			
Accounts payable and accrued expenses	29,710	146	227
Due to Commonwealth of Pennsylvania	323	19	–
Benefits payable	44,436	10	–
Participant premium advances	–	–	7,781
Investment purchases payable	689,470	–	–
Obligations under securities lending	5,727,379	–	–
Total Liabilities	6,491,318	175	8,008
Net assets held in trust for pension and postemployment healthcare benefits (A schedule of funding progress is presented on page 51)	$ 39,295,528	$ 90,802	$ 10,929

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 1998 and 1997
(Dollar Amounts in Thousands)

	1998		
		Postemployment Healthcare	
	Pension	Premium Assistance	Health Options Program
Additions:			
Contributions:			
Employers	$ 714,815	$ 12,623	$ –
Members	481,228	–	97,094
Commonwealth of Pennsylvania	3,616	77	–
Total Contributions	1,199,659	12,700	97,094
Investment income:			
From investing activities:			
Net appreciation (depreciation) in fair value of investments	4,893,770	(567)	–
Fixed income and mortgage investments	651,170	–	–
Common and preferred stocks	479,149	–	–
Short-term investments	59,962	4,721	722
Other long-term investments	175,787	–	–
Total investment activity income	6,259,838	4,154	722
Investment expenses	(88,816)	–	–
Net income from investing activities	6,171,022	4,154	722
From securities lending activities:			
Securities lending income	319,903	–	–
Securities lending expense	(299,908)	–	–
Net income from securities lending activities	19,995	–	–
Total net investment income	6,191,017	4,154	722
Total Additions	7,390,676	16,854	97,816
Deductions:			
Benefits	1,856,108	31,017	100,587
Refunds of contributions	20,503	–	–
Net transfer to State Employes' Retirement System	7,094	–	–
Administrative expenses	26,796	504	2,647
Total Deductions	1,910,501	31,521	103,234
Net increase (decrease)	5,480,175	(14,667)	(5,418)
Net assets held in trust for pension and postemployment healthcare benefits:			
Balance, beginning of year	39,295,528	90,802	10,929
Balance, end of year	$ 44,775,703	$ 76,135	$ 5,511

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 1998 and 1997
(Dollar Amounts in Thousands)

	1997		
		Postemployment Healthcare	
	Pension	Premium Assistance	Health Options Program
Additions:			
Contributions:			
Employers	$ 792,342	$ 47,401	$ –
Members	465,576	–	93,494
Commonwealth of Pennsylvania	3,863	993	–
Total Contributions	1,261,781	48,394	93,494
Investment income:			
From investing activities:			
Net appreciation (depreciation) in fair value of investments	4,862,629	(393)	–
Fixed income and mortgage investments	637,953	–	–
Common and preferred stocks	431,836	–	–
Short-term investments	111,561	3,802	532
Other long-term investments	155,402	–	–
Total investment activity income	6,199,381	3,409	532
Investment expenses	(73,998)	–	–
Net income from investing activities	6,125,383	3,409	532
From securities lending activities:			
Securities lending income	278,279	–	–
Securities lending expense	(260,141)	–	–
Net income from securities lending activities	18,138	–	–
Total net investment income	6,143,521	3,409	532
Total Additions	7,405,302	51,803	94,026
Deductions:			
Benefits	1,719,494	27,623	82,632
Refunds of contributions	17,296	–	–
Net transfer to State Employes' Retirement System	12,074	–	–
Administrative expenses	23,370	599	2,971
Total Deductions	1,772,234	28,222	85,603
Net increase	5,633,068	23,581	8,423
Net assets held in trust for pension and postemployment healthcare benefits:			
Balance, beginning of year	33,662,460	67,221	2,506
Balance, end of year	$ 39,295,528	$ 90,802	$ 10,929

See accompanying notes to financial statements.

Notes to Financial Statements
June 30, 1998 and 1997

(1)
Organization and Description of the System

(a) Organization

The Commonwealth of Pennsylvania Public School Employes' Retirement System (the System) was established as of July 18, 1917, under the provisions of Public Law 1043, No. 343. The System is a governmental cost-sharing multiple-employer plan that provides retirement allowances and other benefits to members. Membership in the System is mandatory for substantially all full-time public school employes in the Commonwealth of Pennsylvania (Commonwealth). At June 30, 1998, there were 640 participating employers, generally school districts. Membership as of June 30, 1997, the most recent year for which actual amounts are available, consisted of:

Retirees and beneficiaries currently receiving benefits	124,000
Inactive members and vestees entitled to but not receiving benefits	40,000
	164,000
Currently employed members:	
Vested	121,000
Nonvested	94,000
	215,000

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 upon the criterion of financial accountability as defined by governmental accounting standards, is considered a component unit of the Commonwealth of Pennsylvania financial reporting entity and is included in the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania.

(b) Pension Benefits

Significant amendments to the System were made in the 1975 revision of the Pennsylvania Public School Employes' 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 credited service; (b) age 60 and with 30 or more years of credited service; or (c) 35 or more years of service regardless of age. In March 1998, Act 41 was signed into law, which permitted school employes with at least 30 years of credited service to retire without a reduction in benefits. Employes may retire under the provisions of the Act from April 2, 1998 through July 10, 1998 and from April 1, 1999 through June 30, 1999. 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.

Notes to Financial Statements (Continued)

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 credited 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. 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 credited service. Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Members with credited service in the Commonwealth of Pennsylvania State Employes' Retirement System (SERS) may elect to transfer such service to the Public School Employes' 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 SERS 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.

(c) Postemployment Healthcare Benefits

The System provides a health insurance premium assistance program (premium assistance) for all eligible annuitants who elect to participate. Under this program, an employer contribution rate for premium assistance was established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits. Participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of $55 per month or their monthly health insurance premium. To receive premium assistance, eligible annuitants must obtain their health insurance through either their employer or the System's Health Options Program (HOP).

The HOP is a voluntary health insurance program offered by the System to annuitants, survivor annuitants, and their dependents. The HOP offers basic health coverage through indemnity health insurance and Health Maintenance Organization coverage. HOP benefits are provided through commercial insurance. The pension fund assets are not available to fund or satisfy obligations of the HOP.

Notes to Financial Statements (Continued)

(d) Contributions

The contribution policy is set by the Code and requires contributions by active members, employers, and the Commonwealth. The System's funding policy provides for periodic employer and Commonwealth contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that they, along with employe contributions and an actuarially determined rate of investment return, are adequate to accumulate adequate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. This formula determines the amount of contributions necessary to (1) fully fund all current costs, which represents the estimated amount necessary to pay for the benefits earned by the employes during the current service year; and (2) liquidate the prior service cost for service earned prior to plan inception and subsequent benefit increases, which represents the amount necessary to fund accrued liabilities over a period of 20 years as required by the Code. The total contribution rate for the employers and the Commonwealth is 8.76% and 10.60% of qualified compensation for the years ended June 30, 1998 and 1997, respectively.

Contribution rates for active members are set by law. The contribution rates based on qualified member compensation are as follows:

Active members hired before July 22, 1983	5.25 %
Active members hired on or after July 22, 1983	6.25 %

A portion of each employer and Commonwealth contribution to the System is set aside for the funding of premium assistance. The premium assistance contribution rate is set at a level necessary to establish reserves sufficient to provide premium assistance payments for all participating eligible members for the subsequent fiscal year. The portion of the total contribution rate for employers and the Commonwealth used to fund premium assistance was 0.15% and 0.60% for the years ended June 30, 1998 and 1997, respectively. The HOP is funded exclusively by participating annuitants, survivor annuitants, and their dependents in conjunction with the benefit coverage they elect.

(2)
Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable and investment purchases and sales are recorded as of their trade date. Member and employer contributions are recognized in the period in which employes salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Notes to Financial Statements (Continued)

The accounting and reporting policies of the System conform to generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(b) Investments

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are carried at cost, which approximates fair value, unless they have a published market price or quotation from national security exchanges and securities pricing services, in which case they are valued at the published market price. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar 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.

Venture capital, private placements, and limited partnerships are valued based on amounts established by independent advisors. Futures contracts, foreign exchange contracts, and options are marked-to-market daily with changes in market value recognized as part of net appreciation (depreciation) in fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral.

Investment expenses consists of investment managers' fees and those administrative expenses directly related to the System's investment operations.

(c) Fixed Assets

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

(d) Compensated Absences

The System follows GASB Statement No. 16, *Accounting for Compensated Absences*, which requires the accrual basis of accounting for measuring vacation leave, sick leave, and other compensated absences liabilities. Employes of the System are paid for accumulated vacation leave upon termination or retirement. Retiring employes of the System that meet service, age, or disability requirements are paid between 30% and 100% of sick days available at retirement, up to 163 maximum days paid. As of June 30, 1998 and 1997, $2,303,000 and $2,058,000, respectively, was accrued for unused vacation and sick leave for the System's employes.

(e) Due to the Commonwealth of Pennsylvania

Due to Commonwealth of Pennsylvania represents the Commonwealth's overpayment of its portion of employer contributions. These amounts were used to decrease Commonwealth contribution payments in 1998. The overpayment was primarily a result of differences in the projected covered payroll used during the budgetary process.

Notes to Financial Statements (Continued)

(f) Participant Premium Advances

Participant premium advances are for HOP premiums paid in advance in 1998 and 1997 related to health care coverage to be provided in 1999 and 1998, respectively.

(g) 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 that determination letter. 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*.

(h) Risk Management

The System is exposed to various liabilities or risks of loss related to theft or destruction of assets, injuries to employes, and court challenges to fiduciary decisions. To cover such risks, the System carries policies of directors and officers liability insurance and fiduciary liability insurance, and it also requires asset managers to carry appropriate policies of insurance. As an administrative agency of the Commonwealth, the System is accorded sovereign immunity, and it participates in a state property insurance program. As Commonwealth employes, the System's employes receive health insurance benefits, disability retirement benefits, and worker's compensation benefits. During the last three fiscal years insurance settlements did not exceed insurance coverage.

(i) Reclassifications

Certain 1997 balances have been reclassified to conform with the 1998 presentation.

(3)
Description of Funds

The Code requires the System to maintain the following accounts which represent reserves held for future and current benefit payments as follows:

(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 reserve for retirement with 5.50% statutory interest) are credited to this account. Each year, the necessary amounts, as determined by the actuary for the payment of retirement, disabilities, and death benefits, are transferred from the State Accumulation Account to the Reserve for Retirement Account increasing the reserve credit to the 8.5% valuation assumption rate determined by the actuary. All administrative expenses necessary for the operation of the System, except for premium assistance and HOP expenses, are paid from the State Accumulation Account.

Notes to Financial Statements (Continued)

(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 for subsequent payment of benefits.

(c) Reserve for Retirement Account

The Reserve for Retirement Account 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, disabilty, and retirement benefits are paid from this account. Annual interest of 5.50% is credited to the Reserve for Retirement Account.

(d) Health Insurance Account (Premium Assistance)

The Health Insurance Account is credited with contributions of the Commonwealth and the employers for the premium assistance program. Participating eligible annuitants are to receive health insurance premium assistance payments from this account equal to the lesser of $55 per month or their monthly out-of-pocket health insurance premium. The Health Insurance Account pays all administrative expenses necessary to operate the health insurance premium assistance program.

(e) Health Insurance Program Account (HOP)

The Health Insurance Program Account is credited with contributions from members of the HOP. All benefits related to the HOP (premium payments to the insurance companies) are paid from this account. The Health Insurance Program Account pays all administrative expenses necessary to operate the HOP.

(f) Pension and Postemployment Healthcare Net Assets

Net assets held in trust for pension and postemployment healthcare benefits at June 30, 1998 and 1997 are as follows:

	(Dollar Amounts in Thousands)	
	1998	1997
Pension:		
State accumulation account	**$ 25,177,659**	$ 21,208,039
Members' savings account	**6,113,312**	5,755,010
Reserve for retirement account	**13,484,732**	12,332,479
	$ 44,775,703	$ 39,295,528
Postemployment healthcare:		
Health insurance account (premium assistance)	**$ 76,135**	$ 90,802
Health insurance program account (HOP)	**5,511**	10,929

Notes to Financial Statements (Continued)

(4)
Investments

(a) Summary of 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. The Board invests the funds of the System using 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. The Board has adopted its investment policy to formally document investment objectives and responsibilities.

Notes to Financial Statements (Continued)

A summary of the fair value of investments at June 30, 1998 and 1997 follows:

	(Dollar Amounts in Thousands) 1998	1997
Pension short-term investments:		
Pennsylvania Treasury Domestic Short Term Investment Fund	**$ 928,295**	$ 667,723
Other domestic short-term investments	**16,046**	141,266
International short-term investments	**110,708**	89,670
	1,055,049	898,659
Fixed income and mortgage investments:		
Domestic mortgage-backed securities	**3,174,528**	2,698,866
U.S. government and agency obligations	**2,930,325**	3,457,653
Domestic corporate and municipal bonds	**1,765,006**	1,221,188
Miscellaneous domestic fixed income	**1,265,076**	479,450
Domestic private placements	**9,188**	34,644
International fixed income	**1,155,328**	1,653,167
	10,299,451	9,544,968
Common and preferred stocks:		
Domestic common and preferred stocks	**23,952,527**	20,191,767
Domestic private placements	**13,826**	76,844
International common stocks	**7,164,771**	6,428,084
	31,131,124	26,696,695
Other long-term investments:		
Real estate owned	**660,060**	820,390
Equity real estate	**1,059,477**	717,974
Venture capital	**597,915**	395,180
Farmland investments	**74,058**	78,858
Limited partnerships	**–**	41,583
	2,391,510	2,053,985
Pension investments at fair value	**$ 44,877,134**	**$** 39,194,307
Postemployment Healthcare short-term investments:		
Premium Assistance:		
Pennsylvania Treasury short-term investment fund	**$ 12,878**	**$** 14,136
Other short-term investments	**56,465**	57,996
	69,343	72,132
Health Options Program:		
Other short-term investments	**19,257**	18,937
Postemployment Healthcare investments at fair value	**$ 88,600**	**$** 91,069

Notes to Financial Statements (Continued)

During the fiscal years ended June 30, 1998 and 1997, the System owned no securities issued by and made no loans to school districts, the Commonwealth, or any related parties.

(b) Government Accounting Standards Board Statement No. 3

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, 1998 and 1997. 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 are reflected in Category 1, which is defined as insured or registered investments for which the securities are held by the System or its agent in the System's name.

Investments may also be categorized as Category 2, which is defined as uninsured or unregistered investments for which the securities are held by the counterparty'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 that would be classified in Categories 2 or 3. The System does have investments that 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.

Notes to Financial Statements (Continued)

Government Accounting Standards Board Statement No. 3
Summary of Categorized Investments
As of June 30, 1998 and 1997
(Dollar Amounts in Thousands)

	Total Fair Value 1998	Total Fair Value 1997
Investments – Category 1		
U.S. government and agency obligations	**$ 1,628,698**	$ 1,248,630
Corporate and municipal bonds	**1,701,773**	1,201,747
Mortgage-backed securities	**3,174,528**	2,698,866
Miscellaneous fixed income	**1,265,076**	479,450
Common stock	**21,902,068**	18,549,564
International fixed income	**933,151**	1,186,633
International equity	**5,880,338**	5,229,388
International short-term	**110,708**	89,670
Other short-term investments (1)	**91,768**	218,199
Subtotal	**36,688,108**	30,902,147
Investments - not categorized		
Investments held by broker dealers under securities loans:		
U.S. government and agency obligations	**1,301,627**	2,209,023
Corporate and municipal bonds	**63,233**	19,441
Common stock	**2,050,459**	1,642,203
International fixed income	**222,177**	466,534
International equity	**1,284,433**	1,198,696
Private placements – fixed income and equity	**23,014**	111,488
Real estate owned	**660,060**	820,390
Equity real estate	**1,059,477**	717,974
Farmland investments	**74,058**	78,858
Venture capital	**597,915**	395,180
Limited partnerships	**-**	41,583
Pennsylvania Treasury short-term investment fund (2)	**941,173**	681,859
Total	**$ 44,965,734**	$ 39,285,376

(1) includes $75,722 and $76,933 of postemployment healthcare investments at June 30, 1998 and 1997, respectively

(2) includes $12,878 and $14,136 of postemployment healthcare investments at June 30, 1998 and 1997, respectively

Notes to Financial Statements (Continued)

(c) Securities Lending

In accordance with a contract between the Commonwealth and the custodial agent, the System participates in a security lending program. Under this program, the custodian, acting as the lending agent, loans securities (equities, fixed income issues and money market instruments) to independent brokers and dealers in exchange for collateral in an amount not less than 102% of the fair value of any securities loaned except for non-U.S. corporations for which 105% of the fair value is required. Collateral is marked-to-market daily. If the fair 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 as collateral. If the collateral obtained consists in whole or in part of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Commonwealth.

As of June 30, 1998 and 1997, the System had no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. 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. There were no failures by any borrower to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the custodial agent.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loan is one day. The lending agent may enter into term loans that may last up to 10 days. There were no term loans as of June 30, 1998 and 1997.

Cash collateral is invested in the lending agent's short-term investment pool. The duration of the investments in the pool was 30 days and 60 days at June 30, 1998 and 1997, respectively. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the lending agent's pool, which the System cannot determine. The System cannot pledge or sell collateral securities received unless the borrower defaults, however the System may seize the assets of borrowers.

The Commonwealth will earn 85% of income realized from security lending by the lending agent net of certain out-of-pocket expenses. The System's income from securities lending represents its pro-rata share from participating in the program.

As of June 30, 1998, the fair value of loaned securities was $5,361,469,000 which includes $439,540,000 of loaned securities which are collateralized by securities and letters of credit not included in the Statement of Plan Net Assets. The fair value of the associated collateral was $5,503,347,000 which includes $441,945,000 of securities and letters of credit received as collateral but not included in the Statement of Plan Net Assets. As of June 30, 1997, the fair value of loaned securities was $6,085,807,000 which includes $549,910,000 of loaned securities which are collateralized by securities and letters of credit not included in the Statement of Plan Net Assets. The fair value of the associated collateral was $6,303,797,000 which includes $576,418,000 of securities and letters of credit received as collateral but not included in the Statement of Plan Net Assets.

(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. Short-term investments and cash equal to or greater than performance obligations under these contracts is maintained at all times. The System is exposed to credit risk in

Notes to Financial Statements (Continued)

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 selection of executing brokers and 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 aggregate notional or contractual amounts for the System's derivative financial instruments at June 30, 1998 and 1997 (in thousands):

	1998	1997
Futures contracts long and short	$ **2,352,554**	$ 4,265,882
Foreign exchange forward and spot contracts, gross	**2,406,401**	2,652,174
Options – calls purchased	**96,808**	244,220
Options – puts purchased	**54,805**	473,245
Options – calls sold	**83,037**	657,493
Options – puts sold	**52,138**	526,082

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. Initial margin requirements on futures contracts are provided by investment securities pledged as collateral.

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 generally uses exchange listed currency, index, stock, and futures options.

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. The contracts reported above primarily include forwards. The $2,406,401,000 of foreign currency contracts outstanding at June 30, 1998 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currency commitments of $1,153,856,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $1,252,545,000. The $2,652,174,000 of foreign currency contracts outstanding at June 30, 1997 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currency commitments of $1,336,898,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $1,315,276,000.

The System also invests in mortgage-backed securities such as collateralized mortgage obligations (CMOs) in part to maximize yields. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The fair market value of CMOs at June 30, 1998 and 1997 is $1,063,931,000 and $1,214,301,000, respectively.

Notes to Financial Statements (Continued)

(6)
Pension Plan for Employes of the System

The System contributes to the Commonwealth's State Employes' Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, death, and disability benefits to plan members and beneficiaries according to Commonwealth statute. SERS issues a publicly available financial report that can be obtained by writing to SERS, 30 N. Third Street, P.O. Box 1147, Harrisburg, Pennsylvania USA 17108-1147.

Plan members are required to contribute 5% of their annual covered payroll and the System is required to contribute at an actuarially determined rate. The rates applied to annual covered payroll were 6.19% at June 30, 1998 and 6.60% at June 30, 1997. The contribution requirements of plan members and the System are mandated by Commonwealth statute. The System's contributions to SERS for the years ending June 30, 1998, 1997, and 1996 were $763,000, $784,000, and $1,037,000, respectively, equal to the required contributions each year.

(7)
Relationships With Other Commonwealth Agencies

The System is established by state law as an independent administrative board of the Commonwealth, which is directed by a governing board that 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 certified members, one from among the System's noncertified 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 State Treasurer is the custodian of the 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 employes 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.

(8)
Litigation and Contingencies

The System is subject to various threatened and pending lawsuits which deal with the question of benefit calculation and eligibility. 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.

Required Supplemental Schedule 1
Schedule of Funding Progress*

(Unaudited - see accompanying auditor's report)
(Dollar Amounts in Millions)

Valuation year	Actuarial accrued liabilities (AAL)	Actuarial value of assets	(Funded) Unfunded actuarial accrued liabilities (UAAL)	Ratio of assets to AAL	Covered payroll	UAAL as a percentage of covered payroll
1997	$ 33,209.5	$ 34,872.6	$ (1,663.2)	105.0%	$ 7,745.0	(21.5%)
1996	31,629.8	30,170.9	1,458.9	95.4%	7,616.6	19.2%
1995	30,072.7	26,971.2	3,101.5	89.7%	7,378.3	42.0%
1994	28,348.3	24,551.5	3,796.8	86.6%	6,885.3	55.1%
1993	25,947.0	22,643.8	3,303.2	87.3%	6,348.6	52.0%
1992	24,569.6	20,068.2	4,501.4	81.7%	6,098.2	73.8%
1991	22,573.9	17,961.8	4,612.1	79.6%	5,744.8	80.3%
1990	20,914.3	15,995.6	4,918.7	76.5%	5,363.5	91.7%

See accompanying notes to required supplementary schedules.

* The amounts reported in the Schedule of Funding Progress do not include assets or liabilities for premium assistance and HOP.

Required Supplemental Schedule 2
Schedule of Employer Contributions

(Unaudited - see accompanying auditor's report)
(Dollar Amounts in Thousands)

Year ended June 30	Annual required contributions	Percentage contributed
1998	$ 718,431	100%
1997	796,205	100%
1996	860,898	100%
1995	791,802	100%
1994	909,292	100%
1993	931,829	100%
1992	929,324	100%
1991	1,142,086	100%

The Board adopted all contribution rates as recommended by the Actuary.

See accompanying notes to required supplementary schedules.

* The amounts reported in the Schedule of Employer Contributions do not include premium assistance contributions.

Notes to Required Supplemental Schedules

June 30, 1998 and 1997

(Unaudited - see accompanying auditor's report)

(1)
Description of Schedule of Funding Progress

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. Laws governing PSERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

In an inflationary economy, the value of the dollar is decreasing. In this environment employe pay in dollar amounts increases resulting in a dollar increase in unfunded accrued liabilities. This occurs at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to covered payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

(2)
Actuarial Assumptions and Methodologies

(a) Funding Method

An entry age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. The outstanding balance of the June 30, 1990 unfunded accrued liability is being amortized based on an open amortization period 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 being amortized over a period of 20 years from the first day of July next following the change, with payments increasing 5% annually.

(b) Asset Valuation Method

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

(c) Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 1997, the date of the most recent actuarial valuation include:

- Investment return – 8.5%, includes inflation at 4%
- Salary increases – 6.75%, which reflects an allowance for inflation of 4%, national productivity of 1%, and merit or seniority increases of 1.75%
- Benefit payments – no postretirement benefit increases assumed in the future; and
- Multiple Decrement Tables – mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary.

The System's actuarial values are calculated separately for retirees and beneficiaries and for active and inactive members.

The actuarial present value of benefits to be paid to retirees and beneficiaries currently receiving benefits and deferred survivor beneficiaries, whose benefits have been determined, is calculated using the assumptions noted above. The Reserve for Retirement Account with interest credited thereon at an annual rate of 5.50% is compared to the actuarial accrued liability for the remaining lifetimes of the retirees and beneficiaries and any deficiency is then funded by a transfer from the State Accumulation Account. Consequently, all such determined benefits are fully funded.

The actuarial accrued liability for active and inactive members is calculated on the projected benefit basis using the entry age normal actuarial cost method under which the present value of each member's expected benefit payable at retirement or death is determined. The assets of the Members' Savings Account, State Accumulation Account and the fair value adjustment are subtracted from this present value to arrive at the unfunded actuarial accrued liability.

(c) Cost of Living Allowance

In June 1998, Act 88 was signed into law which provided for a cost of living allowance (COLA) to annuitants whose most recent effective date of retirement was on or before June 30, 1997. Implementation of the COLA begins with the annuity payment of July 1998. The estimated effect of this would be to increase actuarial accrued liabilities by approximately $1 billion.

Supplemental Schedule 1
Additions to Plan Net Assets and Deductions from Plan Net Assets
Years ended June 30, 1987 through 1998

(Dollar Amounts in Thousands)

Additions to Plan Net Assets

Fiscal Year	Members Contributions	Employers and Commonwealth Contributions: Dollar Amount	Employers and Commonwealth Contributions: Percentage of Covered Payroll	Net Investment Income		Total Additions
(A) 1998	$ 481,228	$ 731,131	8.76 %	$ 6,195,171	(1)	$ 7,407,530
(A) 1997	465,576	844,599	10.60	6,146,930	(1)	7,457,105
(A) 1996	447,855	909,031	11.72	5,143,223	(1)	6,500,109
(A) 1995	428,584	825,446	11.06	4,205,763	(1)	5,459,793
(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

Deductions from Plan Net Assets

Fiscal Year	Benefits	Lump-sum and Installment	Refunds	Administrative	Net Transfers	Total Deductions
(A) 1998	$ 1,510,550	$ 376,575	$ 20,503	$ 27,300	$ 7,094	$ 1,942,022
(A) 1997	1,362,883	384,234	17,296	23,969	12,074	1,800,456
(A) 1996	1,274,235	258,298	14,124	22,643	1,630	1,570,930
(A) 1995	1,289,099	112,580	13,008	21,756	1,263	1,437,706
(A) 1994	1,148,388	222,918	10,851	23,311	3,843	1,409,311
(A) 1993	931,789	384,477	10,876	18,045	10,482	1,355,669
(A) 1992	877,949	125,230	10,431	15,723	10,740	1,040,073
1991	823,795	124,003	11,173	13,628	9,431	982,030
1990	802,794	112,620	11,177	13,598	2,566	942,755
1989	735,108	116,200	12,134	11,055	11,281	885,778
1988	675,592	76,642	12,684	10,196	18,332	793,446
1987	645,660	131,683	11,374	9,507	6,658	804,882

(A) Includes premium assistance activity, and does not include HOP activity.
(1) GASB 25 was adopted in 1995 and applied retroactively to July 1, 1994.
As a result, net investment income includes net appreciation (depreciation) in fair value of investments for 1995 through 1998 which created significant fluctuations.

Supplemental Schedule 2
Operating Expenses for Years ended June 30, 1998 and 1997
(Dollar Amounts in Thousands)

	1998			1997			
	Administrative Expenses (1)	Investment Expenses (2)	Total	Administrative Expenses (1)	Investment Expenses (2)	Directed Commissions (3)	Total
Personnel costs:							
Salaries and wages	$ 11,003	$ 1,529	$ 12,532	$ 10,447	$ 1,592	$ –	$ 12,039
Social security contributions	842	100	942	796	101	–	897
Retirement contributions	674	89	763	689	97	–	786
Employes' insurance contributions	1,927	177	2,104	1,700	168	–	1,868
Other employe benefits	342	50	392	273	(9)	9	273
Total personnel costs	14,788	1,945	16,733	13,905	1,949	9	15,863
Operating costs:							
Investment managers fees	–	80,156	80,156	–	68,861	–	68,861
Specialized services	6,207	13	6,220	4,384	12	25	4,421
Rental of real estate and electricity	1,339	111	1,450	1,326	148	–	1,474
Consultant and legal fees	371	5,382	5,753	230	867	565	1,662
Treasury and other Commonwealth services	817	89	906	1,046	107	–	1,153
Postage	701	–	701	926	–	–	926
Contracted maintenance services	761	–	761	780	–	–	780
Office supplies	610	23	633	597	7	–	604
Rental of equipment	1,467	1	1,468	1,365	2	–	1,367
Printing	377	–	377	378	–	–	378
Travel	199	50	249	144	50	–	194
Telephone and telegraph	180	21	201	175	20	–	195
Service fees – mortgages	–	–	–	–	15	–	15
Miscellaneous expenses	712	1,025	1,737	397	597	764	1,758
Total operating expenses	13,741	86,871	100,612	11,748	70,686	1,354	83,788
Fixed charges:							
Furniture and equipment	(13)	–	(13)	(63)	–	–	(63)
Depreciation	1,431	–	1,431	1,350	–	–	1,350
Total fixed charges	1,418	–	1,418	1,287	–	–	1,287
Total operating expenses	$ 29,947	$ 88,816	$ 118,763	$ 26,940	$ 72,635	$ 1,363	$ 100,938

(1) Includes administrative expenses of $504 and $599 related to Premium Assistance and $2,647 and $2,971 related to HOP for the years ended June 30, 1998 and 1997, respectively.

(2) Does not include $34,805 and $30,588 for the years ended June 30, 1998 and 1997, respectively, in capitalized broker commissions.

(3) Does not include $795 for the year ended June 30, 1997 in capitalized assets and payable reductions paid through Directed Commissions.

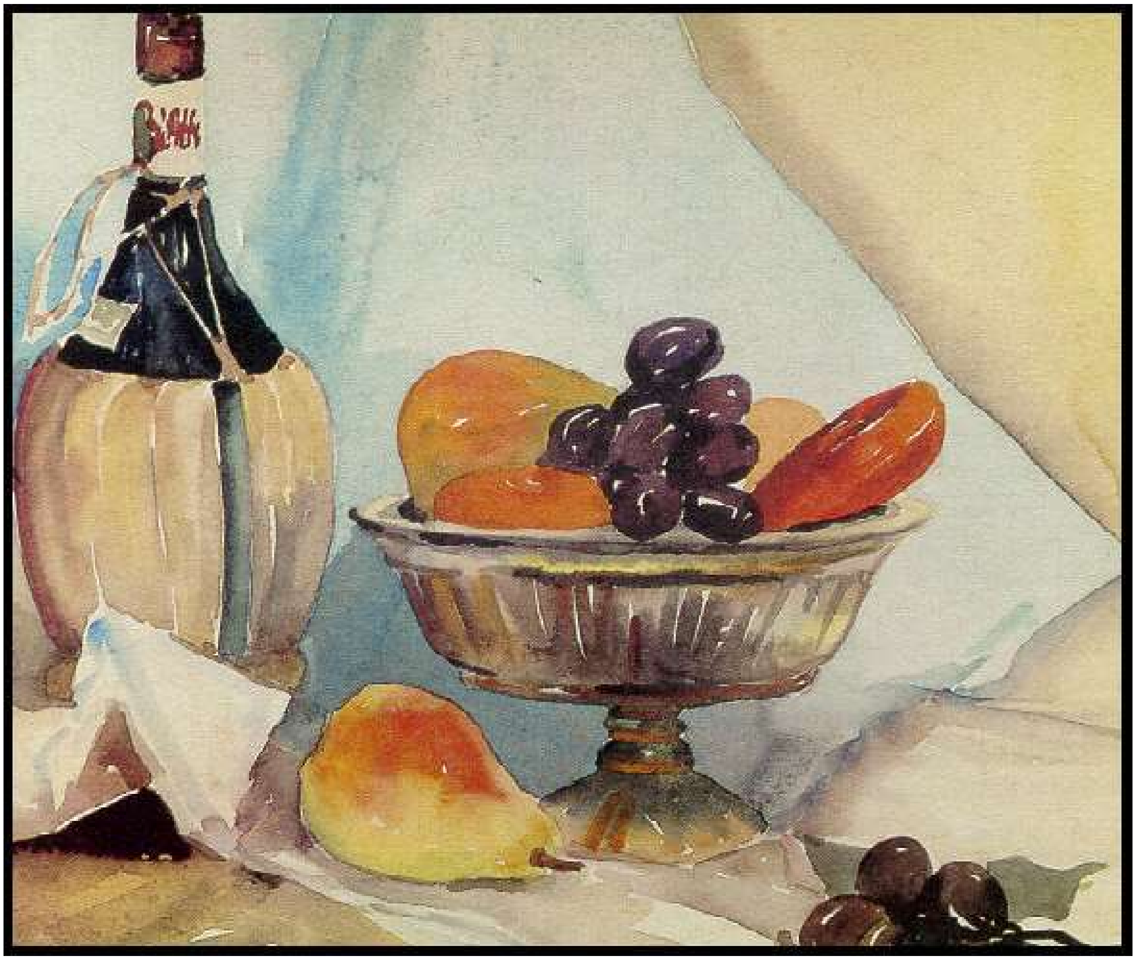
For 1998 the Directed Commissions program was changed to a commission recapture program.

Note: Other Supplementary Information found on the next page are supporting schedules included in the Financial Section prepared by the PSERS staff. These schedules were not audited by the independent auditors as part of their audit of the financial statements of the System. These schedules are presented here in response to disclosure recommendations made by the Government Finance Officers Association of the United States and Canada.

Schedule of Payments to Non-Investment Consultants
Fiscal Year Ended June 30, 1998

Consultant	Fees	Services Provided
UNISYS Corporation	$ 3,045,131	Information systems services - PSERS Business System and Year 2000
Buck Consultants, Inc.	226,309	Pension benefit actuarial services
Buck Consultants, Inc.	271,639	Health Options Program benefits consultation and HMO management
Deloitte & Touche	273,664	Information systems management services
Coopers & Lybrand	87,990	Financial audit of Health Options Program
KPMG Peat Marwick LLP	78,000	Financial audit of pension system

Public School Employes' Retirement System



Mary E. Sumerfield of Philadelphia, Pennsylvania, attended Moore College of Art and Temple University. She had a 35 year career as an Art teacher and administrator with various Philadelphia city schools.

Still Life Fruit .... Water Color

Investment Section

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM

JOHN C. LANE
Chief Investment Officer

Investment Overview

Authority

The PSERS Board of Trustees (Board) has the responsibility to invest funds of the System in accordance with guidelines set forth in the Code and other applicable state law. Act 29 of 1994 authorizes the Board to invest the funds of the System using 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.

Policy and Objectives

The Board is responsible for the formulation of investment policy for the System. The overall investment objectives of the System are to: (i) preserve capital in real terms; (ii) maximize total returns while limiting the risk of volatility through diversification; (iii) achieve a real rate of return over the consumer price index over time; (iv) provide sufficient liquidity to meet the current financial needs of the System, and (v) meet the actuarial projected liabilities of the Fund. To achieve these objectives, the Board meets once a year to review an overall asset allocation plan and investment policies for the System. Implementation of the investment policies is accomplished through investment advisors who act as agents for the System and through internal investment managers. The Board also retains an investment consultant to assist with the formulation and implementation of investment policy.

Operations

The Board provides oversight of investment activities through the Finance Committee which makes recommendations to the Board. The Finance Committee conducts nine meetings a year and may meet more frequently as needed. Executive and investment staff, as well as outside investment advisors and internal investment managers, assist the Board in achieving investment objectives and monitoring compliance with investment policy. For the fiscal year ended June 30, 1998, Evaluation Associates, Inc. (EAI) served as overall investment consultant to assist the Board in formalizing investment objectives, establishing an asset allocation plan, conducting investment advisor searches, reviewing performance, and commenting on compliance with investment policy. In addition, the Board utilized Institutional Property Consultants, Inc. (IPC) as a real estate consultant and Sovereign Financial Services, Inc. as a venture capital/private placement consultant. Investment staff implements the investment decisions within the stated policy regarding asset allocation, security selection, or other objectives directed by the Board.

The Board employs both professional investment management firms and internal investment managers to manage the investment portfolio of the System. At year end, 28 professional investment management firms (excluding developmental, private equity and real estate managers) were managing $23.0 billion in assets of the System, $19.3 billion in assets were managed by the System's internal investment managers, and the remaining $2.6 billion in assets were managed by numerous developmental, private equity, and real estate managers. The performance of each professional investment management firm and each internal manager is monitored annually against a pre-established benchmark and against their peers.

Asset Allocation

The Board reviews the long-term asset allocation targets of the System at least annually, usually in the calendar fourth quarter. In establishing the asset allocation plan, the Board will consult with its actuary, consultants, investment staff, and other sources of information it deems appropriate in formulating this allocation. The purpose of the asset allocation is to meet the long-term financial needs and investment objectives of the System.

The long-term target allocation for 1998 included an equity target allocation of 65% consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (45%) and diversified international equity exposure (20%). Within each of these targets, the portfolios are diversified between large and small companies and growth and value managers. The fixed income target allocation of 27% consisted of U.S. fixed income exposure (19%) and international fixed income exposure (8%). Within these categories, all sectors of the bond market are represented. The real estate target allocation of 6.5% consists primarily of opportunistic partnerships and publicly-traded real estate investment trusts. Consisting primarily of partnerships, venture capital and private equity investments are the smallest portion of the asset allocation and have a target of 1.5%. Finally, unallocated cash of the System has an asset allocation target of 0% since cash historically represents the lowest returning asset class over time.

Investment Results

As of June 30, 1998, the fair value of the investment portfolio was $44.9 billion. The fair value increased approximately $5.7 billion over last year's value. This increase came primarily from income and capital gains on investments.

The investment portfolio was composed of 55.0% domestic stocks, 16.0% international stocks, 20.8% domestic fixed income, 2.6% international fixed income, 4.2% real estate and 1.4% venture capital and private placements. Page 64 illustrates a more detailed description of the investment portfolio in dollars and as a percent of the total investment portfolio using a trade date basis of accounting.

The health of the overall economy and strength of domestic and European stock and bond markets helped fuel the System's returns for fiscal year 1998. As a result, the System generated returns of 16.0% for the one year ended June 30, 1998. Annualized returns for the three-year and five-year periods ending June 30, 1998 were 17.6% and 14.2%, respectively. The System has consistently exceeded the actuarial interest rate assumption of 8.5% allowing the System to reach and maintain a fully funded status earlier than projected.

The following table provides the System's total investment return for each major asset class and the total portfolio, including, where applicable, respective benchmark indices used by asset class and median performance by asset class:

	Annualized Total Returns (%) Ending June 30, 1998		
	1 Year	3 Years	5 Years
PSERS TOTAL PORTFOLIO	**16.0**	**17.6**	**14.2**
Median Large Public Fund (Wilshire Database)	18.4	19.0	14.9
PSERS DOMESTIC STOCK PORTFOLIOS	**26.9**	**27.0**	**21.0**
S&P Super Composite Index	29.4	29.2	N/A
Median Domestic Equity Manager (Wilshire Database)	24.9	26.4	20.9
PSERS GLOBAL DEVELOPED LARGE CAP STOCK PORTFOLIOS	**9.3**	**15.9**	**12.1**
MSCI EAFE Index	6.1	10.7	10.0
Median EAFE Manager (Wilshire Database)	10.8	15.8	14.6
PSERS DOMESTIC BOND PORTFOLIOS	**10.8**	**8.6**	**7.3**
Lehman Aggregate Index	10.5	7.9	6.9
Median Domestic Bond Manager (Wilshire Database)	10.9	8.2	7.2
PSERS GLOBAL BOND PORTFOLIOS	**6.7**	**5.3**	**6.6**
J.P. Morgan Global Bond Index	5.9	4.1	6.6
Median Global Bond Manager (Wilshire Database)	5.4	5.5	7.2
PSERS REAL ESTATE	**17.5**	**14.0**	**11.9**
I.P.C. Real Estate Index	16.5	10.5	7.9

The System also is involved in a securities lending program administered by State Street Bank and Trust Company. This program provides incremental income to the System by lending securities in the System's portfolio to securities dealers in exchange for collateral. This program generated approximately $20 million in additional income during the year.

EAI calculates the total investment return of the System, as well as the performance of each investment management firm employed by the Board to invest the System's assets, excluding real estate which is calculated by IPC. All performance measurement calculations are conducted in accordance with the presentation standards of the Association of Management and Research (AIMR).

Accomplishments

The significant accomplishment during Fiscal Year 1998 was the design and implementation of the Global Asset Allocation (GAA) program. While the Board believes that the asset allocation established at the beginning of the year is the System's most efficient, the GAA program was established to solve short-term asset allocation shifts. Initially, 11% of the System's investment assets were allocated to five managers providing them with broad discretion in the allocation of those assets. These managers may shift between asset classes as market conditions change. Their benchmark is to exceed the annualized return of the System's Core Holdings (represented by the marketable securities of the System) by 100 basis points over rolling three-year periods. The GAA program has been targeted by the Board to reach a level of 20% of the System's total investment assets.

Significant Developments for Fiscal Year 1999

Three significant events will affect the System's investments and investment management during fiscal year 1999:

1. The Treasurer of the Commonwealth of Pennsylvania, responsible for overall custody of the System's assets, hired Mellon Trust to replace State Street Bank and Trust Company as the custodian effective November 2, 1998 as a result of a competitive bidding process. Concurrent with the custody change, Mellon Trust will assume responsibility for the administration of the System's securities lending program.
2. The System, through competitive bidding, hired Wilshire Associates Incorporated as the System's primary investment consultant replacing EAI.
3. The System, through competitive bidding, hired Frank Russell Company as the System's real estate investment consultant replacing IPC.

Summary

Overall, we had a successful year in which our investment objectives were achieved. We believe that our asset allocation is structured to maximize investment returns while limiting risk to the System for years to come.

John C. Lane
Chief Investment Officer

Portfolio Summary Statistics
Asset Allocation - Trade Date Basis
As of June 30, 1998

Type of Investment	Fair Value ($)	% Fair Value
Fixed Income and Mortgage Investments		
Domestic Mortgage Backed Securities	$ 3,174,527,677	7.1%
U.S. Government & Agency Obligations	2,930,325,448	6.5%
Domestic Corporate and Municipal Bonds	1,765,005,720	3.9%
Miscellaneous Domestic Fixed Income	1,265,075,675	2.8%
Domestic Private Placements	9,188,000	0.0%
International Fixed Income	1,155,328,164	2.6%
Subtotal per Financial Statements	10,299,450,684	22.9%
Short-Term Portion *	202,853,187	0.5%
Total Fixed Income - Asset Allocation Basis	**10,502,303,871**	**23.4%**
Common and Preferred Stock		
Domestic Common and Preferred Stock	23,952,527,492	53.3%
Domestic Private Placements	13,826,000	0.0%
International Common Stock	7,164,770,609	16.0%
Subtotal per Financial Statements	31,131,124,101	69.3%
Short-term Portion *	747,597,616	1.7%
Total Common and Preferred Stock - Asset Allocation Basis	**31,878,721,717**	**71.0%**
Other Long-Term Investments		
Real Estate Owned	660,059,574	1.5%
Equity Real Estate	1,059,477,279	2.4%
Venture Capital	597,914,644	1.3%
Farmland Investments	74,058,466	0.2%
Subtotal per Financial Statements	2,391,509,963	5.4%
Short-term Portion *	104,597,851	0.2%
Total Other Long-Term Investments - Asset Allocation Basis	**2,496,107,814**	**5.6%**
Total Investments - Asset Allocation Basis	**$ 44,877,133,402**	**100.0%**
Postemployment Healthcare Short-Term Investments	**$ 88,600,249**	**100.0%**

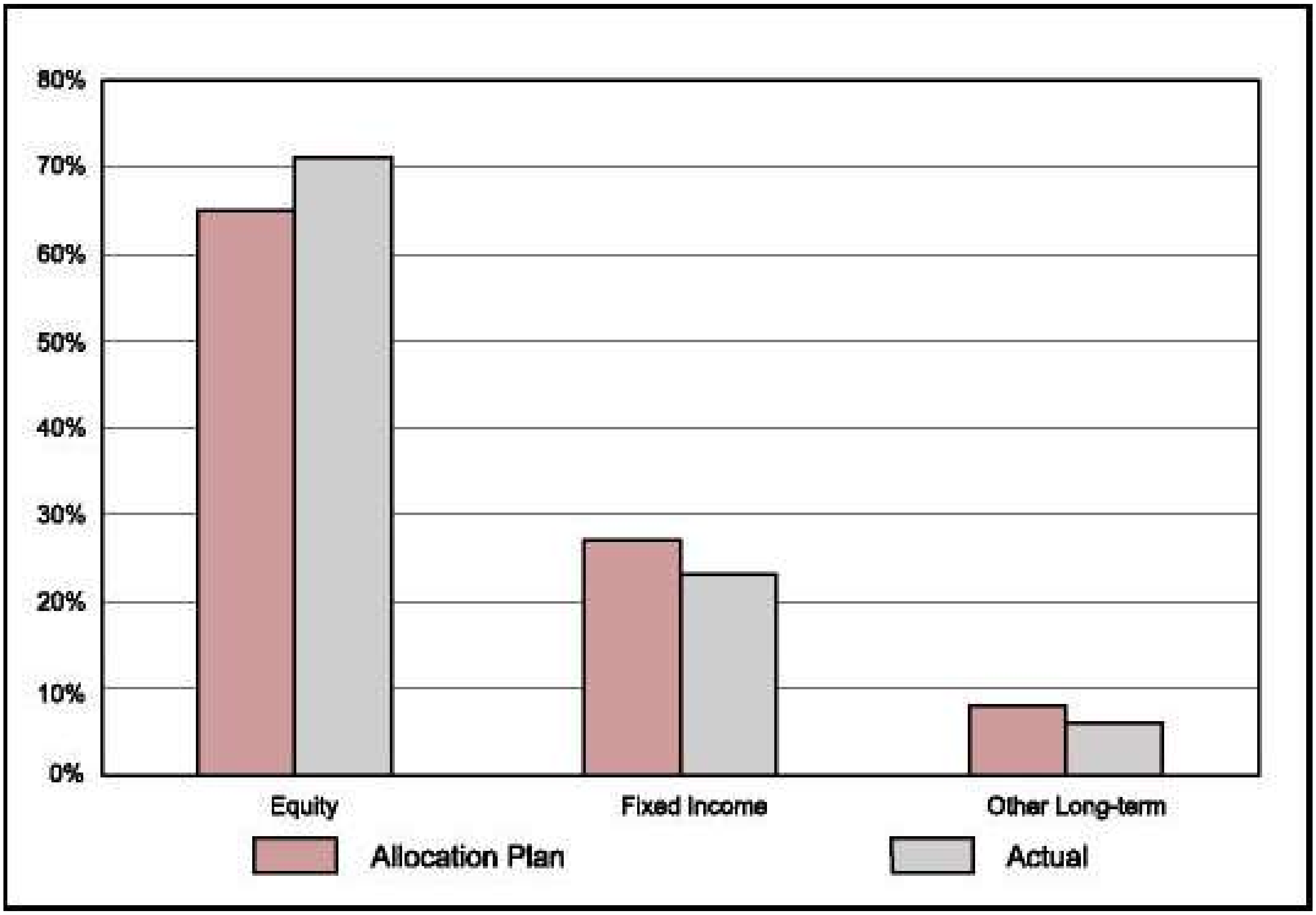
* - For asset allocation purposes, Short-term investments are included with the asset class of the investment manager which holds them and the securities lending collateral pool is not included.

See the graph which follows.

Comparison of Actual Portfolio Distribution to Asset Allocation Plan

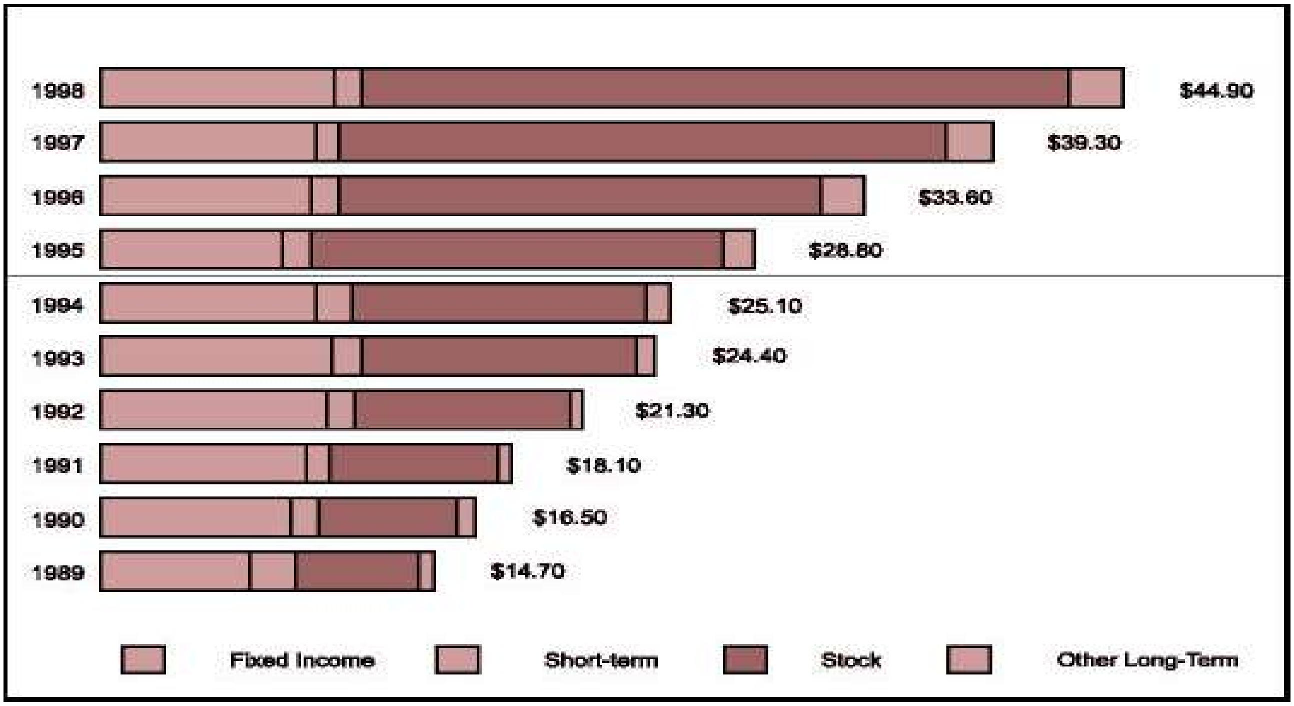
As of June 30, 1998

Asset Category	Asset Allocation Plan	Actual
Equity	65%	71%
Fixed Income	27%	23%
Other Long-term	8%	6%
Total	100%	100%



Portfolio Distribution* - 10 Year Trend

(Fair Value - Dollar Amounts in Billions)



* Data for years after 1994 includes effects of GASB Statement No. 25.

The following lists of portfolio detail statistics present the ten largest holdings by descending order of fair value.

Portfolio Detail Statistics as of June 30, 1998

Trade Date Basis
Domestic Mortgage Backed Securities
10 Largest Holdings in Descending Order by Fair Value

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
FHLMC Gold TBA Jul 30	01/01/99	6.500	217,750,000	217,135,945
FHLMC #C00626	06/01/28	6.000	95,064,750	92,688,131
FHLMC #G00950	06/01/28	6.000	79,200,000	77,144,760
FNMA TBA Jul 30	01/01/99	6.500	72,500,000	72,204,925
FHLMC Gold TBA Jul 30	12/01/99	7.500	52,300,000	53,590,764
FNMA #313947	01/01/28	7.000	41,535,140	42,119,124
FNMA TBA Jul 30	12/01/99	5.950	40,400,000	40,677,750
Morgan Stanley Capital Series 1991-XL 1 Class A2	10/03/30	8.500	33,909,000	35,302,999
Contimortgage Home Equity Loan	10/15/12	5.830	35,138,513	35,143,994
FNMA #50993	02/01/24	7.000	34,432,638	34,938,109
Total of 10 Largest Holdings				**700,946,501**
Total System Holdings - Domestic Mortgage Backed Securities				**3,174,527,677**

Portfolio Detail Statistics as of June 30, 1998

Trade Date Basis
U.S. Government & Agency Obligations
10 Largest Holdings in Descending Order by Fair Value

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
U.S.A. Treasury Notes	05/15/05	6.500	183,370,000	193,541,534
U.S.A. Treasury Notes	09/30/99	5.750	158,720,000	159,142,195
U.S.A. Treasury Bonds	11/15/26	6.500	142,161,000	157,865,526
U.S.A. Treasury Notes	02/15/99	5.000	112,000,000	111,667,360
U.S.A. Treasury Notes	05/31/01	6.500	107,851,000	110,614,143
U.S.A. Treasury Notes	06/30/01	6.625	106,060,000	109,159,073
U.S.A. Treasury Notes	03/31/00	5.500	96,370,000	96,340,125
U.S.A. Treasury Notes	08/31/01	6.500	90,450,000	92,909,336
U.S.A. Treasury Bonds	11/15/22	7.625	69,548,000	86,674,195
U.S.A. Treasury Notes	08/31/99	6.875	79,132,000	80,318,980
Total of 10 Largest Holdings				**1,198,232,467**
Total System Holdings - U.S. Government & Agency Obligations				**2,930,325,448**

Portfolio Detail Statistics as of June 30, 1998

Trade Date Basis
Domestic Corporate and Municipal Bonds
10 Largest Holdings in Descending Order by Fair Value

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Security Capital US Realty (convertible)	05/22/03	2.000	75,000,000	62,859,375
Salomon (inflation index)	02/14/02	3.650	36,575,721	35,676,324
Tele Communications	02/01/12	9.800	24,945,000	32,087,003
Auburn Hills Trust	05/01/20	12.000	18,000,000	29,682,180
Household Finance	06/17/08	6.400	28,535,000	28,482,781
CSX	05/01/27	7.950	25,000,000	28,410,500
Ford Motor Credit MTN	11/09/98	5.660	26,550,000	26,584,250
Jackson National Life Insurance	03/15/27	8.150	22,300,000	26,051,752
Transcontinental Gas Pipe Line	01/15/08	6.250	23,000,000	22,595,200
Household Finance	02/27/03	6.125	22,710,000	22,511,288
Total of 10 Largest Holdings				**314,940,653**
Total System Holdings - Domestic Corporate and Municipal Bonds				**1,765,005,720**

Portfolio Detail Statistics as of June 30, 1998

Trade Date Basis
Miscellaneous Domestic Fixed Income
10 Largest Holdings in Descending Order by Fair Value

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
JP Morgan Management Public Bond Fund	Various	Various	14,374,243	177,234,418
Capital Guardian Mutual Fund	Various	Various	1,439,156	111,980,762
Pennsylvania Initiative-Small Business Loans	Various	Various	53,876,034	53,876,034
Capital Guardian Emerging Mkts Fixed Inc Fund	Various	Various	5,251,853	53,516,382
JP Morgan Institutional Funds	Various	Various	4,639,412	53,121,267
The Mall at Steamtown Mortgage Loan	11/13/04	8.500	52,847,708	52,849,287
Chase Manhattan Credit Card Master Trust	02/15/05	7.040	46,530,000	47,867,738
World Omni Automobile Lease Securitization	11/25/03	6.200	31,100,000	31,245,547
World Omni Automobile Lease Securitization	11/25/03	6.180	26,400,000	26,515,368
Morgan Stanley Institutional Fund	Various	Various	4,751,175	26,369,019
Total of 10 Largest Holdings				**634,575,822**
Total System Holdings - Miscellaneous Domestic Fixed Income				**1,265,075,675**

Portfolio Detail Statistics as of June 30, 1998

Trade Date Basis
Fixed Income - Domestic Private Placements
Holdings in Descending Order by Fair Value

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Realen Homes	03/31/02	10.000	10,000,000	9,188,000
Total System Holdings - Fixed Income - Domestic Private Placements				**9,188,000**

Portfolio Detail Statistics as of June 30, 1998

Trade Date Basis
International Fixed Income
10 Largest Holdings in Descending Order by Fair Value

Description	Maturity Date	Interest Rate(%)	Par Value ($)	Fair Value ($)
United Kingdom Treasury	12/07/07	7.250	104,000,527	114,303,027
Germany (Federal Republic)	01/04/28	5.625	69,666,278	72,313,596
Germany (Federal Republic)	07/04/07	6.000	66,167,175	72,009,736
United Kingdom Treasury	12/07/15	8.000	49,020,508	61,398,186
United Kingdom Treasury	06/07/02	7.000	40,043,982	40,744,751
Bundesrepublik Deutcheland	12/17/99	4.250	40,484,002	40,666,180
South Africa (Republic of)	02/28/05	12.000	41,680,666	36,385,888
South Africa (Republic of)	08/31/10	13.000	39,881,012	35,202,890
Sweden (Kingdom of)	08/15/07	8.000	26,319,921	32,146,099
Sweden (Kingdom of)	10/25/06	6.500	28,790,156	31,854,293
Total of 10 Largest Holdings				**537,024,646**
Total System Holdings - International Fixed Income				**1,155,328,164**

Portfolio Detail Statistics as of June 30, 1998

Trade Date Basis
Domestic Common and Preferred Stock
10 Largest Holdings in Descending Order by Fair Value

Description	No. of Shares	Fair Value ($)
General Electric Company	4,720,159	428,944,449
Microsoft Corporation	3,608,848	391,108,902
Coca Cola Company	3,417,136	292,165,128
Exxon Corporation	3,450,269	246,262,950
Merck & Co Incorporated	1,781,412	238,263,855
Pfizer Incorporated	2,007,159	218,153,094
Intel Corporation	2,942,966	218,147,355
International Business Machines	1,826,676	209,725,239
Wal Mart Stores Incorporated	3,435,828	208,726,551
Bristol Myers Squibb Company	1,647,946	189,410,793
Total of 10 Largest Holdings		**2,640,908,316**
Total System Holdings - Domestic Common and Preferred Stock		**23,952,527,492**

Portfolio Detail Statistics as of June 30, 1998

Trade Date Basis
Equity - Domestic Private Placements
Holdings in Descending Order by Fair Value

Description	No. of Shares	Fair Value ($)
Realen Homes Convertible Preferred	15,000	8,000,000
American Pacific Warrants	2,142,857	5,357,000
Realen Homes Warrants	36,885	469,000
Total System Holdings - Equity - Domestic Private Placements		**13,826,000**

Portfolio Detail Statistics as of June 30, 1998

Trade Date Basis
International Common Stock
10 Largest Holdings in Descending Order by Fair Value

Description	No. of Shares	Fair Value ($)
Novartis AG	64,875	107,953,062
Mannesmann AG	941,650	96,771,626
ING Groep NV	1,335,357	87,438,614
Credit Suisse Group	378,653	84,252,622
Sony Corporation	874,900	75,332,736
Nestle SA	34,933	74,757,134
Bayer AG	1,280,758	66,271,770
Bayer Vereinsbank	778,491	65,987,191
Vivendi	288,172	61,532,959
UBS AG	164,500	61,166,446
Total of 10 Largest Holdings		**781,464,160**
Total System Holdings - International Common Stock		**7,164,770,609**

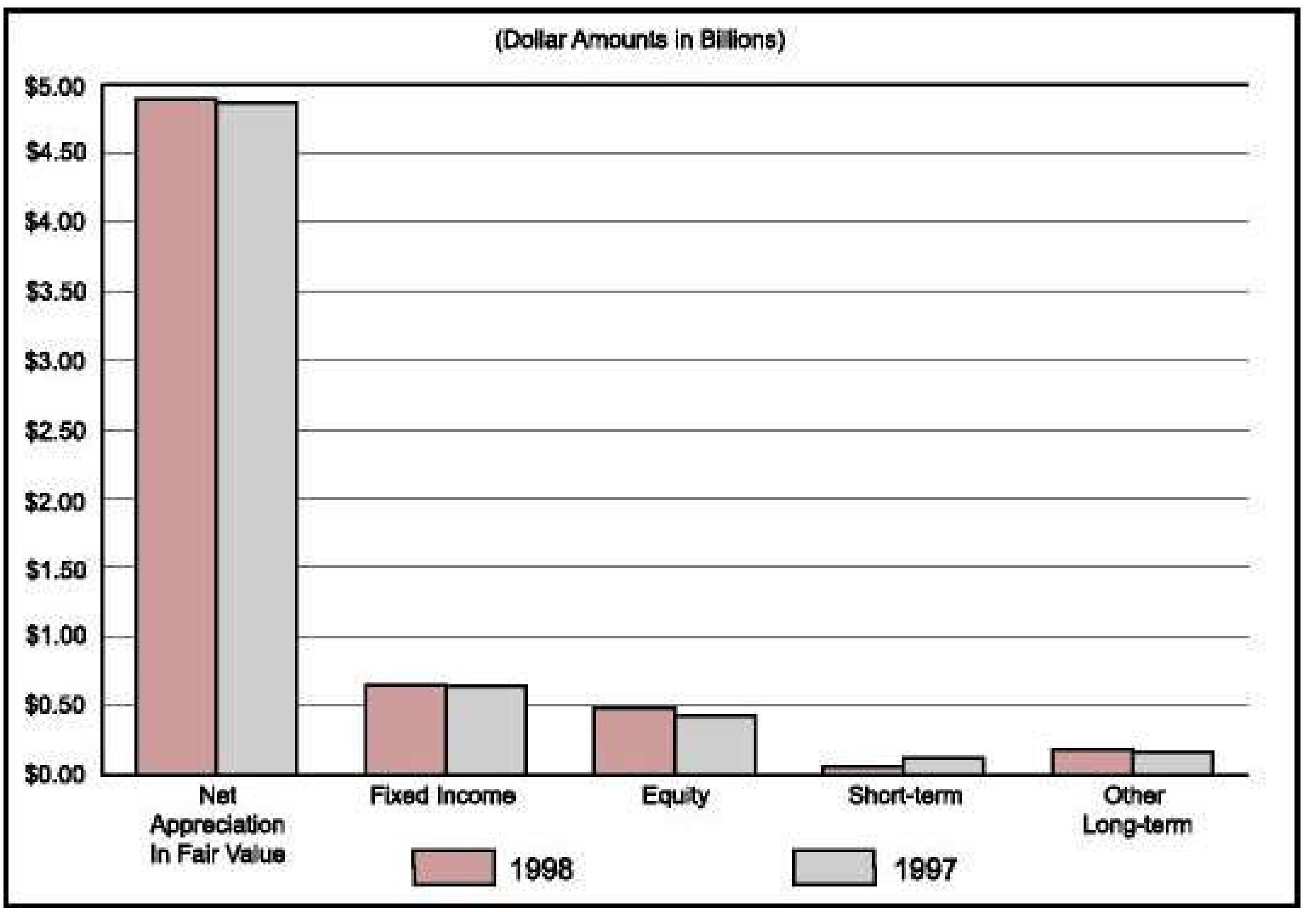
Portfolio Detail Statistics as of June 30, 1998

Trade Date Basis
Short-Term - Postemployment Healthcare
10 Largest Holdings in Descending Order by Fair Value

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Dauphin Deposit Repurchase Agreement	07/01/98	5.250	19,256,970	19,256,970
Treasury Short Term Investment Fund			12,878,367	12,878,367
Ford Motor	11/15/99	7.500	2,995,000	3,055,469
Salomon	10/01/99	6.250	2,500,000	2,508,525
Household International Netherlands	03/15/99	6.000	2,500,000	2,503,275
Bankers Trust Company	09/10/98	5.940	2,500,000	2,500,886
Green Tree Floorplan Receivables	12/13/00	5.790	2,500,000	2,500,750
Discover Card Trust	08/16/00	6.800	2,075,000	2,073,050
Michigan Bell Telephone	11/15/98	9.250	2,000,000	2,023,980
National Australia Bank Ltd	10/15/98	9.700	2,000,000	2,022,180
Total of 10 Largest Holdings				**51,323,452**
Total System Holdings - Postemployment Healthcare - Short-Term Investments				**88,600,249**

Comparison of Investment Income
For Fiscal Years Ended June 30, 1998 & 1997
(Dollar Amounts in Thousands)

Asset Category	1998	1997
Net Appreciation in Fair Value	**$ 4,893,203**	$ 4,862,236
Fixed Income	**651,170**	637,953
Equity	**479,149**	431,836
Short-Term	**65,405**	115,895
Other Long-term	**175,787**	155,402
Total	**$ 6,264,714**	$ 6,203,322



Total investment expenses were $88.8 million for the fiscal year ended June 30, 1998 compared to $74.0 million for the fiscal year ended June 30, 1997. A breakdown of those expenses follows.

Summary of Investment Expenses
Fiscal Year Ended June 30, 1998
(Dollar Amounts in Thousands)

	Assets under Management	Fees
External Management		
Domestic Equity	$ 5,258,000	$ 14,661
Domestic Fixed Income	4,149,000	5,881
International Equity	6,641,000	21,205
International Fixed Income	2,139,000	2,890
Real Estate	2,036,000	16,265
Venture Capital	629,000	16,055
Other Investments	4,753,000	822
Total External Management	**25,605,000**	**77,779**
Total Internal Management	**19,361,000**	**1,945**
Total Investment Management	**$ 44,966,000**	**79,724**
Custodial fees		432
Investment consultant fees		860
Miscellaneous service fees		1,095
Other investment expenses		6,705
Total Investment Expenses		**$ 88,816**

Broker's fees on investment transactions for the fiscal year ended June 30, 1998 were $34.8 million. A list of the brokers receiving fees in excess of $100,000 during the fiscal year follows.

Summary Schedule of Brokers' Fees
(Cumulative Fiscal Year Amounts Exceeding $100,000)
Fiscal Year Ended June 30, 1998

Broker Name	Fees Paid ($)	Broker Name	Fees Paid ($)
MERRILL LYNCH	5,007,454	DRESDNER BANK A G	359,594
SWISS BANK CORP.	3,723,487	PANMURE GORDON	319,246
ABN AMRO	2,508,457	W I CARR & SONS CO.	290,533
BEAR STEARNS & CO.	1,612,398	HSBC JAMES	279,133
STATUS SECURITIES	1,610,535	JEFFERIES & CO. INC.	254,157
LYNCH, JONES & RYAN	1,501,615	BZW SECURITIES	219,117
MORGAN STANLEY & CO.	1,391,385	J. P. MORGAN, INC.	203,107
SBC WARBURG	1,376,729	SOCIETE GENERALE	201,475
INSTINET CORP.	1,301,424	FIRST BOSTON CORP.	197,980
KLEINWORT BENSON INC.	1,094,929	HOARE GOVETT FAR EAST LTD.	197,282
S. G. WARBURG & CO.	769,075	JARDINE FLEMMING	197,042
GOLDMAN, SACHS & CO.	766,729	PAINE WEBBER INC.	192,368
HOENIG & CO.	683,341	COUNTY NATWEST SECURITIES	180,720
JAMES CAPEL & CO.	655,896	RBC DOMINION	174,096
DEUTSCHE BANK	617,694	CAZENOVE INC	145,958
CREDIT LYONNAIS SECURITIES	498,619	ROBERT FLEMING SECURITIES	144,024
HSBC SECURITIES INC.	487,204	SOCGEN	124,906
UBS SECURITIES	430,652	CREDIT SUISSE	117,960
LEHMAN BROTHERS	401,323	NOMURA SECURITIES INT'L.	116,698
SALOMON BROTHERS	378,746	CHEUVREUX	101,434
BARING SECURITIES	371,182		

PROFESSIONAL CONSULTANTS
External Investment Advisors

Aberdeen America, Inc. *(Developmental))*

ABS Capital Partners *(Private Equity)*

Adams Capital Management, Inc. *(Venture Capital)*

Allegis Realty Investors, L.L.C. *(Real Estate)*

Alliance Capital Management *(Fixed Income)*

American Express Asset Management *(Equity)*

BG Media Investors *(Private Equity)*

Bastion Capital Corporation *(Private Equity)*

Berwind Property Group, Ltd. *(Real Estate)*

Bruckmann, Rosser, Sherrill & Co., Inc.
(Private Equity)

Capital Guardian Trust Company
(Equity & Global Asset Allocation (GAA))

CEO Venture Fund *(Venture Capital)*

Coleman, Swenson, Hoffman, Booth, Inc.
(Venture Capital)

Corestates Bank *(Security Lending)*

Credit Suisse First Boston Advisory Partners, L.L.C. *(Private Equity)*

Daruma Asset Management, Inc. (*Developmental)*

Delta Asset Management *(Equity)*

Duncan Hurst Capital Management *(Equity)*

Edison Venture Funds (*Developmental)*

Emerald Advisers, Inc. *(Equity)*

Fiduciary Trust International *(Fixed Income)*
First Pacific Advisors, Inc. *(Equity)*

FLOR-AG Corporation *(Real Estate)*

Furman Selz Investments *(Private Equity)*

Genesis Asset Managers, Ltd. *(Equity)*

Goldman Sachs Asset Management
(Equity, Real Estate & GAA)

Grotech Capital Group, Inc. *(Venture Capital)*

GS Mezzanine Partners, L.P. *(Private Equity)*

Heritage Partners, Inc. *(Private Equity)*

Institutional Capital Corporation *(Equity)*

Investment Advisors, Inc. (*Equity)*

J. P. Morgan Investment Management, Inc. *(GAA)*

John Hsu Capital Group, Inc. *(Developmental)*

The Kenwood Group *(Developmental)*

Keystone Venture Capital *(Venture Capital)*

L&B Real Estate Counsel *(Real Estate)*

Landmark Partners, Inc. *(Private Equity)*

LaSalle Advisors Limited *(Real Estate)*

Lazard Freres Real Estate Investors, L.L.C.
(Real Estate)

Lehman Brothers Merchant Bank Partners II, L.P.
(Private Equity)

Legg Mason Real Estate Services *(Real Estate)*

Lend Lease Real Estate Investments, Inc.*(Real Estate)*

Leonard Green & Partners, L.P. *(Private Equity)*

Lexington Partners, Inc. *(Private Equity)*

Investment Advisors (Continued)

MacKay-Shields Financial Corporation *(Equity)*

Marathon Asset Management, Limited *(Equity)*

Martin Currie Investment Management, Ltd. *(Equity)*

Mellon Bank, N.A. *(Equity)*

Mid-Atlantic Venture Funds *(Venture Capital)*

Miller Anderson and Sherrerd *(Fixed Income)*

Morgan Grenfell Capital Management *(Fixed Income & GAA)*

Morgan Stanley Asset Management, Inc. *(GAA & Real Estate)*

Muhlenkamp & Company, Inc. *(Developmental)*

Oppenheimer Capital Corp. *(Equity)*

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

Patricof & Company Ventures, Inc. *(Venture Capital)*

Pennsylvania Early Stage Partners, L.P. *(Venture Capital)*

Philadelphia Ventures, Inc. *(Venture Capital)*

Pilgrim Baxter & Associates, Ltd. *(Equity)*

Prudential Realty *(Real Estate)*

Putnam Companies *(Equity)*

Rogge Global Partners *(Fixed Income)*

Roll and Ross Asset Management, L.P. *(Developmental)*

Rowe Price-Fleming International *(Equity)*

RREEF *(Real Estate)*

Schroder Capital Management International, Ltd. *(Equity)*

SCP Private Equity Partners, L.P. *(Private Equity)*

Scudder Kemper Investment, Inc. *(Equity)*

Security Capital Group, Inc. *(Real Estate)*

Seligman Henderson Company *(Equity)*

Spectrum Equity Investors *(Venture Capital)*

SSR Realty Advisors *(Real Estate)*

State Street Bank & Trust Co. *(Security Lending)*

TDH III, L.P. *(Venture Capital)*

Technology Leaders, L.P. *(Venture Capital)*

TPG Partners, L.P. *(Private Equity)*

West Chester Capital Advisors *(Developmental)*

Westbrook Partners, L.L.C. *(Real Estate)*

Willis Stein & Partners *(Private Equity*

WP Management Partners, L.L.C. *(Private Equity)*

Investment Advisors (Continued)

FINANCIAL CONSULTANT

Financial Control Systems, Inc.

CUSTODIAN

State Street Bank & Trust Co.

INVESTMENT EVALUATOR

Evaluation Associates, Inc.

PRIVATE PLACEMENT CONSULTANT

Weymouth & Associates

REAL ESTATE CONSULTANT

Institutional Property Consultants, Inc.

VENTURE CAPITAL CONSULTANT

Sovereign Financial Services, L.L.C.

Est 1919

PSERS

Partners for your Future

Public School Employes' Retirement System

Betty Zipf-Silfies of Allentown, Pennsylvania, attended Harris Teachers College in St. Louis, Missouri and Kutztown University. She has taught Elementary School in the Allentown City School District.

The Amish Market...Water Color

Actuarial Section

Actuary's Certification Letter

BUCK CONSULTANTS
One North Franklin, Suite 3500
Chicago, Illinois 60606

January 24, 1998

Retirement Board
Public School Employes'
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, 1997 for the Public School Employes' Retirement System of Pennsylvania.

The principal results include:

- The employer contribution rate for fiscal year 98/99 which is 6.04%.
- The funded status of the plan determined as of June 30, 1997 based on the accrued liability and the actuarial value of assets as of that date which is 105.0%.
- The determination of the actuarial gain or loss as of June 30, 1997 which is a gain of $2.9 billion.
- Annual disclosure as of June 30, 1997 as required by Statement No. 25 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 9 are unchanged from last year.

Legislative and Administrative Changes

There were no legislative or administrative changes during the year which have a financial impact on the System.

Contribution Rates

The results of the valuation as of June 30, 1997 determine the employer contribution rate for fiscal year 98/99. The total contribution rate payable by the employer is 6.04% of payroll. This includes 5.89% of payroll for pension benefits plus .15% of payroll for the health insurance premium assistance program.

The average contribution rate payable by the members is 5.69%. This rate represents an average of the members who were hired prior to July 22, 1983 contributing 5.25%, and the remaining members who are contributing 6.25%.

Reasons for Change in the Rate

The employer contribution rate decreased from 8.76% for fiscal year 97/98 to 6.04% for fiscal year 98/99. The decrease of 2.72% is due to the following reasons:

• Decrease due to actuarial gain on assets	(2.38)%
• Decrease due to actuarial gains on liabilities	(.34)
• Total	(2.72)%

Summary of Principal Results

Summarized below are the principal financial results for the Public School Employes' Retirement System based upon the actuarial valuation as of June 30, 1997. Comparable results from the June 30, 1996 valuation are also shown. (Dollar amounts in millions.)

Item	June 30, 1997	June 30, 1996
Demographics		
Active Members		
• Number	215,077	213,906
• Average Pay	$ 36,010	$ 35,607
Annuitants		
• Number	124,124	118,726
• Average Benefit Payment	$ 11,658	$ 10,908
Contribution Rates (as a Percentage of Payroll)	(Fiscal Year 98/99)	(Fiscal Year 97/98)
Employer Contribution Rate:		
• Total Pension Contribution Rate	5.89%	8.61%
• Health Insurance Contribution Rate	0.15	0.15
• Total	6.04	8.76
Member Average Contribution Rate	5.69	5.65
Total Rate	11.73%	14.41%
Actuarial Funded Status		
• Accrued Liability	$ 33,209.5	$ 31,629.8
• Actuarial Value of Assets	34,872.6	30,170.9
• Unfunded Accrued Liability	$ (1,663.1)	$ 1,458.9
• Funded Ratio	105.0%	95.4%

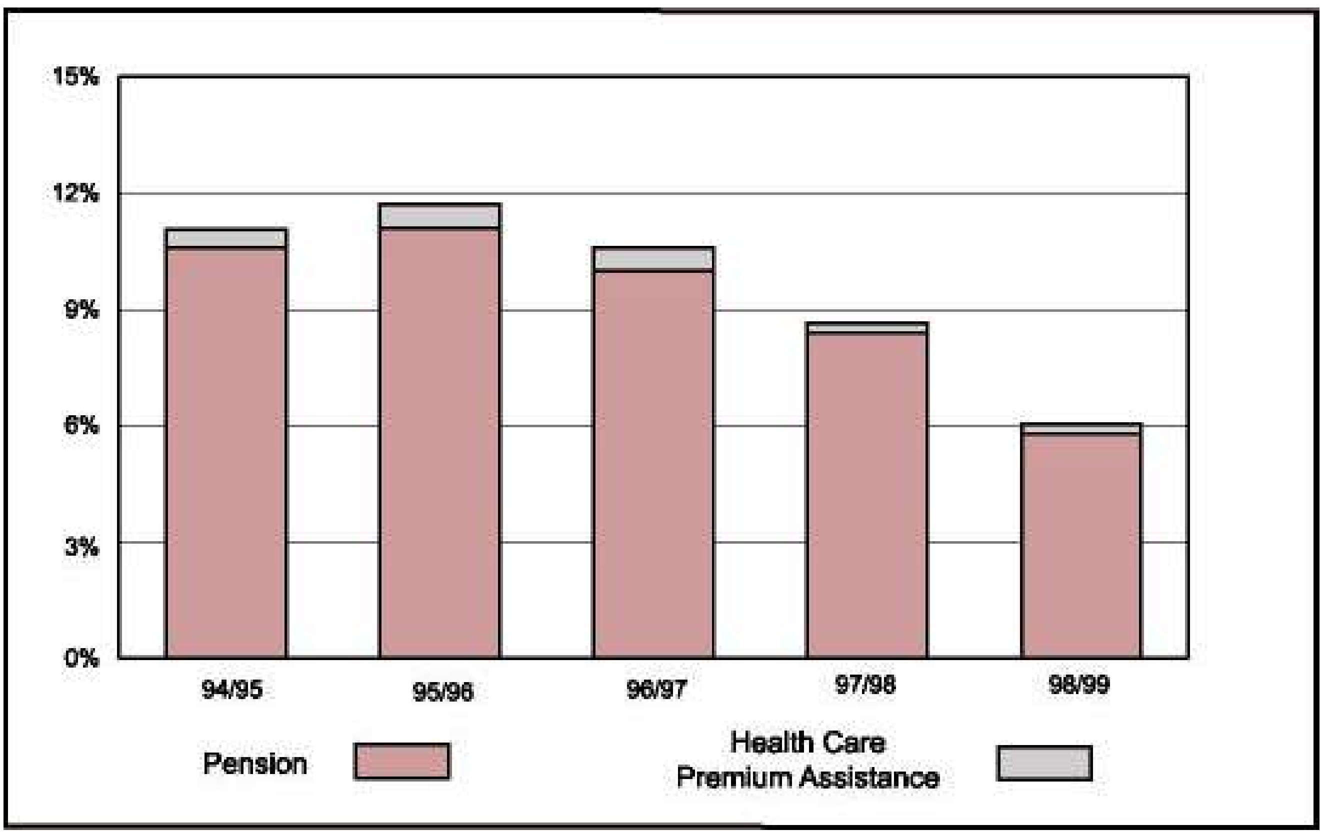
Five-Year History of Principal Financial Results

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

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
98/99	5.69%	6.33%	(.44)%	.15%	6.04%
97/98	5.65	6.44	2.17	.15	8.76
96/97	5.62	6.44	3.56	.60	10.60
95/96	5.59	6.43	4.67	.62	11.72
94/95	5.55	6.43	4.18	.45	11.06

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

Five-Year History of Employer Contribution Rates



Funded Ratio

The financing objective of the System is to:

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

The total contribution rate of 6.04% of payroll payable by employers, when taken together with the contributions payable by the members, is sufficient to achieve the financing objective.

The System's funded status on the funding basis is measured by comparing the actuarial value of assets (based on a 3-year moving average market value) with the accrued liability. The accrued liability is the present value of benefits accumulated to date under the System's funding method and reflects future pay increases for active employees.

On this basis, the System's funded ratio is 105.0% as of June 30, 1997. The funded ratio is based on an actuarial value of assets of $34.9 billion and an accrued liability of $33.2 billion.

Reasons for Change in the Funded Ratio

The funded ratio increased from 95.4% as of June 30, 1996 to 105.0% as of June 30, 1997. The increase is due to asset and experience net gains. Table 5 on Page 93 of the **Actuarial Section** details these gains and losses.

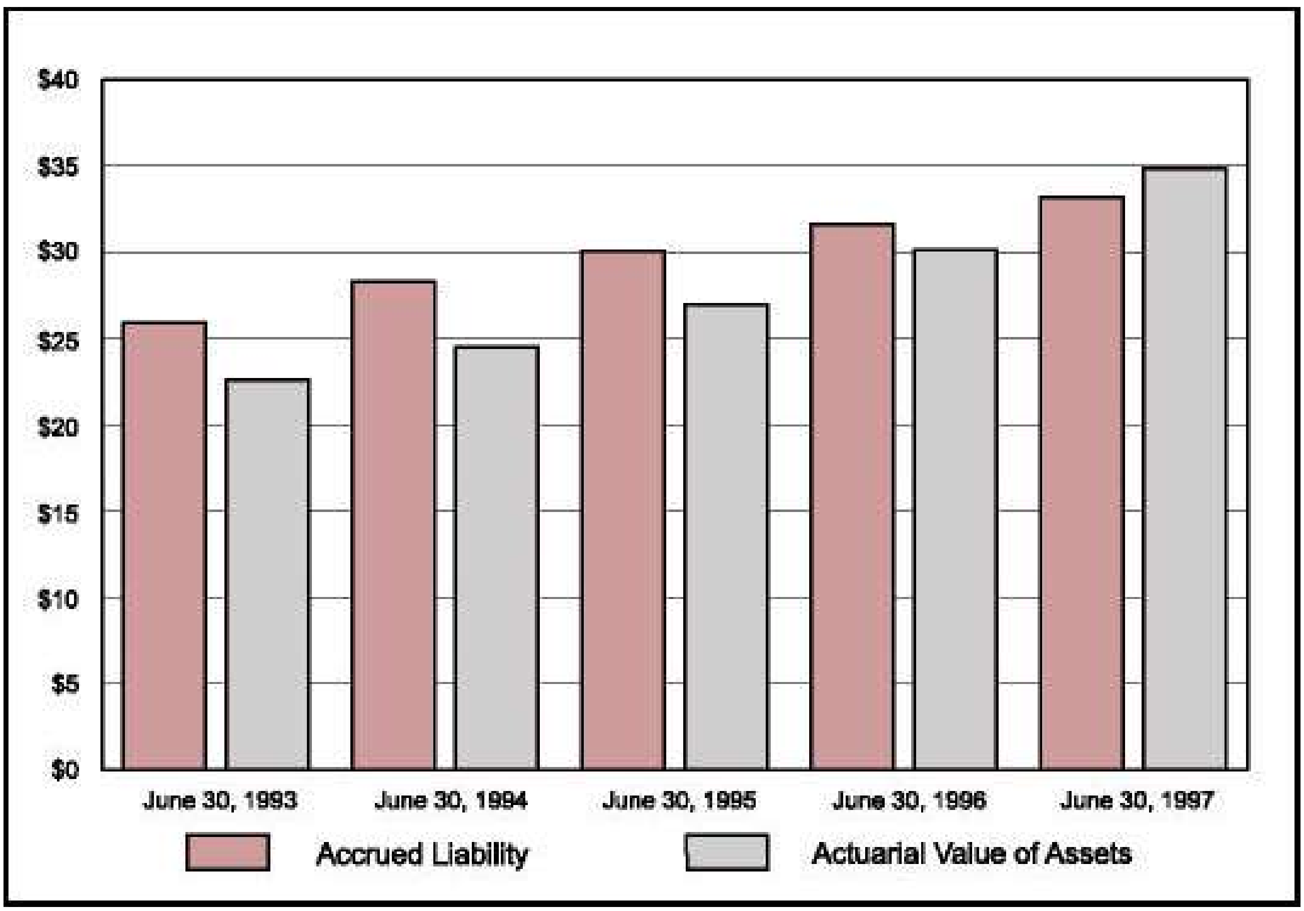
Five-Year History of
Funded Ratio
(Dollar Amounts in Millions)

Valuation as of June 30	Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio
1997	$ 33,209.5	$ 34,872.6	$ (1,663.1)	105.0%
1996	31,629.8	30,170.9	1,458.9	95.4
1995	30,072.7	26,971.2	3,101.5	89.7
1994	28,348.3	24,551.5	3,796.8	86.6
1993	25,947.0	22,643.8	3,303.2	87.3

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

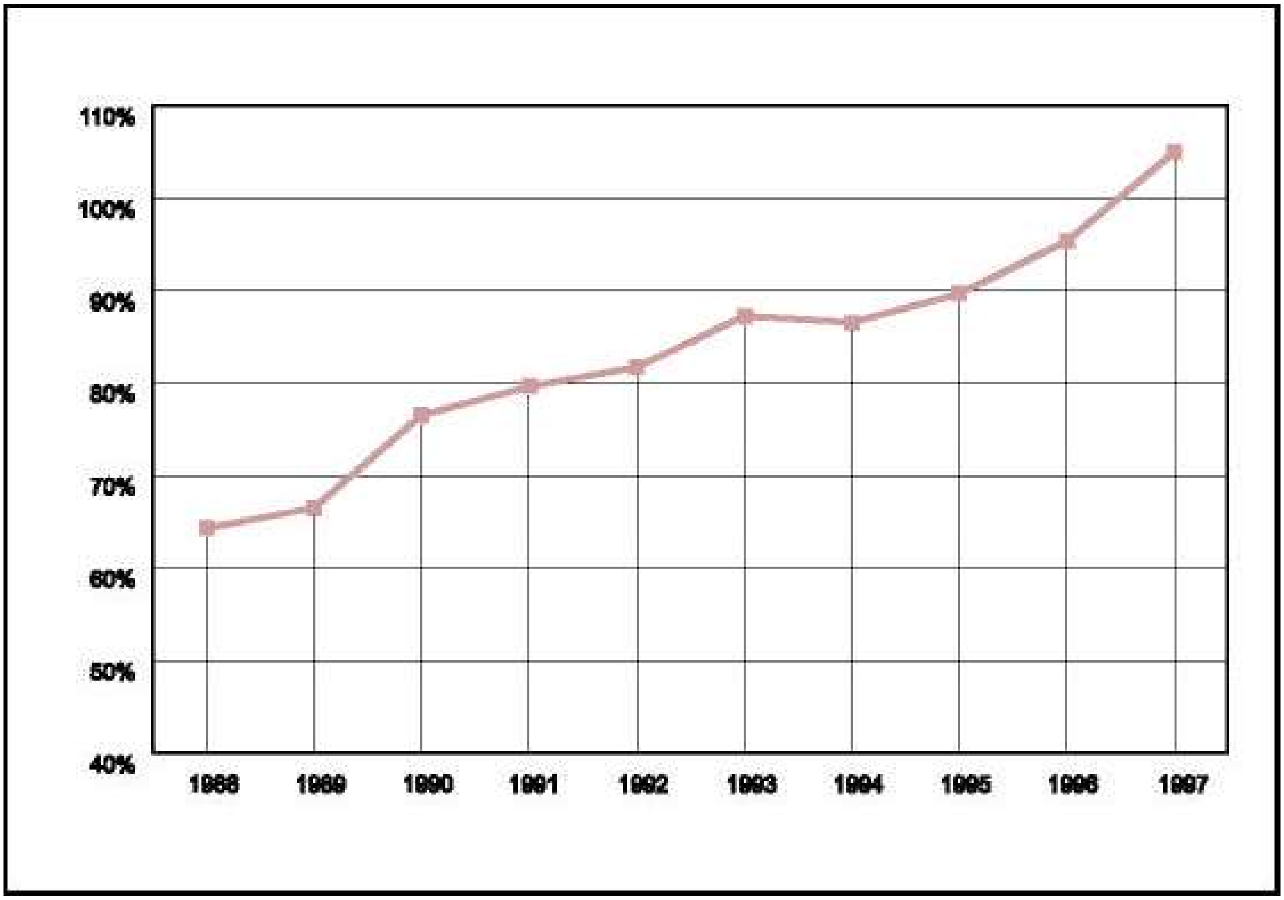
Five-Year History of Accrued Liability and Actuarial Value of Assets

(Dollar Amounts in Billions)



The following chart shows a ten-year history of the funded ratio:

Ten-Year History of Funded Ratio
(1988 - 1997)



GASB No. 25 Disclosure

Statement No. 25 of the Governmental Accounting Standards Board established reporting standards for the annual financial reports of defined benefit pension plans. The System complied with Statement No. 25 beginning with the June 30, 1996 valuation. The statement requires disclosure of the "schedule of funding progress" and the "schedule of employer contributions" in the System's financial statements.

The "schedule of funding progress" shows historical trend information about the System's actuarial value of assets, the actuarial accrued liability and the unfunded actuarial accrued liability. The actuarial funded status is measured by comparing the actuarial value of assets (based on a 3-year moving average market value) with the accrued liability. The accrued liability is the present value of benefits accumulated to date under the System's funding method and reflects future pay increases for active employees. On this basis, the System's funded ratio is 105.0% as of June 30, 1997. The funded ratio is based on an actuarial value of assets of $34.9 billion and an accrued liability of $33.2 billion.

The "schedule of employer contributions" shows historical trend information about the annual required contributions (ARC) of the employer and the percentage of the ARC contributed to the System. The ARC is equal to the normal cost plus amortization of the unfunded actuarial accrued liability. The maximum period of amortizing the unfunded actuarial accrued liability permitted by GASB No. 25 is 40 years. The maximum amortization period decreases to 30 years in 2006. The employer contributions to the System are equal to the normal cost plus 20-year amortization of each change in the unfunded accrued liability. The employer contributions to the System are equal to 100% of the ARC.

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 92/93 through 96/97 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
96/97	18.3%	17.3%
95/96	17.8	12.6
94/95	16.9	10.6
93/94	1.8	8.7
92/93	13.9	10.3

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, 1997
Table 2	—	Determination of Health Care Contribution Rate for Fiscal Year 98/99
Table 3	—	Summary of Market Value of Plan Assets as of June 30, 1997
Table 4	—	Derivation of Actuarial Value of Assets as of June 30, 1997
Table 5	—	Analysis of Change in Unfunded Accrued Liability
Table 6	—	Schedule of Funding Progress — GASB Statement No. 25 Disclosure
Table 7	—	Schedule of Employer Contributions — GASB Statement No. 25 Disclosure
Table 8	—	Present Value of Accumulated Plan Benefits as of June 30, 1997 — FASB Statement No. 35 Disclosure
Table 9	—	Description of Actuarial Assumptions and Methods
Table 10	—	Summary of Benefit and Contribution Provisions
Table 11	—	Summary of Membership Data as of June 30, 1997
Table 12	—	Solvency Test
Exhibit I	—	Active Membership Data as of June 30, 1997 - Number and Average Annual Salary
Exhibit II	—	Annuitant and Beneficiary Membership Data as of June 30, 1997 - 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,

J.W. Thompson

John W. Thompson
Consulting Actuary

Kim M Nicholl

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

TABLE 1

SUMMARY OF RESULTS OF ACTUARIAL VALUATION AS OF JUNE 30, 1997

(Dollar Amounts in Thousands)

Item	Amount
Member Data	
1. Number of Members	
a) Active Members	215,077
b) Inactive Members and Vestees	40,027
c) Annuitants and Survivor Annuitants	124,124
d) Total	379,229
2. Annualized Salaries	$ 7,745,001
3. Annual Annuities	$ 1,447,037
Valuation Results	
4. Accrued Liability	
a) Active Members	$ 20,772,210
b) Inactive Members and Vestees	358,301
c) Annuitants and Survivor Annuitants	11,988,180
d) Health Care Premium Assistance Payments	90,802
e) Total	$ 33,209,493
5. Actuarial Value of Assets	$ 34,872,643
6. Unfunded Accrued Liability (4) - (5)	$ (1,663,150)
7. Total Normal Cost Rate	12.02%
8. Member Contribution Rate	5.69%
9. Employer Normal Cost Rate	6.33%
Employer Annual Funding Requirement for Fiscal 98/99	
10. Employer Contribution Rate	
a) Normal	6.33%
b) Unfunded Accrued Liability	(0.44%)
c) Total Pension Rate	5.89%
d) Health Insurance (premium assistance)	0.15%
e) Total	6.04%

TABLE 2

DETERMINATION OF HEALTH INSURANCE PREMIUM ASSISTANCE CONTRIBUTION RATE FOR FISCAL YEAR 98/99

(Dollar Amounts in Thousands)

Item	Amount
1. Estimated Number of Eligible Annuitants in Fiscal 1999/2000	78,500
2. Estimated Number of Eligible Annuitants Who Elect Coverage	47,100
3. Annual Health Insurance Premium Assistance Payments During Fiscal 1999/2000 (2) * $55 * 12	$ 31,086
4. Annual Expenses During Fiscal 1999/2000	622
5. Total Estimated Health Insurance Premium Assistance Account Disbursements during Fiscal 1999/2000	$ 31,708
6. Estimated Reserve in Health Insurance Account (premium) assistance)	$ 18,570
7. Estimated Shortfall in Health Insurance Account (premium assistance) (5 - 6)	$ 13,138
8. Required Health Insurance Premium Assistance Contribution Rate	
(a) Estimated 1998/1999 Payroll	$ 8,683,222
(b) Required Health Insurance Premium Assistance Contribution Rate (7) / (8a)	0.15%

TABLE 3

SUMMARY OF MARKET VALUE OF PLAN ASSETS
AS OF JUNE 30, 1997
(Dollar Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 1996	$ 33,729,681
2. Contributions During Fiscal 96/97	1,310,175
3. Disbursements During Fiscal 96/97	1,776,487
4. Investment Return During Fiscal 96/97	
a) Gross Investment Return	$ 6,146,930
b) Expenses	23,969
c) Net Investment Return (a) - (b)	$ 6,122,961
5. Market Value of Assets as of June 30, 1997 (1) + (2) - (3) + (4)	$ 39,386,330
6. Rate of Return	18.28%
Asset Allocation by Account	
1. Members' Savings Account	$ 5,755,010
2. Annuity Reserve Account	12,332,479
3. State Accumulation Account	21,208,039
4. Health Care Account (premium assistance)	90,802
5. Total	$ 39,386,330

TABLE 4

DERIVATION OF ACTUARIAL VALUE OF ASSETS AS OF JUNE 30, 1997

(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 1997 — $ 39,386,330

2. Determination of Deferred Gain (Loss)

Year	Gain (Loss)	% Deferred	Deferred Amount
96/97	$ 4,862,236	66-2/3%	$ 3,241,491
95/96	3,816,590	33-1/3%	1,272,196
94/95	3,043,208	- 0 -	0
Total	$ 11,722,034		$ 4,513,687

3. Actuarial Value of Assets (1) - (2) — $ 34,872,643

4. Rate of Return — 17.26%

TABLE 5

ANALYSIS OF CHANGE IN UNFUNDED ACCRUED LIABILITY AS OF JUNE 30, 1997

(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 1996	$ 1,458,937
2. Interest Charge at 8.50% to June 30, 1997	$ 124,009
3. Contributions Toward Unfunded Accrued Liability	$ 295,226
4. Expected Unfunded Accrued Liability at June 30, 1997 (1) + (2) - (3)	$ 1,287,720
5. Actual Unfunded Accrued Liability at June 30, 1997	(1,663,149)
6. Increase (Decrease) from Expected (5) - (4)	$ (2,950,869)
7. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Gain from Investment Return on Actuarial Value of Assets	$ (2,623,363)
(ii) Gain from Salary Increases Less than Expected	(306,435)
(iii) Gain from Retirement and Other Separation Experience	(58,667)
(iv) Loss from Annuitants' Mortality Experience	37,596
Total	$ (2,950,869)

TABLE 6

SCHEDULE OF FUNDING PROGRESS
GASB STATEMENT NO. 25 DISCLOSURE
(Dollar Amounts in Thousands)

Valuation as of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as a Percentage of Covered Payroll
1997	$ 34,872,643	$ 33,209,493	$ 1,663,150	105.0%	$ 7,745,001	(21.5%)
1996	30,170,885	31,629,822	(1,458,937)	95.4%	7,616,585	19.2%
1995	26,971,214	30,072,732	(3,101,518)	89.7%	7,378,342	42.0%
1994	24,551,515	28,348,273	(3,796,758)	86.6%	6,885,337	55.1%
1993	22,643,776	25,946,963	(3,303,187)	87.3%	6,348,565	52.0%
1992	20,068,250	24,569,674	(4,501,424)	81.7%	6,098,222	73.8%

TABLE 7

SCHEDULE OF EMPLOYER CONTRIBUTIONS
GASB STATEMENT NO. 25 DISCLOSURE

(Dollar Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
1997	$ 796,205	100%
1996	860,898	100%
1995	791,802	100%
1994	909,292	100%
1993	931,829	100%
1992	929,324	100%

The information presented above was determined as part of the actuarial valuation as of two years prior to the dates indicated (i.e. the contribution determined by the valuation completed as of June 30, 1995 was contributed in the fiscal year ending June 30, 1997).
Additional information as of the latest actuarial valuation follows:

Valuation Date:	06/30/1997
Actuarial Cost Method:	Entry Age
Amortization Method:	Level percent closed
Remaining Amortization Period:	13 to 20 years
Asset Valuation Method:	3-year smoothed market

Actuarial Assumptions:

- Investment Rate of Return *	8.50%
- Projected Salaried Increases *	6.75%

* Includes Inflation at:	4.00%

TABLE 8

PRESENT VALUE OF ACCUMULATED PLAN BENEFITS AS OF JUNE 30, 1997

FASB STATEMENT NO. 35 DISCLOSURE

(Dollar Amounts in Thousands)

Item	Amount
1. Present Value of Accumulated Vested Benefits	
a) Annuitants and Beneficiaries	$ 11,988,180
b) Health Care Payments (premium assistance)	90,802
c) Inactive Members and Vestees	358,301
d) Active Members	10,773,754
e) Total Vested	$ 23,211,037
2. Present Value of Accumulated Nonvested Benefits	$ 1,370,499
3. Total Present Value of Accumulated Benefits	$ 24,581,536

TABLE 9

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).

Separation From Service: Illustrative rates of assumed separation from service are as follows (adopted in 1995):

Age	Annual Rate of: Withdrawal	Death	Disability	Vesting & Early Retirement: Less than 25 years of service	Vesting & Early Retirement: 25 or more years of service	Superannuation Retirement
			Males			
25	10.01%	.06%	.02%	1.37%		
30	7.02	.06	.02	1.37		
35	5.88	.06	.03	1.32		
40	5.24	.08	.08	.99	.13%	
45	4.85	.12	.15	.90	.15	
50	4.58	.18	.32	1.17	.36	22.00%
55	4.42	.29	.49	2.30	4.09	20.90
60	4.37	.55	1.01	3.26	5.94	18.15
65		1.06				44.00
69		1.70				16.50
			Females			
25	9.96%	.02%	.03%	6.48%		
30	9.02	.02	.06	3.96		
35	7.92	.04	.10	1.89		
40	6.62	.05	.10	1.26	1.32%	
45	5.70	.08	.13	1.35	1.32	
50	5.14	.12	.29	1.85	1.03	22.00%
55	4.80	.18	.45	3.00	6.92	19.80
60	4.74	.27	.79	5.15	13.20	19.80
65		.56				36.30
69		1.04				27.50

Death After Retirement: The 1995 George B. Buck Mortality Tables rated forward one year (adopted in 1995) 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.)

Description of Actuarial Assumptions and Methods (Continued)

Salary Increase: Effective average of 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, 1995). Representative values are as follows:

Age	Annual Rate of Salary Increase
20	10.00%
30	8.50
40	7.75
50	6.00
55	5.75
60	5.75
65	5.75
70	5.75

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 Premium Assistance 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, 1996 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 10

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 3 years of service. Benefit of a joint coverage member is reduced by 40% of primary insurance amount (subject to certain limitations) after age at which Social Security benefits become payable.

Early Retirement Annuity

Eligibility	Age 55 with 25 years of service.
Amount	Accrued benefit as of date of retirement, reduced 1/4% for each month by which commencement of payments precedes Superannuation Age. Benefit of a joint coverage member is reduced after age at which Social Security benefits become payable. 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	Retired members who: (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. (d) have out-of-pocket health insurance premium expense from the PSERS Health Options Program or a school district group health insurance plan.
Amount	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 out-of-pocket premium expense for basic health insurance coverage from the PSERS Health Options Program or an approved school district group health insurance plan. All administrative expenses necessary to operate the health insurance premium assistance program are to be funded by the Health Insurance Account. The Health Insurance Account is credited with contributions of the Commonwealth and the employers.

CONTRIBUTIONS

By Members	Members who were hired prior to July 22, 1983 contribute at a rate of 5 1/4% of compensation, while members who were hired on or after July 22, 1983 contribute at a rate of 6 1/4% of compensation. Reduction for a joint coverage member of 40% of Social Security tax, exclusive of disability and medical coverage portion.
By Commonwealth and School Districts	Balance of required contribution determined as normal contribution, accrued liability contribution, supplemental annuity contribution, experience adjustment factor and premium assistance contribution, is funded by the Commonwealth and the School Districts.

TABLE 11

SUMMARY OF MEMBERSHIP DATA
AS OF JUNE 30, 1997
(Dollar Amounts in Thousands)

ACTIVE MEMBERS *

Item	Male	Female	Total
Number of Members	66,110	148,967	215,077
Annual Salaries **	$ 2,810,480	$ 4,934,521	$ 7,745,001
Average Age	45.5	44.7	44.9
Average Service	15.4	11.8	12.9

* Excludes 40,028 inactive members and vestees.
** Salaries of $7,436,696 were reported for the fiscal year ended June 30, 1997

ANNUITANTS AND BENEFICIARIES

Item	Number	Annual Annuities	Average Annuities
Retired Annuitants	113,094	$ 1,367,068	$ 12,088
Survivors	5,987	33,672	5,624
Disabled Annuitants	5,043	46,297	9,180
Total	124,124	$ 1,447,037	$ 11,658

TABLE 12

SOLVENCY TEST
(Dollar Amounts in Thousands)

Valuation as of June 30	Aggregate Accrued Liability for (1) Active Member Contributions	(2) Retirees And Beneficiaries	(3) Active Member Employer Financed	Valuation Assets	(1) Portion of Accrued Liability Covered By Valuation Assets	(2)	(3)
1997	$ 5,755,010	$ 12,078,982	$ 15,375,501	$ 34,872,643	100%	100%	100%
1996	5,498,624	10,599,998	15,531,200	30,170,885	100%	100%	91%
1995	5,089,724	9,931,378	15,051,630	26,971,214	100%	100%	79%
1994	4,589,189	9,562,383	14,196,701	24,551,515	100%	100%	73%
1993	4,290,330	8,409,769	13,246,864	22,643,776	100%	100%	75%
1992	4,120,704	6,798,729	13,602,241	20,068,289	100%	100%	67%

EXHIBIT I

ACTIVE MEMBERSHIP DATA AS OF JUNE 30, 1997
NUMBER AND AVERAGE ANNUAL SALARY

AGE	SERVICE 0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	TOTAL
UNDER 25	3,973	36								4,009
	$ 21,281	$ 23,837								$ 21,304
25 - 29	12,929	2,892	57							15,878
	$ 27,482	$ 33,689	$ 25,701							$ 28,606
30 - 34	7,533	6,442	2,225	85						16,285
	$ 22,985	$ 35,986	$ 38,152	$ 28,724						$ 30,195
35 - 39	9,165	5,278	5,070	2,384	128					22,025
	$ 17,755	$ 31,759	$ 40,957	$ 41,426	$ 29,402					$ 29,082
40 - 44	10,816	7,099	4,750	7,694	5,627	95				36,081
	$ 18,126	$ 28,890	$ 38,786	$ 47,610	$ 50,458	$ 30,506				$ 34,326
45 - 49	7,736	7,291	5,723	4,987	13,604	10,070	70			49,481
	$ 19,274	$ 28,851	$ 36,405	$ 45,064	$ 54,092	$ 56,147	$ 33,916			$ 42,363
50 - 54	4,283	4,445	4,439	4,138	4,390	10,939	4,624	22		37,280
	$ 18,176	$ 26,327	$ 32,992	$ 38,022	$ 48,000	$ 57,660	$ 58,834	$ 31,431		$ 43,263
55 - 59	2,363	2,372	2,666	3,023	3,115	2,627	3,066	1,036	10	20,278
	$ 15,744	$ 22,819	$ 26,959	$ 30,482	$ 38,761	$ 49,456	$ 58,898	$ 59,655	$ 35,461	$ 36,924
60 - 64	1,294	1,336	1,417	1,416	1,692	1,176	533	603	150	9,617
	$ 13,555	$ 19,384	$ 23,502	$ 26,876	$ 32,897	$ 40,864	$ 49,898	$ 60,262	$ 58,417	$ 30,177
OVER 65	891	851	704	513	485	367	166	67	99	4,143
	$ 11,165	$ 14,963	$ 18,437	$ 20,539	$ 26,696	$ 32,188	$ 37,555	$ 54,368	$ 58,533	$ 20,910
TOTAL	60,983	38,042	27,051	24,240	29,041	25,274	8,459	1,728	259	215,077
	$ 20,718	$ 29,503	$ 35,163	$ 40,855	$ 49,021	$ 54,951	$ 57,671	$ 59,302	$ 57,575	$ 36,010

EXHIBIT II

ANNUITANT AND BENEFICIARY MEMBERSHIP DATA
AS OF JUNE 30, 1997

NUMBER AND AVERAGE ANNUAL BENEFIT
EXCLUDES OPTION 4 WITHDRAWALS

Age Last Birthday	Number	Annual Benefit (Thousands)	Average Annual Benefit
Retired Annuitants			
Under 60	19,201	$ 284,656	$ 14,825
60 - 64	15,181	275,639	18,157
65 - 69	21,601	293,197	13,573
70 - 74	19,497	198,414	10,177
75 - 79	15,459	123,704	8,002
Over 79	22,155	191,458	8,642
Total	113,094	$ 1,367,068	$ 12,088
Survivors			
Under 60	518	$ 3,291	$ 6,353
60 - 64	350	2,730	7,800
65 - 69	617	4,412	7,151
70 - 74	957	5,637	5,890
75 - 79	1,250	6,628	5,302
Over 79	2,295	10,974	4,782
Total	5,987	$ 33,672	$ 5,624
Disabled Annuitants			
Under 60	2,181	$ 25,836	$ 11,846
60 - 64	889	7,555	8,498
65 - 69	730	5,184	7,101
70 - 74	527	3,404	6,459
75 - 79	403	2,448	6,074
Over 79	313	1,870	5,974
Total	5,043	$ 46,297	$ 9,180
Grand Total	124,124	$ 1,447,037	$ 11,658

EXHIBIT III

10 YEAR HISTORY OF MEMBERSHIP DATA

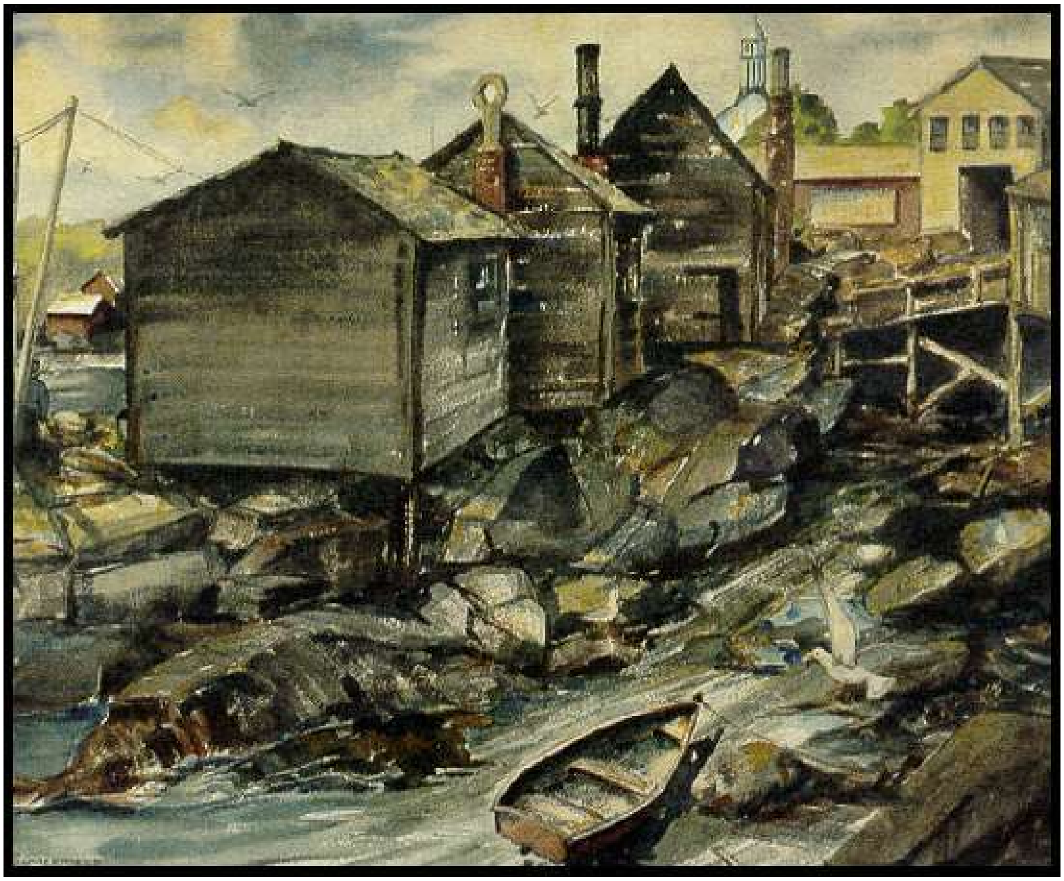
ACTIVE MEMBERS

Valuation as of June 30	Number of Active Members	Percentage Change in Membership	Total Annual Payroll (Thousands)	Percentage Change in Payroll
1997	215,077	0.55%	$ 7,745,001	1.69%
1996	213,906	1.48%	7,616,585	3.23%
1995	210,783	2.05%	7,378,342	7.16%
1994	206,540	4.31%	6,885,337	8.46%
1993	197,997	(2.46%)	6,348,565	4.11%
1992	202,991	0.18%	6,098,222	6.15%
1991	202,631	0.98%	5,744,798	7.11%
1990	200,660	0.11%	5,363,535	6.09%
1989	200,430	2.34%	5,055,793	10.24%
1988	195,842	(2.77%)	4,586,367	3.88%

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
1997	124,124	9,787	4,389	4.55%	$ 1,447.0	11.74%
1996	118,726	7,047	4,281	2.33%	1,295.0	6.05%
1995	115,960	4,923	3,994	0.81%	1,221.1	2.99%
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	4,852	2,315	2.73%	710.2	11.77%
1988	92,924	5,818	3,271	2.82%	635.4	4.44%

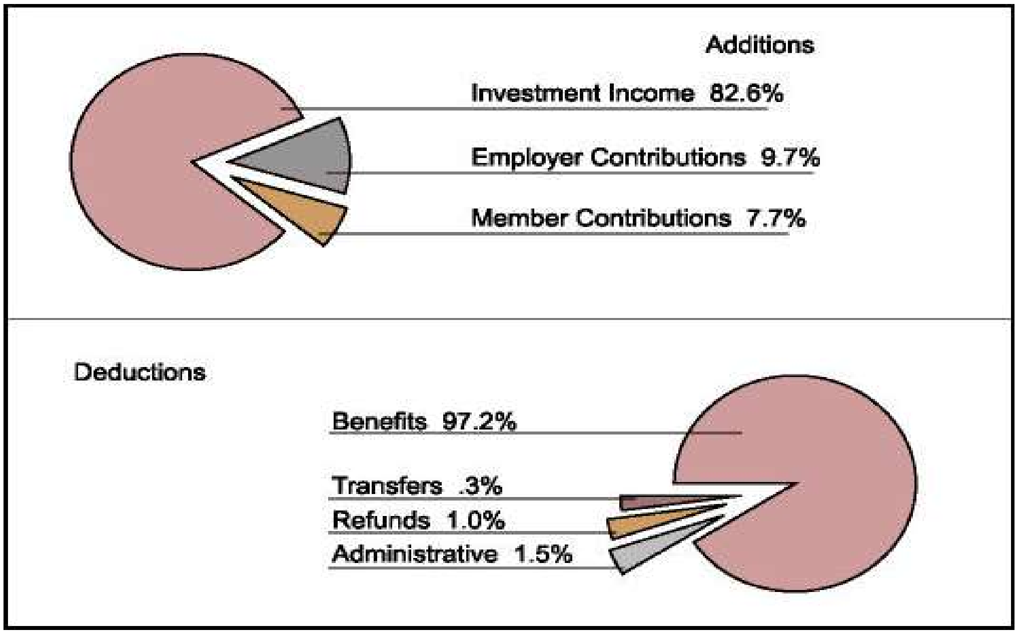
Public School Employes' Retirement System



Mary E. Sumerfield of Philadelphia, Pennsylvania, attended Moore College of Art and Temple University. She had a 35 year career as an Art teacher and administrator with various Philadelphia city schools.

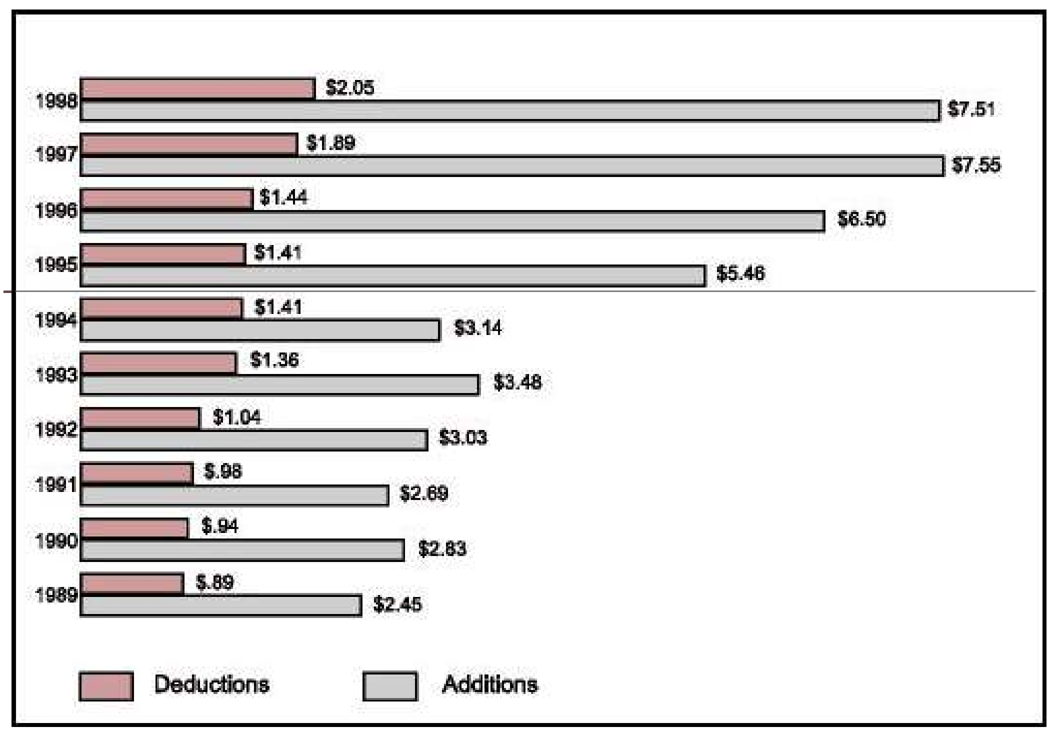
Low Tide - Rockport..Water Color

Statistical Section



Changes in Plan Net Assets* 1998

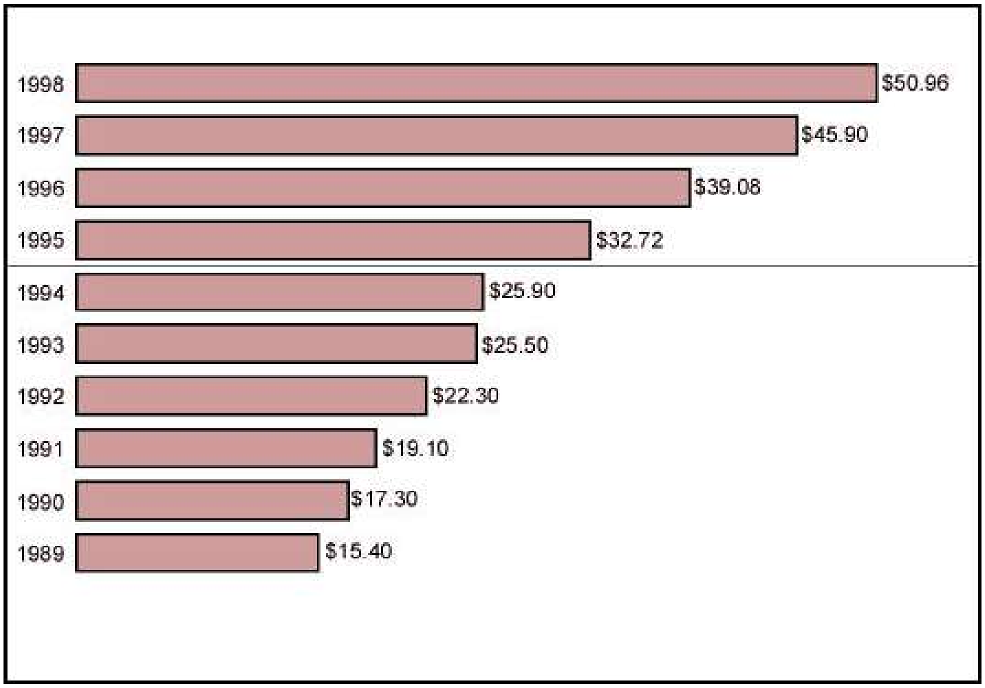
Changes in Plan Net Assets* - 1998
Additions vs. Deductions - 10 Year Trend
(Amounts in Billions)



* Includes Postemployment Healthcare.
Data for years after 1994 includes effects of GASB Statement No. 25.

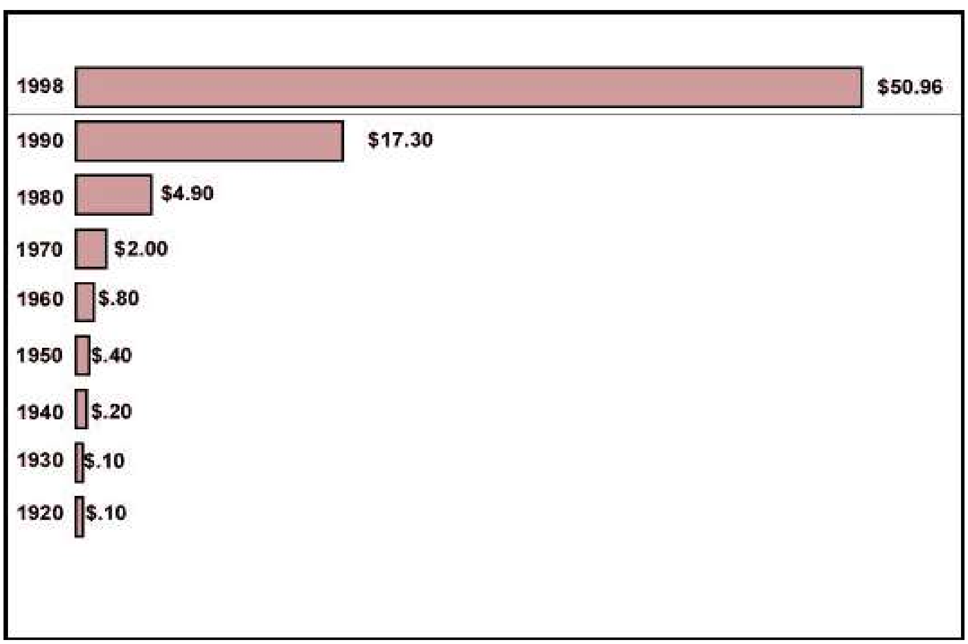
Total Assets* - 10 Year Trend

(Fair Value - Amounts in Billions)



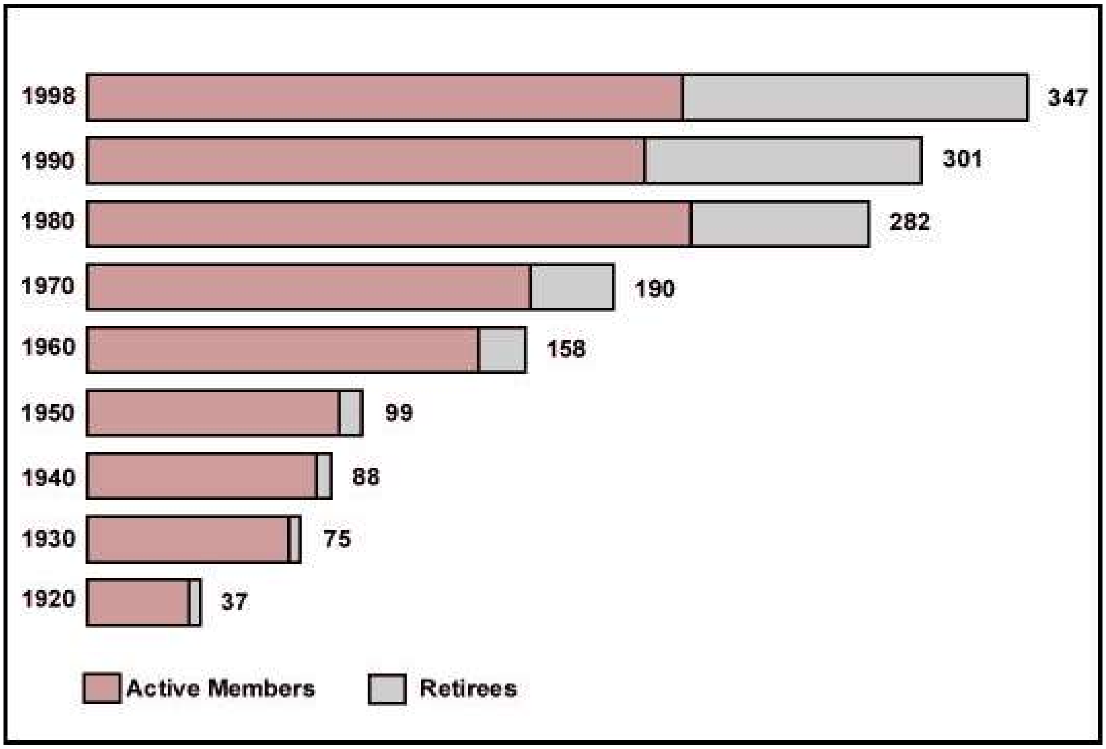
Asset Growth*

(Fair Value - Amounts in Billions)

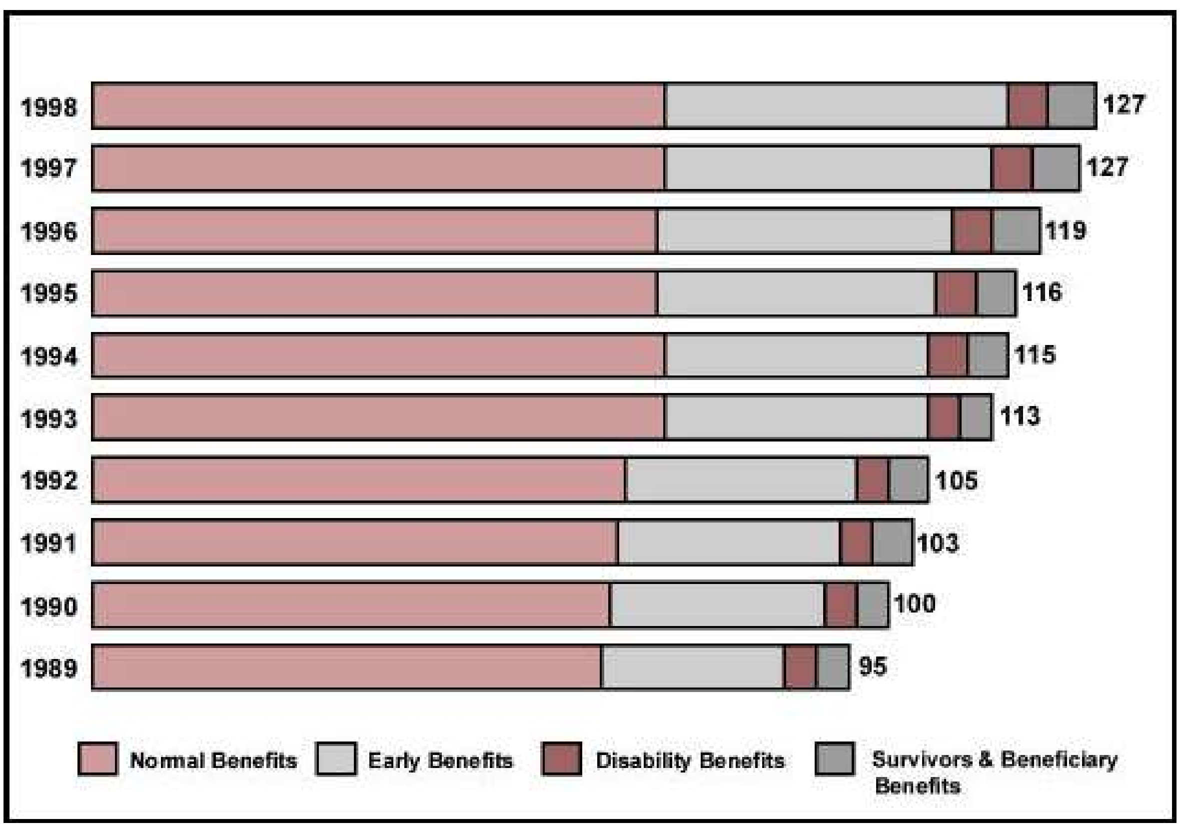


* Includes Postemployment Healthcare.

Total Membership - Active & Retired
(In Thousands)



Retired Members - 10 Year Trend
(In Thousands)



Components of Total Contribution Rate
(In Percentages)

	Employer Contribution					
Fiscal Year	Normal Requirement (A)	Accrued Liability (B)	Health Insurance Premium Assistance Contribution (C)	Total Employer	Member Contribution (Average)	Total Contribution Rate
98-99	6.33	(0.44)	.15	6.04	5.69	11.73
97-98	6.44	2.17	.15	8.76	5.65	14.41
96-97	6.44	3.56	.60	10.60	5.62	16.22
95-96	6.43	4.67	.62	11.72	5.59	17.31
94-95	6.43	4.18	.45	11.06	5.55	16.61
93-94	7.34	5.58	.25	13.17	5.51	18.68
92-93	7.90	5.84	.50	14.24	5.48	19.72
91-92	8.00	6.40	.50	14.90	5.46	20.36
90-91	8.28	10.90		19.18	5.69	24.87
89-90	8.44	11.24		19.68	5.53	25.21
88-89	8.63	10.64		19.27	5.37	24.64
87-88	8.72	10.82		19.54	5.34	24.88
86-87	9.13	10.77		19.90	5.29	25.19
85-86	9.16	10.88		20.04	5.27	25.31
84-85	8.35	10.96		19.31	5.25	24.56
83-84	8.75	8.31		17.06	5.25	22.31
82-83	7.93	8.07		16.00	5.25	21.25
81-82	6.93	8.07		15.00	5.25	20.25

The total contribution rate is the total of the employer and member 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.

(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.

Schedule of Retired Members by Type of Benefit

Year	Retirement Type**	Option M* Number of Retirees	Option M* Average Mo. Benefit	Option 1* Number of Retirees	Option 1* Average Mo. Benefit	Option 2, 3* Number of Retirees	Option 2, 3* Average Mo. Benefit
1998	S	49,081	$1,151	8,134	$ 858	14,558	$1,293
	W	31,568	1,131	5,253	636	6,300	1,209
	D	4,439	828	15	541	724	1,074
	R	1	4	0	0	0	0
	B	84	792	1	1,160	5,421	493
		85,173		**13,403**		**27,003**	
1997	S	48,869	$1,011	8,185	$ 773	14,406	$1,162
	W	29,931	1,025	5,115	585	6,050	1,106
	D	4,334	733	16	439	694	974
	R	1	4	0	0	0	0
	B	54	766	1	1,160	5,275	475
		83,189		**13,317**		**26,425**	
1996	S	48,592	$977	8,210	$769	14,198	$1,135
	W	26,443	871	4,880	552	5,386	1,001
	D	4,198	702	18	465	628	907
	R	1	4	0	0	0	0
	B	34	812	0	0	5,040	455
		79,268		**13,108**		**25,252**	
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**	

*** 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* Number of Retirees	Option SO* Average Mo. Benefit	Option BO* Number of Retirees	Option BO* Average Mo. Benefit	Total Retirees	% Increase of Retirees
1998	S	433	$2,365	0	$ 0	72,206	0.5%
	W	163	2,063	0	0	43,284	4.9%
	D	0	0	0	0	5,178	2.7%
	R	0	0	0	0	1	0.0%
	B	146	392	487	426	6,139	2.7%
		742		**487**		**126,808**	**2.2%**
1997	S	392	$2,125	0	$ 0	71,852	0.7%
	W	149	1,979	0	0	41,245	12.1%
	D	0	0	0	0	5,044	4.1%
	R	0	0	0	0	1	0.0%
	B	153	329	495	419	5,978	4.7%
		694		**495**		**124,120**	**4.6%**
1996	S	356	$2,046	0	$ 0	71,356	0.2%
	W	102	1,851	0	0	36,811	6.2%
	D	0	0	0	0	4,844	3.7%
	R	0	0	0	0	1	-50.0%
	B	149	302	485	400	5,708	4.9%
		607		**485**		**118,720**	**2.4%**
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%
	B	146	250	464	375	5,444	4.7%
		577		**464**		**115,997**	**0.8%**
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%
		578		**452**		**115,061**	**1.4%**
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%
		569		**445**		**113,469**	**8.1%**
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%
		483		**445**		**105,004**	**2.0%**
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%
		460		**449**		**102,906**	**2.8%**
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%
		496		**439**		**100,071**	**4.9%**
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%
		457		**442**		**95,429**	**2.7%**

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

SCHEDULE OF EMPLOYERS
School Districts

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

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

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

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

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

F
Fairfield Area
Fairview

Schedule of Employers (Continued)

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

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
Lehighton 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

Schedule of Employers (Continued)

Norristown Area
North Allegheny
North Clarion County
North East
North Hills
North Penn
North Pocono
North Schuylkill
North Star
Northampton Area
Northeast Bradford
Northeastern York County
Northern Bedford County
Northern Cambria
Northern Lebanon
Northern Lehigh
Northern Potter
Northern Tioga
Northern York County
Northgate
Northwest Area
Northwestern
Northwestern Lehigh
Norwin

O

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

P

Palisades
Palmerton Area
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 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
Southmoreland
Spring Cove
Spring-Ford Area
Spring Grove Area
Springfield
Springfield Township
State College Area
Steel Valley
Steelton-Highspire
Sto-Rox
Stroudsburg Area
Sullivan County
Susquehanna Community
Susquehanna Township
Susquenita

T

Tamaqua Area
Titusville Area

Schedule of Employers (Continued)

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

U

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

V

Valley Grove
Valley View

W

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

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
Wyomissing Area

Y

York
York Suburban
Yough

Area Vocational Technical Schools

Admiral Peary
Altoona
Armstrong
Beaver County
Bedford-Everett
Berks Career & Technical Center
Bethlehem
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
Huntingdon County
Indiana County
Jefferson County-DuBois
Juniata-Mifflin
Lackawanna County
Lancaster County
Lawrence County
Lebanon County
Lehigh County
Mercer County
Middle Bucks Institute of Technology
Mon Valley
Monroe County
Northern Tier Career Consortium
North Fayette County
North Montco
North Westmoreland County
Northumberland County
Parkway West
Reading-Muhlenberg
Schuylkill County
Somerset County
SUN
Susquehanna County
Upper Bucks County
Venango County
West Side
Western
Western Montgomery County
Wilkes-Barre
York County

Intermediate Units

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

Schedule of Employers (Continued)

Colleges/Universities

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

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

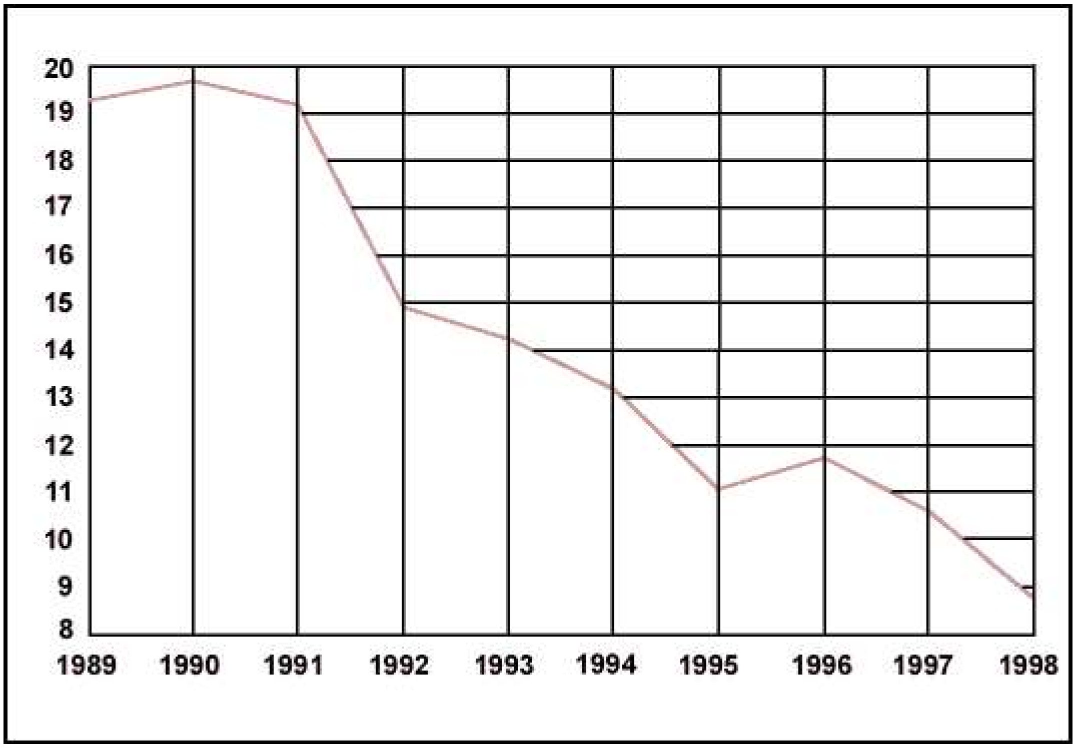
Other

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

Charter Schools

Chester County Family Academy of PA
Keystone Education Center
Philadelphia Community Academy of PA
Philadelphia Harambee Institute of Science & Technology
World Communications

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



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

Est. 1919

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Partners for your Future