Comprehensive Annual
Financial Report

Fiscal Year Ended June 30, 1999

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

A Component Unit of the Commonwealth of Pennsylvania

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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, 1998

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

President

Executive Director

Public School Employees' Retirement System of Pennsylvania

(A Component Unit of the Commonwealth of Pennsylvania)
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Comprehensive Annual Financial Report

for the
Fiscal Year Ended June 30, 1999

Report prepared by the Public School Employees' Retirement System staff

This Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1999, and the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1998 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").

Public School Employees' Retirement System

Introductory Section

Chairman's Report

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
Telephone (717) 720-4749
Kenton W. Keiser, Chairman of the Board

December 1, 1999

The Honorable Thomas J. Ridge
Governor of Pennsylvania

Members of the Legislature
Members of the Retirement System

Dear Governor Ridge, Legislators and Members:

On behalf of the Board of Trustees of the Pennsylvania Public School Employees' Retirement System (PSERS), I am pleased to present this eightieth *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 1999. 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, 1999:

1. The net assets held in trust for pension benefits were $48.9 billion at fair value.
2. Net assets held in trust for postemployment healthcare benefits were $63.9 million at fair value.
3. The active contributing membership of the System numbered approximately 226,500.
4. Annuitants totaled over 132,000 and received in excess of $2.2 billion in pension benefits during the year.
5. The funded status of the pension plan as reported in the System's June 30, 1998 Actuarial Valuation was 110.6%.

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.

In August 1997, the Board of Trustees established Year 2000 (Y2K) compliance as a top priority. In keeping with Commonwealth directives on this issue, mission critical systems had been renovated, tested and implemented by July 1, 1998. By September 1, 1999, all remaining PSERS systems affected by Y2K were changed, tested, and in place for the Year 2000. PSERS has taken all reasonable steps to ensure that membership records, contributions, benefits, and investments are secure. The Board of Trustees and staff at PSERS will continue to exercise diligence and care in protecting our members' retirement investment.

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 Employees' Retirement System in the most competent and efficient manner possible.

Kenton W. Keiser
Chair
Board of Trustees

Mission Statement

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

1. *effectively collect contributions to the Fund,*

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

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

Adopted
4/26/85

Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' 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, 1999

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

We are pleased to present the eightieth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 1999. The management of the System is solely responsible for the accuracy and completion of this report, pursuant to section 24 Pa.C.S. §8502(n) of the Public School Employees' Retirement Code (Retirement Code).

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania. The System has experienced various benefit modifications 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 employees and part-time public school employees who render at least 80 days or 500 hours of service yearly in any of 660 reporting entities in Pennsylvania. As of June 30, 1999, the System had nearly 224,000 active members with an annual active payroll of $8.5 billion.

The annuitant membership was comprised of over 132,800 retirees and beneficiaries who receive a total of $153 million each month. The average yearly benefit paid to annuitants is $13,777. 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 660 reporting units contribute. The System is administered by a staff of 283. 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.

This 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 Chairman's Report, the Transmittal Letter, 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 its latest actuarial valuation; and the **Statistical Section** containing significant data pertaining to the System.

PSERS was established by law as an independent administrative board, directed by a governing board of trustees (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 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, 1999. The total net assets of the System at fair value increased from $44.9 billion to $49.0 billion from July 1, 1998 to June 30, 1999. For the year ended June 30, 1999, PSERS' investment portfolio earned a rate of return of 12.4 percent. PSERS maintains its position as one of the twenty largest 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

Year 2000 Issue

For more than two years PSERS has been making preparation for the Year 2000 date change. From the inception of PSERS Year 2000 project, the staff has worked diligently to assure compliance. The Year 2000 issue is the result of shortcomings in electronic data processing systems and other electronic equipment that may adversely effect an organization's operations before, on or after January 1, 2000.

PSERS has completed an inventory of computer and other electronic equipment which provides mission critical services for the System that may be affected by the Year 2000 issue. As of September 1, 1999, PSERS believes that all such systems have been identified, changed or remediated if necessary, and tested. PSERS' focus has been on ensuring that the participants of the System continue to receive the same or better levels of service in the Year 2000 as they currently enjoy.

30 and Out Window

Fiscal year 1998/99 witnessed a larger than normal volume of retirements. During the year nearly 10,000 members retired. Approximately 4,300 of those new retirees opted for an early retirement incentive under the provisions of Act 41 of 1998. Act 41 created two windows for early retirement. The first window was open from April 2, 1998 until July 10, 1998 and the second window extended from April 1, 1999 to June 30, 1999. The early retirement windows permitted 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.

Custodian Bank Conversion

A major effort was undertaken in fiscal year 1998/99 to transfer custody of nearly $50 billion of PSERS' investments from State Street Bank (former custodian) to Mellon Bank N. A. (current custodian). The large volume of investments, coupled with the highly sophisticated nature of the investment classes, required a very complex and dedicated effort by PSERS' staff, the State Treasury Department and the custodian bank.

Full Funding Maintained

PSERS is pleased to report that the pension fund continues to maintain a fully funded status. The preliminary actuarial valuation for the fiscal year ended June 30, 1999 reported that the System had reached a 119% 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.

Business Planning Process

During the 1998/99 fiscal year, PSERS initiated a Business Planning Process to set strategic direction for the agency for the next five years. As part of the process, the business environment in which the agency operates is being assessed to determine how the organization needs to adapt to better meet current and future needs of the customer. Implementation of an ongoing planning process enables PSERS to utilize resources to most effectively manage the System and provide service to the members.

PSERS Web Page

In September 1998 PSERS brought its *virtual field office* to the worldwide web. Using its web site, which is located at **http://www.psers.state.pa.us**, members, employers and others have 24 hour / 7 day access to comprehensive information about the system, its investment and benefit programs, regional office services, Health Options Program (HOP), all of PSERS' publications and relevant news. In addition, most of PSERS' forms can be downloaded from the web site. PSERS web site receives over 20,000 visitors per month.

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 found the **Financial Section**.

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 $49.0 billion as of June 30, 1999. Based on this valuation of its assets, the System is the 12th largest public pension fund in the nation and the 20th 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 1998/99, the appropriation was $26,051,000.

Additions To Net Assets

Public employee 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 1999 totaled $6,602.2 million detailed as follows:

Type of Net Asset Additions	1999 (Millions)	1998 (Millions)
Member Contributions	**$ 646.5**	$ 578.3
Employer Contributions	**527.0**	731.1
Net Investment Income	**5,428.7**	6,195.9
Total	**$ 6,602.2**	$ 7,505.3

The decrease in total net asset additions of $903.1 million is in part attributable to the decrease in employer contributions resulting from the decrease in the employer contribution rate from 8.76 percent in fiscal year 1997/98 to 6.04 percent in fiscal year 1998/99. The employer rate changed because of favorable actuarial experience. The decrease in investment income also significantly contributed to the decrease in total net asset additions.

Net asset addition details are provided in the **Supplemental Schedule 1** of the **Statistical 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 1999 and 1998 are shown for comparative purposes.

Type of Net Asset Deduction	**1999 (Millions)**	**1998 (Millions)**
Retirement Benefits	**$ 1,834.5**	$ 1,611.1
Lump-Sum Payments	**591.5**	376.6
Refunds	**20.1**	20.5
Net Transfers	**10.3**	7.1
Administrative	**27.8**	29.9
Total	**$ 2,484.2**	$ 2,045.2

A ten-year trend in deductions from plan net assets by type is presented in **Supplemental Schedule 1** of the **Statistical 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. The majority 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 an investment broker commission rebate program. A detailed breakdown of these expenses by expenditure category appears in the **Statistical 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, 1999 member contributions constituted 9.8 percent of the annual funding, employer contributions constituted 8.0 percent and investment earnings accounted for 82.2 percent.

The System's funded ratio (actuarial assets divided by actuarial liabilities) increased from 105.0 percent to 110.6 percent according to the latest published actuarial valuation for the period ended June 30, 1998. The increase is primarily attributed to increases in actuarial assets and actuarial experience gains. A preliminary report from the System's actuary indicates that the funding ratio has increased to 119% for the year ended June 30, 1999. Over the five-year period ended June 30, 1998, the funded status of the System has significantly improved from 86.6 percent to 110.6 percent.

The total employer rate of contribution as a percent of salaries decreased from 6.04 percent for the fiscal year 1998/99 to 4.61 percent for 1999/2000. This decrease results from actuarial experience gains. The portion of the total employer rate of contribution required to fund the Healthcare Premium Assistance Program was .15 percent in fiscal year 1998/99 and is .25 percent in fiscal year 1999/2000. At its November 30, 1999 meeting, the Board of Trustees approved a further reduction in the employer contribution rate to 1.94% for the 2000/2001 fiscal year. Further information on the latest published actuarial valuation 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, 1999, the net assets available for pension and postemployment healthcare benefits increased $4,118.0 million over the prior year - from $44,857.3 million to $48,975.3 million.

The results of the latest published actuarial valuation (as of June 30, 1998) indicate that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System. Additional information on the System's pension benefit obligation, actuarial liability and funding progress is contained in the **Actuarial** and **Financial Sections** of this report.

Investments

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

Investments of the System netted $5,428.7 million in additions to net assets for the year. The investment portfolio totaled $49.0 billion, at fair value, as of June 30, 1999.

The investment portfolio is of high quality and well-diversified to emphasize a long-term investment approach. 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 operating needs of the System, and (v) meet the actuarial projected liabilities of the Fund. 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, 1999, the time-weighted rate of return on the System's investments was 12.4 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 (IRC). As a result of the qualified status, the trust fund is entitled to an exemption, under Section 501(a) of the IRC, 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 IRC. 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, 1999 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

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to PSERS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 1998. 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. PSERS has received a *Certificate of Achievement* for the last 16 consecutive years (fiscal years ended June 30, 1983 - June 30, 1998). The System believes the current report continues to conform to the *Certificate of Achievement* program requirements, and will be submitting this report to GFOA to determine eligibility for the 1999 certificate.

A reproduction of this award appears in this **Introductory Section**. Its attainment represents a significant accomplishment by the System, whose Office of Financial Management and Budget holds general responsibility for the compilation and validity of the financial data presented in the *Comprehensive Annual Financial Report*.

Respectfully submitted,

Dale H. Everhart	Arthur J. Granito
Executive Director	Chief Financial Officer

Administrative Organization

PSERS Board of Trustees

PSERS Board of Trustees

1999 Board Committees

Appeals / Member Services

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
Rep. Evans
Mr. May

Audit / Budget

Mr. Hassall, 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

Bylaws / Policy

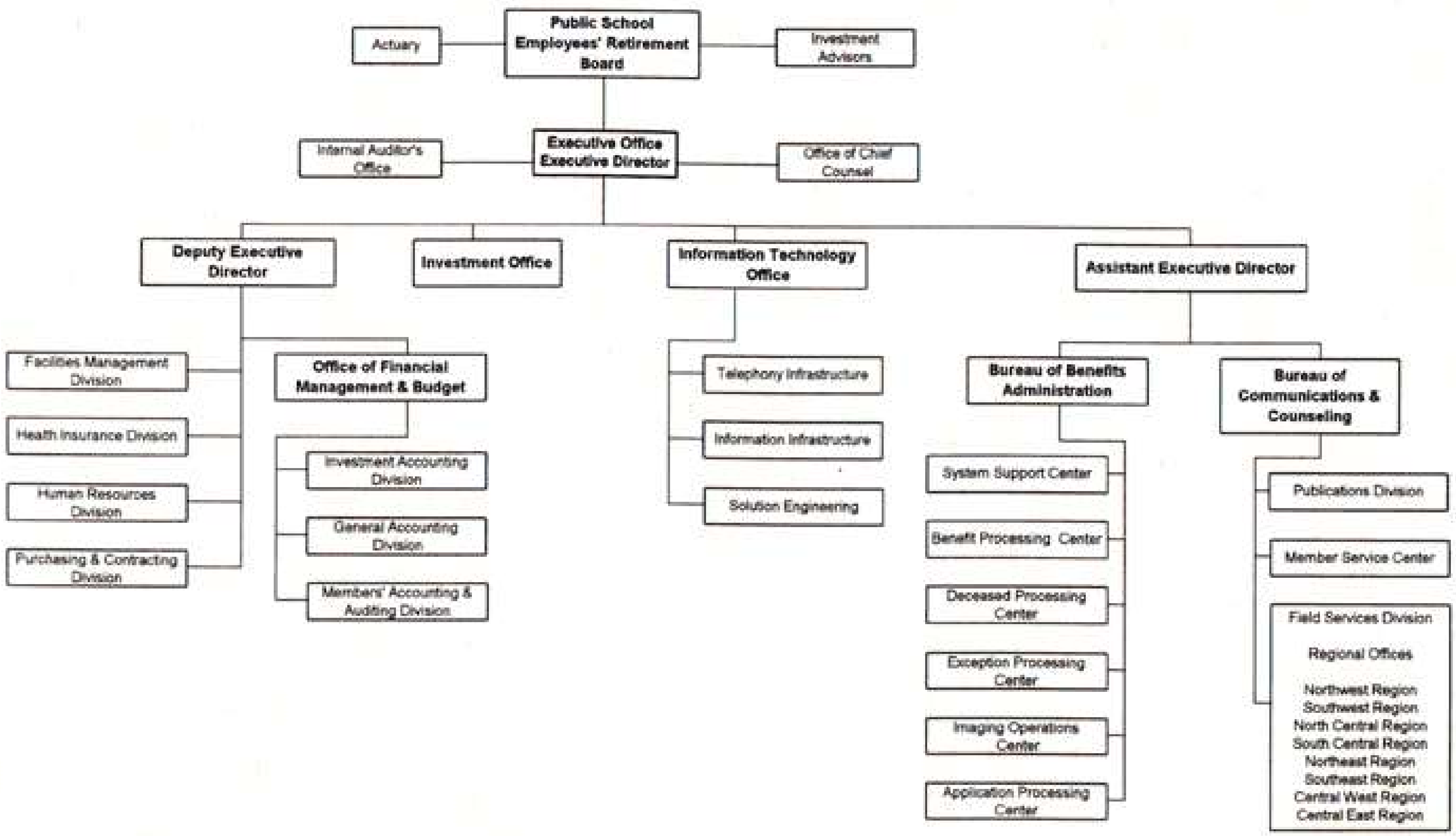
Ms. Simpson, Chair
Ms. Caputo
Rep. Evans
Sen. Madigan
Dr. Sanzotto

Technology Steering

Dr. Hickok, Chair
Sen. Fumo
Ms. Hafer
Mr. May
Mr. Oravitz
Dr. Sanzotto
Ms. Vogler

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

ORGANIZATIONAL CHART OF THE PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM



Organizational Structure of the Public School Employees' Retirement System

Executive Office

The Executive Office is responsible for the overall management of the Public School Employees' Retirement System (the System, PSERS) to achieve the primary objectives of the Fund as established by the Board of Trustees (Board.) Reporting directly to the Executive Director are the Deputy Executive Director, Assistant Executive Director, Chief Investment Officer, Internal Auditor and Chief Technology Officer. 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 funds for and services to the active members and annuitants of the System. The Deputy Executive Director and the Assistant Executive Director provide administrative and managerial assistance in the overall management of the System.

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 that will in any way affect the System and its operation.

Investment Office

The Investment Office is responsible for the investment activities of the System. In compliance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous outside professional investment advisors and internal investment professionals. Refer to the Investment Overview in the **Investment Section**, Pages 56 to 59 for specific information concerning the administration of the Investment Office.

Office of Chief Counsel

Legal services are provided by a team of professional personnel under 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.

Internal Auditor's Office

The Internal Auditor's Office performs systematic reviews of the various activities of PSERS, testing for compliance with applicable laws, policies and procedures. The Internal Auditor makes recommendations on the improvement of the System's internal control system.

Deputy Executive Director's Office

The Deputy Executive Director oversees the Office of Financial Management and Budget, Purchasing &Contracting Division and the Health Insurance Division. This position also oversees general administrative functions including the Human Resources Division, the Facilities Management Division and the Legislative Liaison.

Facilities Management Division

This division is responsible for the day to day management of the building and grounds for the agency, both at headquarters and at the regional locations. Leasing arrangements for regional locations are also initiated and managed within this division. Duties include disaster recovery planning, safety monitoring, Commonwealth automobile usage, mail services, grounds maintenance, parking and security, building maintenance and renovations.

Purchasing and Contracting Division

The division focuses on the procurement of materials, supplies and services needed to reach organizational goals. Duties include developing, monitoring, processing and evaluating contract usage in the agency.

Human Resources Division

This division is responsible for supporting and administering all personnel programs. Human Resources provides position development assistance and organizational support, and ensures compliance with labor law and Commonwealth regulations. Programs include recruitment and placement, training, payroll, transactions, time and attendance, employee benefits, wellness, labor relations, performance evaluation tracking, State Employee Combined Appeal and Savings Bond Drive Campaigns, employee recognition, classification, and programs such as Equal Employment Opportunities, American Disability Act, Aids/HIV, and Older Americans Act.

Health Insurance Division

This division is responsible for all aspects of the PSERS' Health Options Program (HOP) and administering PSERS' annuitants health insurance premium assistance benefits. HOP is a statewide plan that provides group health insurance coverage for school retirees and their eligible dependents. This is a voluntary plan and the participants pay for the cost of coverage. Premium assistance benefits provide up to $55 per month to eligible retirees to help pay their out-of-pocket health insurance premium expenses.

Office of Financial Management and Budget

The Office of Financial Management and Budget 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 Office is the liaison for other state and federal agencies, reporting units, financial consultants, actuaries, and investment advisors for all accounting matters. The Office is responsible for developing and monitoring the System's annual budget. In addition to the Budget Section, the Office 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 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.

The Division determines and collects all cash contributions to the Fund and also reconciles and monitors the financial activities of the third party administrator for the Health Options Program.

Members' Accounting and Auditing Services Division

The Members' Accounting and Auditing Services Division has responsibility for collecting and accounting for member contributions reported by reporting entities and for maintaining the member contribution accounts. It also performs a 100 percent audit of all retirement, refund, and death benefit calculations.

Investment Accounting Division

The Investment Accounting Division has responsibility for processing, monitoring, and recording all investment transactions. It serves as intermediary with the custodian bank, the State Treasury Department, brokers, investment managers, the investment evaluator, and investment consultants. It also audits investment expenses, prepares monthly investment financial reports and processes all investment funding allocations.

Assistant Executive Director's Office

The Assistant Executive Director has responsibility for managing the Bureau of Benefits Administration and the Bureau of Communications and Counseling.

Bureau of Benefits Administration

The Bureau of Benefits Administration provides professional and technical service to the active members and retirees from enrollment through the process of retirement. The Bureau also administers the monthly annuitant payroll.

The Bureau is comprised of six centers: the Application Processing Center, the Deceased Processing Center, the Benefit Processing Center, the Exception Processing Center, the Imaging Operations Center and the System Support Center.

Application Processing Center

The Application Processing Center is responsible for processing a variety of applications that include nomination of beneficiaries, vesting, enrollment and retirement applications. The center processes the initial retirement benefit payments. The center is also responsible for the active member demographic information.

Deceased Processing Center

The Deceased Processing Center focuses on the payment of death and survivor benefits.

Benefit Processing Center

The Benefit Processing Center calculates the purchase cost of different types of service, calculates the members finalized retirement benefit and processes the return of contributions and interest (refunds).

Exception Processing Center

The Exception Processing Center is responsible for the complex calculations such as those associated with divorce (domestic relations orders), multiple service membership and disability eligibility. The technical training, the member appeal process and the agency's benefit policy process are also handled by this center.

Imaging Operations Center

The Imaging Operations Center is responsible for all member-related documents.

System Support Center

The System Support Center has two primary functions, 1) the generation of the monthly annuitant payroll, 1099's and IRS reporting, and 2) work with the Information Technology Office to insure the accuracy of the System's mainframe programs that support the agency's benefit processing systems.

Bureau of Communications & Counseling

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

Field Services Division

The Field Services Division provides services to both active and retired PSERS' members in through eight regional offices located throughout the Commonwealth of Pennsylvania. Each field representative is a liaison of PSERS with the members and the System's 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' toll-free telephone number and is a vital link between PSERS and reporting entities, members, the State Employees' Retirement System 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. Publications include newsletters, handbooks, pamphlets, annual reports, and presentation handouts.

Information Technology Office

The Information Technology Office (ITO) has the responsibility for planning, administering, and controlling all information systems activities within PSERS. Additionally, ITO 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 Office also formulates short-term and long-range automated technology plans to permit the agency to meet directed missions. ITO is organized into three units: Information Infrastructure, Telephony Infrastructure, and Solution Engineering.

Information Infrastructure

The Information Infrastructure Unit is responsible for the installation, upgrading, and maintenance of all information technology (IT) hardware and environmental software required to support the IT activities of the agency. The unit provides administrative support for problem reporting of all IT related functions and the resolution of all hardware and environmental software problems.

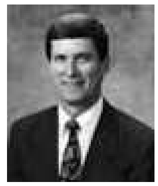
Telephony Infrastructure

The Telephony Infrastructure Unit is responsible for the design, development, implementation, and maintenance solutions that support the Telecommunications and Telephony processes of the agency. The responsibility of overseeing and/or performing the acquisition, installation, and maintenance of Telecommunications hardware and software delegated to this unit. The unit's responsibilities include providing input in to the budgetary and acquisition processes from all functional areas within the directorate.

Solution Engineering

The Solution Engineering Unit is responsible for the design, development, implementation, and maintenance solutions that support the business processes of the agency. The Unit is to identify and document the information requirements to ensure the alignment of proposed solutions with business activities.

Administrative Staff

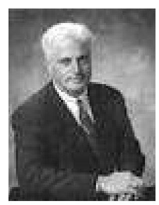


Dale H. Everhart
Executive Director

Paul J. Bart
Chief
Technology Officer

Jeffrey B. Clay
Deputy Executive
Director

Donald J. Halke, III
Internal Auditor



John C. Lane
Chief
Investment Officer

Thomas E. Ross
Chief Counsel

Veronica P. Thomas
Assistant Executive
Director

Douglas A. Bonsall
Director of
Communications &
Counseling

Arthur J. Granito
Chief
Financial Officer

Helen D. Hosler
Director of Benefits
Administration

A History of the Public School Employees' Retirement System

1917 The Pennsylvania Public School Employees' Retirement Act became law on July 18.

1918 Henry H. Baish became the System's first Secretary. The first Board 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 Employees' 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 employees were made eligible for PSERS membership.

-- Withdrawal (early) retirement eligibility was lowered from 25 to 10 years.

-- Eligibility for full death benefit was reduced from 25 to 10 years.

-- Eligibility for disability was lowered from 10 years to 5 years.

1976 PSERS moved into City Towers, combining an operation that was scattered in three different locations in Harrisburg.

1977 Assistant Executive Director M. Andrew Sheffler succeeded Mr. Cashman as Executive Director.

1979 The System's first "outside" audit occurred.

1980 The Board joined George Washington University in financing an office building/retail center in the District of Columbia. 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 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 For the 13th consecutive year, the *PSERS Comprehensive Annual Financial Report* received the prestigious *Certificate of Achievement for Excellence in Financial Reporting* from 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 employees 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 employees. The act provides school employees 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.

1999 Dale H. Everhart became the seventh Executive Director of PSERS.

The introduction of the PSERS' Internet website in August 1998 allowed for communication with members using the Internet via e-mail with a total of 613 inquiries received. During the early months of the website, PSERS received an average of 2,000 visits per month; as of July 1999 the website is visited on the average of 20,000 times per month with each visit lasting approximately 10-15 minutes.

An eighth Regional field office opened in early June in Johnstown, PA, to better serve PSERS' membership in Bedford, Blair, Cambria, Indiana, Somerset and Westmoreland Counties.

This Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1999, and the Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1998 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").

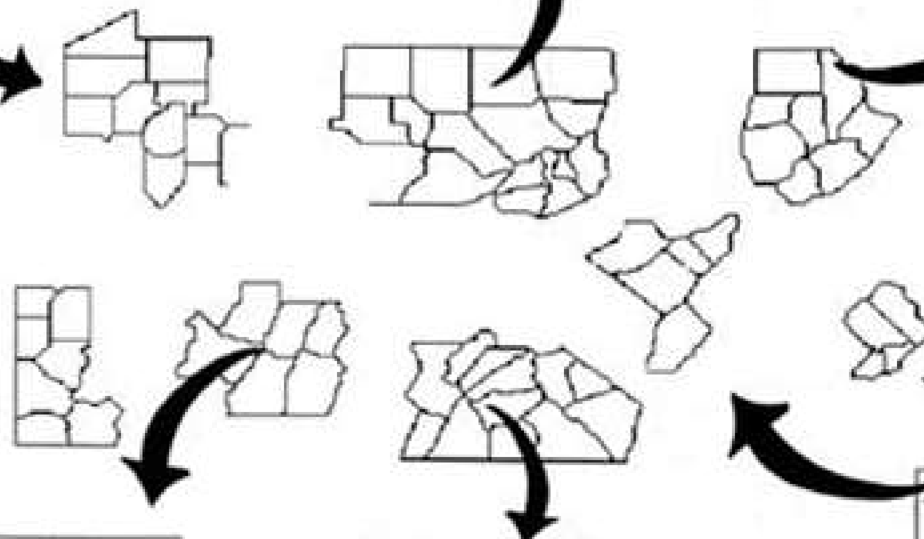
PSERS REGIONAL OFFICES

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
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FAX (215) 443-3487

CENTRAL-WEST
636 Scalp Avenue
Johnstown, PA 15904-1640
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(1-888-773-7748) ext 5875
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FAX (814) 262-7625

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

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

Public School Employees' Retirement System

Financial Section

Independent Auditors' Report

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

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

We have audited the accompanying statements of plan net assets of the Commonwealth of Pennsylvania Public School Employees' Retirement System (the System, a component unit of the Commonwealth of Pennsylvania) as of June 30, 1999 and 1998, 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 Employees' Retirement System as of June 30, 1999 and 1998, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The schedules of funding progress and employer contributions and the Year 2000 information on pages 49 through 53 are not a required part of the general purpose financial statements, but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We have applied to the schedules of funding progress and employer contributions certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules. We were unable to apply certain of these limited procedures to the Year 2000 information because of the nature of the subject matter underlying the disclosure requirements and because sufficiently specific criteria regarding the matters to be disclosed have not been established. In addition, we do not provide assurance that the Commonwealth of Pennsylvania Public School Employees' Retirement Systems is or will become Year 2000 compliant, that the Commonwealth of Pennsylvania Public School Employees' Retirement System's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Commonwealth of Pennsylvania Public School Employees' Retirement System does business are or will become Year 2000 compliant.

Our audits were made for the purpose of forming an opinion of 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 LLP

November 12, 1999

Statements of Plan Net Assets

Years ended June 30, 1999 and 1998

(Dollar Amounts in Thousands)

	1999			
		Postemployment Healthcare		Totals
	Pension	Premium Assistance	Health Options Program	(memorandum only)
Assets:				
Receivables:				
Members	$ 87,197	$ 1,538	$ 8	$ 88,743
Employers	158,610	4,134	–	162,744
Commonwealth of Pennsylvania	17	–	–	17
Investment income	216,129	741	44	216,914
Investment proceeds	781,895	–	–	781,895
Miscellaneous	2,970	211	422	3,603
Total Receivables	1,246,818	6,624	474	1,253,916
Investments, at fair value:				
Short-term investments	1,357,045	56,001	27,951	1,440,997
Fixed income and mortgage investments	11,076,223	–	–	11,076,223
Common and preferred stocks	33,899,538	–	–	33,899,538
Other long-term investments	2,597,003	–	–	2,597,003
Total Investments	48,929,809	56,001	27,951	49,013,761
Securities lending collateral pool	3,221,012	–	–	3,221,012
Fixed assets (net of accumulated depreciation of $12,438, $0, and $0, respectively)	6,114	–	–	6,114
Total Assets	53,403,753	62,625	28,425	53,494,803
Liabilities:				
Accounts payable and accrued expenses	44,456	474	14,668	59,598
Benefits payable	199,921	15	–	199,936
Participant premium advances	–	–	10,202	10,202
Investment purchases payable	1,026,932	1,817	–	1,028,749
Obligations under securities lending	3,221,012	–	–	3,221,012
Total Liabilities	4,492,321	2,306	24,870	4,519,497
Net assets held in trust for pension and postemployment healthcare benefits (A schedule of funding progress is presented on page 49)	$ 48,911,432	$ 60,319	$ 3,555	$ 48,975,306

See accompanying notes to financial statements.

Statements of Plan Net Assets

Years ended June 30, 1999 and 1998

(Dollar Amounts in Thousands)

	1998			
		Postemployment Healthcare		Totals
	Pension	Premium Assistance	Health Options Program	(memorandum only)
Assets:				
Receivables:				
Members	$ 62,662	$ 1,962	$ –	$ 64,624
Employers	217,863	3,934	–	221,797
Commonwealth of Pennsylvania	–	–	–	–
Investment income	185,199	1,069	–	186,268
Investment proceeds	446,657	–	–	446,657
Miscellaneous	2,164	69	165	2,398
Total Receivables	914,545	7,034	165	921,744
Investments, at fair value:				
Short-term investments	1,055,049	69,343	19,257	1,143,649
Fixed income and mortgage investments	10,299,451	–	–	10,299,451
Common and preferred stocks	31,131,124	–	–	31,131,124
Other long-term investments	2,391,510	–	–	2,391,510
Total Investments	44,877,134	69,343	19,257	44,965,734
Securities lending collateral pool	5,061,402	–	–	5,061,402
Fixed assets (net of accumulated depreciation of $10,736, $10, and $0, respectively)	6,812	3	–	6,815
Total Assets	50,859,893	76,380	19,422	50,955,695
Liabilities:				
Accounts payable and accrued expenses	35,420	237	5,483	41,140
Benefits payable	42,002	8	–	42,010
Participant premium advances	–	–	8,428	8,428
Investment purchases payable	945,366	–	–	945,366
Obligations under securities lending	5,061,402	–	–	5,061,402
Total Liabilities	6,084,190	245	13,911	6,098,346
Net assets held in trust for pension and postemployment healthcare benefits (A schedule of funding progress is presented on page 49)	**$** 44,775,703	$ 76,135	$ 5,511	$ 44,857,349

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 1999 and 1998

(Dollar Amounts in Thousands)

	1999			
		Postemployment Healthcare		Totals
	Pension	Premium Assistance	Health Options Program	(memorandum only)
Additions:				
Contributions:				
Employers	$ 511,405	$ 12,955	$ –	$ 524,360
Members	535,640	–	110,867	646,507
Commonwealth of Pennsylvania	2,535	65	–	2,600
Total contributions	1,049,580	13,020	110,867	1,173,467
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	4,101,773	(537)	–	4,101,236
Fixed income and mortgage investments	631,753	–	–	631,753
Common and preferred stocks	503,130	–	–	503,130
Short-term investments	57,802	4,063	803	62,668
Other long-term investments	201,075	–	–	201,075
Total investment activity income	5,495,533	3,526	803	5,499,862
Investment expenses	(88,909)	(20)	–	(88,929)
Net income from investing activities	5,406,624	3,506	803	5,410,933
From securities lending activities:				
Securities lending income	163,445	–	–	163,445
Securities lending expense	(145,719)	–	–	(145,719)
Net income from securities lending activities	17,726	–	–	17,726
Total net investment income	5,424,350	3,506	803	5,428,659
Total Additions	6,473,930	16,526	111,670	6,602,126
Deductions:				
Benefits	2,283,596	31,658	110,772	2,426,026
Refunds of contributions	20,110	–	–	20,110
Net transfer to State Employees' Retirement System	10,247	–	–	10,247
Administrative expenses	24,248	684	2,854	27,786
Total Deductions	2,338,201	32,342	113,626	2,484,169
Net increase (decrease)	4,135,729	(15,816)	(1,956)	4,117,957
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	44,775,703	76,135	5,511	44,857,349
Balance, end of year	$ 48,911,432	$ 60,319	$ 3,555	$ 48,975,306

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 1999 and 1998

(Dollar Amounts in Thousands)

	1998			
		Postemployment Healthcare		Totals
	Pension	Premium Assistance	Health Options Program	(memorandum only)
Additions:				
Contributions:				
Employers	$ 714,815	$ 12,623	$ –	$ 727,438
Members	481,228	–	97,094	578,322
Commonwealth of Pennsylvania	3,616	77	–	3,693
Total contributions	1,199,659	12,700	97,094	1,309,453
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	4,893,770	(567)	–	4,893,203
Fixed income and mortgage investments	651,170	–	–	651,170
Common and preferred stocks	479,149	–	–	479,149
Short-term investments	59,962	4,721	722	65,405
Other long-term investments	175,787	–	–	175,787
Total investment activity income	6,259,838	4,154	722	6,264,714
Investment expenses	(88,816)	–	–	(88,816)
Net income from investing activities	6,171,022	4,154	722	6,175,898
From securities lending activities:				
Securities lending income	319,903	–	–	319,903
Securities lending expense	(299,908)	–	–	(299,908)
Net income from securities lending activities	19,995	–	–	19,995
Total net investment income	6,191,017	4,154	722	6,195,893
Total Additions	7,390,676	16,854	97,816	7,505,346
Deductions:				
Benefits	1,856,108	31,017	100,587	1,987,712
Refunds of contributions	20,503	–	–	20,503
Net transfer to State Employees' Retirement System	7,094	–	–	7,094
Administrative expenses	26,796	504	2,647	29,947
Total Deductions	1,910,501	31,521	103,234	2,045,256
Net increase (decrease)	5,480,175	(14,667)	(5,418)	5,460,090
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	39,295,528	90,802	10,929	39,397,259
Balance, end of year	$ 44,775,703	$ 76,135	$ 5,511	$ 44,857,349

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 1999 and 1998

(1)
Organization and Description of the System

(a) Organization

The Commonwealth of Pennsylvania Public School Employees' Retirement System (the System) was established as of July 18, 1917, under the provisions of 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 employees in the Commonwealth of Pennsylvania (Commonwealth). At June 30, 1999, there were 660 participating employers, generally school districts. Membership as of June 30, 1998, the most recent year for which actual amounts are available, consisted of:

Retirees and beneficiaries currently receiving benefits	127,000
Inactive members and vestees entitled to but not receiving benefits	44,000
	171,000
Currently employed members:	
Vested	123,000
Nonvested	98,000
	221,000

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 Employees' Retirement Code (the Code) by the Pennsylvania General Assembly. Under the provisions of the Code, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of 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 employees with at least 30 years of credited service to retire without a reduction in benefits. Employees 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. These early retirement windows 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 five 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 Employees' Retirement System (SERS) may elect to transfer such service to the Public School Employees' Retirement System upon commencement of employment in the public school system. Similarly, a member with credited service in the System may transfer such service to 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, employer contribution rates for premium assistance are 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 (both medical supplement coverage and nonmedical coverage) through indemnity health insurance, Point-of-Service 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 employee 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 employees 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 twenty years as required by the Code. The total contribution rate for the employers and the Commonwealth was 6.04% and 8.76% of qualified compensation for the years ended June 30, 1999 and 1998, 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% for the years ended June 30, 1999 and 1998, 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 employees 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 securities, and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or 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.

Private equity / venture capital and private placements 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.

The Collective Trust Funds (CTF) consist primarily of domestic and international institutional funds. The funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund.

Investment expenses consist 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 uses the accrual basis of accounting for measuring vacation leave, sick leave, and other compensated absences liabilities. Employees of the System are paid for accumulated vacation leave upon termination or retirement. Retiring employees 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, 1999 and 1998, $2,412,000 and $2,303,000, respectively, was accrued for unused vacation and sick leave for the System's employees.

(e) Participant Premium Advances

Participant premium advances are for HOP premiums paid in advance in 1999 and 1998 related to health care coverage to be provided in 2000 and 1999, respectively.

Notes to Financial Statements (Continued)

(f) 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. Additionally, the Internal Revenue Service issued a 1982 ruling which concluded that the fund and the board are integral parts of the Commonwealth of Pennsylvania, and are therefore not subject to Federal Income Tax. 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*.

(g) Risk Management

The System is exposed to various liabilities or risks of loss related to theft or destruction of assets, injuries to employees, 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 employees, the System's employees 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.

(h) Reclassifications

Certain 1998 balances have been reclassified to conform with the 1999 presentation.

(i) Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present plan net assets and changes in plan net assets in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

(3)
Description of Accounts

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, 1999 and 1998 are as follows:

	(Dollar Amounts in Thousands)	
	1999	1998
Pension:		
State accumulation account	**$ 26,695,327**	$ 25,177,659
Members' savings account	**6,298,483**	6,113,312
Reserve for retirement account	**15,917,622**	13,484,732
	$ 48,911,432	$ 44,775,703
Postemployment healthcare:		
Health insurance account (premium assistance)	**$ 60,319**	$ 76,135
Health insurance program account (HOP)	**3,555**	5,511

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, 1999 and 1998 follows:

	(Dollar Amounts in Thousands)	
	1999	1998
Pension short-term investments:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$ 1,118,748**	$ 928,295
Other domestic short-term investments	**166,058**	13,908
International short-term investments	**54,042**	110,708
Collective trust funds	**18,197**	2,138
	1,357,045	1,055,049
Fixed income and mortgage investments:		
Domestic mortgage-backed securities	**3,302,366**	3,174,528
U.S. government and agency obligations	**2,393,716**	2,930,325
Domestic corporate and taxable municipal bonds	**1,980,248**	1,765,006
Miscellaneous domestic fixed income	**1,541,564**	767,391
International fixed income	**1,301,420**	1,155,328
Collective trust funds	**548,159**	497,685
Domestic private placements	**8,750**	9,188
	11,076,223	10,299,451
Common and preferred stocks:		
Domestic common and preferred stocks	**25,218,013**	23,639,733
International common stocks	**8,012,807**	7,071,743
Collective trust funds	**661,030**	405,822
Domestic private placements	**7,688**	13,826
	33,899,538	31,131,124
Other long-term investments:		
Real estate owned	**629,107**	660,060
Equity real estate	**1,074,988**	1,059,477
Private Equity / Venture Capital	**818,436**	597,915
Farmland investments	**74,472**	74,058
	2,597,003	2,391,510
Pension investments at fair value	**$ 48,929,809**	$ 44,877,134
Postemployment Healthcare short-term investments:		
Premium Assistance:		
Pennsylvania Treasury Short-Term Investment Fund	**$ 6,717**	$ 12,878
Other short-term investments	**49,284**	56,465
	56,001	69,343
Health Options Program:		
Pennsylvania Treasury Short-Term Investment Fund	**14,628**	–
Other short-term investments	**13,323**	19,257
	27,951	19,257
Postemployment Healthcare investments at fair value	**$ 83,952**	$ 88,600

Notes to Financial Statements (Continued)

During the fiscal years ended June 30, 1999 and 1998, 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, 1999 and 1998. 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, 1999 and 1998

(Dollar Amounts in Thousands)

	Total Fair Value 1999	Total Fair Value 1998
Investments – Category 1		
U.S. government and agency obligations	**$ 651,933**	$ 1,628,698
Corporate and taxable municipal bonds	**1,873,369**	1,701,773
Common stock	**25,025,152**	21,589,274
Mortgage-backed securities	**3,302,366**	3,174,528
Miscellaneous fixed income	**1,541,564**	767,391
International fixed income	**1,124,075**	933,151
International equity	**6,936,786**	5,787,310
International short-term	**54,042**	110,708
Other short-term investments (1)	**228,665**	89,630
Subtotal	**40,737,952**	35,782,463
Investments - not categorized		
Investments held by broker dealers under securities loans:		
U.S. government and agency obligations	**1,741,783**	1,301,627
Corporate and taxable municipal bonds	**106,879**	63,233
Common stock	**192,861**	2,050,459
International fixed income	**177,345**	222,177
International equity	**1,076,021**	1,284,433
Private placements – fixed income and equity	**16,438**	23,014
Collective trust funds - fixed income, equity and short-term	**1,227,386**	905,645
Real estate owned	**629,107**	660,060
Equity real estate	**1,074,988**	1,059,477
Farmland investments	**74,472**	74,058
Private Equity / Venture capital	**818,436**	597,915
Pennsylvania Treasury Short-Term Investment Fund (2)	**1,140,093**	941,173
Total	**$ 49,013,761**	$ 44,965,734

(1) includes $62,607 and $75,722 of postemployment healthcare investments at June 30, 1999 and 1998, respectively

(2) includes $21,345 and $12,878 of postemployment healthcare investments at June 30, 1999 and 1998, 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 securities 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 certain approved 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, 1999 and 1998, 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. There were no term loans as of June 30, 1999 and 1998.

Cash collateral is invested in the lending agent's short-term investment pool. The System's income from securities lending represents its pro-rata share from participating in the program. The duration of the investments in the pool was 38 days and 30 days at June 30, 1999 and 1998, 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.

As of June 30, 1999, the fair value of loaned securities was $3,294,889,000 which includes $174,582,000 of loaned securities which are collateralized by securities and letters of credit but are not included in the Statement of Plan Net Assets. The fair value of the associated collateral was $3,399,039,000 which includes $178,027,000 of securities and irrevocable letters of credit received as collateral but are not included in the Statement of Plan Net Assets. 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 irrevocable letters of credit but are 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 irrevocable letters of credit received as collateral but are 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, through 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, 1999 and 1998 (in thousands):

	1999	1998
Futures contracts long and short	$ **4,676,490**	$ 2,352,554
Foreign exchange forward and spot contracts, gross	**3,414,160**	2,406,401
Options – calls purchased	**10,900**	96,808
Options – puts purchased	**13,320**	54,805
Options – calls sold	**46,396**	83,037
Options – puts sold	**47,976**	52,138

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 $3,414,160,000 of foreign currency contracts outstanding at June 30, 1999 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $1,829,656,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $1,584,504,000. 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 currencies 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 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, 1999 and 1998 is $1,173,019,000 and $1,063,931,000, respectively.

Notes to Financial Statements (Continued)

(6)
Pension Plan for Employees of the System

The System contributes to the Commonwealth's State Employees' 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 5.61% at June 30, 1999 and 6.19% at June 30, 1998. 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, 1999, 1998, and 1997 were $716,000, $763,000, and $784,000, 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 employees are specified in state law. Changes in benefit and contribution provisions for each retirement plan must be made by legislation. Under statutory provision, all legislative bills and amendments proposing to change the System's retirement plan are to be accompanied with an actuarial note prepared by an enrolled pension actuary providing an estimate of the cost and actuarial effect of the proposed change.

(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 position of the System.

Required Supplemental Schedule 1
Schedule of Funding Progress*

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

Valuation year	Actuarial accrued liabilities (AAL)	Actuarial value of assets	(Funded) Unfunded actuarial accrued liabilities (FAAL)/(UAAL)	Ratio of assets to AAL	Covered payroll	(FAAL)/(UAAL) as a percentage of covered payroll
1998	$ 36,136.2	$ 39,969.0	$ (3,832.8)	110.6%	$ 8,091.5	(47.4%)
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 auditors' report)
(Dollar Amounts in Thousands)

Year ended June 30	Annual required contributions	Percentage contributed
1999	$ 513,940	100%
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, 1999 and 1998

(Unaudited - see accompanying auditors' 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 employee 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 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, 1998, 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.

Notes to Required Supplemental Schedules (Continued)

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.

Year 2000 Supplementary Information

(Unaudited – see accompanying auditors' report)

The Year 2000 issue is the result of shortcomings in electronic data processing systems and other electronic equipment that may adversely affect an organization's operations before, as of, or after January 1, 2000.

The Commonwealth of Pennsylvania Public School Employee's Retirement System has completed an inventory of computer and other electronic equipment which provide mission critical services for the System that may be affected by the Year 2000 issue. As of September 1, 1999, management of the System believes that all such systems have been identified, changed or remediated if necessary, and tested. In addition, certain administrative and processing changes have been made which reduce the risk of the Year 2000 issue affecting December 1999 annuitant processing, and to provide for back-up of computer information before January 1, 2000.

In addition the Health Options Program (HOP) administrator (NCAS) and the investment custodian bank (Mellon Bank N.A.) have represented to the System that their internal systems are compliant and ready for the Year 2000.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until Year 2000 and thereafter. Management cannot assure the System is or will be Year 2000 ready, that the System's remediation efforts will be successful in whole or in part, or that parties with whom the System does business will be Year 2000 ready.

This 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.

Schedule of Payments to Non-Investment Consultants
Fiscal Year Ended June 30, 1999

(Payment Amounts greater than $50,000)

Consultant	Fees	Services Provided
NCAS (National Claims Administrative Services)	$ 1,707,310	Health Options Program & premium assistance benefits consultation
UNISYS Corporation	198,353	Information systems services - PSERS Business System and Year 2000
Buck Consultants, Inc.	166,769	Pension benefit actuarial services
Buck Consultants, Inc.	73,447	Health Options Program benefits consultation
ASA Communications	151,807	Communication Services, HOP Open Enrollment
Deloitte & Touche	130,651	Information systems management services
KPMG LLP	92,620	Financial audit of pension system & HOP
Computer Document Management Systems	65,500	Consultation services – PSERS imaging system

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

Public School Employees' Retirement System

Investment Section

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' 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 and limitations 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 operating 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 establish an overall asset allocation plan and investment policies for the System. Implementation of the investment policies is accomplished through professional investment management firms who act as agents for the System and through internal investment professionals. The Board also retains various investment consultants 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 ten meetings a year and may meet more frequently as needed. Executive and investment staff, as well as outside investment advisors and internal investment professionals, assist the Board in achieving investment objectives and monitoring compliance with investment policy. For the fiscal year ended June 30, 1999, Wilshire Associates Incorporated (Wilshire) 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 the Frank Russell Company as a real estate consultant and Sovereign Financial Services, Inc. as a venture capital/private equity 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 professionals to manage the investment portfolio of the System. At year end, 26 professional investment management firms were managing $26.3 billion in assets of the System, $19.7 billion in assets were managed by the System's internal investment professionals, and the remaining $3.0 billion in assets were managed by various other developmental, venture capital, private equity, and real estate managers. The performance of each professional investment management firm and each internal investment professional is monitored annually against a pre-established benchmark and 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 1999 included an equity target allocation of **67.00%** consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (47.00%) and diversified international equity exposure (20.00%). 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 **25.00%** consisted of U.S. fixed income exposure (15.00%), specialty fixed income exposure (3.75%), and global fixed income exposure (6.25%). Within these categories, all sectors of the bond market are represented. Specialty fixed income includes high yield and mortgage portfolios.

The target allocation for the global asset allocation (GAA) program of 10.00% (this percentage is included in the equity and fixed income target allocations above) consisted of a combination of domestic and foreign equities and domestic and foreign bonds. The GAA program was established to provide the System a vehicle for short-term asset allocation shifts based on current market conditions.

The real estate target allocation of **3.00%** consists primarily of private equity partnerships and opportunistic partnerships (an additional 2.00% is allocated to real estate through publicly traded real estate investment trusts that are included in the equity allocation discussed above).

Venture capital and private equity investments have a target of **5.00%**. 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, 1999, the market value of the investment portfolio was $49.0 billion. The market value increased approximately $4.0 billion over last year's value. This increase came primarily from income and capital gains on investments.

The investment portfolio was composed of 71.1% common and preferred stocks, 23.6% fixed income and mortgage investments and 5.3% other long-term investments at June 30, 1999. Page 60 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 1999. As a result, the System generated returns of 12.4% for the one-year period ended June 30, 1999. Annualized returns for the three- and five-year periods ending June 30, 1999 were 15.8% and 16.5%, 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 and available, respective benchmark indices used by asset class and median performance by asset class:

	Annualized Total Returns (%) Ending June 30, 1999		
	1 Year	**3 Years**	**5 Years**
PSERS TOTAL PORTFOLIO	**12.4**	**15.8**	**16.5**
Median Public Fund Universe (Wilshire Database)	11.9	16.2	16.4
PSERS DOMESTIC STOCK PORTFOLIOS	**18.0**	**24.4**	**24.6**
Wilshire 5000 Index	19.6	25.8	25.7
Median Domestic Equity Manager (Wilshire Database)	14.3	21.7	23.4
PSERS INTERNATIONAL STOCK PORTFOLIOS	**8.2**	**6.9**	**8.1**
MSCI All-Country World Index Free Ex. U.S.	9.5	8.2	8.0
Median International Manager (Wilshire Database)	9.5	11.5	11.7
PSERS DOMESTIC BOND PORTFOLIOS	**3.1**	**7.6**	**8.1**
Lehman Aggregate Index	3.1	7.2	7.8
Median Domestic Bond Manager (Wilshire Database)	3.5	7.1	7.6
PSERS GLOBAL BOND PORTFOLIOS	**3.2**	**5.1**	**6.4**
J.P. Morgan Global Bond Index	3.6	4.7	6.6
Median Global Bond Manager (Wilshire Database)	3.9	N/A	N/A
PSERS REAL ESTATE	**10.8**	**15.2**	**13.7**
NCREIF Index	14.4	13.5	11.1

The System also is involved in a securities lending program administered by Mellon Bank N. A. as of November 2, 1998 (previously, this program was administered by State Street Bank & Trust Company). This program provides incremental income to the System by lending securities in the System's portfolio to securities dealers versus the receipt of collateral. This program generated approximately $17.7 million in additional income during the year.

Wilshire 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. All performance measurement calculations are conducted in accordance with the presentation standards of the Association of Management and Research (AIMR).

Accomplishments

During 1999, the System completed a conversion of custodian banks from State Street Bank & Trust Company to Mellon Bank N. A. effective November 2, 1998. Mellon Bank N. A. was selected custodian by the Treasurer of the Commonwealth of Pennsylvania as a result of a competitive bidding process. In addition, the System also changed its primary consultant to Wilshire Associates Incorporated and its real estate investment consultant to the Frank Russell Company, both as a result of a competitive bidding process.

Significant Developments for Fiscal Year 1999/2000

Two significant events will affect the System's investments and investment management during Fiscal Year 1999/2000:

1. The System will embark on a search for a comprehensive, multi-currency investment accounting system in Fiscal Year 1999/2000, including an order management system for its trading room and investment analytics for its investment professionals. Currently, the System relies on the custodian bank and third-party service providers for the accounting of our investment activity and investment analytics.

2. The System will be creating a Liquidity Reserve account to manage the expected cash flow needs of the System. The System has matured to a point where its projected distributions are increasing at a faster rate than projected contributions into the fund, excluding investment income, creating a monthly net cash shortfall. Investment income is generally reinvested into the asset class from which it is generated and is not available for distribution until removed out of the asset class. The creation and maintenance of this fund will allow the System to cover this monthly net cash shortfall through a systematic procedure to generate liquidity. On a periodic basis, the Liquidity Reserve account will be funded from investment income generated by the various asset classes.

Summary

Overall, PSERS had another successful year in which its investment objectives were achieved. The System's asset allocation is structured to generate a return that supports the growth of its projected actuarial liabilities for years to come.

John C. Lane
Chief Investment Officer

Portfolio Summary Statistics
Asset Allocation - Trade Date Basis
As of June 30, 1999

Type of Investment	Fair Value ($)	% Fair Value
Common and Preferred Stocks		
Domestic Common and Preferred Stocks	$ 25,218,013,011	51.5%
International Common Stocks	8,012,806,869	16.4%
Collective Trust Funds	661,030,267	1.4%
Domestic Private Placements	7,688,020	0.0%
Subtotal per Financial Statements	33,899,538,167	69.3%
Short-term Portion *	872,500,495	1.8%
Total Common and Preferred Stocks - Asset Allocation Basis	**34,772,038,662**	**71.1%**
Fixed Income and Mortgage Investments		
Domestic Mortgage Backed Securities	3,302,366,093	6.7%
U.S. Government & Agency Obligations	2,393,715,819	4.9%
Domestic Corporate and Taxable Municipal Bonds	1,980,248,405	4.0%
Miscellaneous Domestic Fixed Income	1,541,563,500	3.2%
International Fixed Income	1,301,419,674	2.7%
Collective Trust Funds	548,159,096	1.1%
Domestic Private Placements	8,750,000	0.0%
Subtotal per Financial Statements	11,076,222,587	22.6%
Short-Term Portion *	484,122,653	1.0%
Total Fixed Income and Mortgage Investments - Asset Allocation Basis	**11,560,345,240**	**23.6%**
Other Long-Term Investments		
Real Estate Owned	629,106,920	1.3%
Equity Real Estate	1,074,987,994	2.2%
Private Equity / Venture Capital	818,436,021	1.6%
Farmland Investments	74,472,382	0.2%
Subtotal per Financial Statements	2,597,003,317	5.3%
Short-term Portion *	421,404	0.0%
Total Other Long-Term Investments - Asset Allocation Basis	**2,597,424,721**	**5.3%**
Total Investments - Asset Allocation Basis	**$ 48,929,808,623**	**100.0%**
Postemployment Healthcare Short-Term Investments	**$ 83,951,500**	**100.0%**

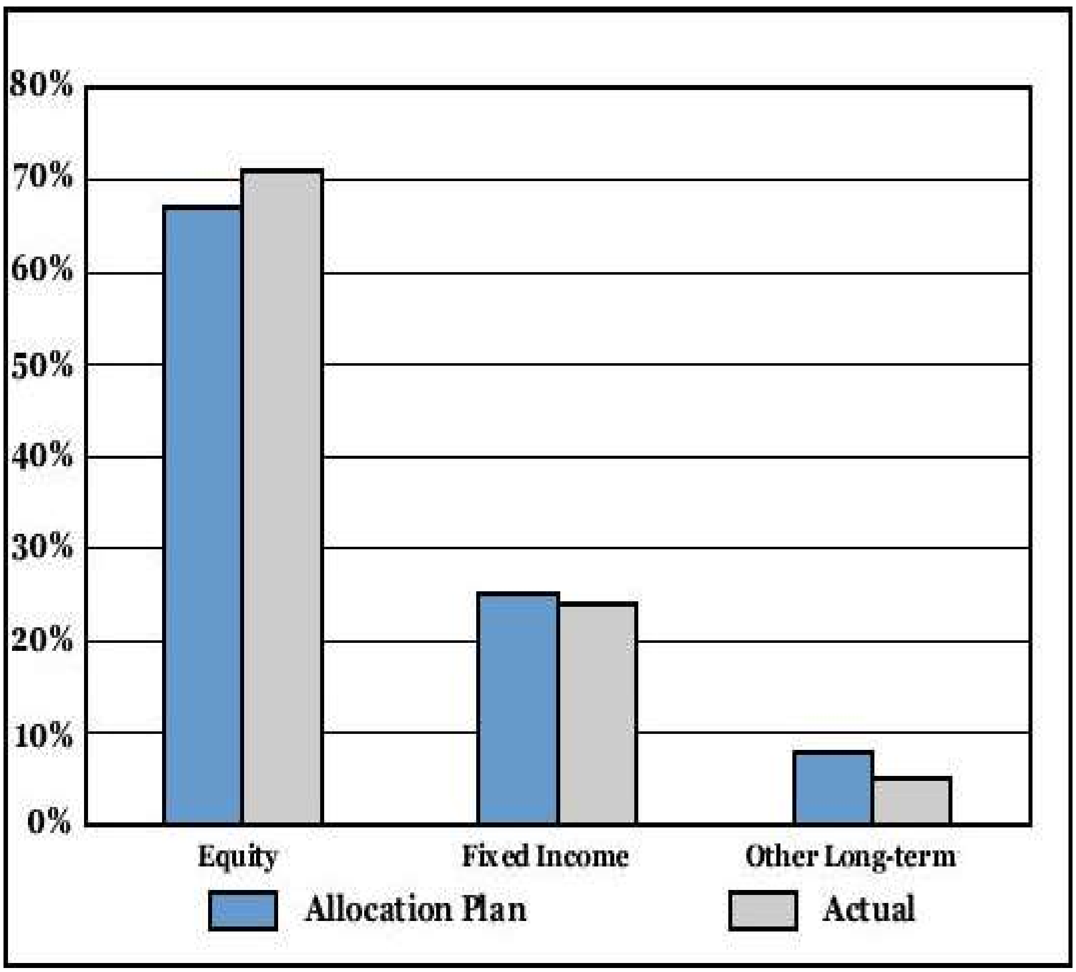
* - For asset allocation purposes, Short-term investments are included with the asset class of the investment manager which holds them.

See the graph which follows.

Comparison of Actual Portfolio Distribution to Asset Allocation Plan

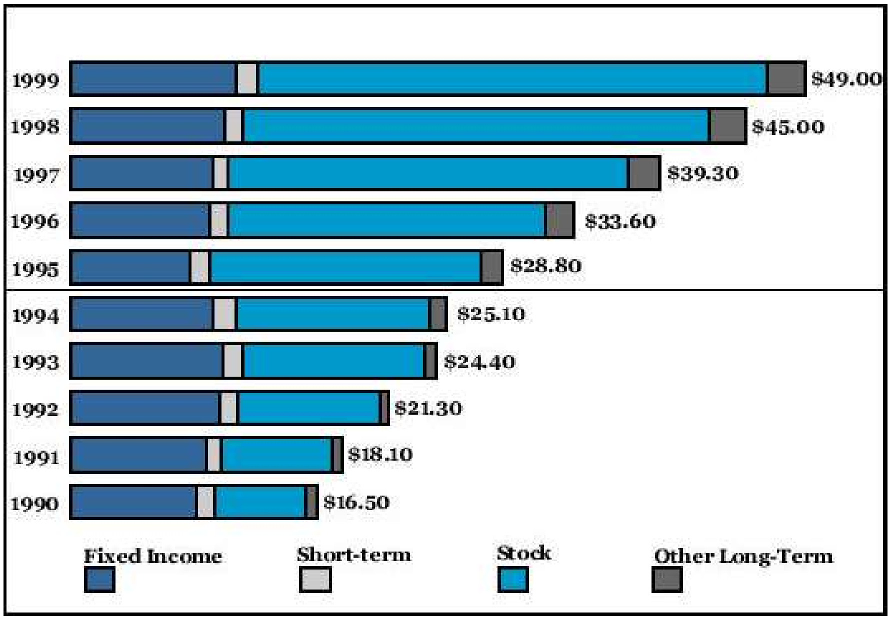
As of June 30, 1999

Asset Category	Asset Allocation Plan	Actual
Equity	67%	71%
Fixed Income	25%	24%
Other Long-term	8%	5%
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. Information on the complete holdings of the System is available by writing to the Public School Employees' Retirement System, P O Box 125, Harrisburg, PA 17108.

Portfolio Detail Statistics as of June 30, 1999

Trade Date Basis

Domestic Common and Preferred Stocks

10 Largest Holdings in Descending Order by Fair Value

Description	No. of Shares	Fair Value ($)
Microsoft Corporation	5,784,896	521,710,865
General Electric Company	3,498,559	395,337,167
MCI World Communications Inc.	4,551,829	391,741,783
Citigroup Inc.	7,724,705	366,923,464
IBM Corporation	2,326,552	300,706,784
Cisco Systems Inc.	4,180,670	269,391,944
Intel Corporation	4,470,472	265,993,084
Lucent Technologies Inc.	3,559,787	240,063,102
Wal Mart Stores Inc.	4,943,956	238,545,877
Exxon Corporation	2,813,969	217,027,359
Total of 10 Largest Holdings		**3,207,441,429**
Total System Holdings - Domestic Common and Preferred Stocks		**25,218,013,011**

Portfolio Detail Statistics as of June 30, 1999

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

Description	No. of Shares	Fair Value ($)
Mannesmann AG NPV	846,900	126,656,436
Nippon Telephone & Telegraph Corporation	10,397	121,185,165
Sony Corporation	860,500	92,829,003
Telefonica SA Ord	1,850,327	89,142,638
Elf Aquitaine	606,683	89,041,784
Fujitsu Ltd	4,304,000	86,635,030
Nokia (AB) Oy	885,865	77,662,899
Ericsson (LM) Telefonaktiebolag	2,408,715	77,339,764
Novartis AG Regd	52,762	77,017,388
UBS AG United Bank of Switzerland	250,517	74,747,533
Total of 10 Largest Holdings		**912,257,640**
Total System Holdings - International Common Stocks		**8,012,806,869**

Portfolio Detail Statistics as of June 30, 1999

Trade Date Basis
Common and Preferred Stocks – Collective Trust Funds
10 Largest Holdings in Descending Order by Fair Value

Description	No. of Shares	Fair Value ($)
Martin Currie Business Trust Asia Pacific Ex - Japan Fund	48,624,646	133,717,775
MGT Small Company Equity Fund	8,112,546	116,333,913
Capital Guardian Emerging Markets Equity Fund	4,663,525	48,360,757
MAS Funds U.S. Mid Cap Value Portfolio	1,627,954	38,208,077
Martin Currie Business Trust Japan Small Companies Fund	3,251,447	34,888,030
Morgan Stanley, Dean Witter Inst. Fund, Inc. Emerging Mkt. Port.	2,567,663	34,381,010
MGT Emerging Market Equity Fund	3,249,245	33,077,318
Morgan Stanley, Dean Witter Inst. Fund, Inc. U.S. Real Est.Port.	2,101,028	28,742,060
Morgan Grenfell Investment Trust Emerging Markets Equity Fund	4,019,293	27,893,891
MGT U. S. Real Estate Securities	2,948,292	27,153,773
Total of 10 Largest Holdings		**522,756,604**
Total System Holdings - Common and Preferred Stocks - Collective Trust Funds		**661,030,267**

Portfolio Detail Statistics as of June 30, 1999

Trade Date Basis
Common and Preferred Stocks - Domestic Private Placements
Holdings in Descending Order by Fair Value

Description	No. of Shares	Fair Value ($)
American Pacific Warrants	2,142,857	4,178,571
Realen Homes Convertible Preferred	15,000	3,509,449
Total System Holdings - Common and Preferred Stocks - Domestic Private Placements		**7,688,020**

Portfolio Detail Statistics as of June 30, 1999

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

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
FNMA Pool #0323702	05/01/29	6.000	106,540,727	100,369,888
GNMA Pool #0487056	03/15/29	6.500	49,641,237	47,847,764
FNMA Pool #0323819	07/01/29	7.500	46,171,000	46,740,923
GNMA Pool #0780931	12/15/28	7.000	41,709,780	41,253,475
Residential Accredited 99-QS1 A4	02/25/29	6.500	34,765,227	33,679,856
FNMA Pool #0050993	02/01/24	7.000	26,921,747	26,727,963
Structured Asset Security 96CFL A2B	02/25/28	6.759	26,000,000	26,073,060
GMAC Commingled Mort. Cert. 98-C2 ClassA1	05/15/35	6.150	26,298,453	25,670,183
Nationsbank Credit Master 95-1 Class A	04/15/03	6.450	25,000,000	25,174,800
FNMA Pool #0313915	10/01/24	6.891	24,811,888	24,691,799
Total of 10 Largest Holdings				**398,229,711**
Total System Holdings - Domestic Mortgage Backed Securities				**3,302,366,093**

Portfolio Detail Statistics as of June 30, 1999

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. Treasury Bonds	08/15/19	8.125	95,041,000	114,791,470
U.S. Treasury Notes	10/15/06	6.500	105,950,000	109,403,005
U.S. Treasury Notes	11/15/04	7.588	87,426,000	95,622,188
U.S. Treasury Notes	04/30/00	6.750	94,200,000	95,304,024
U.S. Treasury Notes	08/31/01	6.500	86,250,000	87,867,188
U.S. Treasury Notes	03/31/02	6.625	75,581,000	77,458,432
U.S. Treasury Notes	03/31/00	5.500	64,000,000	64,140,160
U.S. Treasury Notes	05/15/06	6.875	58,000,000	61,062,980
U.S. Treasury Notes	02/15/19	8.875	44,110,000	56,843,829
U.S. Treasury-Inflation Index	01/15/08	3.625	58,003,559	56,353,938
Total of 10 Largest Holdings				**818,847,214**
Total System Holdings - U.S. Government & Agency Obligations				**2,393,715,819**

Portfolio Detail Statistics as of June 30, 1999

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

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Salomon Smith Barney Holdings (Inflation Index)	02/14/02	3.650	37,410,744	36,487,073
Equity Residential Properties Operating LP	06/23/04	7.100	31,670,000	31,692,486
Public Service Enterprise Group	06/15/01	5.544	26,500,000	26,479,065
Ford Motor Credit Company Term Enhanced	08/27/06	5.104	25,000,000	24,949,000
Main Place Funding LLC Series 1999-1 Mtg.	05/28/02	5.169	24,000,000	23,977,500
Transcontinental Gas Pipeline	01/15/08	6.250	23,000,000	21,706,710
Morgan Stanley Dean Witter	01/20/04	5.625	22,000,000	21,204,480
JP Morgan and Company	03/13/00	5.300	20,000,000	19,940,000
Nationsbank Corporation	03/15/28	6.800	21,345,000	19,392,786
Philip Morris Companies	10/15/03	8.250	18,300,000	19,328,643
Total of 10 Largest Holdings				**245,157,743**
Total System Holdings - Domestic Corporate and Taxable Municipal Bonds				**1,980,248,405**

Portfolio Detail Statistics as of June 30, 1999

Trade Date Basis

Miscellaneous Domestic Fixed Income

10 Largest Holdings in Descending Order by Fair Value

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Security Capital U.S. Realty (Convertible)	05/22/03	2.500	75,000,000	56,953,500
Pennsylvania Initiative Small Business Loans	Various	Various	49,784,128	49,784,128
World Omni Automobile Lease Securitization	11/25/03	6.200	44,600,866	44,614,692
First Security Auto Owner 99-2A-4	10/15/06	6.200	40,533,000	40,264,614
Dresdner Funding Silent Partner 144A	06/30/31	8.151	35,000,000	34,672,400
Time Warner Entertainment Company	07/15/33	8.375	30,000,000	32,619,600
Sumitomo Bank International Finance	06/15/09	8.500	29,000,000	29,190,240
Ford Credit Auto 99B A4	06/15/02	5.800	29,290,000	29,134,177
Household Automotive 99-1 Class A3	06/17/03	6.330	28,810,000	28,815,060
ARG Funding Corporation 99-1 144A Class A2	05/20/03	5.880	27,690,000	27,264,059
Total of 10 Largest Holdings				**373,312,470**
Total System Holdings - Miscellaneous Domestic Fixed Income				**1,541,563,500**

Portfolio Detail Statistics as of June 30, 1999

Trade Date Basis

International Fixed Income

10 Largest Holdings in Descending Order by Fair Value

Description	Maturity Date	Interest Rate(%)	Par Value ($)	Fair Value ($)
Dutch (Government)	07/15/08	5.250	46,449,998	48,540,248
Germany (Federal Republic)	07/04/27	6.500	39,840,408	46,115,272
United Kingdom Treasury	10/13/08	9.000	35,618,206	45,121,143
United Kingdom Treasury	08/10/99	6.000	43,148,268	43,200,045
Germany (Federal Republic)	01/04/09	3.750	45,732,276	43,130,110
Canada (Government of)	06/01/01	4.500	43,012,899	42,535,456
Canada (Government of)	12/01/00	5.000	42,424,983	42,310,436
South Africa (Republic of)	08/31/10	13.000	43,851,508	38,701,149
Germany (Federal Republic)	12/20/02	7.125	34,486,089	38,258,867
International Bank for Reconst. & Dev.	02/18/08	2.000	35,380,671	35,930,984
Total of 10 Largest Holdings				**423,843,710**
Total System Holdings - International Fixed Income				**1,301,419,674**

Portfolio Detail Statistics as of June 30, 1999

Trade Date Basis

Fixed Income and Mortgage Investments – Collective Trust Funds

10 Largest Holdings in Descending Order by Fair Value

Description	No. of Shares	Fair Value ($)
MGT Public Bond Fund	12,150,302	153,458,319
Capital Guardian U. S. Fixed Income Fund	1,068,707	85,432,406
MAS Funds Advisory Mortgage Fund	7,408,286	74,971,852
PIMCO High Yield Fund	4,501,405	50,292,549
Capital Guardian Non- U. S. Fixed Income Fund	659,100	39,242,838
PIMCO International Bond Fund	4,788,851	32,995,184
MAS High Yield Bond Portfolio	3,260,886	29,445,803
Morgan Grenfell Investment Trust HighYield Bond Fund	2,805,404	26,136,876
Morgan Grenfell Investment Trust Emerging Markets Debt Fund	3,906,966	21,332,034
MGT Emerging Markets Fixed Income Fund	1,545,328	16,365,024
Total of 10 Largest Holdings		**529,672,885**
Total System Holdings - Fixed Income and Mortgage Investments - Collective Trust Funds		**548,159,096**

Portfolio Detail Statistics as of June 30, 1999

Trade Date Basis

Fixed Income and Mortgage Investments - Domestic Private Placements

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Realen Homes	03/31/02	10.000	8,750,000	8,750,000
Total System Holdings - Fixed Income and Mortgage Investments - Domestic Private Placements				**8,750,000**

Portfolio Detail Statistics as of June 30, 1999

Trade Date Basis

Postemployment Healthcare - Short-Term Investments

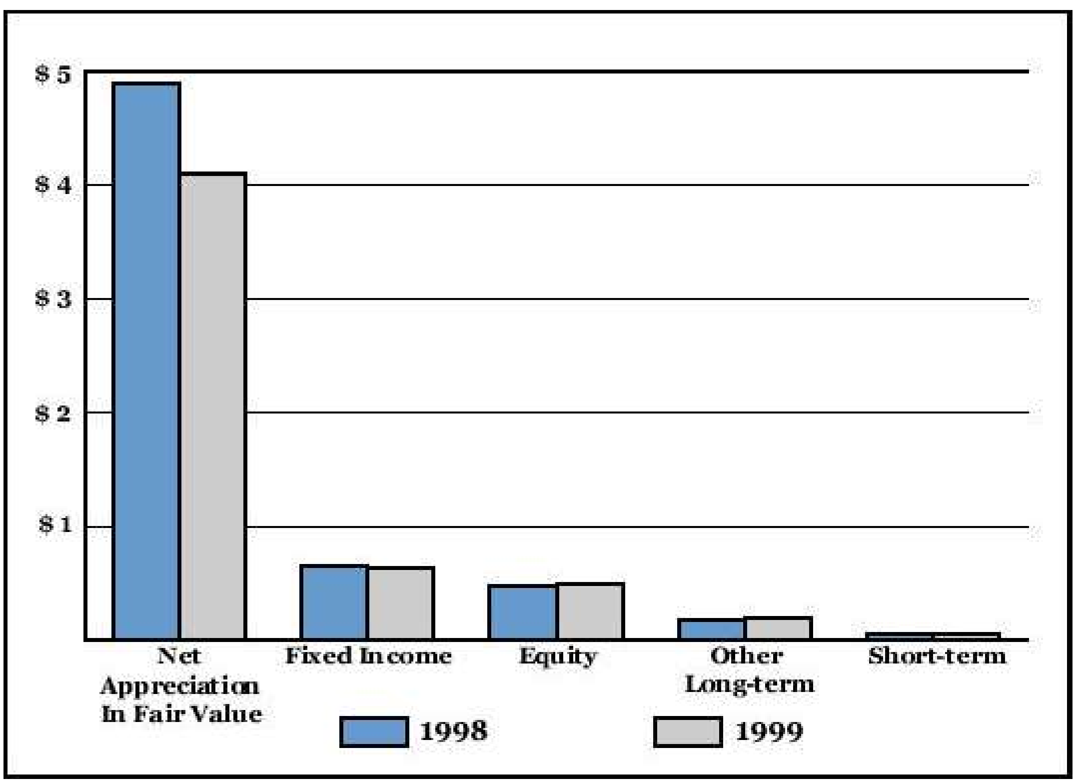
10 Largest Holdings in Descending Order by Fair Value

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Treasury Short-Term Investment Fund	Various	Various	21,344,498	21,344,500
Dauphin Deposit Repurchase Agreement	07/01/99	4.400%	13,322,711	13,322,711
Ford Motor	11/15/99	7.500%	2,995,000	3,015,276
Salomon	10/01/99	6.250%	2,500,000	2,504,375
Student Loan Marketing 1996-2 A1	10/25/04	5.005%	2,100,687	2,090,183
Sears Credit Account Master Trust 95-2 A	06/15/04	8.100%	1,979,167	2,014,416
Premier Auto Trust 97-2 Class A-4	06/06/01	6.250%	2,000,000	2,006,876
Morgan Stanley Dean Witter	03/20/00	5.890%	2,000,000	2,000,480
MBNA Master Credit Card 1994-A Class B	01/15/02	6.058%	2,000,000	2,000,400
Walt Disney Medium Term Note	04/17/00	5.600%	2,000,000	1,998,160
Total of 10 Largest Holdings				**52,297,377**
Total System Holdings - Postemployment Healthcare - Short-Term Investments				**83,951,500**

Comparison of Investment Activity Income
For Fiscal Years Ended June 30, 1999 & 1998
(Dollar Amounts in Thousands)

Asset Category	**1999**	**1998**
Net Appreciation in Fair Value	**$ 4,101,236**	$ 4,893,203
Fixed Income	**631,753**	651,170
Equity	**503,130**	479,149
Other Long-term	**201,075**	175,787
Short-Term	**62,668**	65,405
Total	**$ 5,499,862**	$ 6,264,714

(Dollar Amounts in Billions)



Total investment expenses were $88.9 million for the fiscal year ended June 30, 1999 compared to $88.8 million for the fiscal year ended June 30, 1998. A breakdown of those expenses follows.

Summary of Investment Expenses
Fiscal Year Ended June 30, 1999
(Dollar Amounts in Thousands)

	Assets under Management *	Fees
External Management		
Domestic Equity	$ 6,897,000	$ 12,810
Domestic Fixed	4,271,000	6,211
International Equity	7,858,000	18,269
International Fixed	2,209,000	2,301
Real Estate	1,996,000	14,066
Private Equity/Venture Capital	767,000	19,176
Other Investments	5,315,000	10,939
Total External Management	**29,313,000**	**83,772**
Total Internal Management	**19,671,000**	**2,384**
Total Investment Management	**$ 48,984,000**	**86,156**
Custodian fees		529
Consultant and legal fees		1,148
Miscellaneous expenses		1,096
Total Investment Expenses		**$ 88,929**

*Net Asset Value

Broker's fees on investment transactions for the fiscal year ended June 30, 1999 were $33.0 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, 1999

Broker Name	Fees Paid ($)	Broker Name	Fees Paid ($)
Merrill Lynch	5,957,921	ANC Nominees, Melbourne	315,976
Status Securities	2,306,034	Credit Suisse	313,200
Lynch, Jones and Ryan	1,721,744	First Boston Corporation	288,469
SBC Warburg	1,301,754	UBS Securities	264,530
Execution Services Inc.	1,210,094	HSBC Securities, Inc.	246,408
Morgan Stanley, Dean Witter	1,106,168	Deutsche Bank	246,089
Instinet Corporation	949,880	Swiss Bank Corporation	243,407
Investment Technology Group	925,840	ABN Amro	242,184
Goldman, Sachs, and Company	877,069	Schroder Securities, Inc.	191,633
Kleinwort Benson Inc.	845,832	Robert Fleming Securities	191,040
Kokusai Securities	789,153	Credit Lyonnais Securities	186,841
Bear, Stearns and Company	678,905	Zentral Sparkasse Und Kommerzba	183,056
Salomon Brothers	661,880	Panmure Gordon	181,757
Quaker Securities	473,970	Cheuvreux	174,368
Hoenig and Company	469,784	BNP Primeeast	170,825
Vontobel	446,107	Societe Generale	168,159
Paine Webber, Inc.	413,652	Donaldson, Lufkin and Jenrette	143,905
J.P. Morgan, Inc.	394,867	Javelin Securities	138,516
SBCA Swiss Bank Corp.	382,190	Smith Barney	131,199
Lehman Brothers	377,512	Dresdner Bank A.G.	129,087
Deutsche Morgan Grenfell	367,805	Scottsdale Securities Inc., St. Louis	115,449
Jefferies and Company Inc.	363,288	Frankel (Wm. V.) and Company	113,444
James Capel and Company	360,873	Hoare Govett Limited	108,725
Wertheim and Company	349,562	Cazenove Inc.	103,143

PROFESSIONAL CONSULTANTS

External Investment Advisors

ABS Capital Partners *(Private Equity)*

Aberdeen America, Inc. *(Developmental)*

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

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

Alliance Capital Management, L.P. *(Fixed & Equity)*

American Express Asset Management *(Equity)*

BG Media Investors *(Private Equity)*

Bastion Capital Corporation *(Private Equity)*

Berkshire Asset Management *(Developmental)*

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

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

CEO Venture Fund *(Venture Capital)*

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

Charter Financial Group, Inc. *(Developmental)*

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

Connors Investment Services Inc. *(Developmental)*

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

Daruma Asset Management, Inc. *(Developmental)*

Deutsche Asset Management Inc. (formerly Morgan Grenfell Capital Management) *(Fixed Income & GAA)*

Dollins Symons Management, Inc. *(Developmental)*

Duncan-Hurst Capital Management *(Equity)*

Edison Venture Funds *(Venture Capital)*

Emerald Advisers, Inc. *(Developmental)*

Fiduciary Trust Company International *(Fixed Income)*

First Pacific Advisors, Inc. *(Equity)*

Furman Selz Investors II, L.P. *(Private Equity)*

Genesis Asset Managers, Ltd. *(Equity)*

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

Greenwich Street Capital Partners *(Private Equity)*

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

Heritage Partners, Inc. *(Private Equity)*

Holt-Smith & Yates *(Developmental)*

Institutional Capital Corporation *(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 Advisors *(Real Estate)*

Landmark Advisors, Inc. *(Private Equity)*

LaSalle Investment Management, Inc. *(Real Estate)*

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

Investment Advisors (Continued)

Legg Mason Real Estate Services *(Real Estate)*

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

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

Lexington Capital Partners, Inc. *(Private Equity)*

Loyalhanna Commonwealth Fund *(Venture Capital)*

Lubert-Adler Partners *(Real Estate)*

MacKay-Shields Financial Corporation *(Equity & Fixed Income)*

Marathon Asset Management Limited *(Equity)*

Martin Currie Inc. *(Equity)*

Mellon Equity Associates *(Equity)*

Morgan Stanley Dean Witter Investment Management, Inc. *(Fixed Income, Private Equity, GAA & Real Estate)*

NEPA Management Corporation *(Venture Capital)*

NatWest Equity Partners *(Private Equity)*

Oppenheimer Capital Corporation *(Equity)*

Pacific Investment Management Company *(Fixed Income)*

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 Agricultural Group *(Real Estate)*

Putnam Advisory Company, Inc. *(Equity)*

RREEF Funds *(Real Estate)*

Rogge Global Partners *(Fixed Income)*

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

Rowe, Price-Fleming International Inc. *(Equity)*

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

SSR Realty Advisors, Inc. *(Real Estate)*

Schroder Capital Management North America, Ltd. *(Equity)*

Scudder Kemper Investment, Inc. *(Equity)*

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

Security Capital Markets Group Incorporated *(Real Estate)*

Seligman Henderson Company *(Equity)*

Spectrum Equity Partners *(Venture Capital)*

Sunrise Capital Partners, L.P. *(Private Equity)*

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

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

Tanaka Capital Management, Inc. *(Developmental)*

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

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

West Chester Capital Advisors *(Developmental)*

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

Willis Stein & Partners *(Private Equity)*

Investment Advisors (Continued)

FINANCIAL CONSULTANT

Financial Control Systems, Inc.

CUSTODIAN AND SECURITIES LENDING AGENT

Mellon Bank N.A.

INVESTMENT EVALUATOR

Wilshire Associates Incorporated

REAL ESTATE CONSULTANT

Frank Russell Company

PRIVATE EQUITY/ VENTURE CAPITAL CONSULTANT

Sovereign Financial Services, L.L.C.

PROXY VOTING AGENT

Institutional Shareholder Services

Public School Employees' Retirement System

Actuarial Section

Actuary's Certification Letter

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

February 4, 1999

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

Introduction

This report presents the actuarial valuation as of June 30, 1998 for the Public School Employees' Retirement System of Pennsylvania.

The principal results include:

- The employer contribution rate for fiscal year 1999/2000 which is 4.61%.
- The funded status of the plan determined as of June 30, 1998 based on the accrued liability and the actuarial value of assets as of that date which is 110.6%.
- The determination of the actuarial gain or loss as of June 30, 1998 which is a gain of $3.0 billion.
- Annual disclosure as of June 30, 1998 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. Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are included in the valuation report. Supporting schedules included in the Actuarial and Statistical Section of PSERS' Comprehensive Annual Financial Report were prepared by the actuary.

Changes Since Last Year

Actuarial Assumptions and Methods

The actuarial assumptions are adopted by the Board based on the recommendation of the actuary. The actuarial cost method is specified in the Retirement Code. The actuarial assumptions and methods, outlined in Table 9, are unchanged from last year.

Legislative and Administrative Changes

There were two legislative changes during the year that have a financial impact on the System.

Act 88 – Cost of Living Adjustment

Effective July 1, 1998, a Cost of Living Adjustment (COLA) was granted to annuitants who were receiving a superannuation, withdrawal or disability annuity on July 1, 1998 and whose most recent effective date of retirement was prior to July 1, 1997. Annuitants who were receiving a withdrawal annuity are eligible for the COLA on July 1 coincident with or next following their superannuation age. The amount of the COLA is a percentage of the monthly annuity payment and is based on the annuitant's most recent effective date of retirement.

Act 41 – Early Retirement Windows

During two periods – April 2, 1998 through July 10, 1998 and April 1, 1999 through June 30, 1999 – members who have 30 years of credit could retire without reduction for early commencement of benefits.

Contribution Rates

Member

The average contribution rate payable by the members is 5.72%. 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%.

Employer

The results of the valuation as of June 30, 1998 determine the employer contribution rate for fiscal year 1999/2000. The total contribution rate payable by the employers for fiscal year 1999/2000 is 4.61% of payroll. This includes 4.36% of payroll for pension benefits plus .25% of payroll for the health insurance premium assistance program.

Reasons for Change in the Employer Rate

The employer contribution rate decreased from 6.04% for fiscal year 1998/1999 to 4.61% for fiscal year 1999/2000. The decrease of 1.43% is due to the following reasons:

• Decrease due to actuarial gain on assets	(2.49)%
• Decrease due to actuarial gains on liabilities	(.16)
• Increase due to health insurance contribution rate	.10
• Increase due to annuitant COLA	.83
• Increase due to early retirement windows	.29
• Total	(1.43)%

Summary of Principal Results

Summarized below are the principal financial results for the Public School Employees' Retirement System based upon the actuarial valuation as of June 30, 1998. Comparable results from the June 30, 1997 valuation are also shown. (Dollar amounts in millions.)

Item	June 30, 1998	June 30, 1997
Demographics		
Active Members		
• Number	220,703	215,077
• Average Pay	$ 36,662	$ 36,010
Annuitants		
• Number	126,814	124,124
• Average Benefit Payment	$ 13,032	$ 11,658
Contribution Rates (as a Percentage of Payroll)	(Fiscal Year 1999/2000)	(Fiscal Year 1998/1999)
Employer Contribution Rate:		
• Total Pension Contribution Rate	4.36%	5.89%
• Health Insurance Contribution Rate	0.25	0.15
• Total	4.61	6.04
Member Average Contribution Rate	5.72	5.69
Total Rate	10.33%	11.73%
Actuarial Funded Status		
• Accrued Liability	$ 36,136.2	$ 33,209.5
• Actuarial Value of Assets	39,969.0	34,872.6
• Unfunded (Overfunded) Accrued Liability	$ (3,832.8)	$ (1,663.1)
• Funded Ratio	110.6%	105.0%

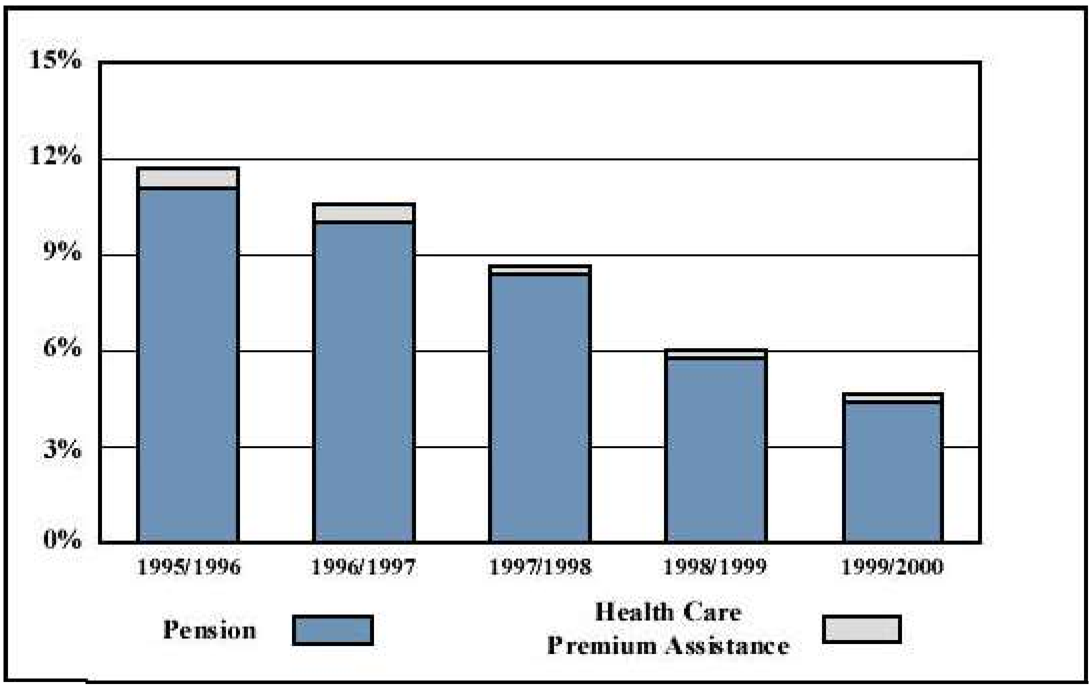
Five-Year History of Principal Financial Results

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

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
1999/2000	5.72%	6.40%	(2.04)%	.25%	4.61%
1998/1999	5.69	6.33	(.44)	.15	6.04
1997/1998	5.65	6.44	2.17	.15	8.76
1996/1997	5.62	6.44	3.56	.60	10.60
1995/1996	5.59	6.43	4.67	.62	11.72

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 4.61% 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 110.6% as of June 30, 1998. The funded ratio is based on an actuarial value of assets of $40.0 billion and an accrued liability of $36.1 billion.

Reasons for Change in the Funded Ratio

The funded ratio increased from 105.0% as of June 30, 1997 to 110.6% as of June 30, 1998. The increase is due to the net effect of asset and experience gains, the annuitant COLA and the early retirement window.

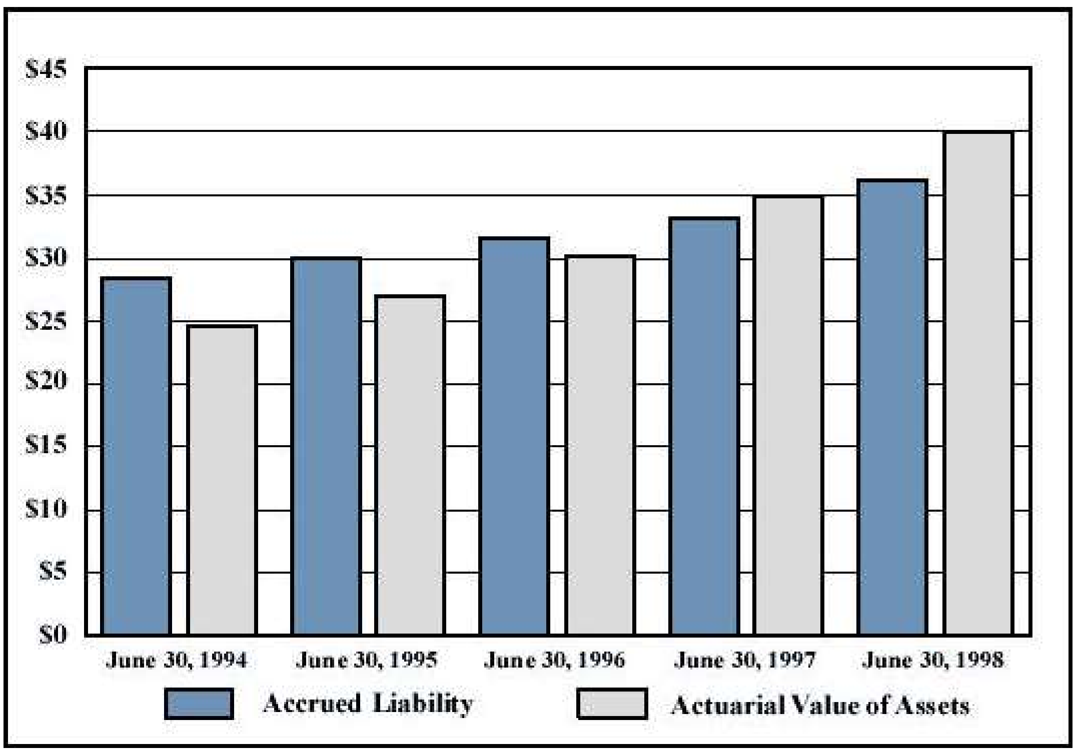
**Five-Year History of
Funded Ratio**
(Dollar Amounts in Millions)

Valuation as of June 30	Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio
1998	$ 36,136.2	$ 39,969.0	$ (3,832.8)	110.6%
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

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

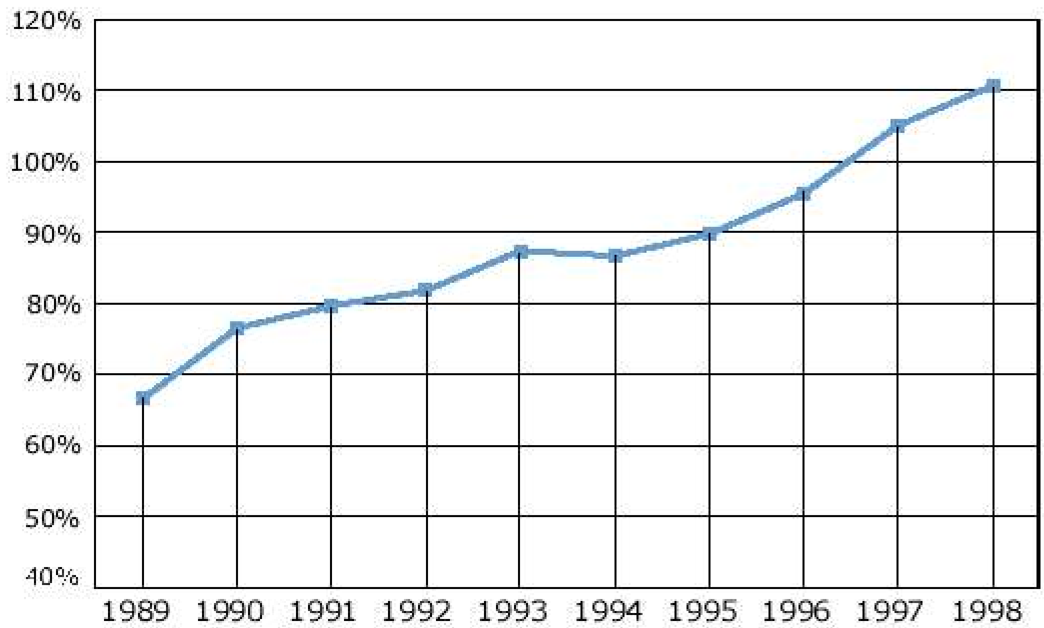
Five-Year History of Accrued Liability and Actuarial Value of Assets

(Dollar Amounts in Billions)



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

Ten-Year History of Funded Ratio
(1989 - 1998)



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 110.6% as of June 30, 1998. The funded ratio is based on an actuarial value of assets of $40.0 billion and an accrued liability of $36.1 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 1993/1994 through 1997/1998 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
1997/1998	15.8%	16.8%
1996/1997	18.3	17.3
1995/1996	17.8	12.6
1994/1995	16.9	10.6
1993/1994	1.8	8.7

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, 1998
Table 2	—	Determination of Health Insurance Premium Assistance Contribution Rate for Fiscal Year 1999/2000
Table 3	—	Summary of Market Value of Plan Assets as of June 30, 1998
Table 4	—	Derivation of Actuarial Value of Assets as of June 30, 1998
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	—	Solvency Test — Comparative Summary of Accrued Liability and Actuarial Value of Assets
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, 1998
Exhibit I	—	Active Membership Data as of June 30, 1998 - Number and Average Annual Salary
Exhibit II	—	Annuitant and Beneficiary Membership Data as of June 30, 1998 - Number and Average Annual Benefit
Exhibit III	—	10-Year History of Membership Data

To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with principles of practice prescribed by the Actuarial Standards Board. Our qualifications include membership in the American Academy of Actuaries, and experience in performing valuations for public retirement systems.

Respectfully submitted,

John W. Thompson
Consulting Actuary

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

TABLE 1

SUMMARY OF RESULTS OF ACTUARIAL VALUATION AS OF JUNE 30, 1998

(Dollar Amounts in Thousands)

Item	Amount
Member Data	
1. Number of Members	
a) Active Members	220,703
b) Inactive Members and Vestees	43,591
c) Annuitants and Survivor Annuitants	126,814
d) Total	391,108
2. Annualized Salaries	$ 8,091,481
3. Annual Annuities	$ 1,652,645
Valuation Results	
4. Accrued Liability	
a) Active Members	$ 22,012,121
b) Inactive Members and Vestees	389,654
c) Annuitants and Survivor Annuitants	13,658,253
d) Health Care Premium Assistance Payments	76,135
e) Total	$ 36,136,163
5. Actuarial Value of Assets	$ 39,968,957
6. Unfunded Accrued Liability (4) - (5)	$ (3,832,794)
7. Total Normal Cost Rate	12.12%
8. Member Contribution Rate	5.72%
9. Employer Normal Cost Rate	6.40%
Employer Annual Funding Requirement for Fiscal 1999/2000	
10. Employer Contribution Rate	
a) Normal	6.40%
b) Unfunded Accrued Liability	(2.04%)
c) Total Pension Rate	4.36%
d) Health Insurance (premium assistance)	0.25%
e) Total	4.61%

TABLE 2

DETERMINATION OF HEALTH INSURANCE PREMIUM ASSISTANCE CONTRIBUTION RATE FOR FISCAL YEAR 1999/2000

(Dollar Amounts in Thousands)

Item	Amount
1. Estimated Number of Eligible Annuitants in Fiscal 2000/2001	85,900
2. Estimated Number of Eligible Annuitants Who Elect Coverage	53,300
3. Annual Health Insurance Premium Assistance Payments During Fiscal 2000/2001 (2) * $55 * 12	$ 35,178
4. Annual Expenses During Fiscal 2000/2001	704
5. Total Estimated Health Insurance Premium Assistance Account Disbursements during Fiscal 2000/2001	$ 35,882
6. Estimated Reserve in Health Insurance Account (premium) assistance)	$ 13,204
7. Estimated Shortfall in Health Insurance Account (premium assistance) (5 - 6)	$ 22,678
8. Required Health Insurance Premium Assistance Contribution Rate	
(a) Estimated 1999/2000 Payroll	$ 9,071,134
(b) Required Health Insurance Premium Assistance Contribution Rate (7) / (8a)	0.25%

TABLE 3

SUMMARY OF MARKET VALUE OF PLAN ASSETS AS OF JUNE 30, 1998

(Dollar Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 1997	$ 39,386,330
2. Contributions During Fiscal 1997/1998	1,212,359
3. Disbursements During Fiscal 1997/1998	1,914,722
4. Investment Return During Fiscal 1997/1998	
a) Gross Investment Return	$ 6,195,171
b) Administrative Expenses	27,300
c) Net Investment Return (a) - (b)	$ 6,167,871
5. Market Value of Assets as of June 30, 1998 (1) + (2) - (3) + (4)	$ 44,851,838
6. Rate of Return	15.80%
Asset Allocation by Account	
1. Members' Savings Account	$ 6,113,312
2. Annuity Reserve Account	13,484,732
3. State Accumulation Account	25,177,659
4. Health Care Account (premium assistance)	76,135
5. Total	$ 44,851,838

TABLE 4

DERIVATION OF ACTUARIAL VALUE OF ASSETS AS OF JUNE 30, 1998
(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 1998 — $ 44,851,838

2. Determination of Deferred Gain (Loss)

Year	Gain (Loss)	% Deferred	Deferred Amount
1997/1998	$ 4,893,203	66-2/3%	$ 3,262,136
1996/1997	4,862,236	33-1/3%	1,620,745
1995/1996	3,816,590	- 0 -	0
Total	$ 13,572,029		$ 4,882,881

3. Actuarial Value of Assets (1) - (2) — $ 39,968,957

4. Rate of Return — 16.80%

TABLE 5

ANALYSIS OF CHANGE IN UNFUNDED ACCRUED LIABILITY AS OF JUNE 30, 1998

(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 1997	$(1,663,149)
2. Interest Charge at 8.50% to June 30, 1998	$ (141,368)
3. Contributions Toward Unfunded Accrued Liability	$ 186,076
4. Expected Unfunded Accrued Liability at June 30, 1998 (1) + (2) - (3)	$(1,990,593)
5. Actual Unfunded Accrued Liability at June 30, 1998	(3,832,794)
6. Increase (Decrease) from Expected (5) - (4)	$(1,842,201)
7. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Gain from Investment Return on Actuarial Value of Assets	$(2,864,353)
(ii) Gain from Salary Increases Less than Expected	(245,371)
(iii) Loss from Retirement and Other Separation Experience	16,609
(iv) Loss from Annuitants' Mortality Experience	62,935
Subtotal	$(3,030,180)
(b) Changes in Benefit Provisions	
(i) Act 88 Cost of Living Adjustment	$ 956,799
(ii) Act 41 Early Retirement Window	231,180
Subtotal	$ 1,187,979
(c) Grand Total	$(1,842,201)

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
1998	39,968,957	$ 36,136,163	$ 3,832,794	110.6%	$ 8,091,481	(47.4%)
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%

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
1998	$ 718,431	100%
1997	796,205	100%
1996	860,898	100%
1995	791,802	100%
1994	909,292	100%
1993	931,829	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, 1996 was contributed in the fiscal year ending June 30, 1998).
Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/98
Actuarial Cost Method:	Entry Age
Amortization Method:	Level percent closed
Remaining Amortization Period:	12 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

SOLVENCY TEST

COMPARATIVE SUMMARY OF ACCRUED LIABILITY AND ACTUARIAL VALUE OF ASSETS

(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	Actuarial Value of Assets	(1) Portion of Accrued Liability Covered By Valuation Assets	(2)	(3)
1998	$ 6,113,312	$ 13,734,388	$ 16,288,463	$ 39,968,957	100%	100%	100%
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%

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 Insurance 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, 1998 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 April 2, 1998 through July 10, 1998 or the period April 1, 1999 through June 30, 1999.

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 Insurance 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, 1998
(Dollar Amounts in Thousands)

ACTIVE MEMBERS *

Item	Male	Female	Total
Number of Members	66,947	153,756	220,703
Annual Salaries **	$ 2,894,703	$ 5,196,778	$ 8,091,481
Average Age	45.4	44.7	45.0
Average Service	15.2	11.7	12.8

* Excludes 43,591 inactive members and vestees.
** Salaries of $7,834,963 were reported for the fiscal year ended June 30, 1998

ANNUITANTS AND BENEFICIARIES

Item	Number	Annual Annuities	Average Annuities
Retired Annuitants	115,488	$ 1,563,146	$ 13,535
Survivors	6,149	36,036	5,861
Disabled Annuitants	5,177	53,463	10,327
Total	126,814	$ 1,652,645	$ 13,032

EXHIBIT I

ACTIVE MEMBERSHIP DATA AS OF JUNE 30, 1998
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	4,397	31								4,428
	$ 21,912	$ 21,736								$ 21,911
25 - 29	13,559	3,601	52							17,212
	$ 27,796	$ 35,227	$ 26,558							$ 29,347
30 - 34	7,945	7,093	2,327	71						17,436
	$ 23,196	$ 37,088	$ 39,666	$ 29,254						$ 31,070
35 - 39	9,281	5,098	5,303	1,953	118					21,753
	$ 17,860	$ 32,522	$ 42,428	$ 41,367	$ 29,757					$ 29,460
40 - 44	11,187	6,991	5,067	6,508	4,668	88				34,509
	$ 17,658	$ 29,019	$ 39,674	$ 48,373	$ 50,991	$ 30,717				$ 33,527
45 - 49	8,145	7,487	6,291	4,683	12,570	9,711	65			48,952
	$ 19,323	$ 29,278	$ 37,606	$ 46,183	$ 55,359	$ 57,645	$ 33,940			$ 42,640
50 - 54	4,512	4,639	5,047	4,136	4,317	12,059	5,487	28		40,225
	$ 18,467	$ 27,212	$ 34,380	$ 39,986	$ 49,032	$ 59,118	$ 60,464	$ 34,111		$ 44,891
55 - 59	2,517	2,506	2,951	3,045	3,214	2,977	3,867	1,188	7	22,272
	$ 16,074	$ 22,801	$ 29,159	$ 32,102	$ 39,188	$ 51,149	$ 60,519	$ 61,082	$ 39,383	$ 38,905
60 - 64	1,297	1,300	1,454	1,370	1,693	1,260	575	568	161	9,678
	$ 13,935	$ 20,186	$ 24,934	$ 28,045	$ 33,669	$ 41,423	$ 49,739	$ 61,547	$ 57,885	$ 31,108
OVER 65	975	848	710	507	466	353	206	61	112	4,238
	$ 11,135	$ 14,639	$ 19,157	$ 20,267	$ 26,662	$ 33,368	$ 38,356	$ 55,215	$ 58,270	$ 21,035
TOTAL	63,815	39,594	29,202	22,273	27,046	26,448	10,200	1,845	280	220,703
	$ 20,856	$ 30,320	$ 36,494	$ 41,565	$ 49,710	$ 56,399	$ 59,265	$ 60,622	$ 57,576	$ 36,662

EXHIBIT II

ANNUITANT AND BENEFICIARY MEMBERSHIP DATA
AS OF JUNE 30, 1998

NUMBER AND AVERAGE ANNUAL BENEFIT
EXCLUDES OPTION 4 WITHDRAWALS

Age Last Birthday	Number	Annual Benefit (Thousands)	Average Annual Benefit
Retired Annuitants			
Under 60	19,792	$ 310,778	$ 15,702
60 - 64	15,690	314,094	20,019
65 - 69	21,418	327,498	15,291
70 - 74	20,304	240,269	11,834
75 - 79	15,554	141,958	9,127
Over 79	22,730	228,549	10,055
Total	115,488	$ 1,563,146	$ 13,535
Survivors			
Under 60	554	$ 3,665	$ 6,616
60 - 64	357	2,969	8,317
65 - 69	622	4,722	7,592
70 - 74	985	6,193	6,287
75 - 79	1,247	6,912	5,543
Over 79	2,384	11,575	4,855
Total	6,149	$ 36,036	$ 5,860
Disabled Annuitants			
Under 60	2,263	$ 29,632	$ 13,094
60 - 64	898	8,551	9,522
65 - 69	756	6,035	7,983
70 - 74	543	4,017	7,398
75 - 79	384	2,820	7,344
Over 79	333	2,408	7,231
Total	5,177	$ 53,463	$ 10,327
Grand Total	126,814	$ 1,652,645	$ 13,032

EXHIBIT III

10 YEAR HISTORY OF MEMBERSHIP DATA

ACTIVE MEMBERS

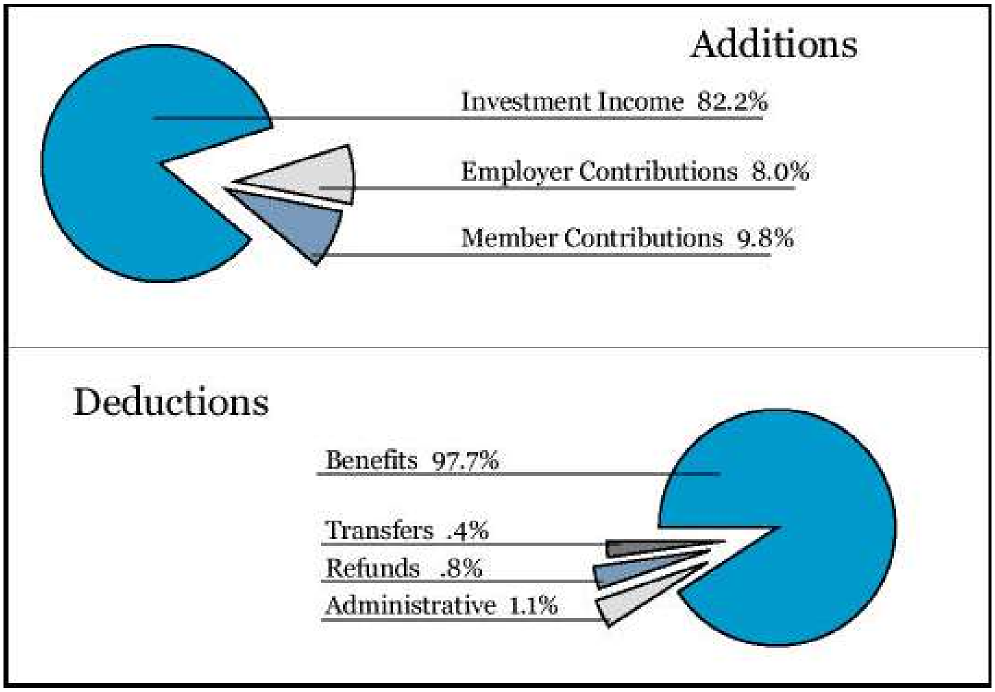
Valuation as of June 30	Number of Active Members	Percentage Change in Membership	Total Annual Payroll (Thousands)	Percentage Change in Payroll
1998	220,703	2.62%	$ 8,091,481	4.47%
1997	215,077	0.55%	7,745,001	1.69%
1996	213,906	1.48%	7,616,585	3.23%
1995	210,783	2.05%	7,378,342	7.16%
1994	206,540	4.31%	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%

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
1998	126,814	7,132	4,442	2.17%	$ 1,652.6	14.21%
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%

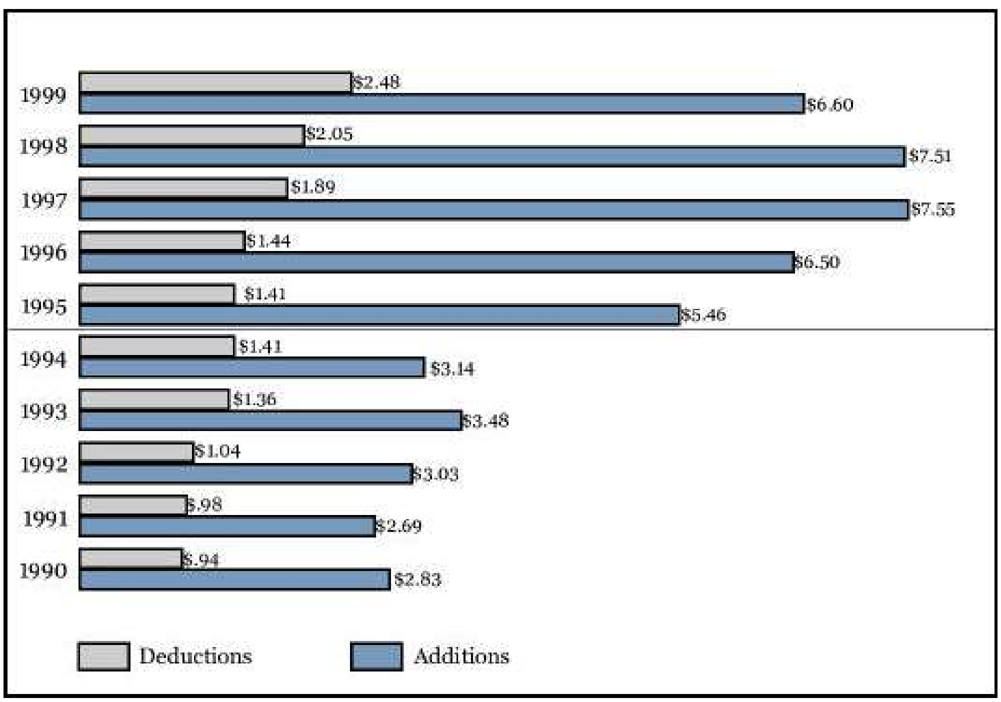
Statistical Section

Changes in Plan Net Assets* 1999



Changes in Plan Net Assets* - 1999
Additions vs. Deductions - 10 Year Trend

(Amounts in Billions)



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

Supplemental Schedule 1
Additions to Plan Net Assets and Deductions from Plan Net Assets
Years ended June 30, 1988 through 1999

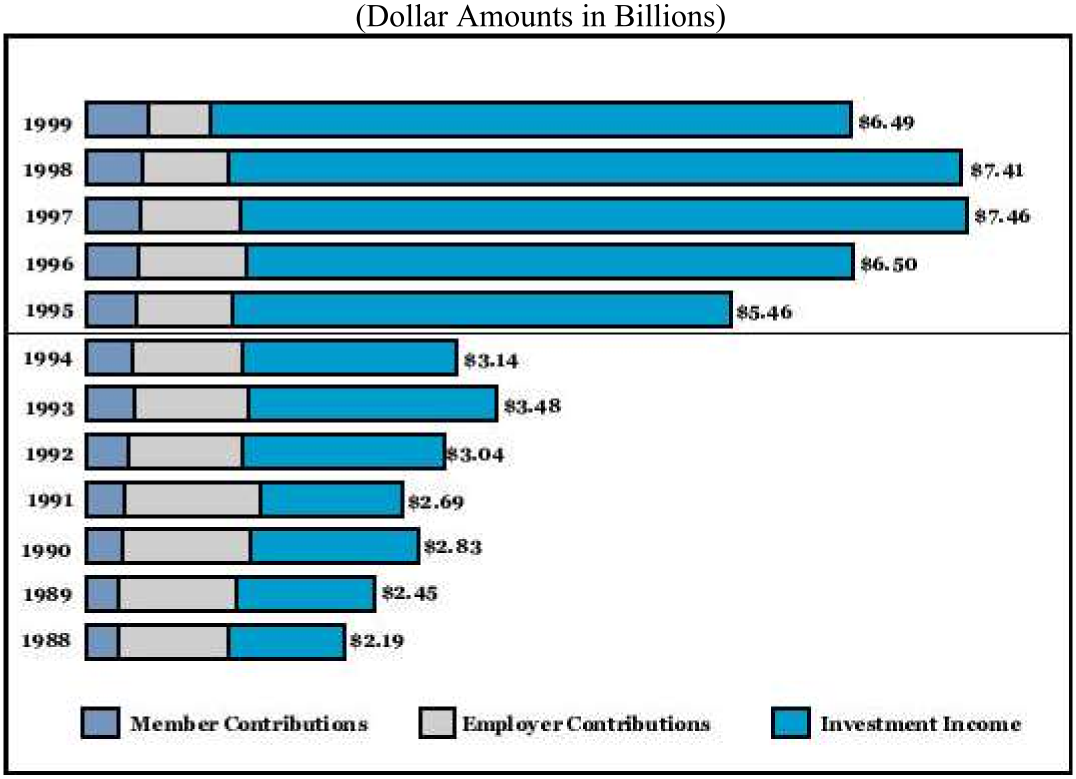
(Dollar Amounts In Thousands)

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) 1999	$ 535,640	$ 526,960	6.04 %	$ 5,427,856 (1)	$ 6,490,456
(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

(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 1999 which created significant fluctuations.

(Dollar Amounts in Billions)



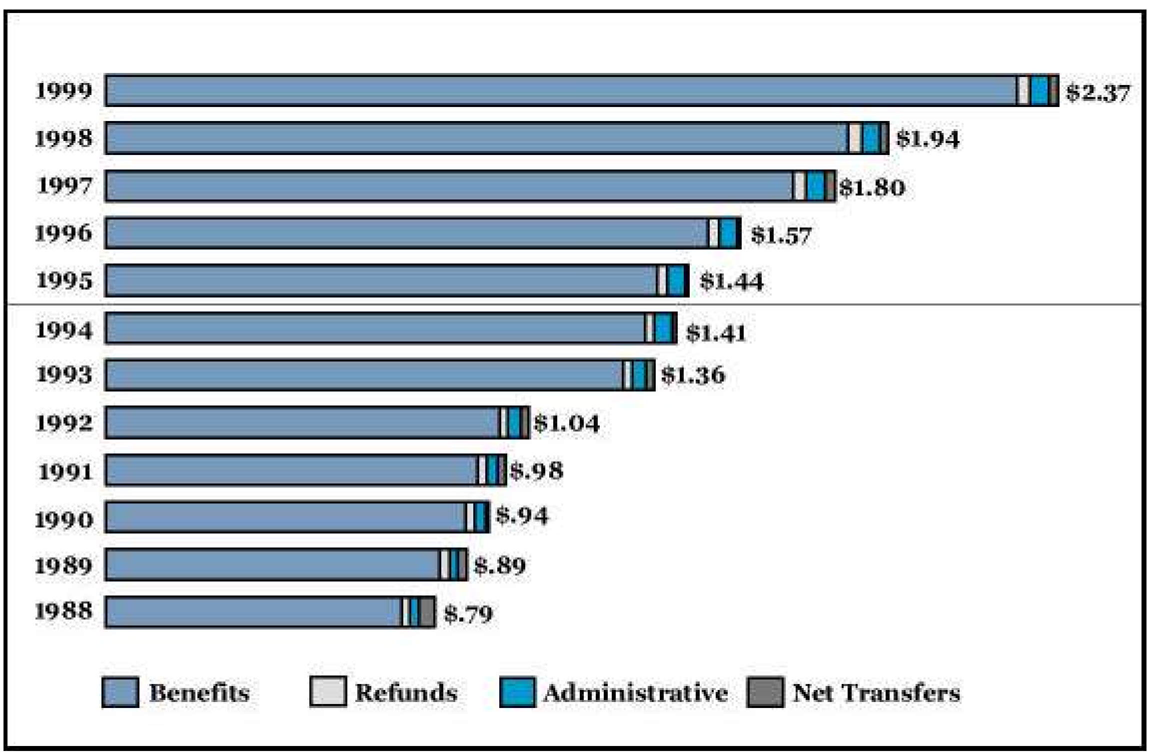
Supplemental Schedule 1 (Continued)
Additions to Plan Net Assets and Deductions from Plan Net Assets
Years ended June 30, 1988 through 1999
(Dollar Amounts In Thousands)

Deduction from Plan Net Assets

Fiscal Year	Benefits	Lump-sum and Installment	Refunds	Administrative	Net Transfers	Total Deductions
(A) 1999	$ 1,723,722	$ 591,532	$ 20,110	$ 24,932	$ 10,247	$ 2,370,543
(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

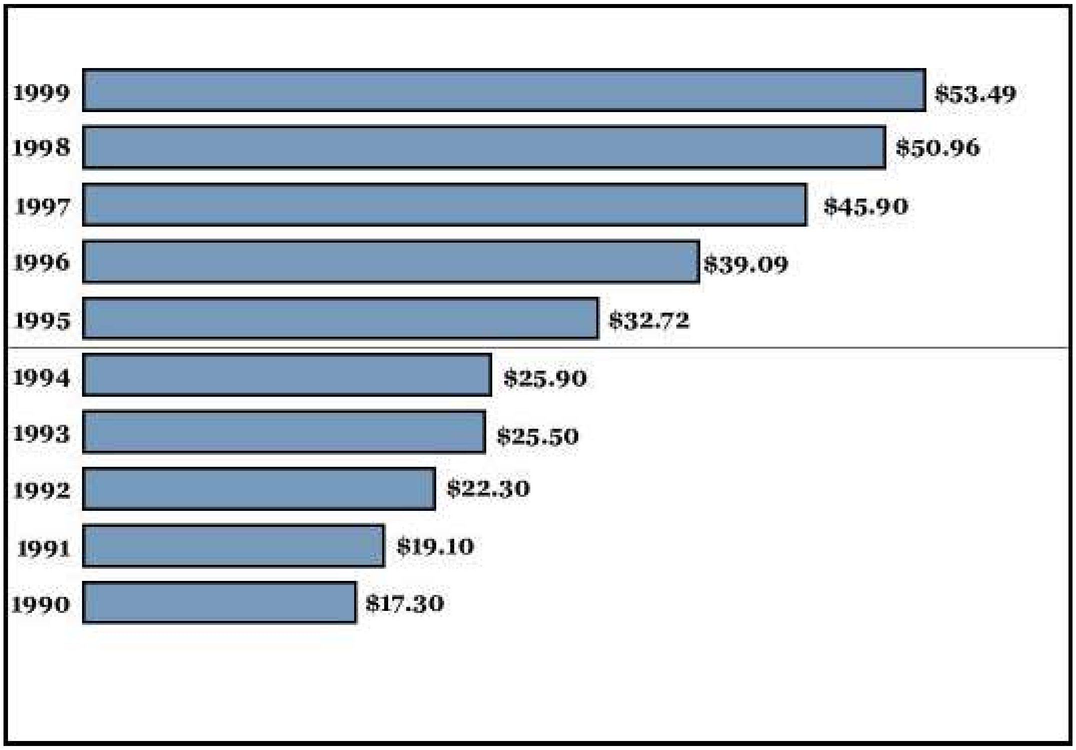
(A) Includes premium assistance activity, and does not include HOP activity.

(Dollar Amounts in Billions)



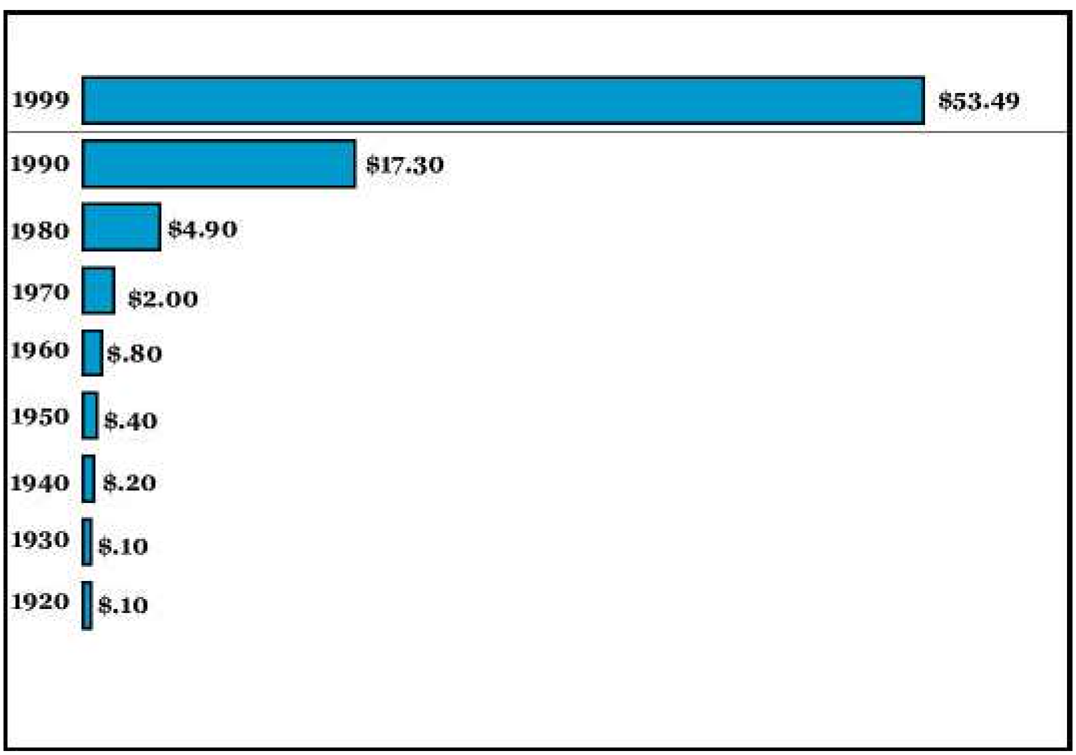
Total Assets* - 10 Year Trend

(Fair Value - Amounts in Billions)



Total Assets – 1920 to June 30, 1999*

(Fair Value - Amounts in Billions)



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

Supplemental Schedule 2

Operating Expenses for Years ended June 30, 1999 and 1998

(Dollar Amounts in Thousands)

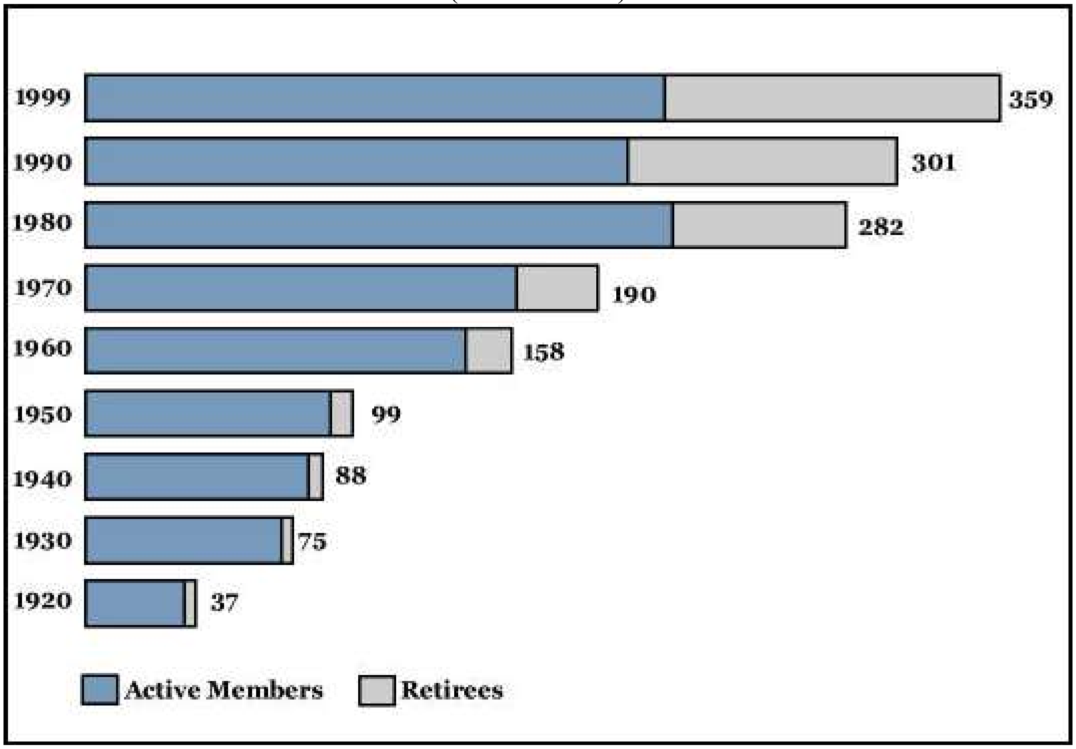
	1999			1998		
	Administrative Expenses (1)	**Investment Expenses (2)**	**Total**	Administrative Expenses (1)	Investment Expenses (2)	Total
Personnel costs:						
Salaries and wages	**$ 11,276**	**$ 1,689**	**$ 12,965**	$ 11,003	$ 1,529	$ 12,532
Social security contributions	**862**	**110**	**972**	842	100	942
Retirement contributions	**616**	**95**	**711**	674	89	763
Employees' insurance contributions	**1,984**	**212**	**2,196**	1,927	177	2,104
Other employee benefits	**422**	**42**	**464**	342	50	392
Total personnel costs	**15,160**	**2,148**	**17,308**	14,788	1,945	16,733
Operating costs:						
Investment managers fees	**–**	**83,772**	**83,772**	–	79,724	79,724
Custodial fees	**–**	**529**	**529**	–	432	432
Specialized services	**2,639**	**25**	**2,664**	6,207	13	6,220
Rental of real estate and electricity	**1,381**	**111**	**1,492**	1,339	111	1,450
Consultant and legal fees	**11**	**1,148**	**1,159**	371	5,382	5,753
Treasury and other Commonwealth services	**855**	**91**	**946**	817	89	906
Postage	**1,210**	**–**	**1,210**	701	–	701
Contracted maintenance services	**584**	**–**	**584**	761	–	761
Office supplies	**702**	**37**	**739**	610	23	633
Rental of equipment	**1,354**	**–**	**1,354**	1,467	1	1,468
Printing	**736**	**–**	**736**	377	–	377
Travel	**166**	**57**	**223**	199	50	249
Telephone and telegraph	**520**	**16**	**536**	180	21	201
Miscellaneous expenses	**601**	**995**	**1,596**	712	1,025	1,737
Total operating expenses	**10,759**	**86,781**	**97,540**	13,741	86,871	100,612
Fixed charges:						
Furniture and equipment	**164**	**–**	**164**	(13)	–	(13)
Depreciation	**1,703**	**–**	**1,703**	1,431	–	1,431
Total fixed charges	**1,867**	**–**	**1,867**	1,418	–	1,418
Total operating expenses	**$ 27,786**	**$ 88,929**	**$ 116,715**	$ 29,947	$ 88,816	$ 118,763

(1) Includes administrative expenses of $684 and $504 related to Premium Assistance and $2,854 and $2,647 related to HOP for the years ended June 30, 1999 and 1998, respectively.

(2) Does not include $32,963 and $34,805 for the years ended June 30, 1999 and 1998, respectively, in capitalized broker commissions.

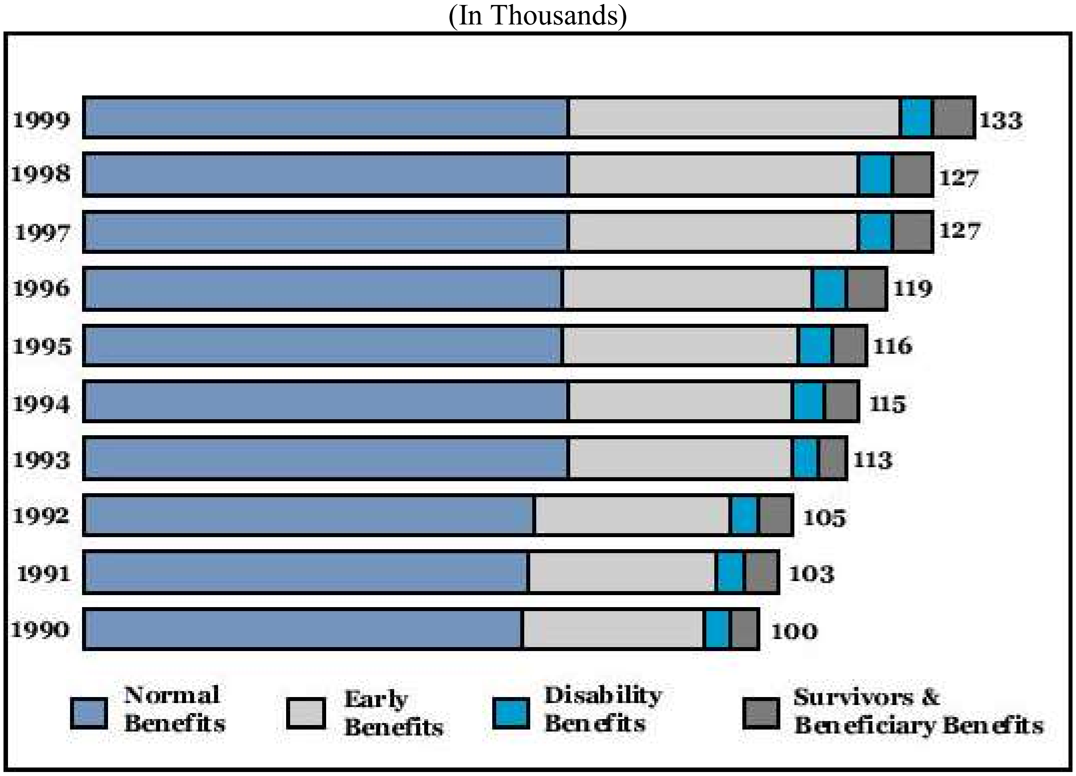
Total Membership - Active & Retired

(In Thousands)



Retired Members - 10 Year Trend

(In Thousands)



Schedule of Retired Members by Type of Benefit

Year	Retirement Type**	Option M* 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
1999	S	49,255	$1,183	8,046	$ 855	14,641	$1,309
	W	36,002	1,281	5,514	670	6,958	1,278
	D	4,587	854	14	545	782	1,105
	R	1	4	0	0	0	0
	B	120	754	1	1,160	5,655	519
		89,965		**13,575**		**28,036**	
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**	

*** 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
1999	S	444	$2,379	0	$ 0	72,386	0.3%
	W	207	2,167	0	0	48,681	12.5%
	D	1	1,109	0	0	5,384	4.0%
	R	0	0	0	0	1	0.0%
	B	142	427	496	475	6,414	4.5%
		794		**496**		**132,866**	**4.8%**
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%**

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

Components of Total Contribution Rate

(In Percentages)

Fiscal Year	Employer Contribution: Normal Requirement (A)	Employer Contribution: (Funded) / Unfunded Accrued Liability (B)	Employer Contribution: Health Insurance Premium Assistance Contribution (C)	Total Employer	Member Contribution (Average)	Total Contribution Rate
1999-2000	6.40	(2.04)	.25	4.61	5.72	10.33
1998-1999	6.33	(0.44)	.15	6.04	5.69	11.73
1997-1998	6.44	2.17	.15	8.76	5.65	14.41
1996-1997	6.44	3.56	.60	10.60	5.62	16.22
1995-1996	6.43	4.67	.62	11.72	5.59	17.31
1994-1995	6.43	4.18	.45	11.06	5.55	16.61
1993-1994	7.34	5.58	.25	13.17	5.51	18.68
1992-1993	7.90	5.84	.50	14.24	5.48	19.72
1991-1992	8.00	6.40	.50	14.90	5.46	20.36
1990-1991	8.28	10.90		19.18	5.69	24.87
1989-1990	8.44	11.24		19.68	5.53	25.21
1988-1989	8.63	10.64		19.27	5.37	24.64
1987-1988	8.72	10.82		19.54	5.34	24.88
1986-1987	9.13	10.77		19.90	5.29	25.19
1985-1986	9.16	10.88		20.04	5.27	25.31
1984-1985	8.35	10.96		19.31	5.25	24.56
1983-1984	8.75	8.31		17.06	5.25	22.31
1982-1983	7.93	8.07		16.00	5.25	21.25
1981-1982	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 funded / unfunded accrued liability portion is the percentage of compensation necessary to fund past benefit enhancements, cost-of-living adjustments and other actuarial gains and losses.

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

Schedule of Employers (Continued)

G

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

H

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

I

Indiana Area
Interboro
Iroquois

J

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

K

Kane Area
Karns City Area
Kennett Consolidated
Keystone
Keystone Central
Keystone Oaks
Kiski Area
Kutztown Area

L

Lackawanna Trail
Lake Lehman
Lakeland
Lakeview
Lampeter-Strasburg
Lancaster City
Laurel
Laurel Highlands
Lebanon
Leechburg Area
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
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

Schedule of Employers (Continued)

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
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

Schedule of Employers (Continued)

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 AVTS
Beaver County AVTS
Bedford County Technical Center
Berks Career & Technical Center
Bethlehem AVTS
Bucks County AVTS
Butler County AVTS
Carbon County AVTS
Career Institute of Technology
Central Montgomery County CTC
Central Westmoreland CTC
Centre County AVTS
Clarion County Career Center
Clearfield County AVTS
Columbia-Montour AVTS
Crawford County AVTS
CTC of Lackawanna County
Cumberland-Perry AVTS
Dauphin Technical School
Delaware County AVTS
Eastern Center for Arts and Technology
Eastern Westmoreland CTC
Erie County AVTS
Fayette County AVTS
Forbes Road East AVTS
Franklin County CTC
Fulton County AVTS
Greater Altoona CTC
Greater Johnstown AVTS
Greene County AVTS
Huntingdon County CTC
Indiana County AVTS
Jefferson County-DuBois AVTS
Juniata - Mifflin County AVTS
Lancaster County CTC
Lawrence County AVTS
Lebanon County AVTS
Lehigh County AVTS
Lycoming County Career Consortium
Mercer County AVTS
Middle Bucks Institute of Technology
Mon Valley CTC
Monroe County AVTS
Northern Tier Career Center
North Fayette County AVTS
North Montco Technical Career Center
North Westmoreland County AVTS
Northumberland County AVTS
Parkway West AVTS
Reading-Muhlenberg AVTS
Schuylkill County AVTS
Somerset County Technology Center
SUN Area CTC
Susquehanna County AVTS
Upper Bucks County AVTS
Venango County AVTS
West Side AVTS
Western Area CTC
Western Center for Technical Studies
Wilkes-Barre AVTS
York County AVTS

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 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 (C.S.)

Alliance for Progress C.S.
Archway C.S. of Chester
Center for Economics and Law C.S.
Centre Learning Community C.S.
Chester C.S.
Chester County Family Academy C.S.
Creative Educational Concepts C.S.
Eugenio Maria de Hostos Community Bilingual C.S.
Family C.S.
GECAC Community C.S.
IMHOTEP Institute C.S.
Keystone Education Center C.S.
La Academia: The Partnership C.S.
Laboratory C.S.
Manchester Academic C.S.
Mosaica Academy C.S.
Multi-Cultural Academy C.S.
Northeast C.S.
Northside Urban Pathways C.S.
Philadelphia Community Academy of PA C.S.
Philadelphia Harambee Institute of Science and Technology C.S.
Preparatory Charter of Mathematics, Science, Technology and Careers School
Ridgeview Academy C.S.
Sylvan Heights Science C.S.
Urban League of Pittsburgh C.S.
Village C.S. of Chester-Upland
West Oak Lane C.S.
World Communications C.S.