

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

(A Component Unit of the Commonwealth of Pennsylvania)

PO Box 125

Harrisburg, Pennsylvania 17108-0125

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**Toll-Free** - 1-888-773-7748

(1-888-PSERS4U)

**Local** - 717-787-8540

## **Comprehensive Annual Financial Report**

for the

Fiscal Year Ended June 30, 2000

**Honorable Barbara Hafer**

***Chair***

**Thomas P. Hassall**

***Vice Chair***

***Board of Trustees***

**Dale H. Everhart**

***Executive Director***

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

## Table of Contents

<b>Certificate of Achievement for Excellence in Financial Reporting .....</b>	<b>4</b>
<b>Section One - Introductory .....</b>	<b>5</b>
Chairman’s Report .....	6
Mission Statement .....	7
Letter of Transmittal .....	8
Administrative Organization	
PSERS Board of Trustees .....	14
Board Committees .....	16
Organizational Chart .....	17
Organizational Structure .....	18
Administrative Staff .....	22
PSERS Regional Offices .....	23
<b>Section Two - Financial .....</b>	<b>25</b>
Independent Auditors’ Report .....	27
Basic Financial Statements	
Statements of Plan Net Assets .....	28
Statements of Changes in Plan Net Assets .....	30
Notes to Financial Statements .....	32
Required Supplemental Schedule 1 - Schedule of Funding Progress .....	46
Required Supplemental Schedule 2 - Schedule of Employer Contributions .....	47
Notes to Required Supplemental Schedules .....	48
Supplemental Schedule 1 - Schedule of Operating Expenses .....	50
Supplemental Schedule 2 - Summary of Investment Expenses .....	51
Supplemental Schedule 3 - Schedule of Payments to Non-Investment Consultants .....	52
<b>Section Three - Investment .....</b>	<b>53</b>
Investment Overview .....	54
Portfolio Summary Statistics   Asset Allocation - Trade Date Basis as of June 30, 2000 .....	58
Comparison of Actual Portfolio Distribution to Asset Allocation Plan .....	59
Graph - Comparison of Actual Portfolio Distribution to Asset Allocation Plan .....	59
Graph - Portfolio Distribution   10 Year Trend .....	60
Portfolio Detail Statistics as of June 30, 2000	
Domestic Common and Preferred Stocks .....	60
International Common Stocks .....	61
Collective Trust Funds .....	61
Domestic Corporate and Taxable Municipal Bonds .....	62
Domestic Mortgage-backed Securities .....	62
U.S. Government and Agency Obligations .....	63
International Fixed Income .....	63
Miscellaneous Domestic Fixed Income .....	64
Postemployment Healthcare - Short-Term Investments .....	64
Comparison of Investment Activity Income - Fiscal Years Ended June 30, 2000 & 1999 ....	65
Graph - Comparison of Investment Activity Income - Fiscal Years Ended June 30, 2000 & 1999 .....	65
Summary Schedule of Brokers’ Fees .....	66
Professional Consultants .....	67

## Table of Contents (Continued)

<b>Section Four - Actuarial .....</b>	<b>71</b>
Actuary's Certification Letter	
Introduction .....	72
Executive Summary .....	74
Changes Since Last Year .....	74
Contribution Rates .....	75
Summary of Principal Results .....	76
Five-Year History of Contribution Rates .....	77
Funded Ratio .....	78
GASB No. 25 Disclosure .....	81
Rate of Return .....	82
Table 1 - Summary of Results of Actuarial Valuation as of June 30, 1999 .....	83
Table 2 - Summary of Sources of Employer Contribution Rate as of June 30, 1999 .....	84
Table 3 - Determination of Health Insurance Premium Assistance Contribution Rate for Fiscal Year 2000/2001 .....	85
Table 4 - Summary of Market Value of Plan Assets as of June 30, 1999 .....	86
Table 5 - Derivation of Actuarial Value of Assets as of June 30, 1999 .....	87
Table 6 - Analysis of Change in Unfunded Accrued Liability .....	88
Table 7 - Schedule of Funding Progress - GASB Statement No. 25 Disclosure .....	89
Table 8 - Schedule of Employer Contributions - GASB Statement No. 25 Disclosure .....	90
Table 9 - Solvency Test .....	91
Table 10 - History and Projection of Contribution Rates and Annual Annuities .....	92
Table 11 - History and Projection of Annuitants, Beneficiaries, Survivor Annuitants and Active Members .....	93
Table 12 - Description of Actuarial Assumptions and Methods .....	94
Table 13 - Summary of Benefit and Contribution Provisions .....	97
Table 14 - Summary of Membership Data as of June 30, 1999 .....	100
Exhibit I - Active Membership Data as of June 30, 1999 - Number and Average Annual Salary .....	101
Exhibit II - Annuitant and Beneficiary Membership Data as of June 30, 1999 - Number and Average Annual Benefit .....	102
Exhibit III - 10 Year History of Membership Data .....	103
<b>Section Five - Statistical .....</b>	<b>105</b>
Graph - Changes in Plan Net Assets .....	106
Graph - Changes in Plan Net Assets - Additions vs. Deductions - 10 Year Trend .....	106
Additions to Plan Net Assets, Years ended June 30, 1989 through 2000 .....	107
Deductions from Plan Net Assets, Years ended June 30, 1989 through 2000 .....	108
Graph - Total Assets - 10 Year Trend .....	109
Graph - Total Assets - 1920 to June 30, 2000 .....	109
Graph - Total Membership - Active & Retired .....	110
Graph - Retired Members - 10 Year Trend .....	110
Components of Total Contribution Rate .....	111
Schedule of Retired Members by Type of Benefit .....	112
Schedule of Employers .....	114

## Certificate of Achievement

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public School Employees'  
Retirement System,  
Pennsylvania

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1999

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.



*Anne Spray Kinney*  
President

*Jeffrey L. Esler*  
Executive Director

# **Public School Employees' Retirement System**



## **Introductory Section**

## Chairman's Report



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

Honorable Barbara Hafer, Chairman of the Board

December 1, 2000

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 eighty-first *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2000. The report provides an in-depth review of the financial, actuarial and investment status of the Retirement Fund and the PSERS Health Options Program.

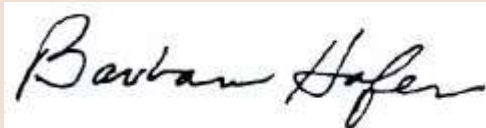
The System is pleased to announce that as of June 30:

1. The funded status of the pension plan as reported in the System's June 30, 1999 Actuarial Valuation was 119.0%.
2. The net assets held in trust for pension benefits were \$53.4 billion at fair value.
3. Net assets held in trust for postemployment healthcare benefits were \$59.9 million at fair value.
4. The active contributing membership of the System numbered approximately 234,000.
5. The number of annuitants totaled over 134,000 and received in excess of \$2.3 billion in pension benefits during the year.

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

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.



Barbara Hafer  
Chairman  
Board of Trustees

# ***Mission Statement***

*The Board of Trustees and the employees of the Public School Employees' Retirement System serve the members and stakeholders of the System by:*

- *Prudently investing the contributions of the Fund*
- *Maintaining a fully-funded, financially sound Fund*
- *Providing timely and accurate payment of benefits*
- *Clearly communicating members' and employers' rights and responsibilities, and*
- *Effectively managing the resources of the System*

adopted 5/25/2000

## 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, 2000

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

We are pleased to present the eighty-first edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 2000. 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.

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 678 reporting entities in Pennsylvania. As of June 30, 2000, the System had nearly 234,000 active members with an annual active payroll of \$8.9 billion.

The annuitant membership was comprised of over 134,000 retirees and beneficiaries who receive nearly \$154 million each month. The average yearly benefit paid to annuitants is \$14,046. 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 678 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, 2000. The total net assets of the System at fair value increased from \$49.0 billion to \$53.4 billion from July 1, 1999 to June 30, 2000. For the year ended June 30, 2000, PSERS' investment portfolio earned a rate of return of 12.2 percent. PSERS maintains its position as one of the twenty largest public pension systems in the nation.

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

## **Major Initiatives**

### **Year 2000 Issue**

The start of the new Millennium arrived at PSERS without any significant problems regarding the automated procedures that serve its members and employers. The PSERS Information Technology Office (ITO) converted 14 automated systems involving over 900 individual programs to conform to the Year 2000 changes. These programs were thoroughly tested by ITO as well as other PSERS' staff members to authenticate their accuracy months before the start of the new millennium. The System's staff is continuing to monitor all systems to assure that the service to its membership is of the highest quality available.

### **Data Power House Project**

In July 1997, under a directive from Governor Ridge to improve the delivery of public services through the strategic use of information technology, the Governor's Office of Administration announced the Commonwealth's Data Power House Project. Through this initiative, the Commonwealth planned to outsource the operations and technical support for up to 20 separate data centers operated by 16 Commonwealth agencies. Application development, network management, and desktop computing functions would remain with the agencies. The Commonwealth negotiated a contract with the Unisys Corporation to consolidate and manage the Unisys and IBM platforms of participating agencies' data centers. The full transition to the outsource vendor was expected to take one year to complete and the data center would be located at the Willow Oak Center in Harrisburg.

After thorough analysis of the project proposal, PSERS found that its objectives were aligned with those of the Data Power House Project. The most important of these objectives was to ensure that all PSERS' annuitants receive accurate and timely payments by providing:

- More secure and reliable computing facilities, critical to ensure system availability.
- "Hot site" disaster recovery capabilities, critical to maintaining on-going member and annuitant processing.
- The ability to allow quicker hardware changes to the mainframe computer that processes member and annuitant transactions.

In May 2000 PSERS successfully migrated its applications to a new Unisys Clearpath computer data center located at the Willow Oak Center. Prior to the move, thorough testing was accomplished by running applications parallel on PSERS' legacy Unisys A16 and the new Unisys Clearpath computers. Teamwork was a major factor in the successful transition. PSERS was the first Commonwealth agency to complete its Disaster Recovery testing. Testing was successfully accomplished in August 2000 at the Sungard Disaster Recovery site in Philadelphia.

### 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 in 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 \$53.4 billion as of June 30, 2000. Based on this valuation of its assets, the System is the 14th largest public pension fund in the nation and the 23rd 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 1999/2000, the appropriation was \$27,110,000.

### Additions To and Deductions from 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 the fiscal year 1999/2000 totaled \$6.86 billion. The increase in total net asset additions of \$256 million from fiscal year 1998/1999 is primarily attributable to the increase in net investment income. The largest single factor of net asset deductions relates to the purpose for which the System was created: payment of benefits. Total benefit payments decreased by approximately \$71 million from fiscal year 1998/1999 to 1999/2000 largely due to the completion of an early retirement window that closed June 30, 1999. Details on the System's net asset additions and deductions are provided in the **Statistical Section** in this report.

The administrative expenses shown above reflect the costs paid through the System's legislatively enacted budget appropriation. Payment of PSERS' Health Options Program (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 **Financial Section (Supplemental Schedule 1)**.

## 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, 2000 member contributions constituted 9.9 percent of the annual funding, employer contributions constituted 6.0 percent and investment earnings accounted for 84.1 percent.

The System's funded ratio (actuarial assets divided by actuarial liabilities) increased from 110.6 percent to 119.0 percent according to the latest published actuarial valuation for the period ended June 30, 1999. The increase is primarily attributed to increases in actuarial assets and actuarial experience gains. Over the five-year period ended June 30, 1999, the funded status of the System has significantly improved from 89.7 percent to 119.0 percent.

The total employer rate of contribution as a percent of salaries decreased from 4.61 percent for the fiscal year 1999/2000 to 1.94 percent for 2000/2001. 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 .25 percent in fiscal year 1999/2000 and is .30 percent in fiscal year 2000/2001. 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, 2000, the net assets available for pension and postemployment healthcare benefits increased \$4.4 billion over the prior year - from \$49.0 billion to \$53.4 billion.

The results of the latest published actuarial valuation (as of June 30, 1999) 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

Income from the investment portfolio represent the major source of revenue to the System, accounting for over 84 percent of total revenues for the year.

Investment income for the fiscal year ended June 30, 2000 increased the System's net assets by \$5.77 billion. The investment portfolio totaled \$54.1 billion, at fair value, as of June 30, 2000.

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 returns in excess of the System's investment policy index; and (iv) provide sufficient liquidity to meet the current operating needs of the System. 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, 2000, the time-weighted rate of return on the System's investments was 12.2 percent.

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

## Federal and State Tax Status

The System is a qualified trust fund under Section 401(a) of the Internal Revenue Code (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 the Retirement Code, 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).

## System Awards

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to PSERS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 1999. 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.

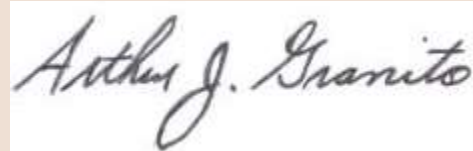
A Certificate of Achievement is valid for a period of one year only. PSERS has received a *Certificate of Achievement* for the last 17 consecutive years (fiscal years ended June 30, 1983 - June 30, 1999). The System believes the current report continues to conform to the *Certificate of Achievement* program requirements, and will be submitting this report to GFOA to determine eligibility for the 2000 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  
Executive Director



Arthur J. Granito  
Chief Financial Officer

**Administrative Organization  
PSERS Board of Trustees**

**Photo Available Upon Request**

***Left to right, Back row:***

Roger H. May; Frederick C. Tecce; Miriam Fox, designee for Representative Dwight Evans; Mary Ann Caputo; Joseph V. Oravitz; Melva S. Vogler; Richard N. Rose; Sandy Leopold, designee for Senator Vincent J. Fumo; and Thomas P. Hassall, Vice Chairman.

***Front row:***

Aji Abraham, designee for Secretary of Education, Eugene W. Hickok; Representative Steven R. Nickol; Barbara Hafer, Chairman; Anna P. Simpson-Pullar; and Samuel M. Sanzotto, Ed.D.

(Board member Senator Roger A. Madigan not present in photo. Board member Anna P. Simpson-Pullar resigned October 5, 2000.)

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## PSERS Board of Trustees

**Treasurer of the Commonwealth of Pennsylvania (ex officio)**

Honorable Barbara Hafer, *Chair*

**Secretary of Education of the Commonwealth of Pennsylvania (ex officio)**

Honorable Eugene W. Hickok, Ph.D.

**Executive Director of the Pennsylvania School Boards Association, Inc. (ex officio)**

Mr. Joseph V. Oravitz

**Two members appointed by the Governor of the Commonwealth of Pennsylvania**

Mr. Samuel M. Sanzotto, Ed. D. (term expires 12/31/2000)

Mr. Frederick C. Tecce, Esq. (term expires 1/1/2003)

**Three members elected from among the certified contributors of the System for a term of three years**

Mr. Thomas P. Hassall, *Vice-Chair* (term expires 12/31/2001)

Mr. Roger H. May (term expires 12/31/2003)

Ms. Melva S. Vogler (term expires 12/31/2002)

**One member elected from among the noncertified contributors of the System for a term of three years**

Ms. Mary Ann Caputo (term expires 12/31/2000)

**One member elected from among the annuitants of the System for a term of three years**

Ms. Anna P. Simpson-Pullar (term expires 12/31/2001, resigned 10/5/2000)

**One member elected by the members of Pennsylvania Public School Boards from among their number for a term of three years**

Mr. Richard N. Rose (term expires 12/31/2002)

**Two members appointed by the Speaker of the House from the Pennsylvania House of Representatives, one representing the Majority Party and one representing the Minority Party**

Honorable Dwight Evans (term expires 11/30/2000)

Honorable Steven R. Nickol (term expires 11/30/2000)

**Two members appointed by the President Pro Tempore of the Pennsylvania Senate, one representing the Majority Party and one representing the Minority Party**

Honorable Vincent J. Fumo (term expires 11/30/2000)

Honorable Roger A. Madigan (term expires 11/30/2000)

## 2000 Board Committees

### Appeals / Member Services

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

### Health Care

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

### 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  
Mr. Rose  
Ms. Vogler

### Personnel

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

### Bylaws / Policy

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

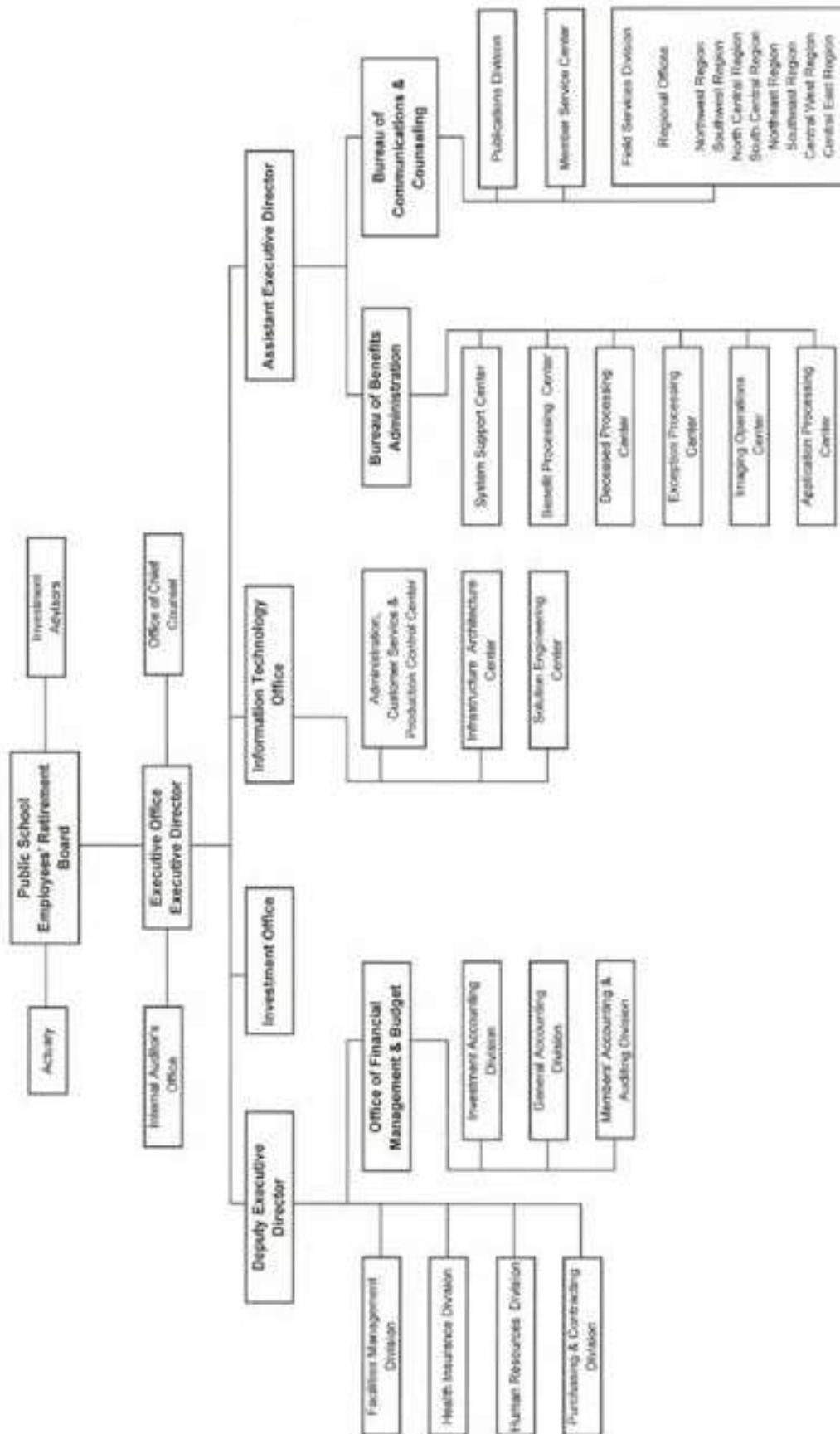
### Technology Steering

Dr. Hickok, Chair  
Sen. Fumo  
Mr. May  
Mr. Oravitz  
Mr. Rose  
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 appraises 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 Section** Pages 67 to 69 for lists of professional investment advisors and Page 51 in the **Financial Section** for a summary of investment expenses.

### **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 communication 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 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 technology and systems activities and resources within PSERS. Additionally, the Office implements agency policies and objectives across all information systems activities by providing professional services for feasibility studies, systems development, application training, voice and data communications, information management, automated technology resource selection, and data center scheduling and monitoring. The Office also formulates short-term and long-range automated technology plans to permit the agency to meet directed missions. The Office is organized into three Centers: Administration, Customer Service and Production Control; Infrastructure Architecture; and Solution Engineering.

### **Administration, Customer Service and Production Control Center**

The Administration, Customer Service and Production Control Center is responsible for providing administrative, budgetary, and contract management support for the Office, production

scheduling and monitoring of Service Level Agreements associated with Data Center operations, and providing a combination of on-site and telephone "help desk" services (installation, troubleshooting, and training) for information technology to internal PSERS' clients.

### **Infrastructure Architecture Center**

The Infrastructure Architecture Center contains the Application, Web Server, and Data Base Administration unit and the Network Architecture, Administration, and Operation unit. It is responsible for the management of resources relating to the planning, design, deployment, and operations of PSERS' Heterogeneous Database Management Systems, Web and Application Servers, and Network Servers, Operating Systems and associated Hardware Components.

### **Solution Engineering Center**

The Solution Engineering Center contains the Custom Solutions Maintenance unit, the Solution Architects unit, and the Custom Solutions and Commercial-Off-The-Shelf (COTS) Support unit. It is responsible for the design, development, implementation, and maintenance of information technology solutions required to support the business processes of the agency. Additionally, the Center is responsible for the support of the various information technology COTS products deployed throughout the agency.

Dale H. Everhart  
Executive Director

# Photos Available Upon Request

Jeffrey B. Clay  
Deputy Executive  
Director

Donald J. Halke, II  
Internal Auditor

John C. Lane  
Chief  
Investment Office

Thomas E. Ross  
Chief Counsel

Terrill J. Savidge  
Chief  
Technology Office

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

# PSERS REGIONAL OFFICES

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

**NORTHCENTRAL**  
 Suite 201  
 300 Bellefonte Avenue  
 Lock Haven, PA, 17745-1903  
 Local (570) 893-4410  
 FAX (570) 893-4414  
 Toll Free 1-888-773-7748 ext. 5275

**NORTHEAST**  
 Market Street Victorian Square  
 33 S Wilkes Barre Blvd., Suite 20  
 Wilkes Barre, PA 18702-5144  
 Local (570) 826-2003  
 FAX (570) 820-4868  
 Toll Free 1-888-773-7748 ext. 5375

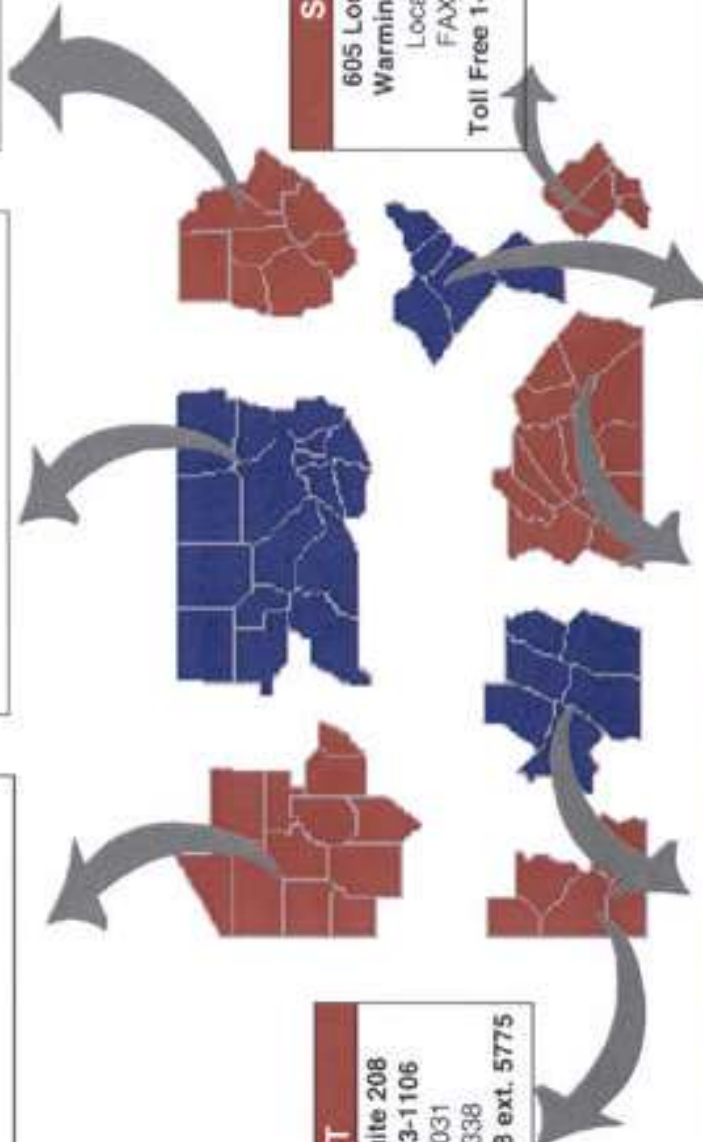
**SOUTHWEST**  
 900 Sarah Street, Suite 208  
 Pittsburg, PA 15203-1106  
 Local (412) 488-2031  
 FAX (412) 488-2338  
 Toll Free 1-888-773-7748 ext. 5775

**SOUTHEAST**  
 605 Louls Drive, Suite 500  
 Warminster, PA 18974-2825  
 Local (215) 443-3495  
 FAX (215) 443-3487  
 Toll Free 1-888-773-7748 ext. 5575

**CENTRALWEST**  
 636 Scalp Avenue  
 Johnstown, PA, 15904-1640  
 Local (814) 262-7715  
 FAX (814) 262-7625  
 Toll Free 1-888-773-7748 ext. 5875

**SOUTHCENTRAL**  
 Three Crossgate Drive, Suite 101  
 Mechanicsburg, PA 17050-2459  
 Local (717) 795-9270  
 FAX (717) 795-9281  
 Toll Free 1-888-773-7748 ext. 5675

**CENTRALEAST**  
 110 West Arch Street, Suite 204  
 Fleetwood, PA 19522-1321  
 Local (610) 944-9113  
 FAX (610) 944-9275  
 Toll Free 1-888-773-7748 ext. 5475



The background of the entire page is a dense, overlapping pattern of US dollar bills, including \$100, \$50, and \$20 denominations, scattered across the surface.

# **Public School Employees' Retirement System**

## **Financial Section**



## Independent Auditors' Report



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, 2000 and 1999, 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 auditing standards generally accepted in the United States of America. 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 plan net assets of the Commonwealth of Pennsylvania Public School Employees' Retirement System as of June 30, 2000 and 1999, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The schedules of funding progress and employer contributions pages 46 through 49 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.

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 through 3 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.

The KPMG LLP logo, featuring the letters 'KPMG' in a bold, sans-serif font, followed by 'LLP' in a smaller, sans-serif font, all enclosed within a rectangular border.

October 27, 2000

## Statements of Plan Net Assets

Years ended June 30, 2000 and 1999

(Dollar Amounts in Thousands)

	2000			Totals (memorandum only)
	Postemployment Healthcare		Health Options Program	
	Pension	Premium Assistance		
<b>Assets:</b>				
Receivables:				
Members	\$ 116,703	\$ 1,421	\$ 9	\$ 118,133
Employers	117,672	6,648	-	124,320
Investment income	247,690	536	121	248,347
Investment proceeds	1,075,659	1,984	-	1,077,643
Miscellaneous	2,483	1	-	2,484
<b>Total Receivables</b>	<b>1,560,207</b>	<b>10,590</b>	<b>130</b>	<b>1,570,927</b>
Investments, at fair value:				
Short-term investments	1,636,589	40,861	38,988	1,716,438
Fixed income investments	12,606,499	-	-	12,606,499
Common and preferred stocks	34,903,277	-	-	34,903,277
Collective trust funds	1,633,566	-	-	1,633,566
Other long-term investments	3,260,584	-	-	3,260,584
<b>Total Investments</b>	<b>54,040,515</b>	<b>40,861</b>	<b>38,988</b>	<b>54,120,364</b>
Securities lending collateral pool	2,682,871	-	-	2,682,871
Fixed assets (net of accumulated depreciation of \$13,648, \$0, and \$0, respectively)	5,158	-	-	5,158
<b>Total Assets</b>	<b>58,288,751</b>	<b>51,451</b>	<b>39,118</b>	<b>58,379,320</b>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	39,422	208	19,005	58,635
Benefits payable	55,007	15	-	55,022
Participant premium advances	-	-	11,411	11,411
Investment purchases payable	2,149,729	-	-	2,149,729
Obligations under securities lending	2,682,871	-	-	2,682,871
<b>Total Liabilities</b>	<b>4,927,029</b>	<b>223</b>	<b>30,416</b>	<b>4,957,668</b>
<b>Net assets held in trust for pension and postemployment healthcare benefits</b>				
(A schedule of funding progress is presented on page 46)	\$ 53,361,722	\$ 51,228	\$ 8,702	\$ 53,421,652

See accompanying notes to financial statements.

## Statements of Plan Net Assets

Years ended June 30, 2000 and 1999

(Dollar Amounts in Thousands)

	1999			Totals (memorandum only)
	Pension	Postemployment Healthcare Premium Assistance	Health Options Program	
<b>Assets:</b>				
Receivables:				
Members	\$ 87,197	\$ 1,538	\$ 8	\$ 88,743
Employers	158,627	4,134	-	162,761
Investment income	216,129	741	44	216,914
Investment proceeds	781,895	-	-	781,895
Miscellaneous	2,970	211	422	3,603
<b>Total Receivables</b>	<b>1,246,818</b>	<b>6,624</b>	<b>474</b>	<b>1,253,916</b>
Investments, at fair value:				
Short-term investments	1,338,848	56,001	27,951	1,422,800
Fixed income investments	10,528,064	-	-	10,528,064
Common and preferred stocks	33,238,508	-	-	33,238,508
Collective trust funds	1,227,386	-	-	1,227,386
Other long-term investments	2,597,003	-	-	2,597,003
<b>Total Investments</b>	<b>48,929,809</b>	<b>56,001</b>	<b>27,951</b>	<b>49,013,761</b>
Security 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
<b>Total Assets</b>	<b>53,403,753</b>	<b>62,625</b>	<b>28,425</b>	<b>53,494,803</b>
<b>Liabilities:</b>				
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
<b>Total Liabilities</b>	<b>4,492,321</b>	<b>2,306</b>	<b>24,870</b>	<b>4,519,497</b>
<b>Net assets held in trust for pension and postemployment healthcare benefits</b>				
(A schedule of funding progress is presented on page 46)	\$ 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, 2000 and 1999

(Dollar Amounts in Thousands)

	2000			Totals (memorandum only)
	Postemployment Healthcare			
	Pension	Premium Assistance	Health Options Program	
<b>Additions:</b>				
Contributions:				
Members	\$ 552,502	\$ -	\$ 127,538	\$ 680,040
Employers	390,504	22,279	-	412,783
<b>Total contributions</b>	<b>943,006</b>	<b>22,279</b>	<b>127,538</b>	<b>1,092,823</b>
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	4,129,291	(55)	-	4,129,236
Short-term investments	95,418	2,680	1,506	99,604
Fixed income investments	786,528	-	-	786,528
Common and preferred stocks	536,268	-	-	536,268
Collective trust fund appreciation and income	139,640	-	-	139,640
Other long-term investments	177,009	-	-	177,009
<b>Total investment activity income</b>	<b>5,864,154</b>	<b>2,625</b>	<b>1,506</b>	<b>5,868,285</b>
Investment expenses	(124,554)	(22)	-	(124,576)
<b>Net income from investing activities</b>	<b>5,739,600</b>	<b>2,603</b>	<b>1,506</b>	<b>5,743,709</b>
From securities lending activities:				
Securities lending income	161,416	-	-	161,416
Securities lending expense	(139,992)	-	-	(139,992)
<b>Net income from securities lending activities</b>	<b>21,424</b>	<b>-</b>	<b>-</b>	<b>21,424</b>
<b>Total net investment income</b>	<b>5,761,024</b>	<b>2,603</b>	<b>1,506</b>	<b>5,765,133</b>
<b>Total Additions</b>	<b>6,704,030</b>	<b>24,882</b>	<b>129,044</b>	<b>6,857,956</b>
<b>Deductions:</b>				
Benefits	2,200,747	32,949	121,425	2,355,121
Refunds of contributions	22,446	-	-	22,446
Net transfer to State Employees' Retirement System	4,710	-	-	4,710
Administrative expenses	25,837	1,024	2,472	29,333
<b>Total Deductions</b>	<b>2,253,740</b>	<b>33,973</b>	<b>123,897</b>	<b>2,411,610</b>
<b>Net increase (decrease)</b>	<b>4,450,290</b>	<b>(9,091)</b>	<b>5,147</b>	<b>4,446,346</b>
<b>Net assets held in trust for pension and postemployment healthcare benefits:</b>				
<b>Balance, beginning of year</b>	<b>48,911,432</b>	<b>60,319</b>	<b>3,555</b>	<b>48,975,306</b>
<b>Balance, end of year</b>	<b>\$ 53,361,722</b>	<b>\$ 51,228</b>	<b>\$ 8,702</b>	<b>\$ 53,421,652</b>

See accompanying notes to financial statements.

## Statements of Changes in Plan Net Assets

Years ended June 30, 2000 and 1999

(Dollar Amounts in Thousands)

	1999			Totals (memorandum only)
	Pension	Postemployment Healthcare Premium Assistance	Health Options Program	
<b>Additions:</b>				
Contributions:				
Members	\$ 535,640	\$ –	\$ 110,867	\$ 646,507
Employers	513,940	13,020	–	526,960
<b>Total contributions</b>	<b>1,049,580</b>	<b>13,020</b>	<b>110,867</b>	<b>1,173,467</b>
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	4,069,000	(537)	–	4,068,463
Short-term investments	55,261	4,063	803	60,127
Fixed income investments	630,462	–	–	630,462
Common and preferred stocks	487,660	–	–	487,660
Collective trust fund appreciation and income	52,075	–	–	52,075
Other long-term investments	201,075	–	–	201,075
<b>Total investment activity income</b>	<b>5,495,533</b>	<b>3,526</b>	<b>803</b>	<b>5,499,862</b>
Investment expenses	(88,909)	(20)	–	(88,929)
<b>Net income from investing activities</b>	<b>5,406,624</b>	<b>3,506</b>	<b>803</b>	<b>5,410,933</b>
From securities lending activities:				
Securities lending income	163,445	–	–	163,445
Securities lending expense	(145,719)	–	–	(145,719)
<b>Net income from securities lending activities</b>	<b>17,726</b>	<b>–</b>	<b>–</b>	<b>17,726</b>
<b>Total net investment income</b>	<b>5,424,350</b>	<b>3,506</b>	<b>803</b>	<b>5,428,659</b>
<b>Total Additions</b>	<b>6,473,930</b>	<b>16,526</b>	<b>111,670</b>	<b>6,602,126</b>
<b>Deductions:</b>				
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
<b>Total Deductions</b>	<b>2,338,201</b>	<b>32,342</b>	<b>113,626</b>	<b>2,484,169</b>
<b>Net increase (decrease)</b>	<b>4,135,729</b>	<b>(15,816)</b>	<b>(1,956)</b>	<b>4,117,957</b>
<b>Net assets held in trust for pension and postemployment healthcare benefits:</b>				
<b>Balance, beginning of year</b>	<b>44,775,703</b>	<b>76,135</b>	<b>5,511</b>	<b>44,857,349</b>
<b>Balance, end of year</b>	<b>\$ 48,911,432</b>	<b>\$ 60,319</b>	<b>\$ 3,555</b>	<b>\$ 48,975,306</b>

See accompanying notes to financial statements.

# Notes to Financial Statements

## June 30, 2000 and 1999

### (1) Organization and Description of the Public School Employees' Retirement System (the System)

#### (a) Organization

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 nearly all qualifying public school employees in the Commonwealth of Pennsylvania (Commonwealth). In certain instances, qualifying employees of Charter Schools may retain membership in other retirement plans. At June 30, 2000, there were 678 participating employers, generally school districts. Membership as of June 30, 1999, the most recent year for which actual amounts are available, consisted of:

Retirees and beneficiaries currently receiving benefits	133,000
Inactive members and vestees entitled to, but not receiving benefits	<u>46,000</u>
	<u>179,000</u>
Currently employed members:	
Vested	115,000
Nonvested	<u>108,000</u>
	<u>223,000</u>

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 were eligible to retire under the

**Notes to Financial Statements (Continued)**

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.

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 or through an actuarially calculated benefit reduction.

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 generally 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 nor greater than the benefit the member would have had at superannuation retirement age. Members over normal retirement age may apply for disability benefits. Certain exceptions apply to superannuation disability retirements.

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 which is described in note 3.

**(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 out-of-pocket 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 method 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 4.61% and 6.04% of qualified compensation for the years ended June 30, 2000 and 1999, respectively. According to requirements established in Act 29 of 1994, the Commonwealth reimburses school entity employers a portion of employer contributions paid to the System. The Commonwealth remits employer contributions for employers other than school entities directly to the System. All contributions from employers and the Commonwealth are shown as employer contributions on the Statements of Changes in Plan Net Assets.

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 0.25% and 0.15% for the years ended June 30, 2000 and 1999, 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 for 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 accounting principles generally accepted in the United States of America (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 additions and deductions in plan net assets during the reporting period. Actual results could differ from those estimates.

**(b) Investments**

The System's investments are reported at fair value. Fair value is the amount that the System 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 owned 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, equity real estate and private placements are primarily 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 or by cash held in a broker margin account.

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. Certain CTF are managed by state-chartered banks for which various state banking departments have regulatory oversight.

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, 2000 and 1999, \$2,586,000 and \$2,412,000, respectively, was accrued for unused vacation and sick leave for the System's employees.

## **Notes to Financial Statements (Continued)**

### **(e) Participant Premium Advances**

Participant premium advances are for HOP premiums paid in advance in 2000 and 1999 related to health care coverage to be provided in 2001 and 2000, respectively.

### **(f) Federal Income Taxes**

The Internal Revenue Service (IRS) 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* (IRC) and therefore are exempt from federal income taxes. The plan has been amended since receiving that determination letter. Additionally, the IRS issued a 1982 ruling which concluded that the fund and the board are integral parts of the Commonwealth, 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 IRC.

### **(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 workers' compensation benefits. During the last three fiscal years, insurance settlements did not exceed insurance coverage.

### **(h) Reclassifications**

Certain 1999 balances have been reclassified to conform with the 2000 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 GAAP. Neither is such data comparable to a consolidation.

**Notes to Financial Statements (Continued)****(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.

**(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 Account 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, disability, 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**

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**

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.

**Notes to Financial Statements (Continued)****(f) Pension and Postemployment Healthcare Net Assets**

Net assets held in trust for pension and postemployment healthcare benefits at June 30 follows:

	(Dollar Amounts in Thousands)	
	<u>2000</u>	<u>1999</u>
Pension:		
State accumulation account	<b>\$ 30,017,790</b>	\$ 26,695,327
Members' savings account	<b>6,775,934</b>	6,298,483
Reserve for retirement account	<b><u>16,567,998</u></b>	<u>15,917,622</u>
	<b><u>\$ 53,361,722</u></b>	<b><u>\$ 48,911,432</u></b>
Postemployment healthcare:		
Health insurance account	<b>\$ 51,228</b>	\$ 60,319
Health insurance program account	<b>8,702</b>	3,555

**(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 follows:

	(Dollar Amounts in Thousands)	
	2000	1999
<b>Pension investments:</b>		
<b>Short-term investments:</b>		
Pennsylvania Treasury Domestic Short-Term Investment Fund	\$ 1,100,087	\$ 1,118,748
Other domestic short-term investments	438,828	166,058
International short-term investments	97,674	54,042
	<b>1,636,589</b>	<b>1,338,848</b>
<b>Fixed income investments:</b>		
Domestic mortgage-backed securities	4,756,817	3,302,366
U.S. government and agency obligations	1,524,930	2,393,716
Domestic corporate and taxable municipal bonds	4,838,356	2,950,068
Miscellaneous domestic fixed income	353,449	571,744
International fixed income	1,131,829	1,301,420
Domestic private placements	1,118	8,750
	<b>12,606,499</b>	<b>10,528,064</b>
<b>Common and preferred stocks:</b>		
Domestic common and preferred stocks	24,536,471	25,218,013
International common stocks	10,364,663	8,012,807
Domestic private placements	2,143	7,688
	<b>34,903,277</b>	<b>33,238,508</b>
<b>Collective trust funds</b>	<b>1,633,566</b>	<b>1,227,386</b>
<b>Other long-term investments:</b>		
Real estate owned	548,358	629,107
Equity real estate	885,071	1,074,988
Private Equity / Venture Capital	1,755,516	818,436
Farmland investments	71,639	74,472
	<b>3,260,584</b>	<b>2,597,003</b>
Pension investments at fair value	<b>\$ 54,040,515</b>	<b>\$ 48,929,809</b>
<b>Postemployment Healthcare short-term investments:</b>		
Premium Assistance:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	\$ 7,874	\$ 6,717
Other domestic short-term investments	32,987	49,284
	<b>40,861</b>	<b>56,001</b>
Health Options Program:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	22,620	14,628
Other domestic short-term investments	16,368	13,323
	<b>38,988</b>	<b>27,951</b>
Postemployment Healthcare investments at fair value	<b>\$ 79,849</b>	<b>\$ 83,952</b>

**Notes to Financial Statements (Continued)**

During the fiscal years ended June 30, 2000 and 1999, 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, 2000 and 1999. 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, 2000 and 1999**

(Dollar Amounts in Thousands)

	Fair Value	
	2000	1999
Investments – Category 1		
U.S. government and agency obligations	\$ 673,422	\$ 821,815
Domestic corporate and taxable municipal bonds	4,600,863	2,843,189
Domestic common and preferred stocks	24,077,786	25,027,476
Domestic mortgage-backed securities	4,756,817	3,302,366
Miscellaneous domestic fixed income	353,449	571,744
International fixed income	1,027,466	1,124,075
International common stocks	9,407,465	6,939,162
International short-term investments	97,674	54,042
Other domestic short-term investments (1)	488,183	228,665
Subtotal	45,483,125	40,912,534
Investments - not categorized		
Investments held by broker dealers under securities loans:		
U.S. government and agency obligations	851,508	1,571,901
Domestic corporate and taxable municipal bonds	237,493	106,879
Domestic common and preferred stocks	458,685	190,537
International fixed income	104,363	177,345
International common stocks	957,198	1,073,645
Domestic private placements – fixed income and equity	3,261	16,438
Collective trust funds - fixed income, equity and short-term	1,633,566	1,227,386
Real estate owned	548,358	629,107
Equity real estate	885,071	1,074,988
Private Equity / Venture Capital	1,755,516	818,436
Farmland investments	71,639	74,472
Pennsylvania Treasury Short-Term Investment Fund (2)	1,130,581	1,140,093
Total	\$ 54,120,364	\$ 49,013,761

(1) includes \$49,355 and \$62,607 of Postemployment Healthcare investments at June 30, 2000 and 1999, respectively

(2) includes \$30,494 and \$21,345 of Postemployment Healthcare investments at June 30, 2000 and 1999, respectively

**Notes to Financial Statements (Continued)****(c) Securities Lending**

In accordance with a contract between the Commonwealth and its 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, 2000 and 1999, 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 years ended June 30, 2000 and 1999. Moreover, there were no losses during the fiscal years ended June 30, 2000 and 1999 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, 2000 and 1999.

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 weighted-average maturity of the investments in the pool was 40 days and 38 days at June 30, 2000 and 1999, 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. In the event of a default, the lending agent may use the collateral to replace the loaned securities.

As of June 30, 2000, the fair value of loaned securities was \$3,685,065,000 which includes \$1,075,818,000 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 \$3,803,418,000 which includes \$1,120,547,000 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, 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 irrevocable 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. The securities lending collateral pool is not categorized as to credit risk because securities are not used as evidence of the investment.

## **(5) Derivative and Similar Investments**

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; collateralized mortgage obligations (CMOs); other forward contracts, and



## Notes to Financial Statements (Continued)

U.S. Treasury STRIPS. 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 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, 2000 and 1999 (in thousands):

	2000	1999
Futures contracts long and short	\$ 9,641,623	\$ 4,676,490
Foreign exchange forward and spot contracts, gross	2,774,969	3,414,160
Options – calls purchased	108,750	10,900
Options – puts purchased	–	13,320
Options – calls sold	274,259	46,396
Options – puts sold	314,971	47,976

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 and held in segregated accounts by the System's custodial bank or by cash held in a broker margin account. Although the System has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged at June 30, 2000 and 1999 and the amount of cash held in broker margin accounts represent a restriction on the amount of assets available as of year-end to use for other purposes.

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. The System has authorized an investment manager to write covered call stock index option spreads up to a notional amount of \$500,000,000.

**Notes to Financial Statements (Continued)**

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The \$2,774,969,000 of foreign currency contracts outstanding at June 30, 2000 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$1,721,888,000 and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$1,053,081,000. 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 System also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2000 and 1999 is \$1,190,854,000 and \$1,173,019,000, respectively.

The System invests in U.S. Treasury STRIPS which essentially act as zero coupon bonds and are subject to market volatility from a rise or drop in interest rates.

Through certain collective trust funds, the System also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only STRIPS, and CMOs, to enhance the performance of and reduce the volatility of their portfolios.

Swap agreements are used to modify investment returns or interest rates on investments in the collective trust funds. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts. These swaps expose the collective trust funds entering into these types of arrangements to credit risk in the event of nonperformance by counterparties.

**(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 4.02% at June 30, 2000 and 5.61% at June 30, 1999. 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, 2000, 1999, and 1998 were \$535,000, \$716,000, and \$763,000, respectively, equal to the required contributions each year.

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**Notes to Financial Statements (Continued)**

**(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 as of June 30	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
1999	\$ 37,499.1	\$ 44,606.5	\$ (7,107.4)	119.0%	\$ 8,247.6	(86.2%)
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%

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

See accompanying notes to required supplementary schedules.

## 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
2000	\$ 390,504	100%
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.

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

See accompanying notes to required supplementary schedules.

## **Notes to Required Supplemental Schedules**

**June 30, 2000 and 1999**

(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, employees pay in greater dollar amounts, 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).

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**Notes to Required Supplemental Schedules (Continued)****(c) Actuarial Assumptions**

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 1999, 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%
- Amortization method – increasing payments closed
- Remaining amortization period – 11 to 20 years
- Benefit payments – no postretirement benefit increases assumed in the future
- Multiple Decrement Tables – mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary.

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

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

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

## Supplemental Schedule 1 Schedule of Operating Expenses Fiscal Year Ended June 30, 2000

(Dollar Amounts in Thousands)

	Administrative expenses (1)	Investment expenses (2)	Total
<b>Personnel costs:</b>			
Salaries and wages	\$ 11,661	\$ 1,901	\$ 13,562
Social security contributions	884	126	1,010
Retirement contributions	458	74	532
Employees' insurance contributions	2,053	241	2,294
Other employee benefits	355	37	392
<b>Total personnel costs</b>	<b>15,411</b>	<b>2,379</b>	<b>17,790</b>
<b>Operating costs:</b>			
Investment managers' fees	–	119,030	119,030
Custodial fees	–	369	369
Specialized services	4,995	–	4,995
Rental of real estate, electricity	1,368	127	1,495
Consultant and legal fees	210	1,389	1,599
Treasury and other Commonwealth services	1,038	100	1,138
Postage	1,218	–	1,218
Contracted maintenance services	667	1	668
Office supplies	382	85	467
Rental of equipment	1,474	1	1,475
Printing	226	–	226
Travel	150	31	181
Telephone and telegraph	567	17	584
Miscellaneous expenses	415	1,047	1,462
<b>Total operating expenses</b>	<b>12,710</b>	<b>122,197</b>	<b>134,907</b>
<b>Fixed charges:</b>			
Furniture and equipment	2	–	2
Depreciation	1,210	–	1,210
<b>Total fixed charges</b>	<b>1,212</b>	<b>–</b>	<b>1,212</b>
<b>Total operating expenses</b>	<b>\$ 29,333</b>	<b>\$ 124,576</b>	<b>\$ 153,909</b>

(1) Includes administrative expenses of \$1,024 related to premium assistance and \$2,472 related to HOP for the fiscal year ended June 30, 2000.

(2) Does not include \$38,642 in capitalized broker commissions for the fiscal year ended June 30, 2000.



## Supplemental Schedule 2 Summary of Investment Expenses Fiscal Year Ended June 30, 2000

(Dollar Amounts in Thousands)

	<u>Assets under management</u> *	<u>Fees</u>
<b>External management</b>		
Domestic equity	\$ 8,523,000	\$ 15,597
Domestic fixed	5,717,000	8,098
International equity	9,953,000	22,972
International fixed	2,195,000	2,962
Real estate	2,153,000	16,957
Private equity / Venture Capital	1,751,000	33,652
Other investments	6,029,000	18,792
<b>Total external management</b>	<b>36,321,000</b>	<b>119,030</b>
<b>Total internal management</b>	<b>16,976,000</b>	<b>3,280</b>
<b>Total investment management</b>	<b>\$ 53,297,000</b>	<b>122,310</b>
Custodian fees		369
Consultant and legal fees		1,389
Miscellaneous expenses		508
<b>Total investment expenses</b>		<b>\$ 124,576</b>

\*Net asset value

**Supplemental Schedule 3**  
**Schedule of Payments to Non-Investment Consultants**  
**Fiscal Year Ended June 30, 2000**

(Payment Amounts greater than \$50,000)

<b>Consultant</b>	<b>Fees</b>	<b>Services Provided</b>
National Claims Administrative Services (NCAS-PA)	\$ 1,697,674	HOP & premium assistance benefits consultation
Buck Consultants, Inc.	430,633	Pension benefit actuarial services
Info-Matrix Corporation	285,885	Information technology consulting
Actuarial Sciences Associates, Inc. (ASA)	214,348	Communication services, HOP open enrollment, HOP consulting services
Logistics Management Institute	99,955	Information technology consulting
KPMG LLP	98,500	Financial audit of pension system and HOP
Ernst & Young LLP	70,200	Internal control audit
Interactive Certified Elections	53,458	Board of Trustee election services

# 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 returns in excess of the policy index (the policy index is a custom index created based on the Board established asset allocation structure to generate a return that supports the growth of the projected actuarial liabilities of the System); and (iv) provide sufficient liquidity to meet the current operating needs of the System. 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 external investment management firms who act as agents for the System and through internal investment managers. 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 eight meetings a year and may meet more frequently as needed. Investment Office staff, as well as outside investment advisors and internal investment managers, assist the Board in achieving investment objectives and monitoring compliance with investment policy. For the fiscal year ended June 30, 2000, Wilshire Associates Incorporated (WAI) served as the 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 Frank Russell Company as a real estate consultant and Sovereign Financial Services, Inc. as a private equity/venture capital consultant. Investment Office 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 external investment management firms and internal investment managers to manage the investment portfolio of the System. At year end, 28 external investment management firms were managing \$33.8 billion in assets of the System, \$17.0 billion in assets were managed by the System's internal investment managers, and the remaining \$3.3 billion in assets were managed by numerous developmental, private equity, and real estate managers. The performance of each external investment management firm and each internal manager 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 Office staff, and other sources of information it deems appropriate in formulating this plan. The purpose of the asset allocation plan is to meet the long-term financial needs and investment objectives of the System.

The long-term target allocation for Fiscal Year 2000 included an equity target allocation of **65.00%** consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (45.00%) 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 11.00% (this percentage is included in the equity and fixed income target allocations above) consisted of a combination of equities and bonds, both domestic and foreign. 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 **5.00%** consists primarily of direct real estate investments and opportunistic real estate partnerships.

Private equity and venture capital 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, 2000, the market value of the investment portfolio was \$54.1 billion. The market value increased approximately \$5.1 billion over last year's value. This increase came primarily from income and capital gains on investments offset partially by benefit payments. The investment portfolio, as invested, was composed of 67.5% of common and preferred stocks, 26.5% of fixed income investments, and 6.0% of other long-term investments at June 30, 2000. Page 58 illustrates a more detailed description of the investment portfolio in dollars and as a percentage of the total investment portfolio using a trade date basis of accounting.

The health of the overall economy and strength of domestic and international stock markets helped fuel the System's returns for fiscal year 2000. As a result, the System generated a return of 12.2% for the one-year period ended June 30, 2000. Annualized returns for the three and five-year periods ending June 30, 2000 were 13.5% and 15.5%, respectively. The System has consistently exceeded the actuarial interest rate assumption of 8.5% allowing the System to

maintain its fully funded status.

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, 2000		
	1 Year	3 Years	5 Years
<b>PSERS TOTAL PORTFOLIO</b>	<b>12.2</b>	<b>13.5</b>	<b>15.5</b>
Median Public Fund Universe (Wilshire Database)	5.8	10.3	13.1
<b>PSERS DOMESTIC STOCK PORTFOLIOS</b>	<b>10.0</b>	<b>18.1</b>	<b>21.6</b>
Wilshire 5000 Index	9.5	19.1	22.5
Median Domestic Equity Manager (Wilshire Database)	13.4	18.1	21.9
<b>PSERS INTERNATIONAL STOCK PORTFOLIOS</b>	<b>24.6</b>	<b>9.7</b>	<b>12.5</b>
MSCI All-Country World Index Free Ex. U.S.	18.1	9.5	11.1
Median International Manager (Wilshire Database)	23.2	12.5	15.1
<b>PSERS DOMESTIC BOND PORTFOLIOS</b>	<b>4.4</b>	<b>6.0</b>	<b>6.6</b>
Lehman Aggregate Index	4.6	6.0	6.3
Median Domestic Bond Manager (Wilshire Database)	4.5	5.9	6.2
<b>PSERS GLOBAL BOND PORTFOLIOS</b>	<b>0.2</b>	<b>3.3</b>	<b>3.8</b>
J.P. Morgan Global Bond Index	2.7	4.1	3.7
Median Global Bond Manager (Wilshire Database)	2.3	3.9	5.1
<b>PSERS REAL ESTATE</b>	<b>6.3</b>	<b>11.6</b>	<b>12.4</b>
NCREIF Index	11.3	13.9	11.9
<b>PSERS PRIVATE EQUITY / VENTURE CAPITAL *</b>	<b>46.8</b>	<b>28.6</b>	<b>26.5</b>

\* Internal rate of return

The System also is involved in a securities lending program administered by Mellon Bank N.A. This program provides incremental income to the System by lending securities in the System's portfolio to securities dealers in exchange for either cash collateral, which can be reinvested to generate income, or non-cash collateral plus a cash fee. This program generated \$21.4 million in additional income during the year.

WAI calculates the total investment return of the System, as well as the performance of each external investment management firm and each internal investment manager 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 Investment Management and Research (AIMR).

## Accomplishments

The asset allocation plan adopted by the Board for Fiscal Year 2000 included, for the first time, specific targets for specialty fixed income asset classes. To meet the objectives of the plan, the System added three particular portfolios whose investments consist primarily of high yield and

mortgage-backed fixed income assets. These portfolios should help increase returns over time and further diversify the System's assets which reduces volatility. In addition, the System's investment in private equity and venture capital almost doubled during the fiscal year which is helping the System get closer to reaching the target allocation of 5%.

### **Significant Development for Fiscal Year 2001**

One significant event will affect the System's investments and investment management during Fiscal Year 2001:

The System will complete its search for a comprehensive, multi-currency investment accounting system, including an order management system for its trading room and investment analytic software for its investment professionals. Currently, the System relies on the custodian bank and third-party service providers for the accounting of its investment activity and investment analytics.

### **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 the projected actuarial liabilities of the System for years to come.



John C. Lane  
Chief Investment Officer

**Portfolio Summary Statistics**  
**Asset Allocation - Trade Date Basis**  
**As of June 30, 2000**

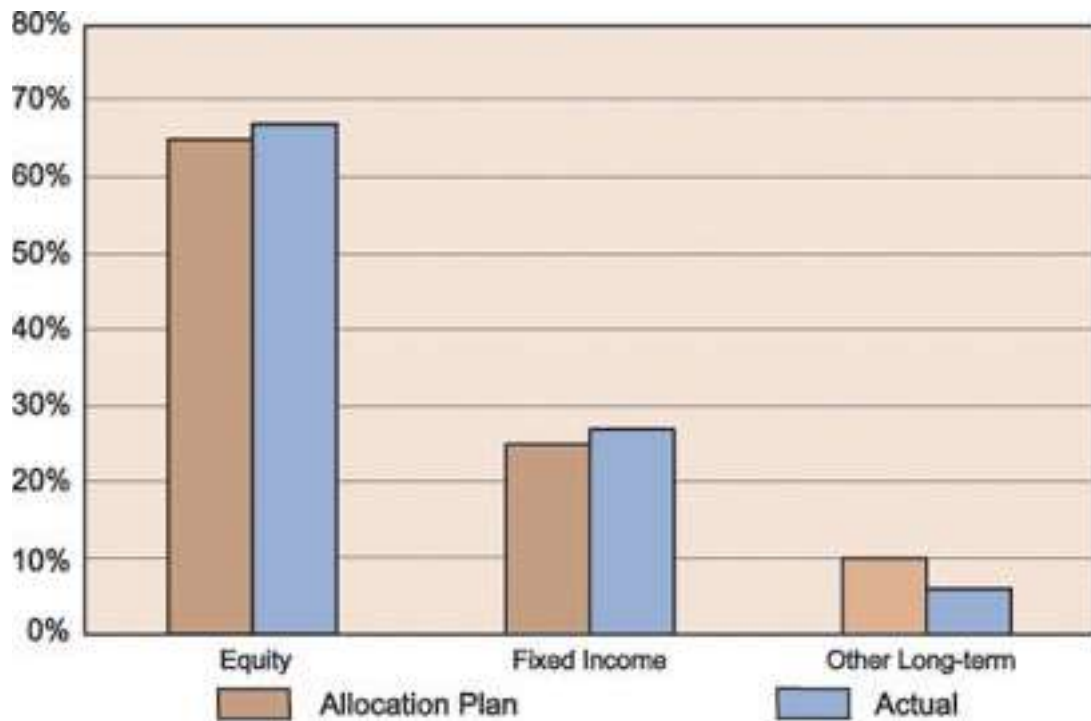
Type of Investment	Fair Value (\$)	% Fair Value
<b>Common and Preferred Stocks:</b>		
Domestic Common and Preferred Stocks	\$ 24,536,471,454	45.5%
International Common Stocks	10,364,663,036	19.2%
Domestic Private Placements	2,142,857	0.0%
Subtotal per Financial Statements	34,903,277,347	64.7%
Collective Trust Funds*	1,046,836,900	1.9%
Short-Term Investments *	509,544,273	0.9%
<b>Total Common and Preferred Stocks - Asset Allocation Basis</b>	<b>36,459,658,520</b>	<b>67.5%</b>
<b>Fixed Income Investments:</b>		
Domestic Corporate and Taxable Municipal Bonds	4,838,356,712	9.0%
Domestic Mortgage-backed Securities	4,756,816,629	8.8%
U.S. Government and Agency Obligations	1,524,929,920	2.8%
International Fixed Income	1,131,828,701	2.1%
Miscellaneous Domestic Fixed Income	353,448,967	0.6%
Domestic Private Placements	1,118,440	0.0%
Subtotal per Financial Statements	12,606,499,369	23.3%
Collective Trust Funds*	586,728,968	1.1%
Short-Term Investments *	1,127,044,749	2.1%
<b>Total Fixed Income - Asset Allocation Basis</b>	<b>14,320,273,086</b>	<b>26.5%</b>
<b>Other Long-Term Investments</b>		
Real Estate Owned	548,357,494	1.0%
Equity Real Estate	885,071,197	1.6%
Private Equity / Venture Capital	1,755,516,481	3.3%
Farmland Investments	71,638,721	0.1%
Subtotal per Financial Statements	3,260,583,893	6.0%
<b>Total Other Long-Term Investments - Asset Allocation Basis</b>	<b>3,260,583,893</b>	<b>6.0%</b>
<b>Total Investments - Asset Allocation Basis</b>	<b>\$ 54,040,515,499</b>	<b>100.0%</b>
<b>Postemployment Healthcare Short-Term Investments</b>	<b>\$ 79,849,499</b>	<b>100.0%</b>

\* - For asset allocation purposes, Collective Trust Funds and Short-term Investments are included with the asset class of the investment manager which holds them and the securities lending collateral pool is not included. See the table and graph which follows.



**Comparison of Actual Portfolio Distribution  
to Asset Allocation Plan  
As of June 30, 2000**

<u>Asset Category</u>	<u>Asset Allocation Plan</u>	<u>Actual</u>
Equity	65%	67%
Fixed Income	25%	27%
Other Long-term	<u>10%</u>	<u>6%</u>
Total	<u>100%</u>	<u>100%</u>



## 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, 2000

Trade Date Basis

Domestic Common and Preferred Stocks

10 Largest Holdings in Descending Order by Fair Value

Description	No. of Shares	Fair Value (\$)
Cisco Systems, Inc.	6,834,205	434,399,155
Intel Corporation	3,118,258	416,872,116
General Electric Company	7,495,042	397,237,226
Microsoft Corporation	4,393,492	351,479,360
Pfizer Inc.	6,542,232	314,027,148
Citigroup Inc.	5,072,944	305,644,876
Exxon Mobil Corporation	3,576,690	280,770,165
Nortel Networks Corporation	3,445,741	235,171,797
Tyco International Ltd.	4,574,208	216,703,104
Oracle Corporation	2,459,606	206,760,629
<b>Total of 10 Largest Holdings</b>		<b><u>3,159,065,576</u></b>
<b>Total System Holdings - Domestic Common and Preferred Stocks</b>		<b><u>24,536,471,454</u></b>

**Portfolio Detail Statistics as of June 30, 2000**  
**Trade Date Basis**  
**International Common Stocks**  
**10 Largest Holdings in Descending Order by Fair Value**

Description	No. of Shares	Fair Value (\$)
Vodafone Airtouch	64,866,510	262,042,291
Total Fina Elf	1,328,784	203,372,707
Nokia (AB) Oy	3,567,976	182,090,141
Ericsson (L.M.) Telefonaktiebolaget	8,833,300	174,562,707
Nippon Telephone & Telegraph Corporation	12,188	161,893,054
Fujitsu Ltd.	3,731,400	128,992,615
ING Groep	1,740,690	117,448,048
Glaxo Wellcome	4,000,973	116,650,432
Sony Corporation	1,130,364	105,415,595
NEC Corporation	3,220,064	101,002,740
<b>Total of 10 Largest Holdings</b>		<b><u>1,553,470,330</u></b>
<b>Total System Holdings - International Common Stocks</b>		<b><u>10,364,663,036</u></b>

**Portfolio Detail Statistics as of June 30, 2000**  
**Trade Date Basis**  
**Collective Trust Funds**  
**10 Largest Holdings in Descending Order by Fair Value**

Description	No. of Shares	Fair Value (\$)
MGT MACS Equity Fund	9,962,307	202,234,828
MGT U.S. Strategic Small Companies Equity Fund	9,500,754	164,838,079
MGT Public Bond Fund	10,016,862	133,124,100
Martin Currie Business Trust Asia Pacific Ex - Japan Fund	48,929,214	128,194,540
Capital Guardian U.S. Fixed Income Fund	1,089,716	89,781,682
MAS Funds Advisory Mortgage Fund	8,079,493	79,259,831
Capital Guardian Non-U.S. Fixed Income Fund	1,117,609	66,207,065
Martin Currie Business Trust Japan Small Companies Fund	3,419,873	50,921,914
Martin Currie Business Trust Europe Mid-East Africa	5,028,320	50,584,902
Capital Guardian Emerging Markets Equity Fund	6,835,843	48,192,009
<b>Total of 10 Largest Holdings</b>		<b><u>1,013,338,950</u></b>
<b>Total System Holdings - Collective Trust Funds</b>		<b><u>1,633,565,868</u></b>

**Portfolio Detail Statistics as of June 30, 2000**  
**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 (\$)
Security Capital US Realty Senior Note	05/22/03	2.250	81,200,000	63,742,000
MCI Worldcom 144A	08/17/00	6.400	61,000,000	61,026,840
Bayview Financial 1999-1 Class A 144A	08/25/32	7.100	50,000,000	50,000,000
Lehman Brothers Commercial Conduit 1999-C2 Class A2 144A	10/15/32	7.325	50,000,000	49,438,500
Pemex Finance Limited	05/15/12	7.330	43,075,000	42,051,538
Salomon Smith Barney Holdings(Inflation Index)	02/14/02	3.650	38,535,294	37,813,913
Heller Financial Medium Term Note Trust #00231	11/09/01	5.900	35,000,000	35,516,600
Ford Motor Credit Company	06/15/10	7.875	32,570,000	32,564,137
Deutsche Telekom International	06/15/10	8.000	31,600,000	31,665,412
ARG Funding Corporation 1999-1A 144A Class A2	05/20/03	5.880	27,690,000	27,139,523
<b>Total of 10 Largest Holdings</b>				<b>430,958,463</b>
<b>Total System Holdings - Domestic Corporate and Taxable Municipal Bonds</b>				<b>4,838,356,712</b>

**Portfolio Detail Statistics as of June 30, 2000**  
**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	97,565,935	89,303,076
GNMA II Pool #0080356	12/20/29	6.500	56,132,406	55,921,909
FNMA Pool #0535159	02/01/30	7.000	55,711,776	53,779,134
FNMA Pool #0535271	05/01/30	8.000	51,378,724	51,587,321
FNMA Pool #0535165	02/01/15	7.000	41,062,771	40,279,704
FNMA Pool #0323819	07/01/29	7.500	38,188,917	37,676,040
GNMA Pool #0780931	12/15/28	7.000	38,090,994	37,031,303
FNMA Pool #0521221	12/01/29	7.500	35,896,468	35,380,277
FNMA Guaranteed REMIC 1999-45 Class LA	06/25/10	6.500	33,444,000	33,234,306
Salomon Brothers Mortgage Securities 1999-NC4 Class A	08/25/29	5.609	30,578,726	30,663,429
<b>Total of 10 Largest Holdings</b>				<b>464,856,499</b>
<b>Total System Holdings - Domestic Mortgage-backed Securities</b>				<b>4,756,816,629</b>

**Portfolio Detail Statistics as of June 30, 2000**  
**Trade Date Basis**  
**U.S. Government and 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	191,264,000	231,220,962
U.S. Treasury-Inflation Index	07/15/02	3.625	110,561,595	109,800,931
U.S. Treasury Notes	08/15/09	6.000	93,865,000	93,116,896
U.S. Treasury Notes	03/31/02	6.625	84,226,000	84,450,041
Federal National Mortgage Association	01/15/10	7.250	74,960,000	75,714,847
Federal National Mortgage Association	01/15/30	7.125	71,800,000	72,327,012
U.S. Treasury Notes	02/15/10	6.500	60,070,000	62,125,595
U.S. Treasury Bonds	05/15/30	6.250	58,890,000	61,788,566
U.S. Treasury-Inflation Index	01/15/09	3.875	56,079,850	55,221,267
U.S. Treasury Bonds	08/15/13	12.000	38,280,000	51,678,000
<b>Total of 10 Largest Holdings</b>				<b><u>897,444,117</u></b>
<b>Total System Holdings - U.S. Government and Agency Obligations</b>				<b><u>1,524,929,920</u></b>

**Portfolio Detail Statistics as of June 30, 2000**  
**Trade Date Basis**  
**International Fixed Income**  
**10 Largest Holdings in Descending Order by Fair Value**

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Fair Value (\$)
Germany (Federal Republic)	07/04/09	4.500	64,390,224	61,112,762
Germany (Federal Republic)	01/04/08	5.250	59,073,600	59,179,933
Germany (Federal Republic)	07/04/10	5.250	51,832,320	52,008,550
Dutch (Government)	07/15/08	5.250	42,910,179	42,695,628
Germany (Federal Republic)	03/15/02	4.500	41,832,684	41,527,305
Greece (Government)	01/29/09	6.300	38,472,500	40,055,624
Japan (Government)	09/22/08	1.500	31,645,868	31,228,142
Germany (Federal Republic)	01/04/10	5.380	29,936,976	30,266,283
Germany (Federal Republic)	01/03/05	7.380	26,878,488	29,230,356
Dutch (Government)	07/15/09	3.750	30,966,000	27,513,291
<b>Total of 10 Largest Holdings</b>				<b><u>414,817,874</u></b>
<b>Total System Holdings - International Fixed Income</b>				<b><u>1,131,828,701</u></b>

**Portfolio Detail Statistics as of June 30, 2000**  
**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 (\$)
Pennsylvania Initiative Small Business Loans	Various	Various	45,962,707	45,962,707
World Omni Automobile Lease Securitization	11/25/03	6.200	40,228,464	39,977,036
Household Automotive 1999-1 Class A3	06/17/03	6.330	21,939,000	21,702,476
Honda Auto Lease 1999-A Class A4	09/16/02	6.450	21,625,000	21,477,518
Americredit Auto 1999-C Class A4	09/05/06	7.143	20,000,000	20,041,200
Premier Auto Trust 1997-3	01/06/03	6.520	15,775,000	15,572,765
Carco Auto Loan Trust 1999-1 Class A1	03/17/03	5.650	14,500,000	14,355,580
MMCA Auto Owner Trust 1999-1 Class A4	07/15/05	5.630	12,910,000	12,663,806
The Mall at Steamtown	11/13/04	8.500	12,847,708	12,624,690
Carco Auto Loan Master Trust 1997-1	08/15/04	6.689	11,185,970	11,144,359
<b>Total of 10 Largest Holdings</b>				<b><u>215,522,137</u></b>
<b>Total System Holdings - Miscellaneous Domestic Fixed Income</b>				<b><u>353,448,967</u></b>

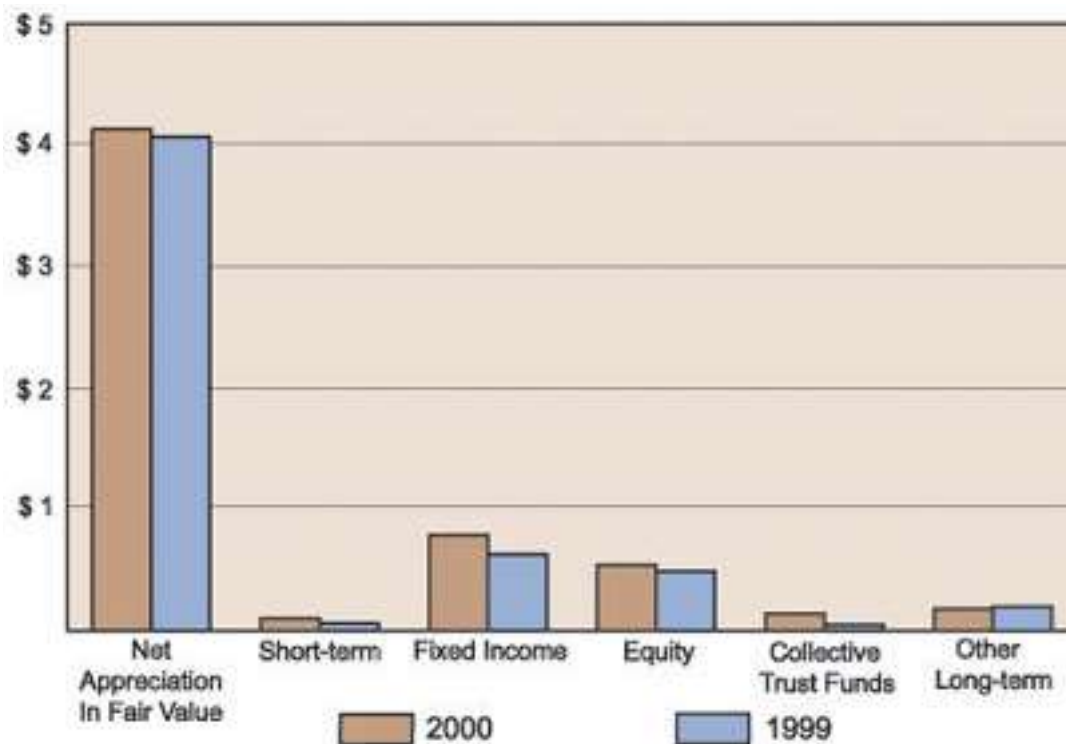
**Portfolio Detail Statistics as of June 30, 2000**  
**Trade Date Basis**  
**Postemployment Healthcare - Short Term Investments**  
**10 Largest Holdings in Descending Order by Fair Value**

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Fair Value (\$)
Treasury Short-Term Investment Fund	Various	Various	30,494,337	30,494,337
Allfirst Repurchase Agreement	07/01/00	6.000	16,368,482	16,368,482
FNMA Guaranteed Remic 1998-24 Class QB	09/18/12	6.000	2,672,415	2,658,198
Discover Card 1995-2 Class A	02/15/03	6.550	2,000,000	1,998,120
Daimler-Benz Vehicles 1998-A Class A3	01/20/03	5.160	2,000,000	1,983,840
Nationsbank Corporation Medium Term Note	02/12/01	5.700	2,000,000	1,982,000
Toyota Motor Credit Corporation	10/11/00	6.125	1,500,000	1,495,650
Student Loan Marketing 1996-2 Class A1	10/25/04	6.314	1,321,207	1,318,023
Student Loan Marketing 1997-2 Class A1	10/25/05	6.344	1,282,257	1,276,269
Capital Auto 1999-1 Class A-2	06/15/02	5.580	1,275,000	1,261,842
<b>Total of 10 Largest Holdings</b>				<b><u>60,836,761</u></b>
<b>Total System Holdings - Postemployment Healthcare - Short-Term Investments</b>				<b><u>79,849,499</u></b>

**Comparison of Investment Activity Income  
For Fiscal Years Ended June 30, 2000 & 1999  
(Dollar Amounts in Thousands)**

<b>Asset Category</b>	<b>2000</b>	<b>1999</b>
Net Appreciation in Fair Value	\$ 4,129,236	\$ 4,068,463
Short-term	99,604	60,127
Fixed Income	786,528	630,462
Common and Preferred Stocks (Equity)	536,268	487,660
Collective Trust Funds	139,640	52,075
Other Long-term	177,009	201,075
<b>Total</b>	<b>\$ 5,868,285</b>	<b>\$ 5,499,862</b>

(Dollar Amounts in Billions)



Brokers' fees on investment transactions for the fiscal year ended June 30, 2000 were \$38.6 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, 2000**

<b>Broker Name</b>	<b>Fees Paid (\$)</b>	<b>Broker Name</b>	<b>Fees Paid (\$)</b>
Merrill Lynch	4,876,394	Smith Barney	341,775
Morgan Stanley and Company	3,525,646	Dresdner Bank A.G.	340,185
Investment Technology Group	2,271,457	Credit Lyonnais Securities	326,836
ANC Nominees, Melbourne	1,960,505	Kleinwort Benson Inc.	308,062
UBS Securities	1,675,681	United Daniels Securities	295,165
Goldman Sachs and Company	1,652,845	Union Bank	270,365
Status Securities	1,597,486	Wertheim and Company	265,685
Salomon Brothers	1,019,683	Jefferies and Company Inc.	262,596
Lehman Brothers	1,019,257	Banc One Capital Corporation	239,342
Whalen Beliveau and Assoc., Inc.	962,882	Hoare Govett Limited	237,856
J.P. Morgan, Inc.	889,503	First Boston Corporation	229,578
Morgan Grenfell	879,821	HSBC Securities Inc.	213,443
Execution Services Inc.	776,133	J. Cheuvreux De Virieu, SA	190,828
SBC Warburg	649,936	Nomura Securities International	179,954
James Capel and Company	647,094	Robert Fleming Securities	175,221
Scottsdale Securities Inc.	646,963	Frankel (Wm. V.) and Company	166,925
Paine Webber, Inc.	623,351	Vercoe and Company	145,233
SBCI Swiss Bank Corporation	622,351	Fator	132,022
Credit Suisse	534,864	Hong Kong and Shanghai Banking	124,134
Deutsche Bank	486,637	Deutsche Morgan Grenfell	123,013
Kokusai Securities	417,723	Donaldson, Lufkin and Jenrette Securities	120,427
Instinet Corporation	401,468	Jardine Fleming	110,159
Cathay Financial Corporation	364,449	Cazenove Inc.	108,037
ABN Amro	355,587	County Natwest Securities	107,114
Jones and Associates	346,955	DLJ Securities Corporation	101,331



## Professional Consultants

### External Investment Advisors

ABS Capital Partners <i>(Private Equity)</i>	Duncan-Hurst Capital Management <i>(Equity)</i>
Acorn Derivatives Management Corporation <i>(Equity)</i>	Edison Venture Funds <i>(Venture Capital)</i>
Adams Capital Management, Inc <i>(Venture Capital)</i>	Emerald Advisors, Inc. <i>(Equity)</i>
Allegis Realty Investors, L.L.C. <i>(Real Estate)</i>	Fiduciary Trust Company International <i>(Fixed Income)</i>
Alliance Capital Management <i>(Equity &amp; Fixed Income)</i>	First Pacific Advisors, Inc. <i>(Equity)</i>
American Express Asset Management <i>(Equity)</i>	Fortress Investment Fund, L.P. <i>(Real Estate)</i>
BG Media Investors <i>(Private Equity)</i>	Franklin Capital Associates III, L.P. <i>(Venture Capital)</i>
Bastion Capital Corporation <i>(Private Equity)</i>	Furman Selz Investors II, L.P. <i>(Private Equity)</i>
Berwind Property Group, Inc. <i>(Real Estate)</i>	Goldman Sachs Asset Management <i>(Equity, Real Estate, GAA &amp; Private Equity)</i>
Bridgepoint Capital Limited <i>(Private Equity)</i>	Greenwich Street Capital Partners <i>(Private Equity)</i>
Bruckmann, Rosser, Sherrill & Co., Inc. <i>(Private Equity)</i>	Grotech Capital Group, Inc. <i>(Venture Capital)</i>
CEO Venture Fund <i>(Venture Capital)</i>	Heritage Partners, Inc. <i>(Private Equity)</i>
Capital Guardian Trust Company <i>(Equity &amp; Global Asset Allocation (GAA))</i>	Holt-Smith & Yates <i>(Developmental)</i>
Charter Financial Group, Inc. <i>(Developmental)</i>	J. P. Morgan Investment Management, Inc. <i>(GAA &amp; Equity)</i>
Connors Investment Services, Inc. <i>(Developmental)</i>	John Hsu Capital Group, Inc. <i>(Developmental)</i>
Cordillera Asset Management <i>(Developmental)</i>	Keystone Venture Capital <i>(Venture Capital)</i>
Credit Suisse First Boston Advisory Partners, L.L.C. <i>(Private Equity)</i>	L&B Real Estate Advisors <i>(Real Estate)</i>
DLJ Real Estate Capital Partners, II <i>(Real Estate)</i>	Landmark Advisors, Inc. <i>(Private Equity)</i>
Daruma Asset Management, Inc. <i>(Developmental)</i>	LaSalle Investment Management, Inc. <i>(Real Estate)</i>
Deutsche Asset Management, Inc. <i>(Fixed Income &amp; GAA)</i>	Lazard Freres Real Estate Investors, L.L.C. <i>(Real Estate)</i>

**Investment Advisors (Continued)**

Legg Mason Real Estate Services <i>(Real Estate)</i>	RREEF Funds <i>(Real Estate)</i>
Lehman Brothers Merchant Bank Partners II, L.P. <i>(Private Equity)</i>	RRZ Investment Management <i>(Developmental)</i>
Leonard Green & Partners, L.P. <i>(Private Equity)</i>	Rogge Global Partners <i>(Fixed Income)</i>
Lexington Capital Partners, Inc. <i>(Private Equity)</i>	Roll and Ross Asset Management, L.P. <i>(Developmental)</i>
Loyalhanna Commonwealth Fund <i>(Venture Capital)</i>	SCP Private Equity Partners, L.P. <i>(Private Equity)</i>
Lubert-Adler Partners <i>(Real Estate)</i>	SSR Realty Advisors, Inc. <i>(Real Estate)</i>
MacKay-Shields Financial Corporation <i>(Equity &amp; Fixed Income)</i>	Schroder Capital Management North America, Ltd. <i>(Equity)</i>
Marathon Asset Management Limited <i>(Equity)</i>	Scudder Kemper Investment, Inc. <i>(Equity)</i>
Martin Currie Inc. <i>(Equity)</i>	Security Capital Global Capital Management Group, Inc. <i>(Real Estate)</i>
Mellon Equity Associates <i>(Equity)</i>	Seligman Henderson Company <i>(Equity)</i>
Morgan Stanley Dean Witter Investment Management, Inc. <i>(Fixed Income, Private Equity, GAA &amp; Real Estate)</i>	Smith Breeden Associates, Inc. <i>(Equity)</i>
NEPA Management Corporation <i>(Venture Capital)</i>	Spectrum Equity Partners <i>(Venture Capital)</i>
Pacific Investment Management Company <i>(Fixed Income &amp; Equity)</i>	Standish, Ayer & Wood, Inc. <i>(Equity)</i>
Patricof & Company Ventures, Inc. <i>(Venture Capital)</i>	Sunrise Capital Partners, L.P. <i>(Private Equity)</i>
Peabody Group <i>(Real Estate)</i>	T. Rowe Price International, Inc. <i>(Equity)</i>
Pennsylvania Early Stage Partners, L.P. <i>(Venture Capital)</i>	TDH III, L.P. <i>(Venture Capital)</i>
Philadelphia Ventures, Inc. <i>(Venture Capital)</i>	TPG Partners, L.P. <i>(Private Equity)</i>
Piedra Capital Inc. <i>(Developmental)</i>	Tanaka Capital Management, Inc. <i>(Developmental)</i>
Prudential Agricultural Group <i>(Real Estate)</i>	Technology Leaders, L.P. <i>(Venture Capital)</i>
Putnam Advisory Company, Inc. <i>(Equity)</i>	Templeton Investment Counsel, Inc. <i>(Equity)</i>

**Investment Advisors (Continued)**

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

WR Huff Asset Management Company, L.L.C.  
*(Fixed Income)*

Wellington Management Company  
*(Equity & Fixed Income)*

West Chester Capital Advisors  
*(Developmental)*

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

Willis Stein & Partners  
*(Private Equity)*

**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

A composite image featuring a calculator, a pen, and a document with a checklist. The calculator is on the left, showing numbers 0-9 and symbols like '+', '-', '=', and 'MC'. The pen is in the center, pointing towards the top right. The document on the right has a checklist with items like '00000', '00001', '00002', '00003', '00004', and '00005'.

# **Public School Employees' Retirement System**

## **Actuarial Section**



April 19, 2000

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

Ladies and Gentlemen:

This report presents the results of the annual actuarial valuation of the Public School Employees' Retirement System of Pennsylvania as of June 30, 1999. The valuation takes into account all of the promised benefits to which members are entitled, including pension and survivor benefits and establishes the contribution rate for the 2000/2001 fiscal year in conformance with the Retirement Code.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees, including a valuation interest rate of 8½% per annum compounded annually. The assumptions and methods are unchanged from the prior valuation.

The actuarial assumptions and methods comply with the parameters set forth in Governmental Accounting Standards No. 25.

### **Assets and Membership Data**

The individual data for members of the System as of the valuation date were reported to the actuary by the Retirement System. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the Retirement System.

### **Funding Adequacy**

The valuation results determine that the employer contribution rate for fiscal year 2000/2001 is 1.94%. The funded status of the plan determined as of June 30, 1999 based on the accrued liability and the actuarial value of assets of the date is 119.0%.

## Financial Results and Membership Data

Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report. Supporting schedules included in the Actuarial and Statistical Section of PSERS Comprehensive Annual Financial Report were prepared by the actuary.

The valuations were completed by qualified actuaries in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuaries are members of the American Academy of Actuaries and are experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and the actuarial methods and assumptions produced results which are reasonable.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kim M. Nicholl".

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

## **Executive Summary**

This report presents the actuarial valuation as of June 30, 1999 for the Public School Employees' Retirement System of Pennsylvania.

The principal valuation results include:

- The employer contribution rate for fiscal year 2000/2001 which is 1.94%.
- The funded status of the plan determined as of June 30, 1999 based on the accrued liability and the actuarial value of assets as of that date which is 119.0%.
- The determination of the actuarial gain or loss as of June 30, 1999 which is a gain of \$3.0 billion.
- Annual disclosure as of June 30, 1999 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 12, are unchanged from last year.

### **Legislative and Administrative Changes**

During the 1998/1999 fiscal year, the Board approved the administrative change that would allow members to purchase part-time non-qualifying service. However, this provision has been challenged and is in litigation. Therefore, no financial impact was recognized in this valuation.

## Contribution Rates

The results of the valuation as of June 30, 1999 determine the employer contribution rate for fiscal year 2000/2001. The total contribution rate payable by the employer is 1.94% of payroll. This includes 1.64% of payroll for pension benefits plus .30% of payroll for the health insurance premium assistance program.

### Reasons for Change in the Rate

The employer contribution rate decreased from 4.61% for fiscal year 1999/2000 to 1.94% for fiscal year 2000/2001. The decrease of 2.67% is due to the following reasons:

▪ Decrease due to actuarial gain on assets	(2.20) %
▪ Net decrease due to actuarial gain on liabilities	(.52)
▪ Increase due to change in health insurance contribution rate	<u>.05</u>
▪ Total	(2.67) %



### Summary of Principal Results

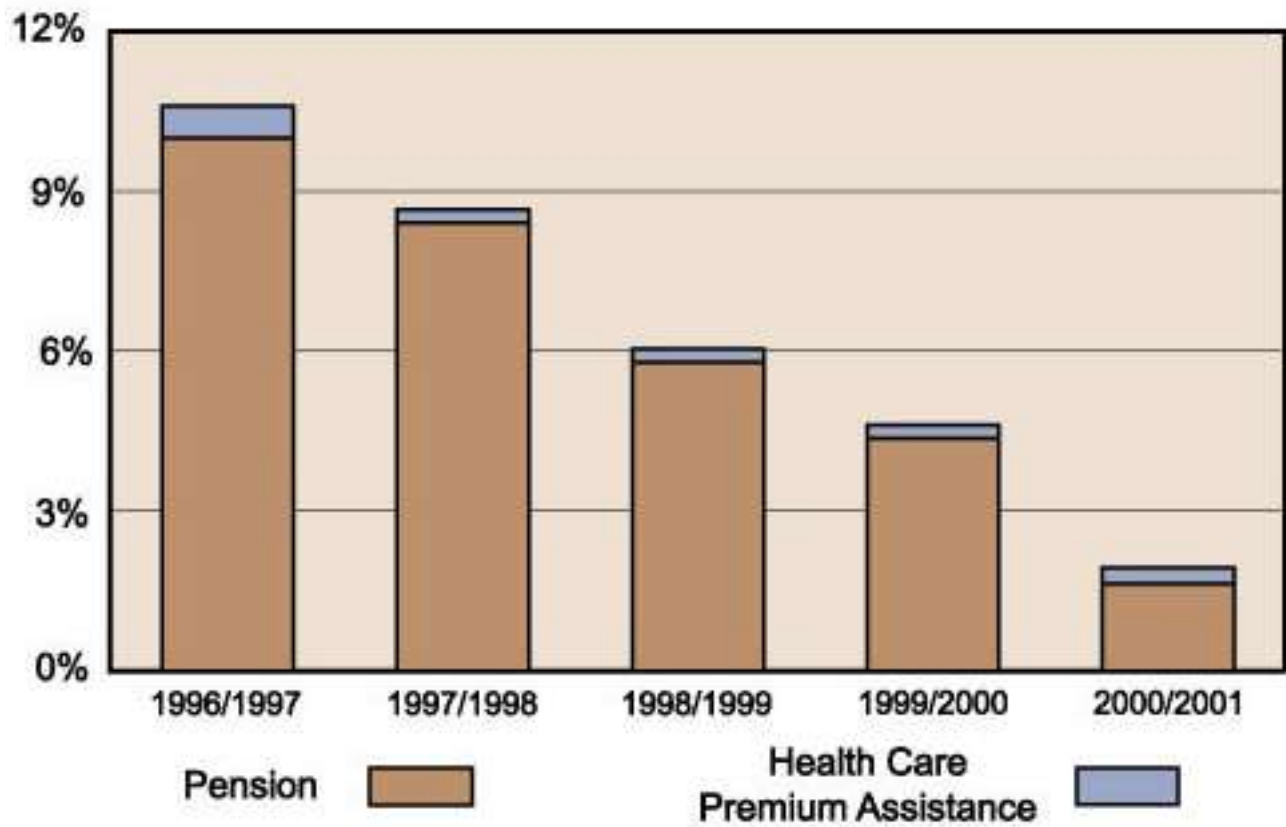
Summarized below are the principal financial results for the Public School Employees' Retirement System based upon the actuarial valuation as of June 30, 1999. Comparable results from the June 30, 1998 valuation are also shown.

Item	June 30, 1999	June 30, 1998
<b>Demographics</b>		
Active Members		
· Number	223,495	220,703
· Average Annual Pay	\$ 36,903	\$ 36,662
Annuitants		
· Number	132,869	126,814
· Average Annual Benefit Payment	\$ 13,777	\$ 13,032
<b>Contribution Rates (as a Percentage of Payroll)</b>	(Fiscal Year 2000/2001)	(Fiscal Year 1999/2000)
Employer Contribution Rate:		
· Total Pension Contribution Rate	1.64%	4.36%
· Health Insurance Contribution Rate	<u>0.30</u>	<u>0.25</u>
· Total	1.94%	4.61%
Member Average Contribution Rate		
· Total Rate	<u>5.77</u> 7.71%	<u>5.72</u> 10.33%
<b>Actuarial Funded Status</b>		
· Accrued Liability	\$ 37,499.1 Mil	\$ 36,136.2 Mil
· Actuarial Value of Assets	<u>44,606.5</u>	<u>39,969.0</u>
· Unfunded Accrued Liability	\$ (7,107.4)	\$ (3,832.8)
· Funded Ratio	119.0%	110.6%

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

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
2000/2001	5.77%	6.29%	(4.65)%	.30%	1.94%
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

The following chart shows a 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 1.94% of payroll payable by employers, when taken together with the contributions payable by the members and asset returns, 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 119.0% as of June 30, 1999. The funded ratio is based on an actuarial value of assets of \$44.6 billion and an accrued liability of \$37.5 billion.

### **Reasons for Change in the Funded Ratio**

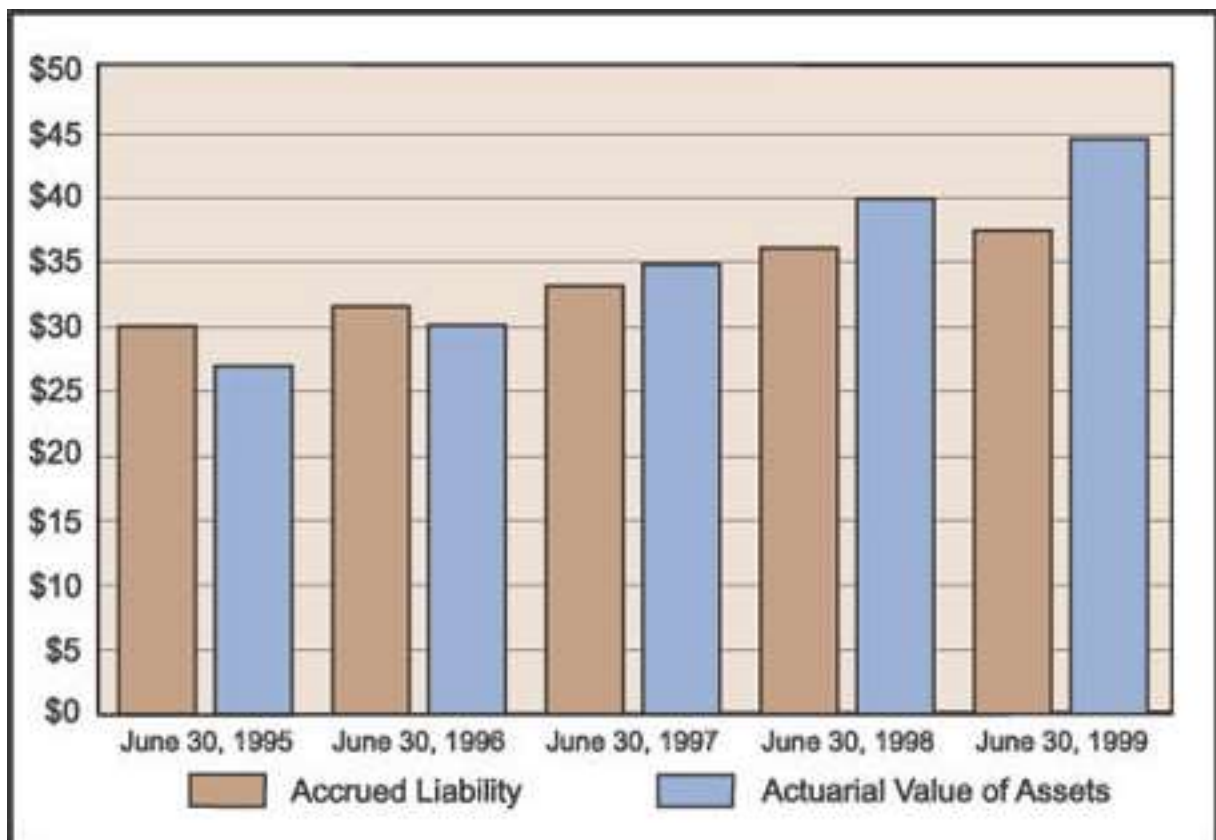
The funded ratio increased from 110.6% as of June 30, 1998 to 119.0% as of June 30, 1999. The increase is due to the net effect of asset and experience gains.

**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
1999	\$ 37,499.1	\$ 44,606.5	\$ (7,107.4)	119.0%
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

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  
(1990 - 1999)**



## **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 119.0% as of June 30, 1999. The funded ratio is based on an actuarial value of assets of \$44.6 billion and an accrued liability of \$37.5 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 a 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 1994/1995 through 1998/1999 is shown in the table below. The return based on the actuarial value of assets used for determining annual contribution rates is also shown.

The rate of return on market value reflects the investment earnings on the market value of assets from the beginning of the fiscal year to the end of the fiscal year. The actuarial assets are the assets recognized for valuation purposes. Actuarial assets are based on a smoothed market value that recognizes investment gains and losses over a period of three years. The rate of return on the actuarial value of assets is a measure of the increase in the actuarial value of assets from the beginning of the fiscal year to the end of the fiscal year.

Fiscal Year	Rate of Return Based on	
	Market Value	Actuarial Value
1998/1999	12.2%	15.1%
1997/1998	15.8	16.8
1996/1997	18.3	17.3
1995/1996	17.8	12.6
1994/1995	16.9	10.6

**Table 1**  
**Summary of Results of Actuarial Valuation**  
**As of June 30, 1999**  
(Dollar Amounts in Thousands)

Item	Amount
<b>Member Data</b>	
1. Number of Members	
a) Active Members	223,495
b) Inactive Members and Vestees	46,426
c) Annuitants, Beneficiaries and Survivor Annuitants	132,869
d) Total	<u>402,790</u>
2. Annualized Salaries	\$ 8,247,602
3. Annual Annuities	\$ 1,830,582
<b>Valuation Results</b>	
4. Present Value of Future Pension Benefits	
a) Active Members	\$ 32,650,549
b) Inactive Members and Vestees	418,356
c) Annuitants, Beneficiaries and Survivor Annuitants	15,215,437
d) Total	<u>\$ 48,284,342</u>
5. Present Value of Future Pension Normal Cost	
a) Active Members	\$ 5,188,955
b) Employer	5,656,591
c) Total	<u>\$ 10,845,546</u>
6. Pension Accrued Liability	
a) Active Members (4a) - (5)	\$ 21,805,003
b) Inactive Members and Vestees	418,356
c) Annuitants, Beneficiaries and Survivor Annuitants	15,215,437
d) Total	<u>\$ 37,438,796</u>
7. Health Care Payments	\$ 60,319
8. Total Accrued Liability (6) + (7)	\$ 37,499,115
9. Actuarial Value of Assets	\$ 44,606,526
10. Unfunded Accrued Liability (8) - (9)	\$ (7,107,411)
11. Total Normal Cost Rate	12.06 %
12. Member Contribution Rate	5.77 %
13. Employer Normal Cost Rate (11) - (12)	6.29 %
<b>Employer Annual Funding Requirement for Fiscal 2000/2001</b>	
14. Employer Contribution Rate	
a) Normal	6.29 %
b) Unfunded Accrued Liability	<u>(4.65)</u>
c) Total Pension Rate	1.64 %
d) Health Insurance	<u>0.30</u>
e) Total	1.94 %



**Table 2**  
**Summary of Sources of Employer Contribution Rate**  
**As of June 30, 1999**  
(Dollar Amounts in Thousands)

	Funding Period 20 Years from July 1	Initial Amount of Liability	Outstanding Balance as of July 1, 1999	Annual Payment Amount	Percent
1. Amortization of:					
a) Initial Unfunded Base	1991	\$ 4,354,817	\$ 4,721,396	\$ 533,399	5.77%
b) Changes in 1991	1992	(140,035)	(154,268)	(16,335)	(0.18)%
c) Changes in 1992	1993	(135,127)	(150,377)	(15,012)	(0.16)%
d) Changes in 1993	1994	(1,224,680)	(1,369,857)	(129,580)	(1.40)%
e) Changes in 1994	1995	70,588	79,014	7,113	0.08%
f) 1994 COLA	1995	499,010	558,576	50,285	0.54%
g) Changes in 1995	1996	(740,020)	(825,799)	(71,020)	(0.77)%
h) Changes in 1996	1997	(1,569,397)	(1,740,023)	(143,443)	(1.55)%
i) Changes in 1997	1998	(2,950,869)	(3,240,852)	(256,866)	(2.78)%
j) Changes in 1998	1999	(2,799,000)	(3,036,915)	(232,044)	(2.51)%
k) 1998 COLA	1999	956,799	1,038,127	79,321	0.86%
l) Changes in 1999	2000	(2,986,434)	(2,986,434)	(235,793)	(2.55)%
Total Amortization Payments			\$ (7,107,411)	\$ (429,976)	(4.65)%
2. Employer Normal Cost Rate					6.29%
3. Health Insurance Rate					0.30%
4. Total Employer Contribution Rate (1) + (2) + (3)					1.94%

**Table 3**  
**Determination of Health Insurance Contribution Rate**  
**For Fiscal Year 2000/2001**  
(Dollar Amounts in Thousands)

Item	Amount
1. Estimated Number of Eligible Annuitants in Fiscal 2001/2002	90,000
2. Estimated Number of Eligible Annuitants Who Elect Coverage	55,800
3. Annual Health Insurance Premium Assistance Payments During Fiscal 2001/2002 (2) * \$55 * 12	\$ 36,828
4. Estimated Health Insurance Premium Assistance Administrative Expenses During Fiscal 2001/2002	737
5. Total Estimated Health Insurance Premium Assistance Disbursements During Fiscal 2001/2002	\$ 37,565
6. Estimated Reserve in Health Insurance Account (Premium Assistance)	\$ 9,966
7. Estimated Shortfall in Health Insurance Account (Premium Assistance) (5 - 6)	\$ 27,599
8. Required Health Insurance Premium Assistance Contribution Rate	
(a) Estimated 2000/2001 Payroll	\$ 9,246,773
(b) Required Health Insurance Premium Assistance Contribution Rate (7) / (8a)	0.30%

**Table 4**  
**Summary of Market Value of Plan Assets**  
**As of June 30, 1999**  
(Dollar Amounts in Thousands)

<b>Market Value</b>	
1. Market Value of Assets as of June 30, 1998	\$ 44,851,838
2. Contributions During Fiscal 1998/1999	1,062,600
3. Disbursements During Fiscal 1998/1999	2,345,611
4. Investment Return During Fiscal 1998/1999	
a) Net Investment Return	\$ 5,427,856
b) Administrative Expenses	24,932
c) Investment Return After Expenses (a) - (b)	\$ 5,402,924
5. Market Value of Assets as of June 30, 1999 (1) + (2) - (3) + (4)	\$ 48,971,751
6. Rate of Return	12.22%
<b>Asset Allocation by Account</b>	
1. Members' Savings Account	\$ 6,298,483
2. Annuity Reserve Account	15,917,622
3. State Accumulation Account	26,695,327
4. Health Care Account	60,319
5. Total	\$ 48,971,751

**Table 5**  
**Derivation of Actuarial Value of Assets**  
**As of June 30, 1999**  
(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 1999				\$ 48,971,751
2. Determination of Deferred Gain (Loss)				
	Year	Gain (Loss)	% Deferred	Deferred Amount
	1998/1999	\$4,101,236	66-2/3%	\$ 2,734,158
	1997/1998	4,893,203	33-1/3%	1,631,068
	1996/1997	4,862,236	- 0 -	0
	Total	\$ 13,856,675		\$ 4,365,226
3. Actuarial Value of Assets (1) - (2)				\$ 44,606,526
4. Actuarial Rate of Return *				15.05%

\* The actuarial rate of return is the investment return on the increase in the actuarial value of the assets from the June 30, 1998 valuation to the June 30, 1999 valuation.

**Table 6**  
**Analysis of Change in Unfunded Accrued Liability**  
**As of June 30, 1999**  
(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 1998	\$ (3,832,794)
2. Interest Credit at 8.50% to June 30, 1999	(325,787)
3. Contributions Toward Unfunded Accrued Liability	(37,605)
4. Expected Unfunded Accrued Liability at June 30, 1999 (1) + (2) - (3)	\$ (4,120,976)
5. Actual Unfunded Accrued Liability at June 30, 1999	\$ (7,107,411)
6. Increase (Decrease) from Expected (5) - (4)	\$ (2,986,435)
7. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Gain from Investment Return on Actuarial Value of Assets	\$ (2,577,747)
(ii) Gain from Salary Increases Less than Expected	(232,794)
(iii) Gain from Retirement and Other Separation Experience	(242,446)
(iv) Loss from Annuitants' Mortality Experience	66,552
Subtotal	\$ (2,986,435)
(b) Changes in Benefit Provisions	\$ -
(c) Grand Total	\$ (2,986,435)

**Table 7**  
**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	Funded (Unfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as a Percentage of Covered Payroll
1999	\$ 44,606,526	\$ 37,499,115	\$ 7,107,411	119.0 %	\$ 8,247,602	(86.2) %
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

**Table 8**  
**Schedule of Employer Contributions**  
**GASB Statement No. 25 Disclosure**  
(Dollar Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	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 %

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, 1997 was contributed in the fiscal year ending June 30, 1999).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/99
Actuarial Cost Method:	Entry Age
Amortization Method:	Level percent closed
Remaining Amortization Period:	11 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%
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**Table 9**  
**Solvency Test**  
**Comparative Summary of Accrued Liability**  
**and Actuarial Value of Assets**  
(Dollar Amounts in Thousands)

Valuation as of June 30	(1)	(2)	(3)	Actuarial Value of Assets	Portion of Accrued Liability Covered by Valuation Assets		
	Active Member Contributions	Retirees and Beneficiaries	Active Member Employer Financed		(1)	(2)	(3)
1999	\$ 6,298,483	\$ 15,275,756	\$ 15,924,876	\$ 44,606,526	100%	100%	100%
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%



**Table 10**  
**History and Projection of Contribution Rates**  
**and Annual Annuities**

Fiscal Year	Contribution Rates					Annual Annuities * (\$ in Millions)
	Member	Employer Normal Cost Rate	Unfunded Liability Rate	Health Insurance Rate	Total Employer Rate	
1991/1992	5.46 %	8.00 %	6.40 %	0.50 %	14.90 %	\$ 771.7
1992/1993	5.48	7.90	5.84	0.50	14.24	816.4
1993/1994	5.51	7.34	5.58	0.25	13.17	862.6
1994/1995	5.55	6.43	4.18	0.45	11.06	1,058.0
1995/1996	5.59	6.43	4.67	0.62	11.72	1,185.6
1996/1997	5.62	6.44	3.56	0.60	10.60	1,221.1
1997/1998	5.65	6.44	2.17	0.15	8.76	1,295.0
1998/1999	5.69	6.33	(0.44)	0.15	6.04	1,447.0
1999/2000	5.72	6.40	(2.04)	0.25	4.61	1,652.6
2000/2001	<b>5.77</b>	<b>6.29</b>	<b>(4.65)</b>	<b>0.30</b>	<b>1.94</b>	<b>1,830.6</b>
2001/2002	5.78	6.26	(6.40)	0.39	0.39	1,883.7
2002/2003	5.79	6.25	(7.15)	0.38	0.38	1,940.8
2003/2004	5.81	6.24	(7.28)	0.37	0.37	2,021.5
2004/2005	5.82	6.23	(7.36)	0.37	0.37	2,128.0
2005/2006	5.84	6.22	(7.45)	0.36	0.36	2,262.6
2006/2007	5.86	6.21	(7.57)	0.36	0.36	2,429.7
2007/2008	5.88	6.20	(7.70)	0.36	0.36	2,631.0
2008/2009	5.91	6.17	(7.86)	0.36	0.36	2,865.7
2009/2010	5.94	6.16	(8.04)	0.36	0.36	3,132.5
2010/2011	5.97	6.13	(8.23)	0.36	0.36	3,425.8

\* Annual annuities are as of June 30 of the year prior to the start of the contribution fiscal year.

The projection of annual annuities and contribution rates is based on the assumption that there are no actuarial gains or losses, no changes in demographics or economic assumptions and no changes in benefit provisions.

**Table 11**  
**History and Projection of Annuitants, Beneficiaries,**  
**Survivor Annuitants and Active Members**

Valuation as of June 30	New Annuitants During the Year	Annuitant Deaths During the Year	Annuitants at End of Year	Beneficiaries and Survivor Annuitants at End of Year	Total Annuitants, Beneficiaries and Survivor Annuitants	Active Members
1990			95,683	4,439	100,122	200,660
1991			98,310	4,614	102,924	202,631
1992			100,265	4,761	105,026	202,991
1993			108,444	4,768	113,212	197,997
1994			109,813	5,218	115,031	206,540
1995			110,509	5,451	115,960	210,783
1996			113,007	5,719	118,726	213,906
1997			118,137	5,987	124,124	215,077
1998			120,665	6,149	126,814	220,703
1999			<b>126,448</b>	<b>6,421</b>	<b>132,869</b>	<b>223,495</b>
2000	6,840	4,549	128,739	6,799	135,538	223,495
2001	5,572	4,430	129,881	7,129	137,010	223,495
2002	5,883	4,075	131,690	7,440	139,130	223,495
2003	6,310	4,022	133,978	7,722	141,700	223,495
2004	6,816	4,228	136,566	7,971	144,537	223,495
2005	7,349	4,441	139,474	8,191	147,665	223,495
2006	7,951	4,578	142,847	8,382	151,229	223,495
2007	8,394	4,728	146,513	8,548	155,061	223,495
2008	8,765	4,834	150,444	8,690	159,134	223,495
2009	9,241	4,967	154,718	8,813	163,531	223,495

Note: The projection of active members assumes that the workforce will remain constant. This may or may not occur.

**Table 12**  
**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		Superannuation Retirement
				Less than 25 years of service	25 or more years of service	
<b>Males</b>						
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
<b>Females</b>						
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

## Description of Actuarial Assumptions and Methods (Continued)

**Death After Retirement:** The 1995 George B. Buck Mortality Tables rated forward one year (adopted in 1995) are used to project mortality for normal, early and withdrawal annuitants and for dependent beneficiaries. Special mortality tables based on PSERS' experience are used for disability retirements. (The 1963 George B. Buck Mortality Tables, adopted in 1967, are used to determine actuarial equivalent benefits.)

**Salary Increase:** Effective average of 6 3/4% per annum, compounded annually. The components are 4% for inflation, 1% for real wage growth and 1 3/4% 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:** Entry Age Normal Cost Method. 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, including actuarial gains and losses, 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.

Description of Actuarial Assumptions and Methods (Continued)

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

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

**DATA**

**Census and Assets:** The valuation was based on members of the System as of June 30, 1999 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 13**  
**Summary of Benefit and Contribution Provisions**

**MEMBERSHIP**

For valuation purposes, all employees are considered to be full coverage (Class T-C). All employees who become members on and after January 1, 1966 are members of the dual coverage group. Dual coverage members contribute to both PSERS and to Social Security.

**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.

**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.

**Withdrawal Annuity**

Eligibility	10 years of service.
Amount	Accrued benefit deferred to superannuation retirement age or an actuarially reduced benefit payable immediately. Actuarially equivalent benefits are based on 4% interest and the 1963 George B. Buck mortality tables.

**Disability Annuity**

Eligibility	5 years of service.
Amount	2% of final average salary per year of service, but not less than 33 <sup>1</sup> / <sub>3</sub> % 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.

Summary of Benefit and Contribution Provisions (Continued)

**Return of Contributions**

Eligibility	Death or separation from service and member does not qualify for other benefits.
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	The present value of the annuity which would have been effective if the member retired on the day before death. Option 1 (see next page) assumed payable if no other option elected.

**Normal and  
Optional Forms  
of Benefits**

Normal Form:	Life annuity with a guaranteed payment equal to member contributions with interest.
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.

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 Summary of Benefit and Contribution Provisions (Continued)
**Health Care Premium Assistance**

Eligibility	Retired members who: <ul style="list-style-type: none"> <li>(a) have 24½ or more years of service, or</li> <li>(b) are disability annuitants, or</li> <li>(c) have 15 or more years of service and who both terminated school service and retired after attaining superannuation age and</li> <li>(d) participate in the PSERS health options program or in an employer-sponsored health insurance program.</li> </ul>
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 premium. All administrative expenses necessary to operate the health insurance premium assistance program are to be funded by the Health Insurance Account. The Health Insurance Account is credited with contributions of the Commonwealth and the employers.

**CONTRIBUTIONS**

By Members	Members who were hired prior to July 22, 1983 contribute at a rate of 5¼% of compensation, while members who were most recently hired on or after July 22, 1983 contribute at a rate of 6¼% of compensation. Reduction for a joint coverage member of 40% of Social Security tax, exclusive of disability and medical coverage portion.
By Commonwealth and School Districts	Balance of required contribution determined as normal contribution, accrued liability contribution, supplemental annuity contribution, experience adjustment factor and premium assistance contribution, is funded by the Commonwealth and the School Districts.



**Table 14**  
**Summary of Membership Data**  
**As of June 30, 1999**  
(Dollar Amounts in Thousands)

**Active Members**

Item	Male	Female	Total
Number of Members	66,118	157,377	223,495
Annual Salaries **	\$ 2,875,995	\$ 5,371,607	\$ 8,247,602
Average Age	45.2	44.7	44.9
Average Service	14.6	11.5	12.4

\* Excludes 46,426 inactive members and vestees.

\*\* These salaries shown in the table above represent a rate of pay as of the valuation date and are the approximate average of the salaries of \$7,992,003 reported for the fiscal year ended June 30, 1999 and the expected salaries for the fiscal year ended June 30, 2000.

**Annuitants and Beneficiaries**

Item	Number	Annual Annuities	Average Annuities
Annuitants (Normal, Early and Withdrawal)	121,064	\$ 1,733,331	\$ 14,317
Survivors and Beneficiaries	6,421	39,773	6,194
Disabled Annuitants	5,384	57,478	10,676
Total	132,869	\$ 1,830,582	\$ 13,777

**Exhibit I**  
**Active Membership Data as of June 30, 1999**  
**Number and Average Annual Salary**

Age	Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
<b>Under 25</b>	5,001	34								5,035
	\$ 22,584	\$ 22,804								\$ 22,585
<b>25 - 29</b>	14,457	3,490	73							18,020
	\$ 28,759	\$ 36,825	\$ 27,654							\$ 30,317
<b>30 - 34</b>	8,415	7,587	2,391	59						18,452
	\$ 24,664	\$ 38,448	\$ 41,040	\$ 30,202						\$ 32,471
<b>35 - 39</b>	9,679	5,047	5,488	1,858	137					22,209
	\$ 18,303	\$ 33,079	\$ 43,750	\$ 43,133	\$ 29,767					\$ 30,097
<b>40 - 44</b>	11,796	6,692	5,340	5,377	4,038	132				33,375
	\$ 17,750	\$ 28,659	\$ 40,048	\$ 49,330	\$ 51,347	\$ 32,238				\$ 32,715
<b>45 - 49</b>	8,784	7,680	6,684	4,412	10,952	9,494	55			48,061
	\$ 19,540	\$ 28,995	\$ 38,266	\$ 46,754	\$ 56,329	\$ 58,717	\$ 35,112			\$ 42,294
<b>50 - 54</b>	4,942	4,789	5,562	4,170	4,567	12,104	5,697	30		41,861
	\$ 19,295	\$ 27,633	\$ 35,520	\$ 41,689	\$ 50,242	\$ 60,159	\$ 62,094	\$ 39,778		\$ 45,667
<b>55 - 59</b>	2,694	2,569	3,166	2,973	3,195	2,909	3,637	1,279	14	22,436
	\$ 16,387	\$ 23,779	\$ 29,880	\$ 33,857	\$ 40,026	\$ 51,284	\$ 61,902	\$ 63,668	\$ 34,368	\$ 39,428
<b>60 - 64</b>	1,346	1,246	1,586	1,333	1,673	1,265	584	558	156	9,747
	\$ 14,636	\$ 20,051	\$ 25,851	\$ 27,942	\$ 33,573	\$ 41,613	\$ 50,810	\$ 63,257	\$ 60,076	\$ 31,403
<b>Over 65</b>	982	804	734	493	470	395	220	75	126	4,299
	\$ 11,331	\$ 14,913	\$ 18,697	\$ 21,047	\$ 26,664	\$ 33,513	\$ 39,375	\$ 50,193	\$ 60,962	\$ 21,655
<b>Total</b>	68,096	39,938	31,024	20,675	25,032	26,299	10,193	1,942	296	223,495
<b>Ave. Sal.</b>	\$ 21,510	\$ 30,868	\$ 37,286	\$ 42,349	\$ 50,111	\$ 57,224	\$ 60,743	\$ 62,661	\$ 59,237	\$ 36,903

**Exhibit II**  
**Annuitant and Beneficiary Membership Data**  
**As of June 30, 1999**

**Number and Average Annual Benefit**  
**Excludes Option 4 Withdrawals**

Age Last Birthday	Number	Annual Benefit (Dollars in Thousands)	Average Annual Benefit (Dollars)
<b>Annuitants (Normal, Early and Withdrawal)</b>			
Under 60	23,478	\$ 420,892	\$ 17,927
60 - 64	16,552	340,407	20,566
65 - 69	21,269	337,268	15,857
70 - 74	20,675	256,028	12,383
75 - 79	16,136	153,576	9,518
Over 79	22,954	225,161	9,809
Total	121,064	\$ 1,733,331	\$ 14,317
<b>Survivors and Beneficiaries</b>			
Under 60	606	\$ 4,172	\$ 6,884
60 - 64	385	3,350	8,701
65 - 69	634	5,222	8,237
70 - 74	993	6,753	6,801
75 - 79	1,317	7,568	5,746
Over 79	2,486	12,709	5,112
Total	6,421	\$ 39,773	\$ 6,194
<b>Disabled Annuitants</b>			
Under 60	2,414	\$ 32,435	\$ 12,436
60 - 64	909	9,119	10,032
65 - 69	767	6,406	8,352
70 - 74	551	4,188	7,601
75 - 79	402	2,867	7,132
Over 79	341	2,462	7,220
Total	5,384	\$ 57,478	\$ 10,676
<b>Grand Total Average Annual Benefit</b>			
	132,869	\$ 1,830,582	\$ 13,777

**Exhibit III****10 Year History of Membership Data****Active Members**

<b>Valuation as of June 30</b>	<b>Number of Active Members</b>	<b>Percentage Change in Membership</b>	<b>Total Annual Payroll (Dollars in Thousands)</b>	<b>Percentage Change in Payroll</b>
1999	223,495	1.27%	\$ 8,247,602	1.93%
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%

**Annuitant and Survivor Annuitant Members**

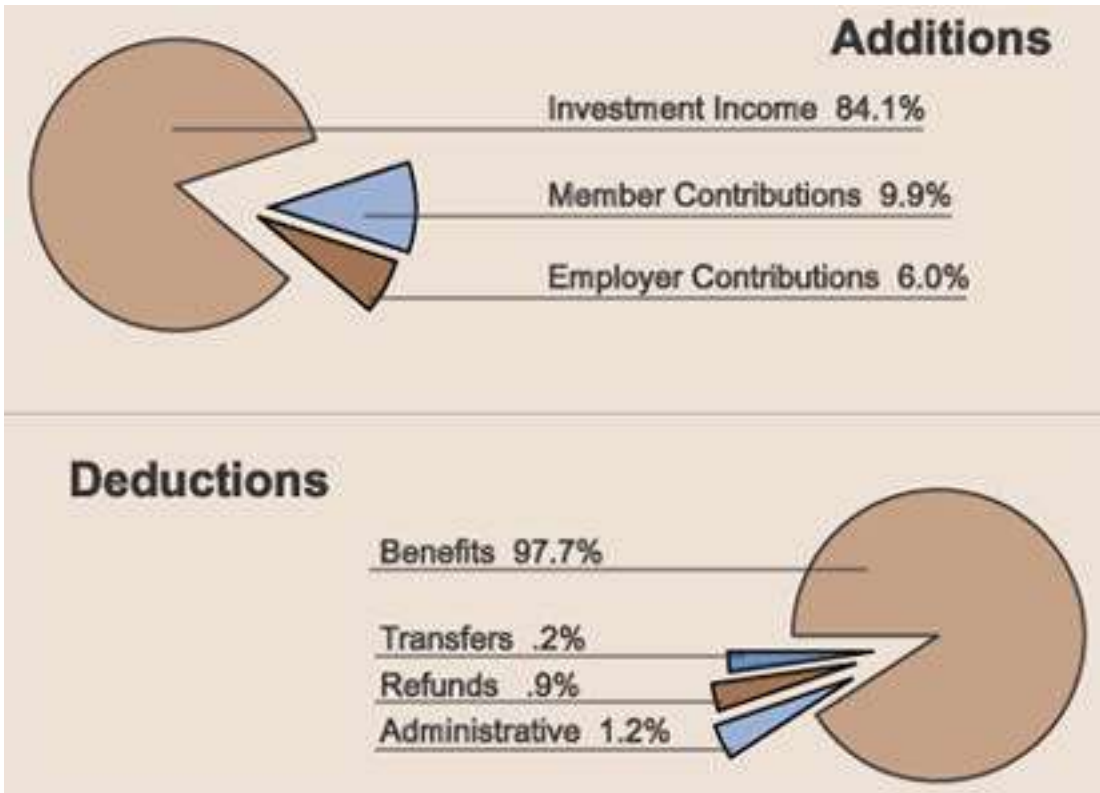
<b>Year Ended June 30</b>	<b>Number on roll</b>	<b>Additions</b>	<b>Deletions</b>	<b>Percentage Change in Membership</b>	<b>Annual Annuities (Dollars in Millions)</b>	<b>Percentage Change in Annuities</b>
1999	132,869	10,609	4,554	4.77%	\$ 1,830.6	10.77%
1998	126,814	7,132	4,442	2.17%	1,652.6	14.21%
1997	124,124	9,787	4,389	4.55%	1,447.0	11.74%
1996	118,726	7,047	4,281	2.39%	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%

A close-up photograph of a hand holding a yellow pen, writing on the keypad of a blue calculator. The background is a soft, out-of-focus mix of pink and blue tones. The text is overlaid on the top and bottom of the image.

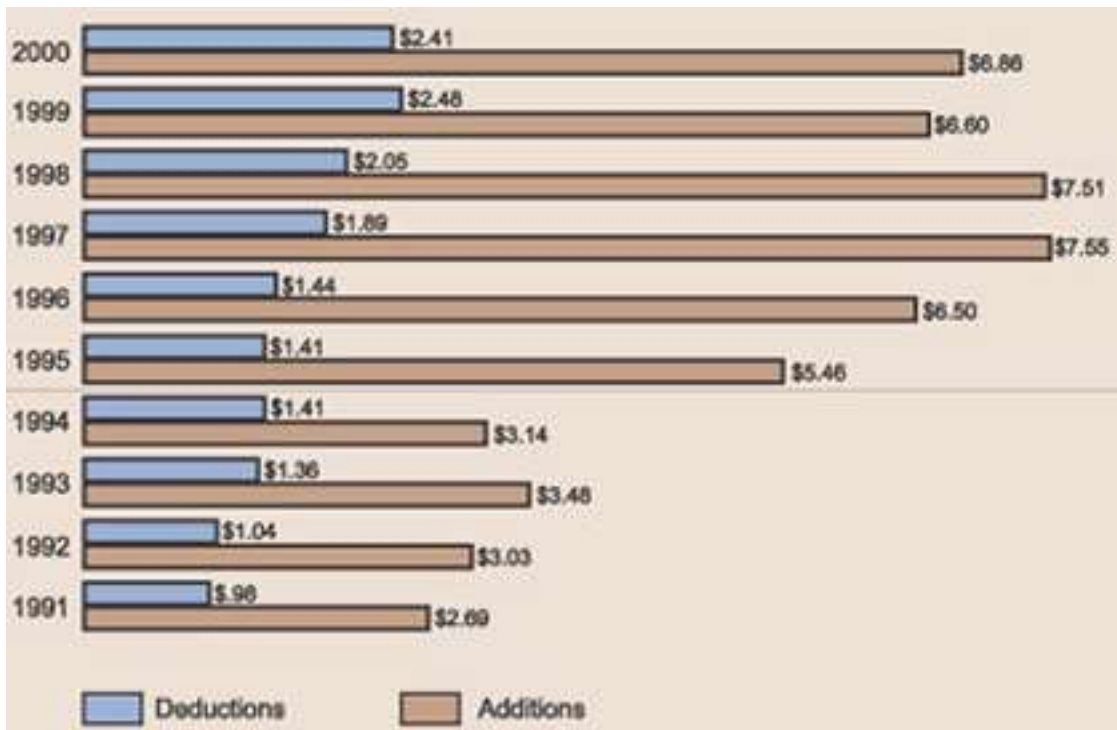
# **Public School Employees' Retirement System**

## **Statistical Section**

### Changes in Plan Net Assets\* 2000



### Changes in Plan Net Assets\* - 2000 Additions vs. Deductions - 10 Year Trend (Dollar Amounts in Billions)



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

## Additions to Plan Net Assets 12 Year Trend

(Dollar Amounts in Thousands)

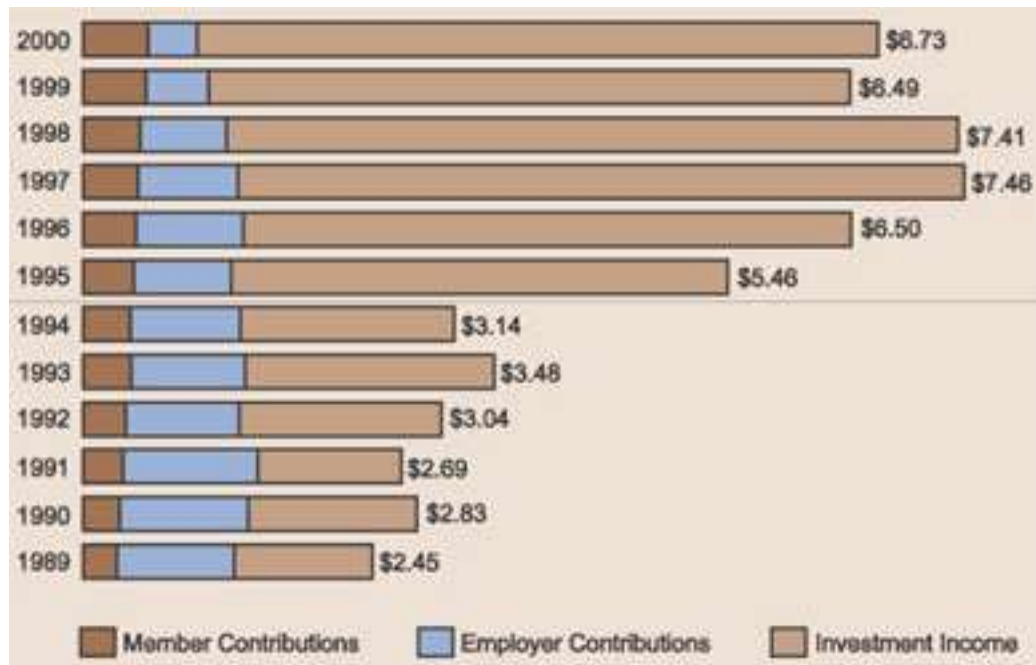
Fiscal Year	Members Contributions	Employers and Commonwealth Contributions		Net Investment Income	Total Additions
		Dollar Amount	Percentage of Covered Payroll		
(A) 2000	\$ 552,502	\$ 412,783	4.61 %	\$ 5,763,627 (1)	\$ 6,728,912
(A) 1999	535,640	526,960	6.04	5,427,856 (1)	6,490,456
(A) 1998	481,228	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

(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 2000 which created significant fluctuations.

(Dollar Amounts in Billions)



## Deductions from Plan Net Assets 12 Year Trend

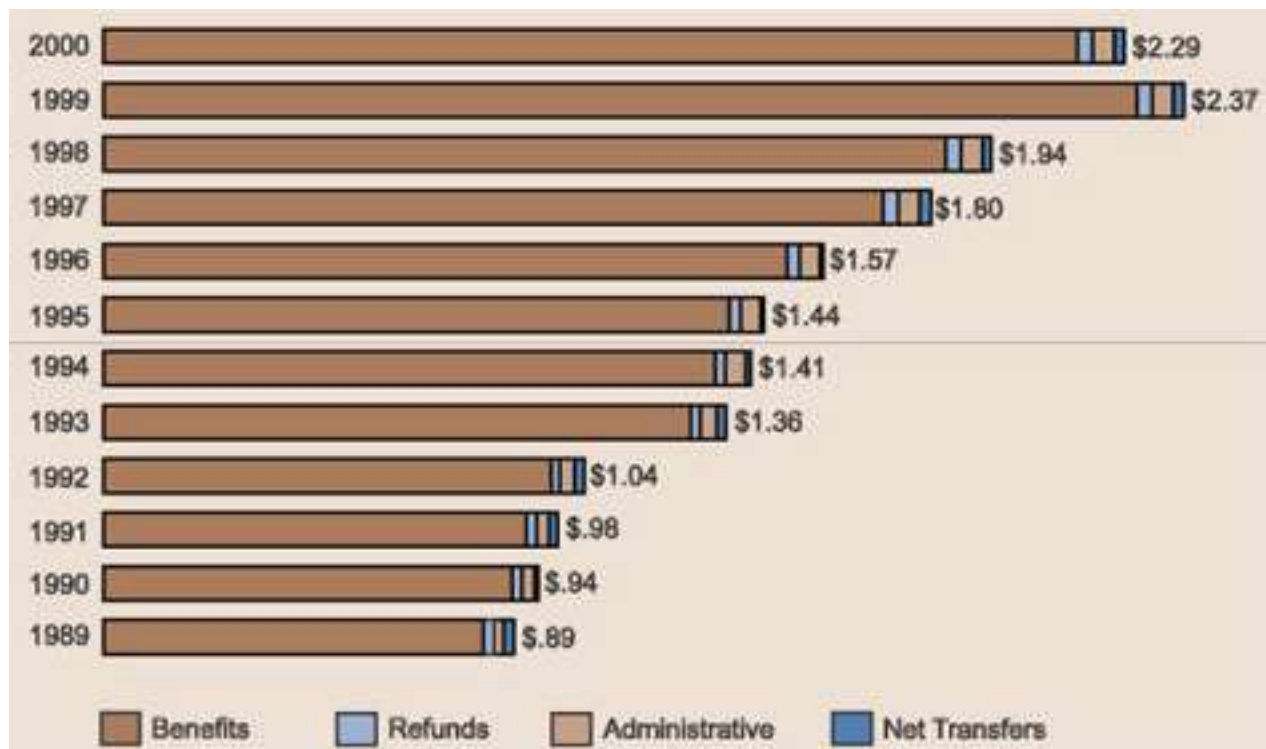
(Dollar Amounts in Thousands)

Fiscal Year	Benefits	Lump-Sum and Installment	Refunds	Administrative	Net Transfers*	Total Deductions
(A) 2000	\$ 1,927,367	\$ 306,329	\$ 22,446	\$ 26,861	\$ 4,710	\$ 2,287,713
(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

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

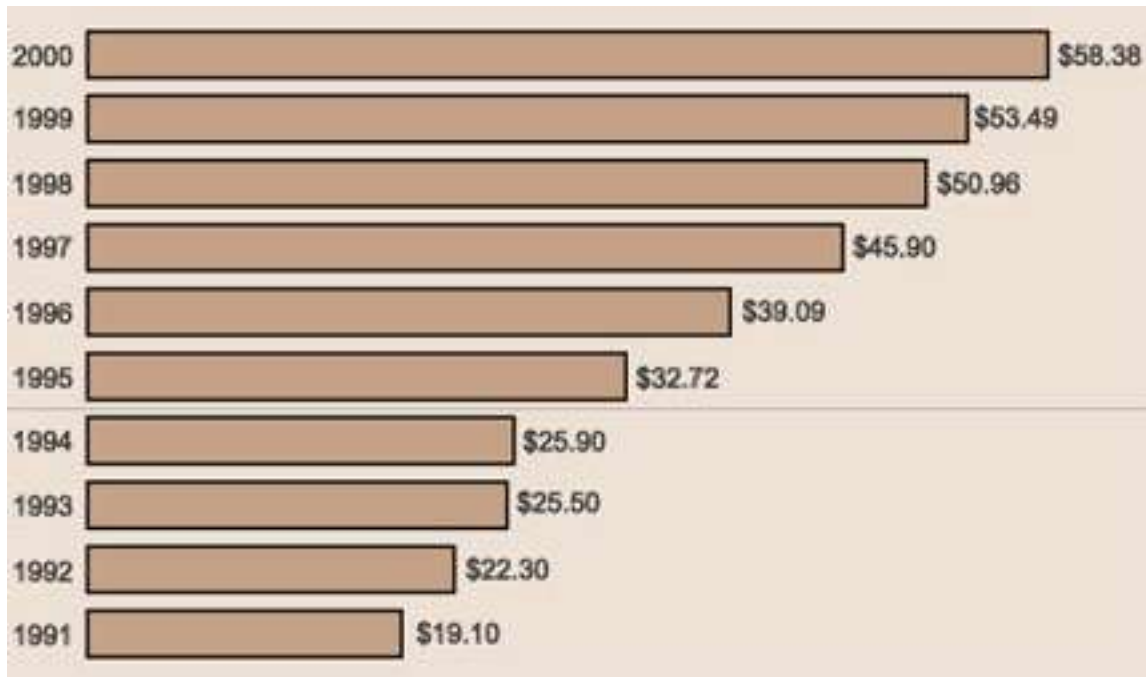
\* Net transfers to the Commonwealth of Pennsylvania, State Employees' Retirement System.

(Dollar Amounts in Billions)





### Total Assets\* 10 Year Trend (Fair Value - Amounts in Billions)



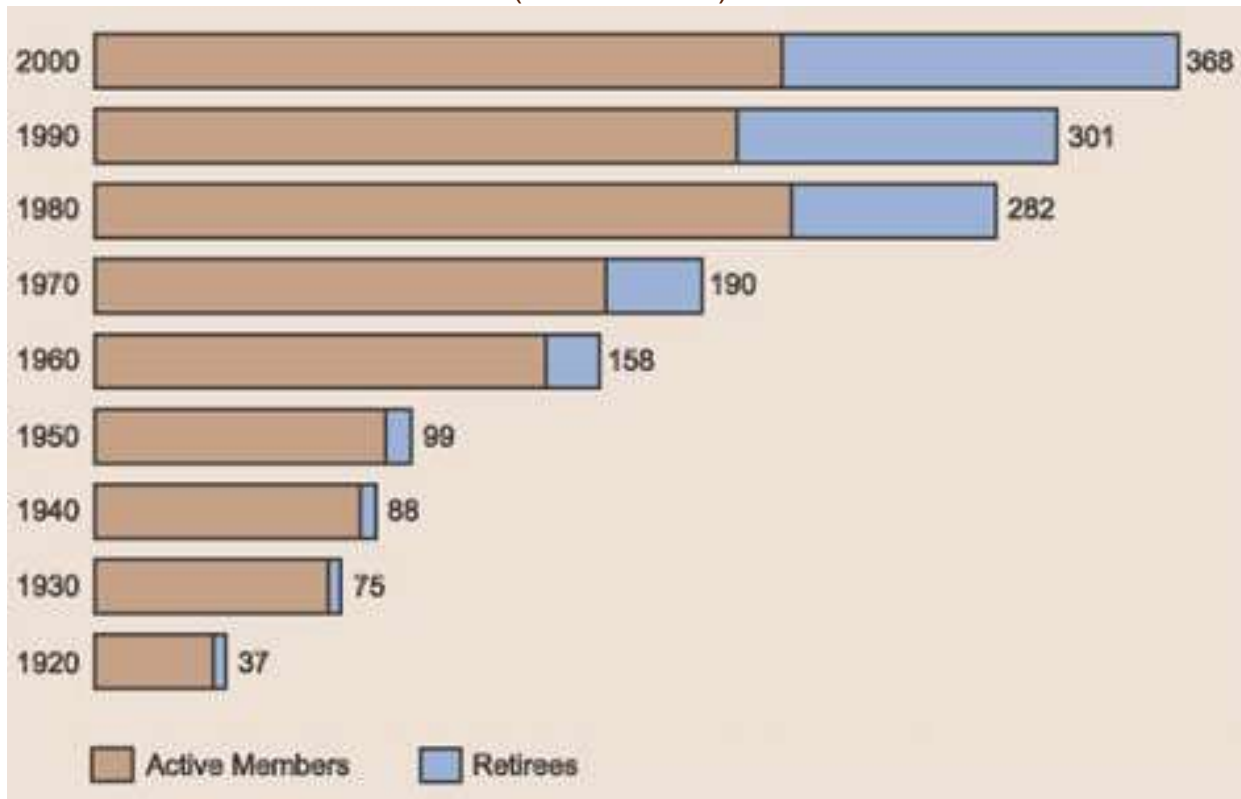
\* Includes Postemployment Healthcare.  
Data for years after 1994 includes effects of GASB Statement No. 25.

### Total Assets - 1920 to June 30, 2000 (Fair Value - Amounts in Billions)



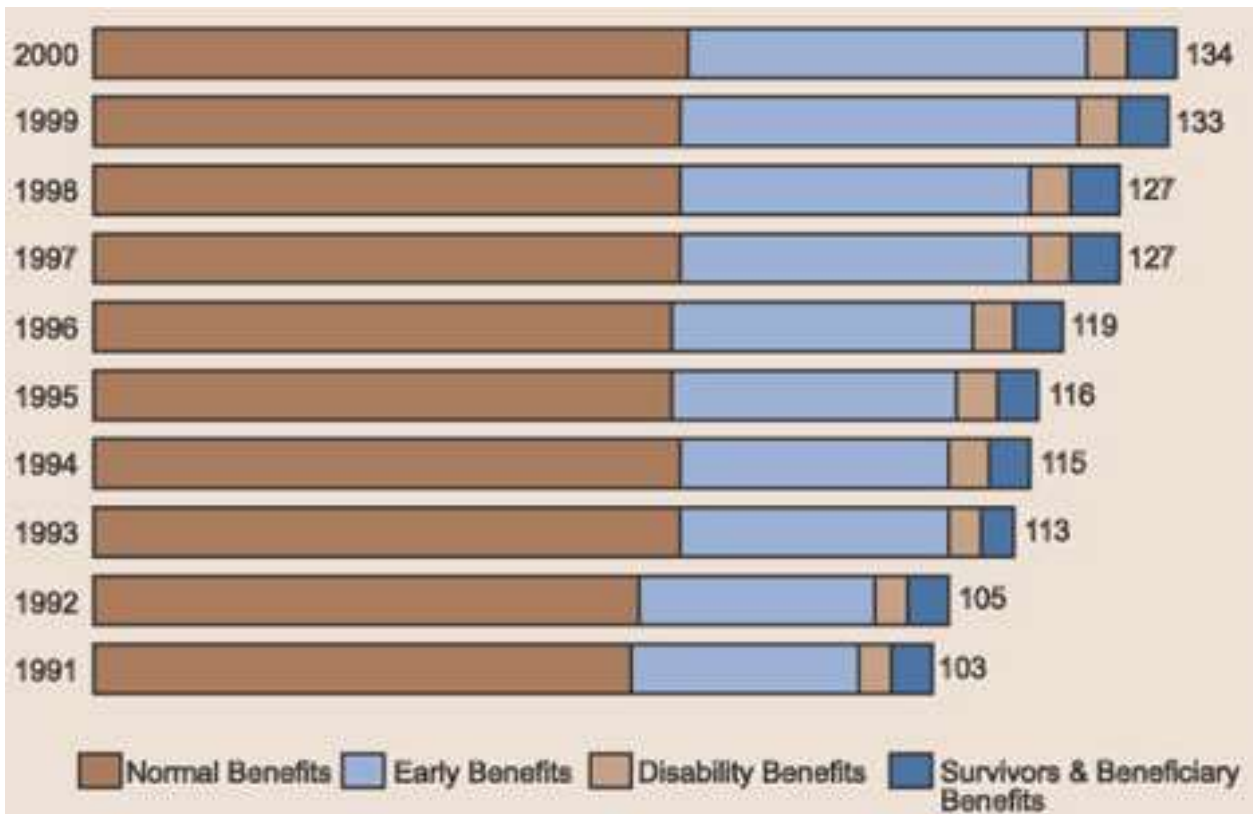
### Total Membership - Active & Retired

(In Thousands)



### Retired Members - 10 Year Trend

(In Thousands)



## Components of Total Contribution Rate

(In Percentages)

Fiscal Year	Employer Contribution			Total Employer	Member Contribution (Average)	Total Contribution Rate
	Normal Requirement (A)	(Funded) / Unfunded Accrued Liability (B)	Health Insurance Premium Assistance Contribution (C)			
2000-2001	6.29	(4.65)	.30	1.94	5.77	7.71
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 Retired Members by Type of Benefit

Year	Retirement Type**	Option M*		Option 1*		Option 2, 3*	
		Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit
2000	S	49,367	\$1,225	7,923	\$860	14,768	\$1,326
	W	36,620	1,288	5,623	660	7,063	1,281
	D	4,740	886	14	545	847	1,141
	R	1	4	0	0	0	0
	B	144	762	3	435	5,879	544
		<b>90,872</b>		<b>13,563</b>		<b>28,557</b>	
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
		<b>89,965</b>		<b>13,575</b>		<b>28,036</b>	
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
		<b>85,173</b>		<b>13,403</b>		<b>27,003</b>	
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
		<b>83,189</b>		<b>13,317</b>		<b>26,425</b>	
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
		<b>79,268</b>		<b>13,108</b>		<b>25,252</b>	
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
		<b>77,461</b>		<b>12,989</b>		<b>24,506</b>	
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
		<b>77,000</b>		<b>13,004</b>		<b>24,027</b>	
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
		<b>76,244</b>		<b>12,841</b>		<b>23,370</b>	
1992	S	46,052	\$718	7,829	\$633	12,508	\$876
	W	21,116	629	4,104	434	4,177	768
	D	3,632	562	27	436	487	699
	R	2	6	0	0	0	0
	B	0	0	0	0	4,142	380
		<b>70,802</b>		<b>11,960</b>		<b>21,314</b>	
1991	S	46,063	\$693	7,668	\$624	12,234	\$847
	W	20,127	595	3,905	418	3,962	734
	D	3,561	538	27	436	457	662
	R	2	6	0	0	0	0
	B	0	0	0	0	3,991	369
		<b>69,753</b>		<b>11,600</b>		<b>20,644</b>	

**\* OPTIONS:**

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

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

Year	Retirement Type**	Option SO*		Option BO*		Total Retirees	% Increase of Retirees
		Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit		
2000	S	480	\$2,389	0	\$ 0	72,538	0.2%
	W	207	2,180	1	336	49,514	1.7%
	D	2	2,151	0	0	5,603	4.1%
	R	0	0	0	0	1	0.0%
	B	146	481	488	500	6,660	3.8%
		<b>835</b>		<b>489</b>		<b>134,316</b>	<b>1.1%</b>
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%
		<b>794</b>		<b>496</b>		<b>132,866</b>	<b>4.8%</b>
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%
		<b>742</b>		<b>487</b>		<b>126,808</b>	<b>2.2%</b>
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%
		<b>694</b>		<b>495</b>		<b>124,120</b>	<b>4.6%</b>
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%
		<b>607</b>		<b>485</b>		<b>118,720</b>	<b>2.4%</b>
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%
		<b>577</b>		<b>464</b>		<b>115,997</b>	<b>0.8%</b>
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%
		<b>578</b>		<b>452</b>		<b>115,061</b>	<b>1.4%</b>
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%
		<b>569</b>		<b>445</b>		<b>113,469</b>	<b>8.1%</b>
1992	S	271	\$1,525	0	\$ 0	66,660	0.7%
	W	60	1,418	0	0	29,457	5.1%
	D	0	0	0	0	4,146	2.5%
	R	0	0	0	0	2	0.0%
	B	152	197	445	324	4,739	3.1%
		<b>483</b>		<b>445</b>		<b>105,004</b>	<b>2.0%</b>
1991	S	257	\$1,428	0	\$ 0	66,222	1.3%
	W	47	1,400	0	0	28,041	6.2%
	D	0	0	0	0	4,045	3.9%
	R	0	0	0	0	2	0.0%
	B	156	192	449	313	4,596	4.7%
		<b>460</b>		<b>449</b>		<b>102,906</b>	<b>2.8%</b>

\*\* RETIREMENT TYPE:

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

## Schedule of Employers School Districts

### A

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

### B

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

Burrell  
 Butler Area

### C

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

Curwensville Area

### D

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

### E

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

### F

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

## Schedule of Employers (Continued)

**G**

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

**H**

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

**I**

Indiana Area  
Interboro  
Iroquois

**J**

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

**K**

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

**L**

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

**M**

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

Monessen  
Moniteau  
Montgomery Area  
Montour  
Montoursville Area  
Montrose Area  
Moon Area  
Morrisville Boro  
Moshannon Valley  
Mount Carmel Area  
Mount Lebanon  
Mount Pleasant Area  
Mount Union Area  
Mountain View  
Muhlenberg  
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

Ringgold  
 Riverside  
 Riverside Beaver County  
 Riverview  
 Rochester Area  
 Rockwood Area  
 Rose Tree Media

Steel Valley  
 Steelton-Highspire  
 Sto-Rox  
 Stroudsburg Area  
 Sullivan County  
 Susquehanna Community  
 Susquehanna Township  
 Susquenita

**P**

Palisades  
 Palmerton Area  
 Palmyra Area  
 Panther Valley  
 Parkland  
 Pen Argyl Area  
 Penn Cambria  
 Penn Crest  
 Penn Delco  
 Penn Hills  
 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

**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

**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  
 Upper Perkiomen  
 Upper Saint Clair

**Q**

Quaker Valley  
 Quakertown Community

**V**

Valley Grove  
 Valley View

**R**

Radnor Township  
 Reading  
 Red Lion Area  
 Redbank Valley  
 Reynolds  
 Richland  
 Ridgway Area  
 Ridley

**W**

Wallenpaupack Area  
 Wallingford Swarthmore  
 Warren County  
 Warrior Run  
 Warwick  
 Washington  
 Wattsburg Area  
 Wayne Highlands



**Schedule of Employers (Continued)**

Waynesboro Area	Western Beaver County	Windber Area
Weatherly Area	Western Wayne	Wissahickon
Wellsboro Area	Westmont Hilltop	Woodland Hills
West Allegheny	Whitehall-Coplay	Wyalusing Area
West Branch Area	Wilkes-Barre Area	Wyoming Area
West Chester Area	Wilkinsburg	Wyoming Valley West
West Greene	William Penn	Wyomissing Area
West Jefferson Hills	Williams Valley	
West Middlesex Area	Williamsburg Community	
West Mifflin Area	Williamsport Area	
West Perry	Wilmington Area	
West Shore	Wilson	
West York Area	Wilson Area	

**Y**


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York  
York Suburban  
Yough

**Area Vocational Technical Schools**

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

**Intermediate Units**

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

## 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 Carbon 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 Corrections - Commonwealth of  
Pennsylvania  
Department of Education - Commonwealth of Pennsylvania  
Lancaster County Academy  
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.  
Architecture & Design C.S.  
Career Connections C.S.  
Center for Economics and Law C.S.  
Centre Learning Community C.S.  
Chester C.S.  
Chester County Family Academy C.S.  
Christopher Columbus C.S.  
Collegium C.S.  
Eugenio Maria de Hostos Community Bilingual C.S.  
Family C.S.  
Freire C.S.  
GECAC Community C.S.  
Germantown Settlement C.S.  
Imani Education Circle C.S.  
IMHOTEP Institute C.S.  
Keystone Education Center C.S.  
La Academia: The Partnership C.S.  
Laboratory C.S.  
Manchester Academic C.S.  
MaST Community C.S.  
Math, Civics & Sciences C.S.

Mosaica Academy C.S.  
Multi-Cultural Academy  
Northeast C.S.  
Northside Urban Pathways C.S.  
Philadelphia Academy 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  
Renaissance C.S.  
Ridgeview Academy C.S.  
SUSQ-CYBER C.S.  
Sylvan Heights Science C.S.  
Thurgood Marshall Academy C.S.  
Universal Institute C.S.  
Urban League of Pittsburgh C.S.  
Village C.S. of Chester-Upland  
West Oak Lane C.S.  
Wonderland C.S.  
World Communications C.S.  
Young Scholars C.S.