Public School Employees' Retirement System

Actuarial Section

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May 21, 2001

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 revised annual actuarial valuation of the Public School Employees' Retirement System of Pennsylvania as of June 30, 2000. The valuation was revised to reflect Act 9 of 2001 which amended the Retirement Code to increase the level of postemployment healthcare insurance premium assistance from $55 per month to $100 per month effective January 1, 2002. 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 2001/2002 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. Based on our recommendations and effective with this valuation, the Board adopted revised actuarial assumptions. Specifically, the disability, retirement and termination rates were modified to reflect experience and an updated mortality table was adopted. Also, the inflation assumption was reduced from 4% to 3½% and the salary increase assumption was lowered to an average of 6¼%.

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 2001/2002 is 1.09%. The funded status of the plan determined as of June 30, 2000 based on the accrued liability and the actuarial value of assets of the date is 123.8%.

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,

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

S. Lynn Hill
Senior Actuarial Manager

Executive Summary

This report presents the actuarial valuation as of June 30, 2000 for the Public School Employees' Retirement System of Pennsylvania.

The principal valuation results include:

- The employer contribution rate for fiscal year 2001/2002 which is 1.09%.
- The funded status of the plan determined as of June 30, 2000 based on the accrued liability and the actuarial value of assets as of that date which is 123.8%.
- The determination of the actuarial gain or loss as of June 30, 2000 which is a gain of $1.9 billion.
- Annual disclosure as of June 30, 2000 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 assumptions have been changed effective June 30, 2000. Specifically, the disability, retirement and termination rates were modified to reflect experience and an updated mortality table was adopted. Also, the inflation assumption was reduced from 4% to 3½% and the salary increase assumption was lowered to an average of 6¼%. The actuarial cost method is specified in the Retirement Code. The actuarial assumptions and methods are outlined in Table 12.

Legislative and Administrative Changes

Act 9 of 2001 amended Section 8509(b) of the Retirement Code to increase the level of postemployment healthcare insurance premium assistance from $55 per month to a maximum of $100 per month effective January 1, 2002.

Contribution Rates

The results of the valuation as of June 30, 2000 determine the employer contribution rate for fiscal year 2001/2002. The total contribution rate payable by the employer is 1.09% of payroll. This includes 0.00% of payroll for pension benefits plus 1.09% of payroll for the postemployment healthcare insurance premium assistance program.

Reasons for Change in the Rate
The employer contribution rate decreased from 1.94% for fiscal year 2000/2001 to 1.09% for fiscal year 2001/2002. The decrease of 0.85% is due to the following reasons:

▪ Decrease due to assumption changes	(.69) %
• Decrease due to actuarial gain on assets	(1.77)
▪ Increase due to actuarial loss on liabilities	.40
• Increase due to change in health insurance contribution rate	.79
▪ Increase due to zero minimum pension rate contribution	.42
Total	(0.85) %

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, 2000. Comparable results from the June 30, 1999 valuation are also shown.

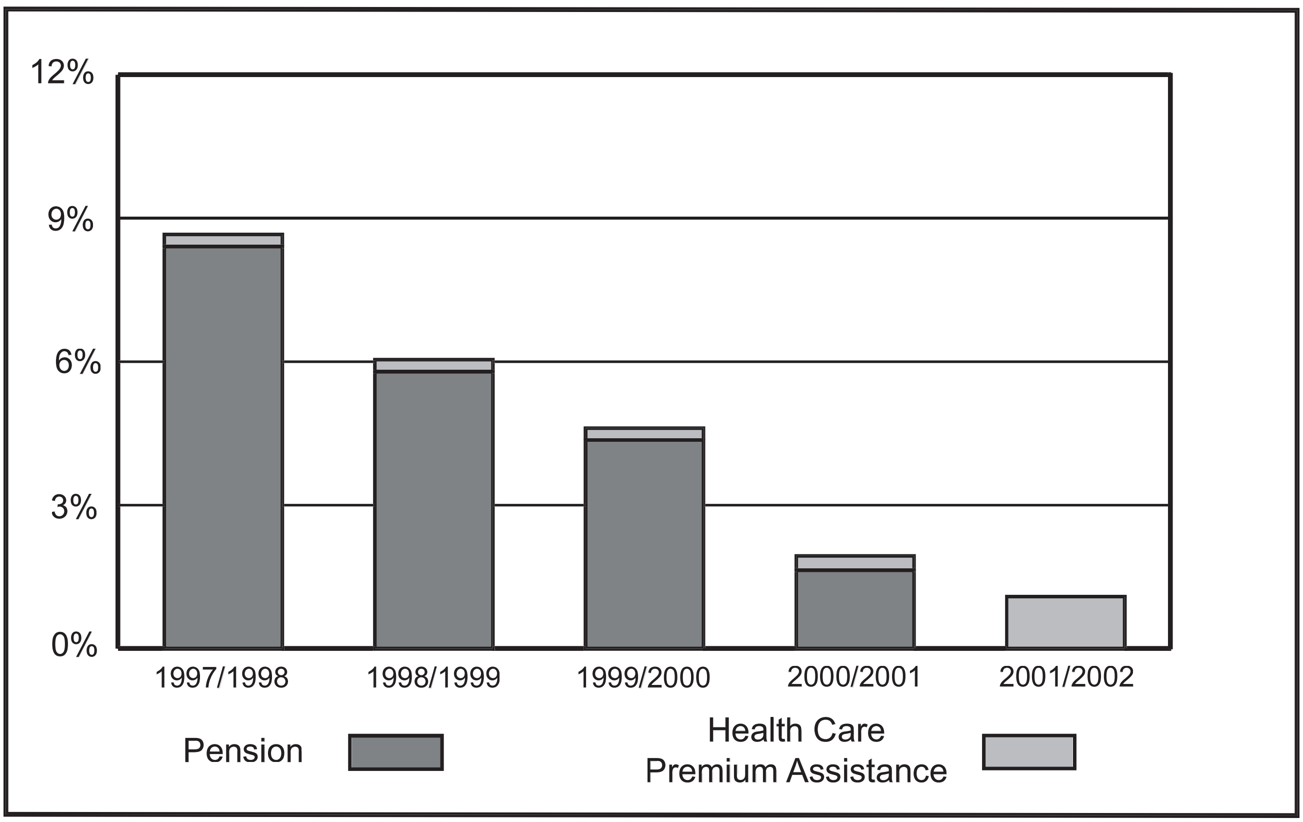
Item	June 30, 2000	June 30, 1999
Demographics		
Active Members		
· Number	234,210	223,495
· Average Annual Pay	$ 38,169	$ 36,903
Annuitants		
· Number	134,058	132,869
· Average Annual Benefit Payment	$ 14,029	$ 13,777
Contribution Rates (as a Percentage of Payroll)	(Fiscal Year 2001/2002)	(Fiscal Year 2000/2001)
Employer Contribution Rate:		
· Total Pension Contribution Rate	0.00%	1.64%
· Health Insurance Contribution Rate	1.09	0.30
· Total	1.09%	1.94%
Member Average Contribution Rate	5.80	5.77
· Total Rate	6.89%	7.71%
Actuarial Funded Status		
· Accrued Liability	$ 39,822.8 Mil	$ 37,499.1 Mil
· Actuarial Value of Assets	49,293.0	44,606.5
· Unfunded Accrued Liability	$ (9,470.2)	$ (7,107.4)
· Funded Ratio	123.8%	119.0%

Five-Year History of Principal Financial Results

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

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
2001/2002	5.80%	5.63%	(6.05)%	1.09%	1.09%
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

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 1.09% 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 123.8% as of June 30, 2000. The funded ratio is based on an actuarial value of assets of $49.3 billion and an accrued liability of $39.8 billion.

Reasons for Change in the Funded Ratio

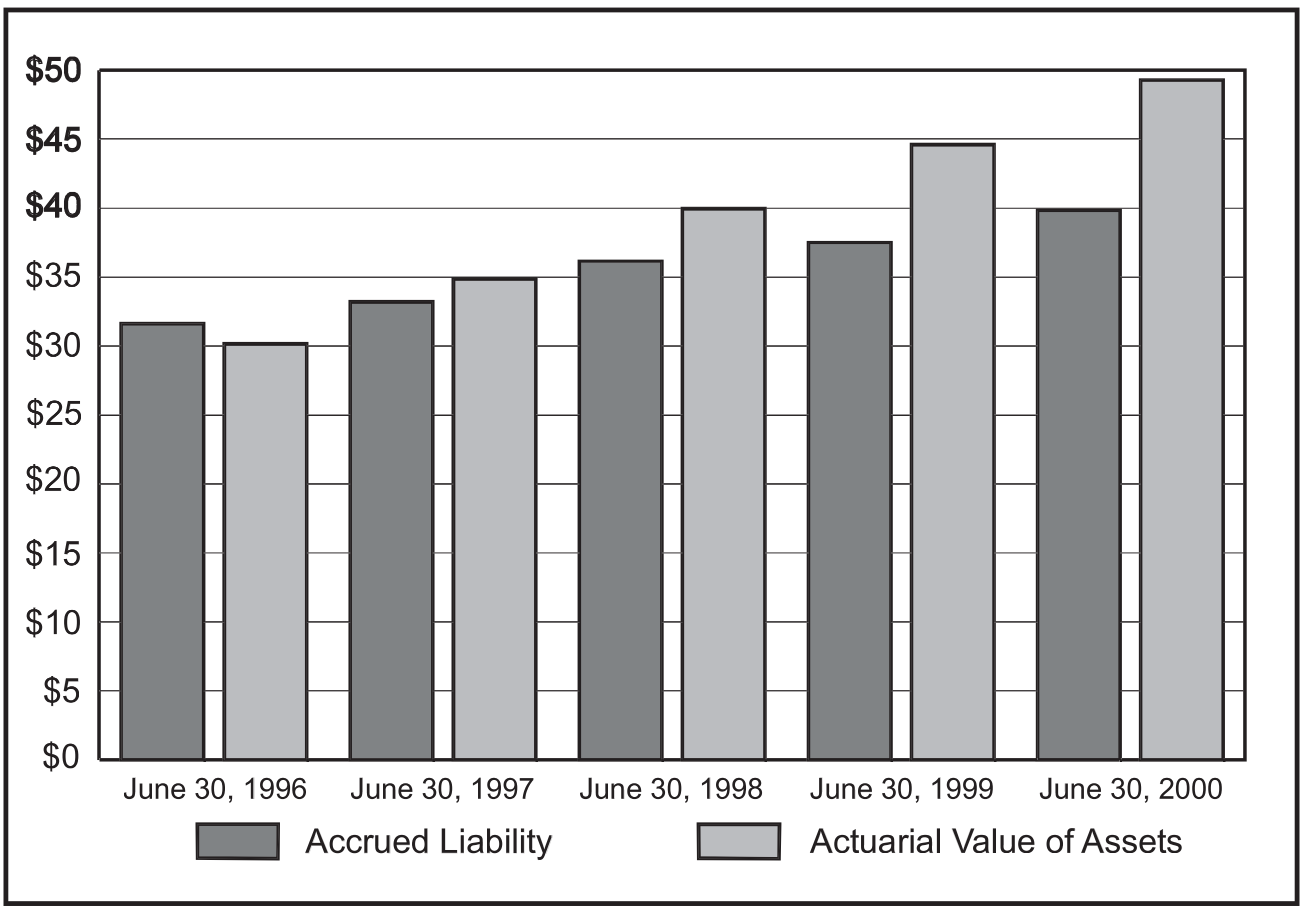
The funded ratio increased from 119.0% as of June 30, 1999 to 123.8% as of June 30, 2000. The increase is due to the net effect of asset and experience gains.

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
2000	$ 39,822.8	$ 49,293.0	$ (9,470.2)	123.8%
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

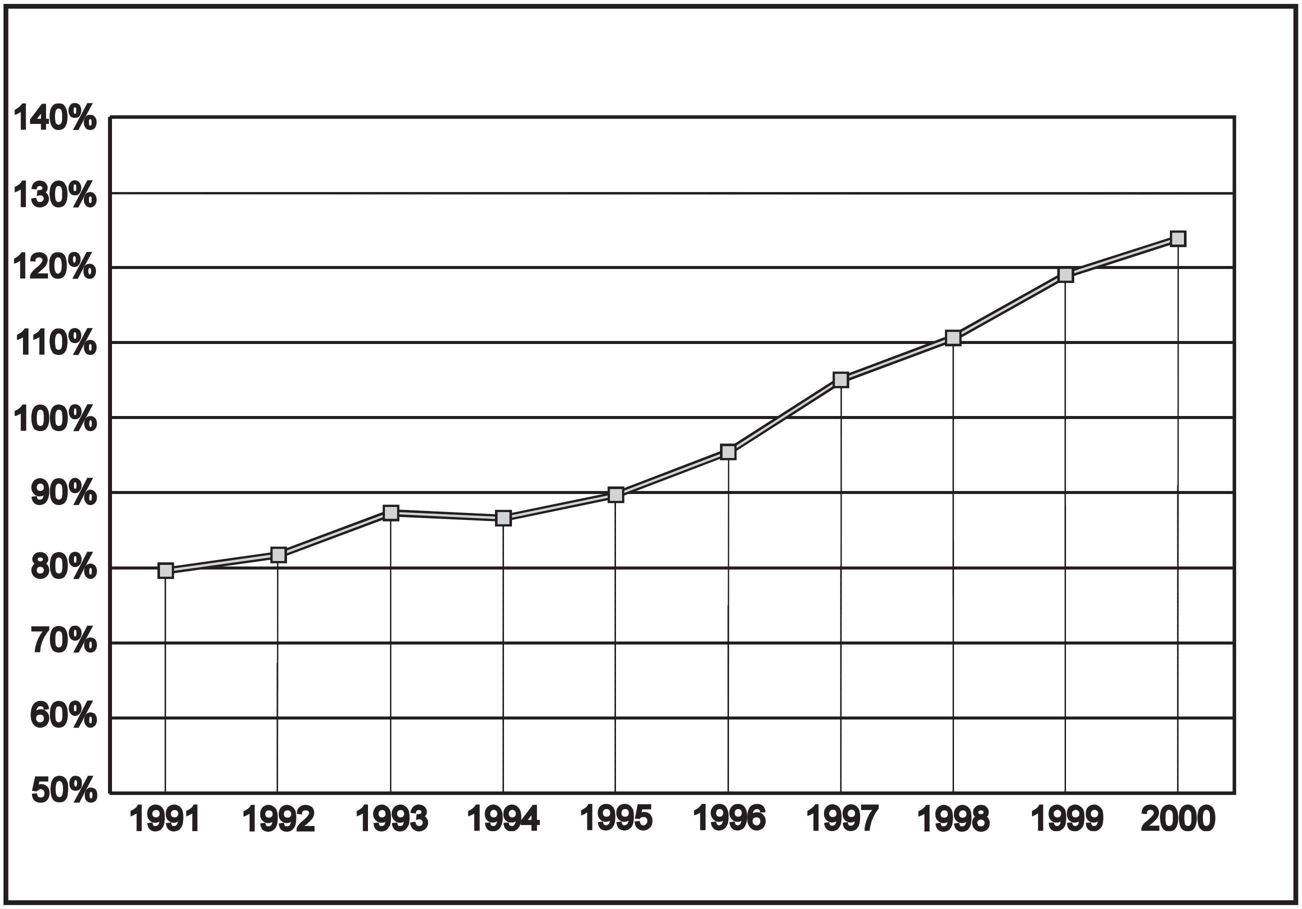
The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

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
(1991 - 2000)



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 123.8% as of June 30, 2000. The funded ratio is based on an actuarial value of assets of $49.3 billion and an accrued liability of $39.8 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 1995/1996 through 1999/2000 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
1999/2000	11.9%	13.6%
1998/1999	12.2	15.1
1997/1998	15.8	16.8
1996/1997	18.3	17.3
1995/1996	17.8	12.6

Table 1
Summary of Results of Actuarial Valuation
As of June 30, 2000
(Dollar Amounts in Thousands)

Item	Amount
Member Data	
1. Number of Members	
a) Active Members	234,210
b) Inactive Members and Vestees	50,682
c) Annuitants, Beneficiaries and Survivor Annuitants	134,058
d) Total	418,950
2. Annualized Salaries	$ 8,939,598
3. Annual Annuities	$ 1,880,644
Valuation Results	
4. Present Value of Future Pension Benefits	
a) Active Members	$ 33,352,814
b) Inactive Members and Vestees	480,534
c) Annuitants, Beneficiaries and Survivor Annuitants	15,985,652
d) Total	$ 49,819,000
5. Present Value of Future Pension Normal Cost	
a) Active Members	$ 5,098,416
b) Employer	4,948,980
c) Total	$ 10,047,396
6. Pension Accrued Liability	
a) Active Members (4a) - (5c)	
b) Inactive Members and Vestees	480,534
c) Annuitants, Beneficiaries and Survivor Annuitants	15,985,652
d) Total	$ 39,771,604
7. Health Care Premium Assistance Payments	$ 51,228
8. Total Accrued Liability (6) + (7)	$ 39,822,832
9. Actuarial Value of Assets	$ 49,293,047
10. Unfunded Accrued Liability (8) - (9)	$ (9,470,215)
11. Total Normal Cost Rate	11.43 %
12. Member Contribution Rate	5.80 %
13. Employer Normal Cost Rate (11) - (12)	5.63 %
Employer Annual Funding Requirement for Fiscal 2001/2002	
14. Employer Contribution Rate	
a) Normal	5.63 %
b) Unfunded Accrued Liability	(6.05)
c) Preliminary Pension Rate	(0.42) %
d) Final Pension Rate	0.00
e) Health Insurance Premium Assistance	1.09
f) Total	1.09 %

Table 2
Summary of Sources of Employer Contribution Rate
As of June 30, 2000
(Dollar Amounts in Thousands)

	Funding Period 20 Years from July 1	Initial Amount of Liability	Outstanding Balance as of July 1, 2000	Annual Payment Amount	Annual Payment Percent
1. Amortization of:					
a) Initial Unfunded Base	1991	$ 4,354,817	$ 4,614,716	$ 560,069	5.60%
b) Changes in 1991	1992	(140,035)	(151,823)	(17,152)	(0.17)%
c) Changes in 1992	1993	(135,127)	(148,861)	(15,763)	(0.16)%
d) Changes in 1993	1994	(1,224,680)	(1,362,886)	(136,059)	(1.36)%
e) Changes in 1994	1995	70,588	78,956	7,469	0.08%
f) 1994 COLA	1995	499,010	558,165	52,799	0.53%
g) Changes in 1995	1996	(740,020)	(828,354)	(74,571)	(0.74)%
h) Changes in 1996	1997	(1,569,397)	(1,751,312)	(150,615)	(1.51)%
i) Changes in 1997	1998	(2,950,869)	(3,271,689)	(269,710)	(2.70)%
j) Changes in 1998	1999	(2,799,000)	(3,074,059)	(243,646)	(2.44)%
k) 1998 COLA	1999	956,799	1,050,824	83,287	0.83%
l) Changes in 1999	2000	(2,986,434)	(3,240,281)	(247,583)	(2.48)%
m) Changes in 2000	2001	(1,943,611)	(1,943,611)	(153,457)	(1.53)%
Total Amortization Payments			$ (9,470,215)	$ (604,932)	(6.05)%
2. Employer Normal Cost Rate					5.63%
3. Preliminary Pension Rate (1) - (2)					(0.42)%
4. Final Pension Rate					0.00%
5. Health Insurance Premium Assistance Rate					1.09%
6. Total Employer Contribution Rate (4) + (5)					1.09%

Table 3
Determination of Health Insurance Contribution Rate
For Fiscal Year 2001/2002
(Dollar Amounts in Thousands)

Item	Amount
1. Estimated Number of Eligible Annuitants in Fiscal 2002/2003	90,000
2. Estimated Number of Eligible Annuitants Who Elect Coverage	72,900
3. Annual Health Insurance Premium Assistance Payments During Fiscal 2002/2003 (2) * $100 * 12	$ 87,480
4. Estimated Health Insurance Premium Assistance Administrative Expenses During Fiscal 2002/2003	962
5. Total Estimated Health Insurance Premium Assistance Account Disbursements During Fiscal 2002/2003 (3) + (4)	$ 88,442
6. Additional Disbursement in Fiscal 2001/2002 due to Increase in Health Insurance Premium Assistance	$ 19,834
7. Estimated Shortfall in Health Insurance Premium Assistance Account (5) + (6)	$ 108,276
8. Required Health Insurance Premium Assistance Contribution Rate	
(a) Estimated 2001/2002 Payroll	$ 9,998,568
(b) Required Health Insurance Premium Assistance Contribution Rate (7) / (8a) (rounded up)	1.09%

Table 4
Summary of Market Value of Plan Assets
As of June 30, 2000
(Dollar Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 1999	$ 48,971,751
2. Contributions During Fiscal 1999/2000	965,285
3. Disbursements During Fiscal 1999/2000	2,260,852
4. Investment Return During Fiscal 1999/2000	
a) Net Investment Return	$ 5,763,627
b) Administrative Expenses	26,861
c) Investment Return After Expenses (a) - (b)	$ 5,736,766
5. Market Value of Assets as of June 30 ,2000	
(1) + (2) - (3) + (4c)	$ 53,412,950
6. Rate of Return	11.87%
Asset Allocation by Account	
1. Members' Savings Account	$ 6,775,934
2. Annuity Reserve Account	16,567,998
3. State Accumulation Account	30,017,790
4. Health Care Account	51,228
5. Total (1) + (2) + (3) + (4)	$ 53,412,950

Table 5
Derivation of Actuarial Value of Assets
As of June 30, 2000

(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 2000			$ 53,412,950
2. Determination of Deferred Gain (Loss)			
Year	Gain (Loss)	% Deferred	Deferred Amount
1999/2000	$ 4,129,236	66-2/3%	$ 2,752,824
1998/1999	4,101,236	33-1/3%	1,637,079
1997/1998	4,893,203	- 0 -	0
Total	$ 13,123,675		$ 4,119,903
3. Actuarial Value of Assets (1) - (2)			$ 49,293,047
4. Actuarial Rate of Return *			13.61%

* The actuarial rate of return is the investment return on the increase in the actuarial value of the assets from the June 30, 1999 valuation to the June 30, 2000 valuation.

Table 6
Analysis of Change in Unfunded Accrued Liability
As of June 30, 2000

(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 1999	$ (7,107,410)
2. Interest Credit at 8.50% to June 30, 2000	(604,130)
3. Contributions Toward Unfunded Accrued Liability	(184,936)
4. Expected Unfunded Accrued Liability at June 30, 2000	
(1) + (2) - (3)	$ (7,526,604)
5. Actual Unfunded Accrued Liability at June 30, 2000	$ (9,470,215)
6. Increase (Decrease) from Expected	
(5) - (4)	$ (1,943,611)
7. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Gain from Investment Return on Actuarial Value of Assets	$ (2,245,595)
(ii) Loss from Salary Increases Greater than Expected	36,064
(iii) Loss from Retirement and Other Separation Experience	199,935
(iv) Loss from Annuitants' Mortality Experience	122,551
Subtotal	$ (1,887,045)
(b) Changes in Benefit Provisions	$ -
(c) Change in Assumptions	$ (56,566)
(d) Grand Total	$ (1,943,611)

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
2000	$ 49,293,047	$ 39,822,832	$ 9,470,215	123.8 %	$ 8,939,598	(105.9) %
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

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
2000	$ 390,504	100 %
1999	513,940	100 %
1998	718,431	100 %
1997	796,205	100 %
1996	860,898	100 %
1995	791,802	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, 1998 was contributed in the fiscal year ending June 30, 2000).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2000
Actuarial Cost Method:	Entry Age
Amortization Method:	Level percent closed
Remaining Amortization Period:	10 to 20 years
Asset Valuation Method:	3-year smoothed market

Actuarial Assumptions:

- Investment Rate of Return *	8.50%
- Projected Salaried Increases *	6.25%

* Includes Inflation at:	3.50%

Table 9
Solvency Test
Comparative Summary of Accrued Liability and Actuarial Value of Assets

(Dollar Amounts in Thousands)

Valuation as of June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Member Employer Financed	Actuarial Value of Assets	Portion of Accrued Liability Covered by Valuation Assets (1)	(2)	(3)
2000	$ 6,775,934	$ 16,036,880	$ 17,010,018	$ 49,293,047	100%	100%	100%
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%

Table 10
History of Contribution Rates

	Contribution Rates					
Fiscal Year	Member	Employer Normal Cost Rate	Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Insurance Rate	Total Employer Rate
1992/1993	5.48 %	7.90 %	5.84 %	13.74 %	0.50 %	14.24 %
1993/1994	5.51	7.34	5.58	12.92	0.25	13.17
1994/1995	5.55	6.43	4.18	10.61	0.45	11.06
1995/1996	5.59	6.43	4.67	11.10	0.62	11.72
1996/1997	5.62	6.44	3.56	10.00	0.60	10.60
1997/1998	5.65	6.44	2.17	8.61	0.15	8.76
1998/1999	5.69	6.33	(0.44)	5.89	0.15	6.04
1999/2000	5.72	6.40	(2.04)	4.36	0.25	4.61
2000/2001	5.77	6.29	(4.65)	1.64	0.30	1.94
2001/2002	**5.80**	**5.63**	**(6.05)**	**(0.42)**	**1.09**	**1.09**

The projection of 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
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			126,448	6,421	132,869	223,495
2000			**127,404**	**6,654**	**134,058**	**234,210**
2001	7,011	3,812	130,603	7,070	137,673	234,210
2002	6,878	3,946	133,535	7,451	140,986	234,210
2003	7,356	4,095	136,796	7,795	144,591	234,210
2004	7,909	4,230	140,475	8,101	148,576	234,210
2005	8,368	4,378	144,465	8,375	152,840	234,210
2006	8,782	4,515	148,732	8,616	157,348	234,210
2007	9,291	4,653	153,370	8,830	162,200	234,210
2008	9,675	4,795	158,250	9,020	167,270	234,210
2009	9,897	4,928	163,219	9,181	172,400	234,210
2010	9,949	5,061	168,107	9,324	177,431	234,210

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). The components are 3½% for inflation and 5% for the real rate of return. 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 2000):

	Annual Rate of:						
	Non-Vested Withdrawal						
Age	Less than 5 Years of Service	5 or More Years of Service	Death	Disability	Vested Withdrawal*	Early Retirement**	Superannuation Retirement
			Males				
25	13.00 %	5.50 %	.05 %	.02 %	1.40 %		
30	11.00	3.00	.05	.02	1.40		
35	11.00	3.00	.05	.10	1.10		
40	11.00	3.00	.07	.18	.80	.13 %	
45	11.00	3.00	.10	.18	.50	.15	
50	9.00	3.00	.16	.28	1.78	1.56	24.00 %
55	9.00	3.00	.25	.43	3.50	10.00	24.00
60	9.00	2.40	.46	.58	4.50	10.00	28.00
65			.90				20.00
69			1.44				20.00
			Females				
25	13.00 %	9.50 %	.01 %	.04 %	4.00 %		
30	13.00	7.50	.02	.04	4.00		
35	13.00	5.50	.03	.08	2.00		
40	10.00	3.50	.04	.13	1.00	.60 %	
45	10.00	3.00	.07	.18	.55	.60	
50	10.00	3.00	.10	.25	1.50	1.74	10.00 %
55	10.00	3.00	.15	.35	3.00	10.00	10.00
60	10.00	3.50	.23	.45	5.90	15.00	25.00
65			.48				28.00
69			.88				20.00

* Vested Withdrawal - At least 10 years service but not eligible for Early or Superannuation retirement.

** Early Retirement - Age 55 with 25 years service, but not eligible for Superannuation retirement.

Description of Actuarial Assumptions and Methods (Continued)

Death After Retirement: The 1995 George B. Buck Mortality Tables, rated forward one year for males and unadjusted for females, adopted in 2000, are used to project mortality for healthy annuitants and for dependent beneficiaries. Special mortality tables based on PSERS' experience are used for disability retirements. (The 1995 George B. Buck Mortality Tables, rated forward one year for males and unadjusted for females, adopted in 2000, are used to determine actuarial equivalent benefits.)

Salary Increase: Effective average of 6 1/4% per annum, compounded annually. The components are 3 1/2% 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	9.50
40	7.25
50	5.00
55	4.75
60	4.50
65	4.50
70	4.50

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 postemployment healthcare insurance 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, 2000 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 1995 George B. Buck mortality tables, rated forward one year for males and unadjusted for females.

Disability Annuity

Eligibility	5 years of service.
Amount	2% of final average salary per year of service, but not less than 33 1/3% of such salary, except that the benefit cannot be greater than the benefit member would have had at superannuation retirement age (or at current age, if later). Minimum of $100 per year of service.

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 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.

Summary of Benefit and Contribution Provisions (Continued)

Postemployment Health Care Insurance Premium Assistance

Eligibility	Retired members who: (a) have 24½ or more years of service, or (b) are disability annuitants, or (c) have 15 or more years of service and who both terminated school service and retired after attaining superannuation age and (d) participate in the PSERS Health Options Program or in an employer-sponsored health insurance program.
Amount	Participating eligible annuitants receive health insurance premium assistance payments from the Health Insurance Account equal to the lesser of $55 per month ($100 per month effective January 1, 2002) 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 employers	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 employers.

Table 14
Summary of Membership Data
As of June 30, 2000
(Dollar Amounts in Thousands)

Active Members *

Item	Male	Female	Total
Number of Members	68,408	165,802	234,210
Annual Salaries **	$ 3,081,711	$ 5,857,887	$ 8,939,598
Average Age	45.2	44.6	44.8
Average Service	14.4	11.3	12.2

* Excludes 50,682 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 $8,560,756 reported for the fiscal year ended June 30, 2000 and the expected salaries for the fiscal year ended June 30, 2001.

Annuitants and Beneficiaries

Item	Number	Annual Annuities	Average Annuities
Annuitants (Normal, Early and Withdrawal)	121,812	$ 1,775,523	$ 14,576
Survivors and Beneficiaries	6,654	43,204	6,493
Disabled Annuitants	5,592	61,917	11,072
Total	134,058	$ 1,880,644	$ 14,029

Exhibit I
Active Membership Data as of June 30, 2000
Number and Average Annual Salary

Age	Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 25	5,964	29								5,993
	$ 24,779	$ 25,682								$ 24,784
25 - 29	16,119	3,411	67							19,597
	$ 30,169	$ 38,308	$ 31,140							$ 31,589
30 - 34	9,987	8,218	2,408	51						20,664
	$ 26,802	$ 40,623	$ 43,397	$ 30,972						$ 34,243
35 - 39	10,497	5,064	5,620	1,871	131					23,183
	$ 19,610	$ 35,033	$ 45,630	$ 45,873	$ 31,736					$ 31,475
40 - 44	12,690	6,434	5,135	4,793	3,527	140				32,719
	$ 18,658	$ 29,402	$ 41,656	$ 50,665	$ 52,479	$ 34,514				$ 32,782
45 - 49	9,948	7,677	6,792	4,334	9,904	8,382	73			47,110
	$ 20,473	$ 29,775	$ 39,567	$ 48,039	$ 58,010	$ 60,059	$ 35,148			$ 42,235
50 - 54	5,578	5,018	5,948	4,350	4,710	12,713	7,905	34		46,256
	$ 21,209	$ 28,726	$ 36,956	$ 44,016	$ 52,564	$ 62,121	$ 64,101	$ 38,093		$ 47,974
55 - 59	2,994	2,555	3,306	2,895	3,303	3,095	4,380	1,519	12	24,059
	$ 18,525	$ 24,827	$ 31,778	$ 36,346	$ 42,717	$ 52,935	$ 64,166	$ 66,446	$ 32,681	$ 42,249
60 - 64	1,486	1,231	1,571	1,381	1,649	1,306	672	611	173	10,080
	$ 16,032	$ 21,445	$ 27,282	$ 29,782	$ 34,748	$ 43,437	$ 52,650	$ 66,032	$ 63,737	$ 33,234
Over 64	1,071	805	774	530	487	425	237	82	138	4,549
	$ 11,790	$ 15,544	$ 19,780	$ 21,773	$ 27,105	$ 33,455	$ 39,313	$ 53,669	$ 63,511	$ 22,398
Total	76,334	40,442	31,621	20,205	23,711	26,061	13,267	2,246	323	234,210
Ave. Sal.	$ 23,034	$ 32,316	$ 38,858	$ 43,940	$ 51,578	$ 58,815	$ 62,940	$ 65,438	$ 62,487	$ 38,169

Exhibit II

Annutant and Beneficiary Membership Data
As of June 30, 2000

Number and Average Annual Benefit
Excludes Partial Lump Sum Payments

Age Last Birthday	Number	Annual Benefit (Dollars in Thousands)	Average Annual Benefit (Dollars)
Annuitants			
(Normal, Early and Withdrawal)			
Under 60	21,417	$ 372,848	$ 17,409
60 - 64	16,438	356,687	21,699
65 - 69	20,901	348,607	16,679
70 - 74	21,258	284,818	13,398
75 - 79	17,087	175,034	10,244
Over 79	24,711	237,529	9,612
Total	121,812	$ 1,775,523	$ 14,576
Survivors and Beneficiaries			
Under 60	604	$ 4,305	$ 7,128
60 - 64	391	3,640	9,310
65 - 69	600	5,303	8,838
70 - 74	966	7,120	7,371
75 - 79	1,300	8,069	6,207
Over 79	2,793	14,767	5,289
Total	6,654	$ 43,204	$ 6,493
Disabled Annuitants			
Under 60	2,413	$ 34,126	$ 14,143
60 - 64	949	10,205	10,754
65 - 69	814	7,044	8,653
70 - 74	603	4,695	7,787
75 - 79	404	2,905	7,190
Over 79	409	2,942	7,194
Total	5,592	$ 61,917	$ 11,072
Grand Total Average Annual Benefit	134,058	$ 1,880,644	$ 14,029

Exhibit III

10 Year History of Membership Data

Active Members

Valuation as of June 30	Number of Active Members	Percentage Change in Membership	Total Annual Payroll (Dollars in Thousands)	Percentage Change in Payroll
2000	234,210	4.79%	$ 8,939,598	8.39%
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%

Annuitant and Survivor Annuitant Members

Year Ended June 30	Number on roll	Additions	Deletions	Percentage Change in Membership	Annual Annuities (Dollars in Millions)	Percentage Change in Annuities
2000	134,058	5,923	4,734	0.89%	$ 1,880.6	2.73%
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%

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, 2001

The Honorable Mark Schweiker
Governor of Pennsylvania

Members of the Legislature
Members of the Retirement System

Dear Governor Schweiker, 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-second *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2001. 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, 2000 Actuarial Valuation was 123.8%.
2. The net assets held in trust for pension benefits were $48.1 billion at fair value.
3. Net assets held in trust for postemployment healthcare benefits were $56.2 million at fair value.
4. The active contributing membership of the System numbered approximately 243,000.
5. The number of annuitants totaled over 132,000 and received in excess of $2.2 billion in pension benefits during the year.

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

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

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

Barbara Hafer

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	*Toll-Free* - 1-888-773-7748	*Building Location*
PO Box 125	(1-888-PSERS4U)	5 North 5th Street
Harrisburg PA 17108-0125	*Local* - (717) 787-8540	Harrisburg PA 17101

December 1, 2001

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

We are pleased to present the eighty-second edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 2001. 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 694 reporting entities in Pennsylvania. As of June 30, 2001, the System had over 243,000 active members with an annual active payroll of $9.3 billion.

The annuitant membership is comprised of over 132,000 retirees and beneficiaries who receive over $157 million each month. The average yearly benefit paid to annuitants is $14,116. 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 694 reporting units contribute. The System is administered by a staff of 283. The System is headquartered in Harrisburg, Pennsylvania, and eight 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 were unfavorable during the fiscal year ended June 30, 2001. The total net assets of the System decreased from $53.4 billion to $48.2 billion from July 1, 2000 to June 30, 2001. For the year ended June 30, 2001, PSERS' investment portfolio generated a rate of return of -7.2 percent.

Despite the short-term decrease in total net assets, 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 long-term growth of the System's assets and the strength of the System with respect to its funding status. Of utmost importance to the Board is the assurance that required reserves are available for payment of current and prospective retirement benefits. PSERS maintains its position as one of the twenty largest public pension systems in the nation.

Major Initiatives

Act 2001 - 9

Major retirement legislation, Act 9 (formerly known as House Bill No. 26), passed both houses of the State Legislature and was signed into law by Governor Ridge on May 17, 2001. The following are some of the major provisions of Act 9.

Benefit formula change - Effective July 1, 2001, a new class of PSERS membership (Class T-D) provides a multiplier of 2.5% in the basic benefit formula for all school service and any purchased intervening military service *(changing from the current 2%).* To receive the higher benefit formula, the member must:

- be a school employee and an active or inactive member of PSERS on June 30, 2001 and July 1, 2001.
- file a written election with PSERS by December 31, 2001, or before the date of termination of school/state service, whichever is earlier.
- make employee contributions of 6.50% *(if currently contributing 5.25%)* or 7.50% *(if currently contributing 6.25%)* effective January 1, 2002, provided continuation as an active member after this date.

Persons who are newly enrolled on or after July 1, 2001 and have no prior school service will automatically become Class T-D members and receive Class T-D service for all service performed thereafter. Nonschool service purchases will not be eligible for T-D service credit.

Persons who are newly enrolled on or after July 1, 2001, or retirees who return to service on or after July 1, 2001, and have prior school service will automatically become Class T-D members and receive Class T-D service for all service performed thereafter. Such persons, however, cannot receive Class T-D service for their prior school service until the members earn three eligibility points by performing school service after July 1, 2001.

Vesting period change - Effective July 1, 2001, the vesting period has been reduced from 10 years to 5 years for school employees who are active or inactive members of PSERS.

Multiple service membership change - Effective July 1, 2001, the opportunity to elect Multiple Service membership *(members who elect to combine benefits in the PSERS and the State Employees' Retirement System)* is expanded.

Increase in premium assistance benefits - Effective January 1, 2002, healthcare insurance premium assistance for eligible retirees will increase to a maximum of $100 per month *(from the current maximum of $55 per month)*.

Return to service change - Between July 1, 2001 and December 31, 2001, if a retiree returns to public school service under the emergency "return to service" provision of the Retirement Code, the days worked during this period shall not be counted in calculating the 95 days a retiree may work without affecting their pension.

Collections of contributions from charter schools - Allows the System to collect from the appropriations of the Commonwealth's Department of Education any delinquent contribution payments due from charter schools. Once the Board certifies a delinquency, the Department of Education will remit the delinquent amount directly to the System, rather than to a sponsoring school district or the charter school.

New Pension Administration System

PSERS is developing and implementing a new system for the administration of pension information. This project is currently in the early design phase and a team of PSERS staff has been assigned to assist the System in making this important and ongoing need a reality. PSERS anticipates issuing a Request for Proposal (RFP) early in calendar year 2002, with a targeted contract effective/engagement date of October 2002.

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 $48.2 billion as of June 30, 2001. 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 2000/2001, the appropriation was $30,512,000.

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. Total net asset additions decreased during the fiscal year 2000/2001 primarily because of the depreciation in the fair value of the System's investments.

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 $91 million from fiscal year 1999/2000 to 2000/2001. This decrease was in part due to a slowing in new retirements resulting from potential retirees' anticipation of legislatively mandated increases to benefits. Details on the System's net asset additions and deductions are provided in the **Statistical Section** in this report.

Expenses incurred to administer the System's pension operations are paid through a Commonwealth 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. The System's funded ratio (actuarial assets divided by actuarial liabilities) increased from 119.0 percent to 123.8 percent according to the latest published actuarial valuation for the period ended June 30, 2000. The increase is primarily attributed to increases in actuarial assets and actuarial experience gains. Over the five-year period ended June 30, 2000, the funded status of the System has significantly improved from 95.4 percent to 123.8 percent. Upon conclusion of the actuarial valuation for the period ended June 30, 2001, the funded status is expected to decline in view of the previously described pension legislation (Act 9 of 2001) and the return on assets for the one-year period ended June 30, 2001.

The total employer rate of contribution as a percent of salaries decreased from 1.94 percent for the fiscal year 2000/2001 to 1.09 percent for 2001/2002. 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 .30 percent in fiscal year 2000/2001. In fiscal year 2001/2002 the rate required for the Healthcare Premium Assistance Program is 1.09 percent, which comprises the entire employer rate for that fiscal year. Further information on the latest published actuarial valuation is provided in the **Actuarial Section** of this report.

Funding is the process of specifically setting aside money for current and future use. Proper funding entails an actuarial examination of the fund balances to ensure money will be available for future and current benefit payments. With such a systematic approach, reliance can be placed on the balances of these accounts.

The results of the latest published actuarial valuation (as of June 30, 2000) 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 represents the major source of revenue to the System, accounting for almost 76 percent of total revenues over the period fiscal year 1990/1991 to fiscal year 1999/2000. Because of the depreciation in fair value of the System's investment assets during fiscal year 2000/2001, net investment loss was $3.84 billion. The investment portfolio totaled $49.7 billion, at fair value, as of June 30, 2001. For the fiscal year ended June 30, 2001, the time-weighted rate of return on the System's investments was -7.2 percent.

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.

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 April 7, 2001 in the *Pennsylvania Bulletin* (Vol. 31, No.14).

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, 2000. 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 18 consecutive years (fiscal years ended June 30, 1983 - June 30, 2000). 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 2001 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 holds general responsibility for the compilation and validity of the financial data presented in the *Comprehensive Annual Financial Report*.

Public Pension Coordinating Council - Public Pension Principles Award

The Public Pension Coordinating Council has awarded its prestigious Achievement Award to the PSERS for 2000. Only 27 of the public retirement systems in the United States qualified for the 2000 Award. It represents an exceptionally high level of administration and reporting in the public pension industry.

The purpose of the Public Pension Coordinating Council's Achievement Award is to promote high professional standards for public employee retirement systems and to publicly commend the systems that adhere to those standards. The award is based on compliance with eighteen specific principles that underlie retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investing and disclosure to members.

The principles have undergone extensive review by prominent members of the public retirement system community and are widely acknowledged to be marks of excellence for retirement systems. Systems that adhere to the standards are commended for taking extraordinary steps to ensure exemplary management of their systems.

The Public Pension Coordinating Council was formed in 1990 to assist the public employee retirement community. The Council is composed of representatives from the four national associations whose members are directly involved in the administration of public employee retirement systems: the Government Finance Officers Association (GFOA); the National Association of State Retirement Administrators (NASRA); the National Conference on Public Employee Retirement Systems (NCPERS); and the National Council on Teacher Retirement (NCTR).

A reproduction of this award appears in this **Introductory Section**.

Respectfully submitted,

Dale H. Everhart | Arthur J. Granito

Dale H. Everhart
Executive Director

Chief Financial Officer

Administrative Organization
PSERS Board of Trustees

Left to right, Back row:

Dale H. Everhart, Executive Director, Frederick C. Tecce, Roger H. May, Martin F. Horn (designee for Secretary of Education Charles Zogby), Susan L. Clapper, Honorable Roger A. Madigan, Richard N. Rose, Miriam Fox (designee for Representative Dwight Evans), Thomas P. Hassall, Vice Chairman, Thomas Gentzel (designee for Joseph V. Oravitz)

***Front row*:**

Sandy Leopold (designee for Senator Vincent J. Fumo), Melva S. Vogler, Barbara Hafer, Chairman, Charles Peck (designee for Representative Steven R. Nickol), Sally J. Turley, Samuel M. Sanzotto, Ed.D.

(Board member Thomas G. Paese not present in photo. Board members Samuel M. Sanzotto retired May 3, 2001 and Frederick C. Tecce retired September 20, 2001.)

PSERS Board of Trustees

as of September 21, 2001

Treasurer of the Commonwealth of Pennsylvania (ex officio)

Honorable Barbara Hafer, *Chairman*

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

Honorable Charles Zogby

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. Thomas G. Paese (term expires 12/31/2003)
Vacant

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

Mr. Thomas P. Hassall, *Vice-Chairman* (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. Susan Clapper (term expires 12/31/2003)

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

Mrs. Sally J. Turley (term expires 12/31/2004)

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 11/30/2002)
Honorable Steven R. Nickol (term expires 11/30/2002)

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 11/30/2004)
Honorable Roger A. Madigan (term expires 11/30/2004)

2001 Board Committees

as of September 21, 2001

Appeals / Member Services

Mr. Hassall, Chair
Ms. Hafer
Mr. May
Rep. Nickol
Mr. Oravitz
Mrs. Turley
Mr. Zogby

Health Care

Mr. May, Chair
Ms. Clapper
Rep. Evans
Sen. Madigan
Rep. Nickol
Mr. Oravitz
Mr. Zogby

Finance

Sen. Fumo, Chair
Ms. Hafer
Rep. Nickol
Mr. Oravitz
Mr. Paese
Ms. Vogler

Elections

Rep. Evans, Chair
Ms. Clapper
Mr. Hassall

Audit / Budget

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

Personnel

Mr. Oravitz, Chair
Ms. Hafer
Mr. Hassall
Sen. Madigan
Rep. Nickol
Mr. Zogby

Bylaws / Policy

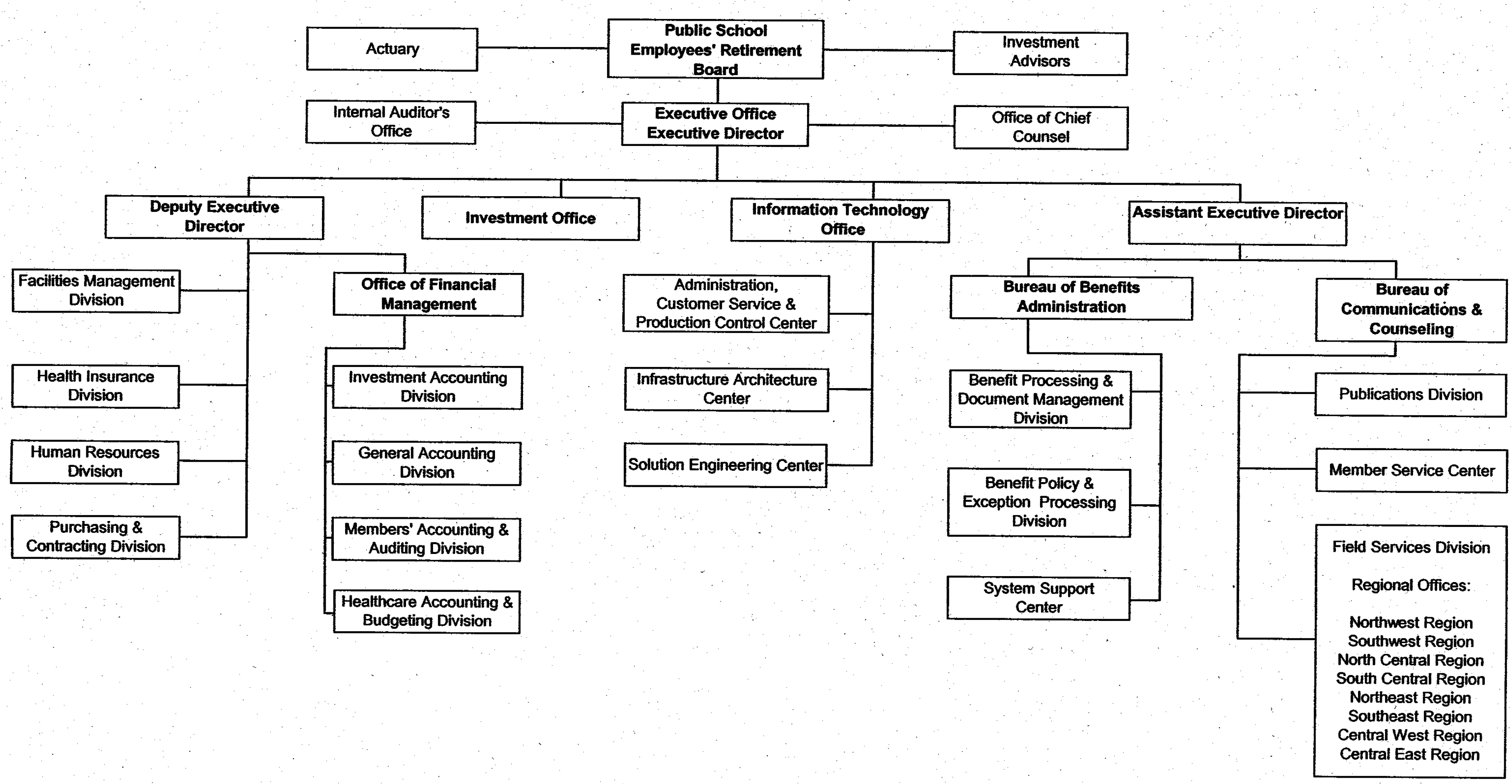
Mr. May, Chair
Rep. Evans
Sen. Madigan
Mrs. Turley

Technology Steering

Sen. Fumo, Chair
Mr. May
Mr. Oravitz
Mr. Rose
Ms. Vogler

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

Organizational Chart of the Public School Employees' Retirement System



Organizational Structure of the Public School Employees' Retirement System

Executive Office

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

The Executive Office monitors the operation of the investment portfolio and evaluates portfolio performance for consideration by the Board, certifies expenditures of the Fund, and measures performance of professional individuals or firms with whom the Board contracts for specialized services. The Executive Office also apprises the Board of any development that will in any way affect the System and its operation.

Investment Office

The Investment Office is responsible for the investment activities of the System. In compliance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous outside professional investment advisors and internal investment professionals. Refer to the **Investment Section** Pages 71 to 74 for lists of professional investment advisors and Page 55 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, 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 (up to $100 per month effective January 1, 2002) to eligible retirees to help pay their out-of-pocket health insurance premium expenses.

Office of Financial Management

The Office of Financial Management 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 organized into four divisions: General Accounting, Members' Accounting and Auditing Services, Healthcare Accounting and Budget, 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 General Accounting Division bills and collects contributions due to the Fund from its employers. It provides accounts receivable services to the System for member debts. It also interacts with the other divisions in the Office of Financial Management to assure that the basic financial statements of the System include all financial activity monitored and controlled by those accounting divisions.

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 specialized member data analysis for the System.

Healthcare Accounting and Budget Division

The Healthcare Accounting and Budget Division has the responsibility of monitoring and recording Postemployment Healthcare transactions. It reconciles and monitors the financial activities of the third party administrator of the Health Options Program. Additionally, the Division is responsible for developing and monitoring the System's annual budget.

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 (BBA) and the Bureau of Communications & Counseling.

Bureau of Benefits Administration

The Bureau of Benefits Administration provides professional and technical service to the System's active members and retirees from the moment of enrollment through the process of retirement. The Bureau administers the monthly annuitant payroll. It has three major components, the Benefits Processing and Document Management Division, the Benefits Policy and Exception Processing Division, and the System Support Center.

Benefits Processing and Document Management Division

The Benefits Processing and Document Management Division is responsible for the processing of high volume file changes and benefit requests such as active member name and address changes, enrollments, nomination of beneficiary, purchase of service requests, refunds, retirements, death benefits and payroll changes. The Division is divided into four Centers - the Purchase of Service and Refund Center, Retirement Processing Center, Payroll and Death Benefits Center, and Document and Imaging Center.

Benefits Policy and Exception Processing Division

The Benefits Policy and Exception Processing Division is responsible for the development of benefit policies and procedures as well as benefit requests, which are time-sensitive, financially significant, and more complex and/or require special handling. The Division is also responsible for the administrative appeal process. Processing includes multiple service, divorce, disabilities, and death benefits. The division has four major areas - benefit policy development and administration, the member appeal process, exception processing and specialized benefit processing. The Division also provides auditing services for retirement, refund and death benefit calculations.

System Support Center

The System Support Center serves as the bureau's link to the Information Technology Office (ITO). The analysts perform workflow analysis and work with the ITO staff on mainframe and PC system enhancements and problem resolution. This area's primary responsibility is to work with outside contractors and technical staff in the Office to enhance the electronic imaging system and to design and develop new PC and mainframe application systems. This involves workflow analysis, business and functional requirements definition, testing, training and implementation. In addition, the area is responsible for the enhancements to the existing systems when legislation, court decisions and board decisions are implemented. The analysts also produce ad hoc statistical reports and serve as security administrators for BBA users.

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.

Administrative Staff

Dale H. Everhart
Executive Director

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
Penn Wood Center, Suite C
464 Allegheny Blvd.
Franklin, PA 16323-6210
Local (814) 437-9845
FAX (814) 437-5826
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
Pittsburgh, PA 15203-1106
Local (412) 488-2031
FAX (412) 488-2338
Toll Free 1-888-773-7748 ext. 5775

SOUTHEAST
605 Louis 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

PSERS Headquarters Building

The headquarters of the Public School Employees' Retirement System is located at 5 North Fifth Street in downtown Harrisburg, Pennsylvania near the State Capitol complex. Regional field offices are also maintained in Fleetwood, Franklin, Johnstown, Lock Haven, Mechanicsburg, Pittsburgh, Warminster and Wilkes Barre.

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

Public School Employees' Retirement System

Financial Section

Independent Auditors' Report

KPMG

30 NorthThird Street
Suite 200
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, 2001 and 2000, 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, 2001 and 2000, 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 50 through 53 are not a required part of the general purpose financial statements, but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We have applied to the schedules of funding progress and employer contributions certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules.

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.

KPMG LLP

October 5, 2001

Statements of Plan Net Assets

Years ended June 30, 2001 and 2000

(Dollar Amounts in Thousands)

	2001			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 139,072	$ 893	$ 12	$ 139,977
Employers	53,310	8,706	–	62,016
Investment income	237,055	323	98	237,476
Investment proceeds	712,808	–	–	712,808
Miscellaneous	1,976	39	1	2,016
Total Receivables	1,144,221	9,961	111	1,154,293
Investments, at fair value:				
Short-term investments	1,298,531	38,046	46,106	1,382,683
Fixed income investments	14,357,157	–	–	14,357,157
Common and preferred stocks	28,879,195	–	–	28,879,195
Collective trust funds	1,189,897	–	–	1,189,897
Real estate investments	1,646,196	–	–	1,646,196
Private Equity / Venture Capital investments	2,224,648	–	–	2,224,648
Total Investments	49,595,624	38,046	46,106	49,679,776
Securities lending collateral pool	2,519,806	–	–	2,519,806
Fixed assets (net of accumulated depreciation of $7,385, $0, and $0, respectively)	3,969	–	–	3,969
Total Assets	53,263,620	48,007	46,217	53,357,844
Liabilities:				
Accounts payable and accrued expenses	40,646	265	23,908	64,819
Benefits payable	23,328	37	–	23,365
Participant premium advances	–	–	12,442	12,442
Investment purchases payable	2,582,885	1,333	–	2,584,218
Obligations under securities lending	2,519,806	–	–	2,519,806
Total Liabilities	5,166,665	1,635	36,350	5,204,650
Net assets held in trust for pension and postemployment healthcare benefits (A schedule of funding progress is presented on page 50.)	$ 48,096,955	$ 46,372	$ 9,867	$ 48,153,194

See accompanying notes to financial statements.

Statements of Plan Net Assets

Years ended June 30, 2001 and 2000

(Dollar Amounts in Thousands)

	2000			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
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
Total Receivables	1,560,207	10,590	130	1,570,927
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
Real estate investments	1,505,068	–	–	1,505,068
Private Equity / Venture Capital investments	1,755,516	–	–	1,755,516
Total Investments	54,040,515	40,861	38,988	54,120,364
Security 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
Total Assets	58,288,751	51,451	39,118	58,379,320
Liabilities:				
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
Total Liabilities	4,927,029	223	30,416	4,957,668
Net assets held in trust for pension and postemployment healthcare benefits (A schedule of funding progress is presented on page 50.)	$ 53,361,722	$ 51,228	$ 8,702	$ 53,421,652

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 2001 and 2000

(Dollar Amounts in Thousands)

	2001			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 579,850	$ –	$ 141,875	$ 721,725
Employers	158,193	27,523	–	185,716
Total contributions	738,043	27,523	141,875	907,441
Investment income:				
From investing activities:				
Net (depreciation) appreciation in fair value of investments	(5,137,879)	260	–	(5,137,619)
Short-term investments	79,321	2,274	1,724	83,319
Fixed income investments	832,808	–	–	832,808
Common and preferred stocks	446,439	–	–	446,439
Collective trust fund depreciation and income	(125,006)	–	–	(125,006)
Real estate investments	166,006	–	–	166,006
Private Equity / Venture Capital investments	10,398	–	–	10,398
Total investment activity (loss) income	(3,727,913)	2,534	1,724	(3,723,655)
Investment expenses	(143,663)	(22)	–	(143,685)
Net (loss) income from investing activities	(3,871,576)	2,512	1,724	(3,867,340)
From securities lending activities:				
Securities lending income	147,852	–	–	147,852
Securities lending expense	(124,225)	–	–	(124,225)
Net income from securities lending activities	23,627	–	–	23,627
Total net investment (loss) income	(3,847,949)	2,512	1,724	(3,843,713)
Total Additions	(3,109,906)	30,035	143,599	(2,936,272)
Deductions:				
Benefits	2,090,290	33,894	139,912	2,264,096
Refunds of contributions	22,369	–	–	22,369
Net transfer to State Employees' Retirement System	10,867	–	–	10,867
Administrative expenses	31,335	997	2,522	34,854
Total Deductions	2,154,861	34,891	142,434	2,332,186
Net (decrease) increase	(5,264,767)	(4,856)	1,165	(5,268,458)
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	53,361,722	51,228	8,702	53,421,652
Balance, end of year	$ 48,096,955	$ 46,372	$ 9,867	$ 48,153,194

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 2001 and 2000

(Dollar Amounts in Thousands)

	2000			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 552,502	$ –	$ 127,538	$ 680,040
Employers	390,504	22,279	–	412,783
Total contributions	943,006	22,279	127,538	1,092,823
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
Real estate investments	158,043	–	–	158,043
Private Equity / Venture Capital investments	18,966	–	–	18,966
Total investment activity income	5,864,154	2,625	1,506	5,868,285
Investment expenses	(124,554)	(22)	–	(124,576)
Net income from investing activities	5,739,600	2,603	1,506	5,743,709
From securities lending activities:				
Securities lending income	161,416	–	–	161,416
Securities lending expense	(139,992)	–	–	(139,992)
Net income from securities lending activities	21,424	–	–	21,424
Total net investment income	5,761,024	2,603	1,506	5,765,133
Total Additions	6,704,030	24,882	129,044	6,857,956
Deductions:				
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
Total Deductions	2,253,740	33,973	123,897	2,411,610
Net increase (decrease)	4,450,290	(9,091)	5,147	4,446,346
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	48,911,432	60,319	3,555	48,975,306
Balance, end of year	$ 53,361,722	$ 51,228	$ 8,702	$ 53,421,652

See accompanying notes to financial statements.

Notes to Financial Statements

June 30, 2001 and 2000

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

(Refer to Note (8) for newly amended provisions under Act 9 of 2001.)

(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, 2001, there were 694 participating employers, generally school districts. Membership as of June 30, 2000, the most recent year for which actual amounts are available, consisted of:

Retirees and beneficiaries currently receiving benefits	134,000
Inactive members and vestees entitled to, but not receiving benefits	51,000
	185,000
Currently employed members:	
Vested	117,000
Nonvested	117,000
	234,000

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

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 non-certified 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.

Notes to Financial Statements (Continued)

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

Under the provisions of the 1975 revision of the Pennsylvania Public School Employees' Retirement Code (the Code) by the Pennsylvania General Assembly, 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.

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 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 1.94% and 4.61% of qualified compensation for the years ended June 30, 2001 and 2000, 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 0.30% and 0.25% for the years ended June 30, 2001 and 2000, 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 valuation committees. The values for real estate and private equity / venture capital investments are reported on a one-quarter lag (March 31) adjusted for cash flows and significant unrealized gains / losses through June 30, 2001. 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.

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. CTF are managed by state-chartered banks for which various state banking departments have regulatory oversight and investment advisors for which the Securities and Exchange Commission has 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

Notes to Financial Statements (Continued)

requirements are paid between 30% and 100% of sick days available at retirement, up to 163 maximum days paid. As of June 30, 2001 and 2000, $2,819,000 and $2,586,000, respectively, was accrued for unused vacation and sick leave for the System's employees.

(e) Participant Premium Advances

Participant premium advances are for HOP premiums paid in advance in 2001 and 2000 related to health care coverage to be provided in 2002 and 2001, 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 2000 balances have been reclassified to conform with the 2001 presentation.

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)	
	2001	2000
Pension:		
State accumulation account	**$ 24,403,575**	$ 30,017,790
Members' savings account	**7,464,404**	6,775,934
Reserve for retirement account	**16,228,976**	16,567,998
	$ 48,096,955	$ 53,361,722
Postemployment healthcare:		
Health insurance account	**$ 46,372**	$ 51,228
Health insurance program account	**9,867**	8,702

(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) 2001		2000
Pension investments:				
Short-term investments:				
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$**	**986,971**	$	1,100,087
Other domestic short-term investments		**168,658**		438,828
International short-term investments		**142,902**		97,674
		1,298,531		1,636,589
Fixed income investments:				
Domestic mortgage-backed securities		**6,096,578**		4,775,421
U.S. government and agency obligations		**1,420,662**		1,519,568
Domestic corporate and taxable municipal bonds		**5,443,559**		4,825,114
Miscellaneous domestic fixed income		**345,068**		354,567
International fixed income		**1,051,290**		1,131,829
		14,357,157		12,606,499
Common and preferred stocks:				
Domestic common and preferred stocks		**20,725,016**		24,538,614
International common stocks		**8,154,179**		10,364,663
		28,879,195		34,903,277
Collective trust funds		**1,189,897**		1,633,566
Real estate investments:				
Real estate owned		**444,268**		548,358
Equity real estate		**1,141,544**		885,071
Farmland investments		**60,384**		71,639
		1,646,196		1,505,068
Private Equity / Venture Capital investments		**2,224,648**		1,755,516
Pension investments at fair value	**$**	**49,595,624**	$	54,040,515
Postemployment Healthcare short-term investments:				
Premium Assistance:				
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$**	**8,244**	$	7,874
Other domestic short-term investments		**29,802**		32,987
		38,046		40,861
Health Options Program:				
Pennsylvania Treasury Domestic Short-Term Investment Fund		**25,644**		22,620
Other domestic short-term investments		**20,462**		16,368
		46,106		38,988
Postemployment Healthcare investments at fair value	**$**	**84,152**	$	79,849

Notes to Financial Statements (Continued)

During the fiscal years ended June 30, 2001 and 2000, 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, 2001 and 2000. 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, 2001 and 2000
(Dollar Amounts in Thousands)

	Fair Value	
	2001	2000
Investments – Category 1		
U.S. government and agency obligations	**$ 717,781**	$ 668,060
Domestic corporate and taxable municipal bonds	**5,044,396**	4,587,621
Domestic common and preferred stocks	**20,548,212**	24,079,929
Domestic mortgage-backed securities	**6,096,578**	4,775,421
Miscellaneous domestic fixed income	**345,068**	354,567
International fixed income	**927,537**	1,027,466
International common stocks	**7,131,838**	9,407,465
International short-term investments	**142,902**	97,674
Other domestic short-term investments (1)	**218,922**	488,183
Subtotal	**41,173,234**	45,486,386
Investments - not categorized		
Investments held by broker dealers under securities loans:		
U.S. government and agency obligations	**702,881**	851,508
Domestic corporate and taxable municipal bonds	**399,163**	237,493
Domestic common and preferred stocks	**176,804**	458,685
International fixed income	**123,753**	104,363
International common stocks	**1,022,341**	957,198
Collective trust funds	**1,189,897**	1,633,566
Real estate owned	**444,268**	548,358
Equity real estate	**1,141,544**	885,071
Private Equity / Venture Capital	**2,224,648**	1,755,516
Farmland investments	**60,384**	71,639
Pennsylvania Treasury Short-Term Investment Fund (2)	**1,020,859**	1,130,581
Total Pension and Postemployment Healthcare investments	**$ 49,679,776**	$ 54,120,364

(1) includes $50,264 and $49,355 of Postemployment Healthcare investments at June 30, 2001 and 2000, respectively

(2) includes $33,888 and $30,494 of Postemployment Healthcare investments at June 30, 2001 and 2000, 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. For Euro fixed income debt issues for which the Commonwealth receives Euros as collateral and international fixed income debt issues denominated in U.S. dollars, the collateral required to be exchanged is in an amount not less than 102% of the fair value of any securities loaned. 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, 2001 and 2000, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed 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, 2001 and 2000. Moreover, there were no losses during the fiscal years ended June 30, 2001 and 2000 resulting from a default of the borrowers or the lending 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, 2001 and 2000.

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 23 days and 40 days at June 30, 2001 and 2000, 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, 2001, the fair value of loaned securities was $2,553,391,000 which includes $128,449,000 of loaned securities which are collateralized by securities and irrevocable letters of credit that are not included in the Statement of Plan Net Assets. The fair value of the associated collateral was $2,652,874,000 of which $2,519,806,000 was cash. 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 irrevocable letters of credit that are not included in the Statement of Plan Net Assets. The fair value of the associated collateral was $3,803,418,000 of which $2,682,871,000 was cash. The securities lending collateral pool is not categorized as to credit risk because securities are not used as evidence of the investment.

Notes to Financial Statements (Continued)

(5)
Derivative and Other 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 (CMO's); other forward contracts, and 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 non-performance 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, 2001 and 2000 (in thousands):

	2001	2000
Futures contracts long and short	$ **10,725,171**	$ 9,641,623
Foreign exchange forward and spot contracts, gross	**3,444,850**	2,774,969
Options – calls purchased	**55,528**	108,750
Options – calls sold	**10,483**	274,259
Options – puts sold	**9,840**	314,971

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 date and 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 or by cash held in segregated accounts by the System's custodial bank. 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 and the amount of cash held at June 30, 2001 and 2000 represent a restriction on the amount of assets not available as of year-end to use for other purposes.

Notes to Financial Statements (Continued)

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise. The System 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.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The $3,444,850,000 of foreign currency contracts outstanding at June 30, 2001 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $2,008,293,000 and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $1,436,557,000. The $2,774,969,000 of foreign currency contracts outstanding at June 30, 2000 consist of “buy” contracts of $1,721,888,000 and “sell” contracts of $1,053,081,000.

The System also invests in mortgage-backed securities (MBS) such as CMO’s 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 CMO’s at June 30, 2001 and 2000 is $1,903,057,000 and $1,190,854,000, 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 CMO’s, to enhance the performance 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 .61% at June 30, 2001 and 4.02% at June 30, 2000. 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, 2001, 2000, and 1999 were $87,000, $535,000, and $716,000, respectively, equal to the required contributions each year.

Notes to Financial Statements (Continued)

(7)
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.

(8)
Act 2001- 9

On May 17, 2001 the Pennsylvania Governor signed into law an act containing major pension legislation. The numerous provisions included in this legislation (known as Act 2001 - 9) become effective July 1, 2001. A summary of the amendments to the System's Code follow.

(a) Benefit Formula Change

(1) Creates a new Class T-D service as of July 1, 2001. Allows certain members to elect to have prior school service and intervening military service converted to Class T-D service. To qualify for the Class T-D service conversion, an individual must be:

(i) A school employee and either an active member or an inactive member on June 30, 2001 and July 1, 2001; or a multiple service member who is a state employee and a member of SERS on July 1, 2001; and

(ii) Affirmatively elect Class T-D service by filing a written notice on or before December 31, 2001, or the termination of school service, whichever is earlier.

(2) Amends the definition of standard single life annuity to increase the multiplier for members with Class T-D service from 2% to 2.5%. (Note: Because non-school service (except for intervening military service) will remain at Class T-C, for these members there will be a two tiered method of calculating the benefit: (1) 2% times the years of non-school service; plus (2) 2.5% times the years of school service.)

(b) Member Contribution Rate

(1) Amends the definition of basic contribution rate to provide that all new hires, and current members who are paying 6.25% (i.e. those who began employment or became reenrolled on or after July 22, 1983) and elect Class T-D service, will pay a member contribution rate of 7.50%. Current members who are paying 5.25% (i.e. those employed before July 22, 1983) and elect Class T-D service will pay a member contribution rate of 6.50%.

(2) Establishes that the new member contribution rate for Class T-D service (either 6.50% or 7.50%) will apply to service performed on and after January 1, 2002.

Notes to Financial Statements (Continued)

(c) Section 415(b) Limits

Specifies that upon election to become Class T-D, members agree to have their benefits subject to the benefits limitations contained in IRS Code Section 415(b), which limits the maximum annual payment for an annuity.

(d) Vesting Period

Reduces the vesting period for all members from ten (10) years to five (5) years, effective July 1, 2001.

(e) Multiple Service Membership - (service in the System and SERS)

(1) Creates an open window allowing members active on or after July 1, 2001 to elect multiple service membership at any time from July 1, 2001 through December 31, 2003. New members or newly-enrolled members after July 1, 2001 will have until the later of one year or December 31, 2003 to make the election. After December 31, 2003, new members or newly-enrolled members will have one year to make the election.

(2) Establishes ability for members electing multiple service membership to pay for this service through an actuarial debt placed against their retirement benefit.

(f) Postemployment Healthcare Benefits

(1) Creates the Board's authority to self-fund the HOP.

(2) Establishes a health insurance fund in the State Treasury.

(3) Establishes a reserve account for expected participant insurance claims.

(4) Increases maximum premium assistance payments to eligible annuitants electing to participate from $55 per month to $100 per month, commencing January 1, 2002.

The future cost related to this benefit increase to the System's premium assistance program required a recertification of the employer contribution rate previously established by the System's Board for the Fiscal Year 2001/2002. On May 19, 2001 the Board recertified that rate from .32% to 1.09% of qualified retirement compensation. The actuarial requirement for the premium assistance program comprises the entire employer contribution rate for Fiscal Year 2001/2002.

(g) Miscellaneous Provisions

(1) Amends the various provisions of the Code to provide that the new benefits in the Act will be funded over a ten-year period, with level dollar funding, beginning July 1, 2002. Also provides that all the existing actuarial liabilities and assets, whether or not actuarially realized or unrealized gains or losses will be rolled together and refinanced over a ten year funding period, with level dollar funding beginning July 1, 2002. Future actuarial gains and losses are to be amortized using the ten-year level dollar funding.

Notes to Financial Statements (Continued)

(2) Establishes that superannuation age remains the same for Class T-C and Class T-D members.

(3) Grants temporary relief from the 95-day emergency return-to-service provisions. For the time period of July 1, 2001 through December 31, 2001, if a retiree returns to school service under the emergency return to service provisions of the Retirement Code, the days worked during this period shall not be counted in calculating the 95 days a retiree may work without affecting the annuity.

(4) Allows the System to collect from the appropriations of the Commonwealth's Department of Education any delinquent contribution payments due from charter schools. Once the Board certifies a delinquency, the Department of Education will remit the delinquent amount directly to the System, rather than to a sponsoring school district or the charter school.

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
2000	$ 39,822.8	$ 49,293.0	$ (9,470.2)	123.8%	$ 8,939.6	(105.9%)
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%

* 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
2001	$ 158,193	100%
2000	390,504	100%
1999	513,940	100%
1998	718,431	100%
1997	796,205	100%
1996	860,898	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, 2001 and 2000

(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).

Notes to Required Supplemental Schedules (Continued)

(c) Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2000, the date of the most recent actuarial valuation include:

- Investment return – 8.5%, includes inflation at 3.5%
- Salary increases – 6.25%, which reflects an allowance for inflation of 3.5%, national productivity of 1%, and merit or seniority increases of 1.75%
- Amortization method – increasing payments closed
- Remaining amortization period – 10 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, 2001

(Dollar Amounts in Thousands)

	Administrative expenses (1)	Investment expenses (2)	Total
Personnel costs:			
Salaries and wages	$ 11,810	$ 2,078	$ 13,888
Social security contributions	895	133	1,028
Retirement contributions	71	12	83
Employees' insurance contributions	2,126	249	2,375
Other employee benefits	319	35	354
Total personnel costs	**15,221**	**2,507**	**17,728**
Operating costs:			
Investment managers' fees	–	138,158	138,158
Custodian fees	–	403	403
Specialized services	9,209	1	9,210
Rental of real estate, electricity	1,542	139	1,681
Consultant and legal fees	146	1,352	1,498
Treasury and other Commonwealth services	920	97	1,017
Postage	1,525	–	1,525
Contracted maintenance services	571	–	571
Office supplies	1,319	7	1,326
Rental of equipment	965	1	966
Printing	652	–	652
Travel	190	32	222
Telephone and telegraph	819	17	836
Miscellaneous expenses	803	971	1,774
Total operating expenses	**18,661**	**141,178**	**159,839**
Fixed charges:			
Depreciation	972	–	972
Total fixed charges	**972**	**–**	**972**
Total operating expenses	**$ 34,854**	**$ 143,685**	**$ 178,539**

(1) Includes administrative expenses of $997 related to Postemployment Healthcare Premium Assistance and $2,522 related to Postemployment Healthcare Health Options Program for the fiscal year ended June 30, 2001.

(2) Does not include $35,564 in capitalized broker commissions for the fiscal year ended June 30, 2001.

Supplemental Schedule 2
Summary of Investment Expenses
Fiscal Year Ended June 30, 2001

(Dollar Amounts in Thousands)

	Assets under management *	Fees
External management		
Domestic equity	$ 7,500,000	$ 15,963
Domestic fixed	5,139,000	8,577
International equity	7,821,000	23,728
International fixed	2,166,000	2,176
Real estate	2,527,000	19,861
Private Equity / Venture Capital	2,225,000	58,554
Global asset allocation	5,559,000	9,299
Total external management	**32,937,000**	**138,158**
Total internal management	**15,109,000**	**3,443**
Total investment management	**$ 48,046,000**	**141,601**
Custodian fees		403
Consultant and legal fees		1,352
Miscellaneous expenses		329
Total investment expenses		**$ 143,685**

*Net asset value at June 30, 2001.

Supplemental Schedule 3
Schedule of Payments to Non-Investment Consultants
Fiscal Year Ended June 30, 2001

(Payment amounts greater than $50,000)

Consultant	Fees	Services Provided
National Claims Administrative Services (NCAS-PA)	$ 855,485	Postemployment healthcare benefits administration
CoreSource, Inc.	783,820	Postemployment healthcare benefits administration
Info-Matrix Corporation	688,526	Computer programming / analysis
Perfect Order, Inc.	670,926	Information technology consulting
Buck Consultants, Inc.	651,473	Pension benefit actuarial services
AON (formerly Actuarial Sciences Associates, Inc.)	446,198	Communication services, HOP open enrollment, HOP consulting services
Ciber, Inc.	432,745	Computer programming / analysis
Logistics Management Institute	176,554	Information technology consulting
Gartner Group, Inc.	175,994	Information technology consulting
Carnegie Mellon University	163,419	Information technology consulting
KPMG LLP	109,350	Financial audit of pension system and postemployment healthcare programs
Election.com, Inc.	107,172	Board of Trustee election services
Deloitte Consulting, Inc.	92,700	Information technology consulting
Unisys Corporation	85,023	Information technology services
Intellimark, Inc.	63,115	Information technology consulting

Public School Employees' Retirement System

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.

Oversight

The Board provides oversight of investment activities through the Finance Committee which makes recommendations to the Board. The Finance Committee generally conducts eight or nine 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, 2001, Wilshire Associates Incorporated 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, 31 external investment management firms were managing $30.3 billion in assets of the System, $15.1 billion in assets were managed by the System's internal investment managers, and the remaining $4.3 billion in assets were managed by numerous developmental, private equity, and real estate managers. Each external investment management firm's and each internal manager's performance is monitored annually against a pre-established benchmark and that of its 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 2001 included an equity target allocation of **64.00%** consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (44.00%) and diversified international equity exposure (20.00%). Within each of these targets, the portfolios are diversified between large and small companies & growth and value managers.

The fixed income target allocation of **25.00%** consisted of U.S. fixed income exposure (17.80%), specialty fixed income exposure (3.55%), and global fixed income exposure (3.65%). Within these categories, all sectors of the bond market are represented. Specialty fixed income includes high yield and mortgage-backed 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 opportunistic real estate partnerships.

Private equity and venture capital investments have a combined target of **6.00%**. The primary vehicle used to invest funds in these asset classes is the limited partnership. The partnerships are established by individual management groups that have been selected by the System for the purpose of investing in and managing private equity and unlisted-subordinated debt positions on behalf of PSERS and other limited partners.

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, 2001, the market value of the investment portfolio was $49.7 billion. The market value decreased approximately $4.4 billion from last year's value. This decrease came primarily from capital losses on investments and from benefit payments. The investment portfolio, as invested, was composed of 60.7% of common and preferred stocks, 31.5% of fixed income investments, 3.3% of real estate investments and 4.5% of private equity / venture capital investments at June 30, 2001. Page 62 illustrates a more detailed description of the investment portfolio's asset classes in dollars and as a percent of the total investment portfolio.

The slowing U.S. and other world economies during the past year created a negative environment for equity investing. As a result, the System generated a return of (7.2)% for the one-year period ended June 30, 2001. Annualized returns for the three and five-year periods ending June 30, 2001 were 5.4% and 10.1%, respectively. The System continues to exceed the actuarial interest rate assumption of 8.5% over the five-year period ending June 30, 2001 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, 2001		
	1 Year	**3 Years**	**5 Years**
PSERS TOTAL PORTFOLIO	**(7.2)**	**5.4**	**10.1**
Median Public Fund Universe (Wilshire Database)	(2.2)	5.1	10.2
PSERS DOMESTIC STOCK PORTFOLIOS	**(6.0)**	**6.9**	**14.8**
Wilshire 5000 Index	(15.3)	3.5	13.1
Median Domestic Equity Manager (Wilshire Database)	(3.2)	7.7	15.0
PSERS INTERNATIONAL STOCK PORTFOLIOS	**(21.6)**	**1.9**	**3.6**
MSCI All-Country World Index Free Ex. U.S.	(24.1)	(0.6)	2.6
Median International Manager (Wilshire Database)	(22.8)	3.5	6.1
PSERS DOMESTIC BOND PORTFOLIOS	**10.1**	**5.8**	**7.5**
Lehman Aggregate Index	11.2	6.3	7.5
Median Domestic Bond Manager (Wilshire Database)	11.0	6.2	7.4
PSERS GLOBAL BOND PORTFOLIOS	**(1.3)**	**0.7**	**2.8**
J.P. Morgan Global Bond Index	(2.6)	1.2	2.8
Median Global Bond Manager (Wilshire Database)	(0.1)	1.6	3.8
PSERS GLOBAL ASSET ALLOCATION PORTFOLIOS	**(9.6)**	**4.6**	**N/A**
PSERS REAL ESTATE	**16.8**	**11.2**	**13.7**
NCREIF Index	12.0	12.6	12.8
PSERS PRIVATE EQUITY / VENTURE CAPITAL *	**(18.0)**	**5.0**	**8.4**

* 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 approximately $23.6 million in additional net income during the year.

Wilshire Associates Incorporated 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.

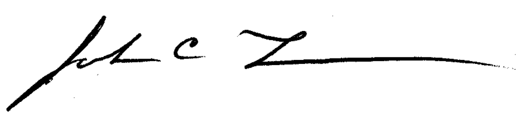
Significant Development for Fiscal Year 2002

One significant event will affect the System's investments and investment management during Fiscal Year 2002:

> 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, the System generated negative returns during the fiscal year ended June 30, 2001 due to the slowing economies of the world. Positive returns in the domestic bond and real estate portfolios were not sufficient enough to completely offset the negative returns generated by the equity portfolios. The System exceeded its targeted actuarial rate of return for the five-year period ended June 30, 2001 and the System's asset allocation is structured to generate a long-term return that supports the growth of the projected actuarial liabilities of the System for years to come.



John C. Lane
Chief Investment Officer

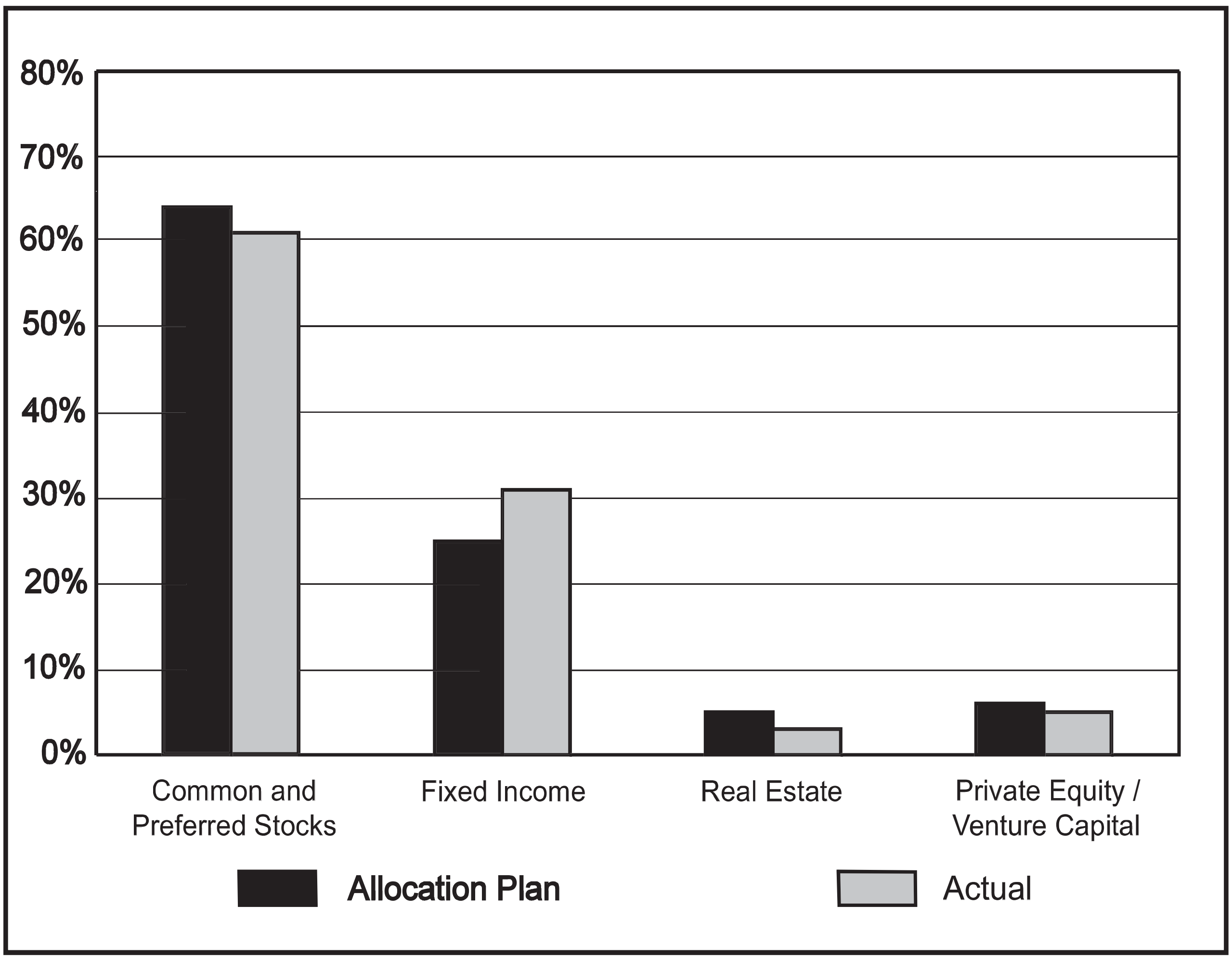
Portfolio Summary Statistics
Asset Allocation
As of June 30, 2001
(Dollar Amounts in Thousands)

Type of Investment	Fair Value ($)	% Fair Value
Common and Preferred Stocks:		
Domestic Common and Preferred Stocks	$ 20,725,016	41.9%
International Common Stocks	8,154,179	16.4%
Subtotal per Financial Statements	28,879,195	58.3%
Collective Trust Funds *	708,222	1.4%
Short-Term Investments *	499,888	1.0%
Total Common and Preferred Stocks - Asset Allocation Basis	**30,087,305**	**60.7%**
Fixed Income Investments:		
Domestic Corporate and Taxable Municipal Bonds	5,443,559	11.0%
Domestic Mortgage-backed Securities	6,096,578	12.3%
U.S. Government and Agency Obligations	1,420,662	2.8%
International Fixed Income	1,051,290	2.1%
Miscellaneous Domestic Fixed Income	345,068	0.7%
Subtotal per Financial Statements	14,357,157	28.9%
Collective Trust Funds *	481,675	1.0%
Short-Term Investments *	798,643	1.6%
Total Fixed Income - Asset Allocation Basis	**15,637,475**	**31.5%**
Real Estate Investments:		
Real Estate Owned	444,268	0.9%
Equity Real Estate	1,141,544	2.3%
Farmland Investments	60,384	0.1%
Total Real Estate Investments - Asset Allocation Basis	**1,646,196**	**3.3%**
Private Equity / Venture Capital Investments - Asset Allocation Basis	**2,224,648**	**4.5%**
Total Investments - Asset Allocation Basis	**$ 49,595,624**	**100.0%**
Postemployment Healthcare Short-Term Investments	**$ 84,152**	**100.0%**

* - For asset allocation purposes, Collective Trust Funds and Short-Term Investments are included with the asset class of the investment manager which holds them. See the table and graph which follow.

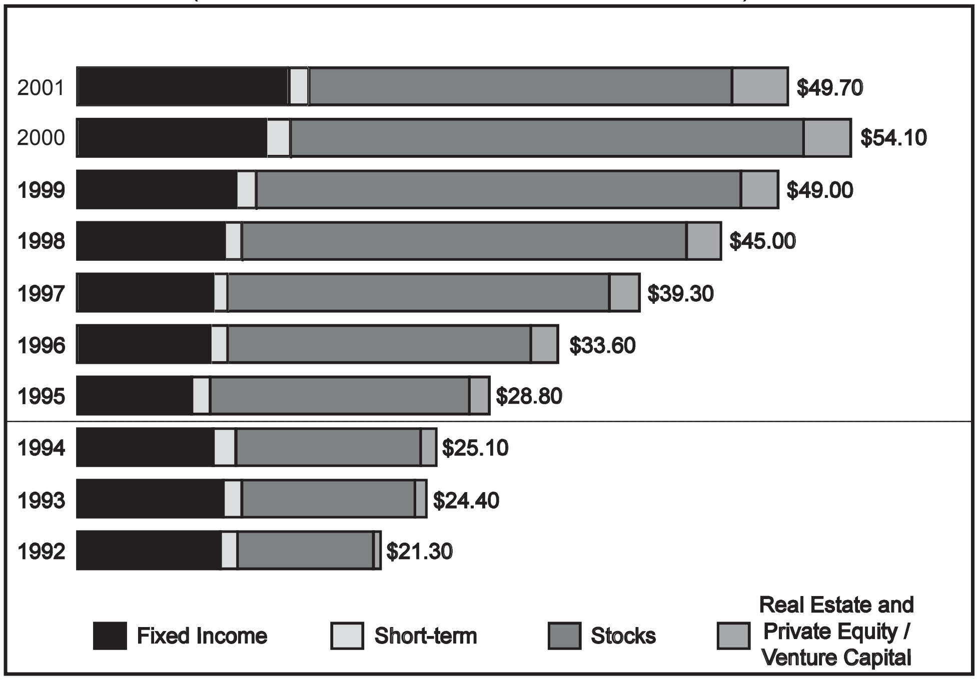
Comparison of Actual Portfolio Distribution to Asset Allocation Plan As of June 30, 2001

Asset Category	Asset Allocation Plan	Actual
Common and Preferred Stocks	64%	61%
Fixed Income Investments	25%	31%
Real Estate Investments	5%	3%
Private Equity / Venture Capital Investments	6%	5%
Total	100%	100%



Portfolio Distribution * 10 Year Trend

(Fair Value - Dollar Amounts in Billions)



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

The following lists of portfolio detail statistics present the ten largest holdings by descending order of fair value. Information on the complete holdings of the System is available by writing to the Public School Employees' Retirement System, P O Box 125, Harrisburg, PA 17108.

Portfolio Detail Statistics as of June 30, 2001

Domestic Common and Preferred Stocks

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Citigroup Inc.	6,605	349,009
General Electric Company	6,142	299,442
AOL Time Warner Inc.	5,339	282,990
Microsoft Corporation	3,851	281,129
Exxon Mobil Corporation	2,818	246,138
Security Capital Preferred Growth	9,674	224,620
Pfizer Inc.	5,587	223,749
American International Group Inc.	2,187	185,906
Security Capital Group Inc. Class B	9,268	178,498
Tyco International Ltd.	3,065	167,059
Total of 10 Largest Holdings		**2,438,540**
Total System Holdings - Domestic Common and Preferred Stocks		**20,725,016**

Portfolio Detail Statistics as of June 30, 2001

International Common Stocks

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Vodafone Group PLC	73,660	163,163
Total Fina Elf	1,116	156,241
Glaxosmithkline	5,269	148,206
Shell Transport & Trading	15,287	127,066
ING Groep	1,678	109,646
NTT Docomo Inc.	6	102,393
Koninklijke Philips Electronics	3,300	87,473
ENI SPA	7,068	86,161
Sanofi-Synthelaboratories	1,284	84,229
Aventis	1,011	80,684
Total of 10 Largest Holdings		**1,145,262**
Total System Holdings - International Common Stocks		**8,154,179**

Portfolio Detail Statistics as of June 30, 2001

Collective Trust Funds

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
CEBT Market Neutral Equity Fund	8,146	174,521
Martin Currie Business Trust Asia Pacific Ex - Japan Fund	55,896	120,735
PIMCO Funds International Portfolio	15,504	102,019
Capital Guardian U.S. Fixed Income Fund	1,111	101,665
MAS Funds Advisory Mortgage Fund	7,261	75,220
MGT High Yield Bond Fund	7,467	57,870
Martin Currie Business Trust Japan Small Companies Fund	4,748	44,724
MS Institutional Trust Funds Small Capitalization Value Portfolio	2,110	39,714
Capital Guardian Emerging Markets Equity Fund	7,668	38,187
Consumer Staples Select Sector SPDR	1,564	38,031
Total of 10 Largest Holdings		**792,686**
Total System Holdings - Collective Trust Funds		**1,189,897**

Portfolio Detail Statistics as of June 30, 2001

Domestic Corporate and Taxable Municipal Bonds

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Interparking Inc.	06/30/10	7.000	100,000	100,000
Lehman Brothers Commercial Conduit 1999C2 Class A2 144A	10/15/32	7.325	50,000	52,189
Bayview Financial 1999-1 Class A 144A	08/25/32	4.295	50,000	50,034
Pemex Finance Limited	05/15/12	7.330	42,475	43,574
Salomon Smith Barney Holdings (Inflation Index)	02/14/02	3.650	42,145	42,366
Ford Motor Credit Company	07/16/04	6.700	36,790	37,669
Student Loan Marketing 1997-2 Class A2L	04/25/11	4.584	34,000	33,177
Coastal Corporation	07/21/03	4.914	30,650	30,712
Citigroup Inc.	05/10/06	5.750	30,490	30,194
Florida Windstorm Underwriting Association 144A	08/25/02	6.500	28,525	28,925
Total of 10 Largest Holdings				**448,840**
Total System Holdings - Domestic Corporate and Taxable Municipal Bonds				**5,443,559**

Portfolio Detail Statistics as of June 30, 2001

Domestic Mortgage-backed Securities

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
FNMA Pool #0535332	04/01/30	8.500	51,214	53,822
FHLMC Multiclass 1817 C	02/15/21	6.500	34,755	35,205
Mellon Residential Funding Corporation 2000-TBC1 Class A2B	03/25/30	6.914	32,027	32,830
GNMA II Pool #0080356	12/20/29	7.500	31,876	32,528
Small Business Investment Companies 2000-P10B Class 1	08/01/10	7.449	31,937	32,381
FNMA Guaranteed REMIC 2001-11 Class ZZ	01/18/27	6.250	31,931	32,212
FHLMC Multiclass 2136	12/15/26	6.500	31,700	31,997
Nomura Asset 1998-D6 Class A-1B	03/15/30	6.590	30,550	30,859
First Union-Lehman 1998-C2 Class A2	11/18/08	6.560	30,200	30,426
Connecticut RRB Special Purpose Trust CL&P Class A 5	12/30/11	6.210	28,395	27,925
Total of 10 Largest Holdings				**340,185**
Total System Holdings - Domestic Mortgage-backed Securities				**6,096,578**

Portfolio Detail Statistics as of June 30, 2001

U.S. Government and Agency Obligations

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
U.S. Treasury - Inflation Index	01/15/07	3.375	114,930	116,331
U.S. Treasury Bonds	08/15/19	8.125	67,745	84,353
U.S. Treasury - Inflation Index	07/15/02	3.625	80,235	81,740
Federal National Mortgage Association	05/15/30	7.250	72,500	78,458
U.S. Treasury Bonds	08/15/29	6.125	72,126	74,707
U.S. Treasury Notes	08/15/09	6.000	66,145	69,411
Federal Home Loan Mortgage Association	03/15/31	6.750	65,000	66,270
U.S. Treasury Notes	05/15/06	4.625	65,240	64,342
Federal National Mortgage Association	01/15/10	7.250	51,900	55,768
Federal National Mortgage Association	01/15/30	7.125	50,830	54,181
Total of 10 Largest Holdings				**745,561**
Total System Holdings - U.S. Government and Agency Obligations				**1,420,662**

Portfolio Detail Statistics as of June 30, 2001

International Fixed Income

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
CRAVE Trust 2001-701 144A	04/05/04	Variable	60,505	59,785
Italy (Republic of) BTP	11/01/10	5.500	55,283	55,803
UK Treasury	12/07/05	8.500	40,821	45,515
Germany (Federal Republic)	01/03/05	7.375	39,013	42,579
Japan (Government)	06/21/10	1.800	39,448	42,062
Japan (Government)	12/20/10	1.900	38,486	41,269
Australia (Commonwealth)	09/15/09	7.500	37,223	40,666
Bundesrepublik Deutschland	07/04/10	5.250	39,043	39,680
France (Government)	10/25/10	5.500	38,097	38,726
Germany (Federal Republic)	07/15/03	6.500	31,223	32,543
Total of 10 Largest Holdings				**438,628**
Total System Holdings - International Fixed Income				**1,051,290**

Portfolio Detail Statistics as of June 30, 2001

Miscellaneous Domestic Fixed Income

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Pennsylvania Initiative Small Business Loans	Various	Various	-	35,323
Ford Credit Auto Owner 2000-G Class A5	01/15/05	6.660	25,585	26,518
Household Automotive 2000-2 Class A4	04/17/07	7.430	22,410	23,670
Americredit Auto 1999-C Class A4	09/05/06	4.340	20,000	20,052
Ford Credit Auto Owner Trust 2001-C Class A3	08/15/03	4.210	20,000	20,024
Household Automotive 1999-1 Class A3	06/17/03	6.330	18,768	18,900
Daimler Chrysler Auto Trust 2000-A Class A4	01/06/05	7.230	15,200	15,813
First Security Auto Owner Trust 1999-1 Class A4	06/15/04	5.740	15,000	15,131
First Bankcard Credit Card Trust 2001-1 A Class A	11/15/06	4.130	15,000	14,981
Capital One Master Trust 2001-4 Class A	04/16/07	3.840	13,720	13,720
Total of 10 Largest Holdings				**204,132**
Total System Holdings - Miscellaneous Domestic Fixed Income				**345,068**

Portfolio Detail Statistics as of June 30, 2001

Postemployment Healthcare - Short-Term Investments

10 Largest Holdings in Descending Order by Fair Value

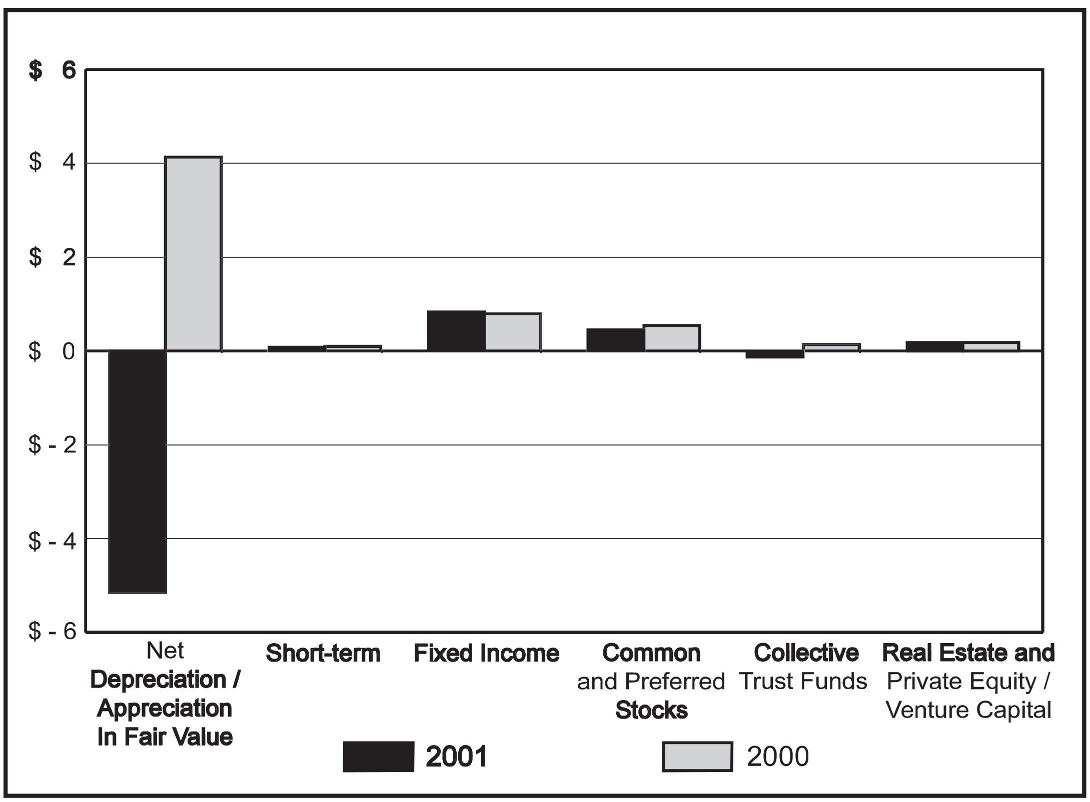
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Treasury Short-Term Investment Fund	Various	Various	33,888	33,888
Allfirst Repurchase Agreement	07/02/01	3.500	20,462	20,462
Premier Auto Trust 1999-3 Class A-3	04/08/03	6.270	1,868	1,880
Philadelphia Electric Company	11/01/01	5.625	1,547	1,552
Sprint Capital Corporation	11/15/01	6.500	1,530	1,540
Canadian Reynolds Metals Ltd.	07/15/02	6.625	1,480	1,492
General Motors Acceptance Corporation	12/15/01	9.625	1,400	1,430
Morgan Guaranty Trust Company	02/01/02	7.375	1,375	1,398
General Electric Capital Corporation	02/15/03	8.700	1,250	1,329
FHLMC Multiclass 1415M	02/15/06	6.750	1,322	1,318
Total of 10 Largest Holdings				**66,289**
Total System Holdings - Postemployment Healthcare - Short-Term Investments				**84,152**

Comparison of Investment Activity (Loss) Income
For Fiscal Years Ended June 30, 2001 and 2000
(Dollar Amounts in Thousands)

Asset Category	2001	2000
Net (Depreciation) / Appreciation in Fair Value	$ (5,137,619)	$ 4,129,236
Short-term Investments	83,319	99,604
Fixed Income Investments	832,808	786,528
Common and Preferred Stocks	446,439	536,268
Collective Trust Funds (Depreciation) / Appreciation and Income	(125,006)	139,640
Real Estate Investments	166,006	158,043
Private Equity / Venture Capital Investments	10,398	18,966
Totals	$ (3,723,655)	$ 5,868,285

(Dollar Amounts in Billions)



Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2001 were $ 35.6 million. The System has commission recapture contracts with several brokers. These contracts generally stipulate that the brokers rebate a percentage of commissions earned on investment transactions directly to the System. During the year ended June 30, 2001, the System earned $8.6 million of benefits resulting from a commissions recapture program. 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, 2001

Broker Name	Fees Paid ($)	Broker Name	Fees Paid ($)
Merrill Lynch	4,131,018	Kokusai Securities	336,928
Warburg	3,226,088	United Daniels Securities	241,796
Morgan Stanley and Company	2,840,015	Nomura Securities International	200,996
Goldman Sachs and Company	2,832,018	Hoare Govett Limited	198,408
Salomon Smith Barney	1,971,749	Credit Lyonnais Securities	193,544
Status Securities	1,800,972	J. Cheuvreux De Virieu, SA	187,555
Deutsche Morgan Grenfell	1,496,561	Jefferies and Company Incorporated	185,367
ANC Nominees, Melbourne	1,388,559	Wheat, First Securities, Inc.	180,271
Investment Technology Group	1,311,950	Cowen & Company	180,061
Lehman Brothers	1,233,733	Montgomery Securities	169,221
J.P. Morgan, Inc.	1,069,484	Vercoe & Company	163,753
Scottsdale Securities Inc.	966,405	ABN Amro	143,272
Execution Services Inc.	781,382	First Union	135,101
Union Bank	625,381	Cathay Financial Corp.	132,329
First Boston Corporation	563,258	RBC Dominion	130,684
Dresdner Kleinwort Benson	540,641	County Natwest Securities	130,539
Instinet Corporation	518,466	Overseas Corp.	118,472
HSBC James Capel	491,014	Cazenove Inc.	114,731
CSFB Australia Eq. LTD, London	483,984	Banc One Capital Corp.	107,611
Jones & Associates	417,820	RNBSN Republic National Bank	100,370

Professional Consultants

External Investment Advisors

ABS Capital Partners
(Private Equity)

Acorn Derivatives Management Corporation
(Equity)

Adams Capital Management, Inc.
(Venture Capital)

Alliance Capital Management
(Equity)

American Express Asset Management
(Equity)

Apax Partners
(Venture Capital)

Avenue Capital Management, L.L.C.
(Private Equity)

BG Media Investors
(Private Equity)

Bastion Capital Corporation
(Private Equity)

Bear Stearns Merchant Banking Partners II, L.P. *(Private Equity)*

Berwind Property Group, Inc.
(Real Estate)

Bridgepoint Capital Limited
(Private Equity)

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

CEO Venture Fund
(Venture Capital)

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

Carlyle Group (The)
(Real Estate)

Charter Financial Group, Inc.
(Developmental)

Charter Oak Advisors
(Real Estate)

Clarity Partners, L.P.
(Private Equity)

Connors Investor Services, Inc.
(Developmental)

Cordillera Asset Management
(Developmental)

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

Cross Atlantic Capital Partners, Inc.
(Venture Capital)

Delaware Investment Advisers
(Equity)

Deutsche Asset Management, Inc.
(Fixed Income, Private Equity & GAA)

Dubin Clark & Company, Inc.
(Private Equity)

Duncan-Hurst Capital Management
(Equity)

Edison Venture Funds
(Venture Capital)

Emerald Advisors, Inc.
(Equity)

First Pacific Advisors, Inc.
(Equity)

Fischer Francis Trees & Watts, Inc.
(Fixed Income)

Fortress Investment Fund, L.P.
(Real Estate)

Franklin Capital Associates III, L.P.
(Venture Capital)

GF Management
(Real Estate)

Gleacher & Co. L.L.C.
(Private Equity)

Goldman Sachs Asset Management
(Real Estate & Private Equity)

Gordon Management, Inc.
(Private Equity)

Graham Partners Investments, L.P.
(Private Equity)

Greenwich Street Capital Partners
(Private Equity)

Grotech Capital Group, Inc.
(Venture Capital)

Investment Advisors (Continued)

Halifax Group (The)
(Private Equity)

Hanseatic Management Services, Inc.
(Developmental)

Heritage Partners, Inc.
(Private Equity)

Holt-Smith & Yates
(Developmental)

ING Barings
(Private Equity)

INVESCO Inc.
(GAA)

J.P. Morgan Investment Management, Inc.
(Equity)

John Hsu Capital Group, Inc.
(Developmental)

KBL Healthcare Ventures, L.P.
(Venture Capital)

KRG Capital Partners, L.L.C.
(Private Equity)

Keystone Venture Capital
(Venture Capital)

L&B Real Estate Advisors
(Real Estate)

Landmark Advisors, Inc.
(Private Equity & Venture Capital)

LaSalle Investment Management, Inc.
(Real Estate)

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

Legg Mason Real Estate Services
(Real Estate)

Lehman Brothers Communications Partners, L.P. *(Private Equity)*

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

Leonard Green & Partners, Inc.
(Private Equity)

Lexington Capital Partners, Inc.
(Private Equity)

Longwood Investment Advisors
(Developmental)

Loyalhanna Commonwealth Fund
(Venture Capital)

Lubert-Adler Partners
(Real Estate & Venture Capital)

MacKay-Shields Financial Corporation
(Equity & Fixed Income)

Marathon Asset Management Limited
(Equity)

Martin Currie, Inc.
(Equity)

Mellon Equity Associates
(Equity)

Mid-Atlantic Venture Funds
(Venture Capital)

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

New Mountain Capital, L.L.C.
(Private Equity)

New York Life Capital Partners, L.P.
(Private Equity)

NorthPointe Capital, LLC
(Equity)

Pacific Investment Management Company
(Fixed Income & Equity)

Paine Webber Real Estate Fund Management, Inc. *(Real Estate)*

Palladium Capital Management
(Developmental)

Palladium Equity Partners II, L.P.
(Private Equity)

Peabody Group (The)
(Real Estate)

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

Philadelphia Ventures, Inc.
(Venture Capital)

Piedra Capital Inc.
(Developmental)

Investment Advisors (Continued)

Prudential Agricultural Group
(Real Estate)

Putnam Advisory Company, Inc.
(Equity & GAA)

Quadrangle Capital Partners L.P.
(Private Equity)

RREEF Funds
(Real Estate)

Rogge Global Partners
(Fixed Income)

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

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

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

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

Seligman Henderson Investment Advisors
(Equity)

Smith Breeden Associates, Inc.
(Equity)

Smithbridge Asset Management
(Developmental)

Spectrum Equity Partners
(Venture Capital)

Standish Mellon Asset Management
(Equity)

StarVest Management, Inc.
(Venture Capital)

Sterling Venture Partners, L.P.
(Venture Capital)

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

T. Rowe Price International, Inc.
(Equity)

TDH III, L.P.
(Venture Capital)

TPG Partners, L.P.
(Private Equity)

Tanaka Capital Management, Inc.
(Developmental)

Technology Leaders L.P.
(Venture Capital)

Templeton Investment Counsel, Inc.
(Equity)

Tucker Hargrove Management, Inc.
(Developmental)

UBS Brinson Realty Investors L.L.C.
(Real Estate)

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

Wasserstein & Co.
(Private Equity)

Wellington Management Company
(Equity & Fixed Income)

West Chester Capital Advisors
(Developmental)

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

Wicks Communications & Media Partners, L.P.
(Private Equity)

William E. Simon & Sons Realty Partners, L.P.
(Real Estate)

Willis Stein & Partners
(Private Equity)

Zurich Scudder Investments, Inc.
(Equity)

Professional Consultants (Continued)

Financial Consultant

Financial Control Systems, Inc.

Custodian and Securities Lending Agent

Mellon Bank N.A.

Investment Evaluator

Wilshire Associates Incorporated

Real Estate Consultant

Frank Russell Company

Private Equity / Venture Capital Consultant

Sovereign Financial Services, L.L.C.

Proxy Voting Agent

Institutional Shareholder Services

Public School Employees' Retirement System

Actuarial Section

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

May 21, 2001

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 revised annual actuarial valuation of the Public School Employees' Retirement System of Pennsylvania as of June 30, 2000. The valuation was revised to reflect Act 9 of 2001 which amended the Retirement Code to increase the level of postemployment healthcare insurance premium assistance from $55 per month to $100 per month effective January 1, 2002. 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 2001/2002 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. Based on our recommendations and effective with this valuation, the Board adopted revised actuarial assumptions. Specifically, the disability, retirement and termination rates were modified to reflect experience and an updated mortality table was adopted. Also, the inflation assumption was reduced from 4% to 3½% and the salary increase assumption was lowered to an average of 6¼%.

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 2001/2002 is 1.09%. The funded status of the plan determined as of June 30, 2000 based on the accrued liability and the actuarial value of assets of the date is 123.8%.

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,

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

S. Lynn Hill
Senior Actuarial Manager

Executive Summary

This report presents the actuarial valuation as of June 30, 2000 for the Public School Employees' Retirement System of Pennsylvania.

The principal valuation results include:

- The employer contribution rate for fiscal year 2001/2002 which is 1.09%.
- The funded status of the plan determined as of June 30, 2000 based on the accrued liability and the actuarial value of assets as of that date which is 123.8%.
- The determination of the actuarial gain or loss as of June 30, 2000 which is a gain of $1.9 billion.
- Annual disclosure as of June 30, 2000 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 assumptions have been changed effective June 30, 2000. Specifically, the disability, retirement and termination rates were modified to reflect experience and an updated mortality table was adopted. Also, the inflation assumption was reduced from 4% to 3½% and the salary increase assumption was lowered to an average of 6¼%. The actuarial cost method is specified in the Retirement Code. The actuarial assumptions and methods are outlined in Table 12.

Legislative and Administrative Changes

Act 9 of 2001 amended Section 8509(b) of the Retirement Code to increase the level of postemployment healthcare insurance premium assistance from $55 per month to a maximum of $100 per month effective January 1, 2002.

Contribution Rates

The results of the valuation as of June 30, 2000 determine the employer contribution rate for fiscal year 2001/2002. The total contribution rate payable by the employer is 1.09% of payroll. This includes 0.00% of payroll for pension benefits plus 1.09% of payroll for the postemployment healthcare insurance premium assistance program.

Reasons for Change in the Rate

The employer contribution rate decreased from 1.94% for fiscal year 2000/2001 to 1.09% for fiscal year 2001/2002. The decrease of 0.85% is due to the following reasons:

▪ Decrease due to assumption changes	(.69) %
• Decrease due to actuarial gain on assets	(1.77)
▪ Increase due to actuarial loss on liabilities	.40
• Increase due to change in health insurance contribution rate	.79
▪ Increase due to zero minimum pension rate contribution	.42
Total	(0.85) %

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, 2000. Comparable results from the June 30, 1999 valuation are also shown.

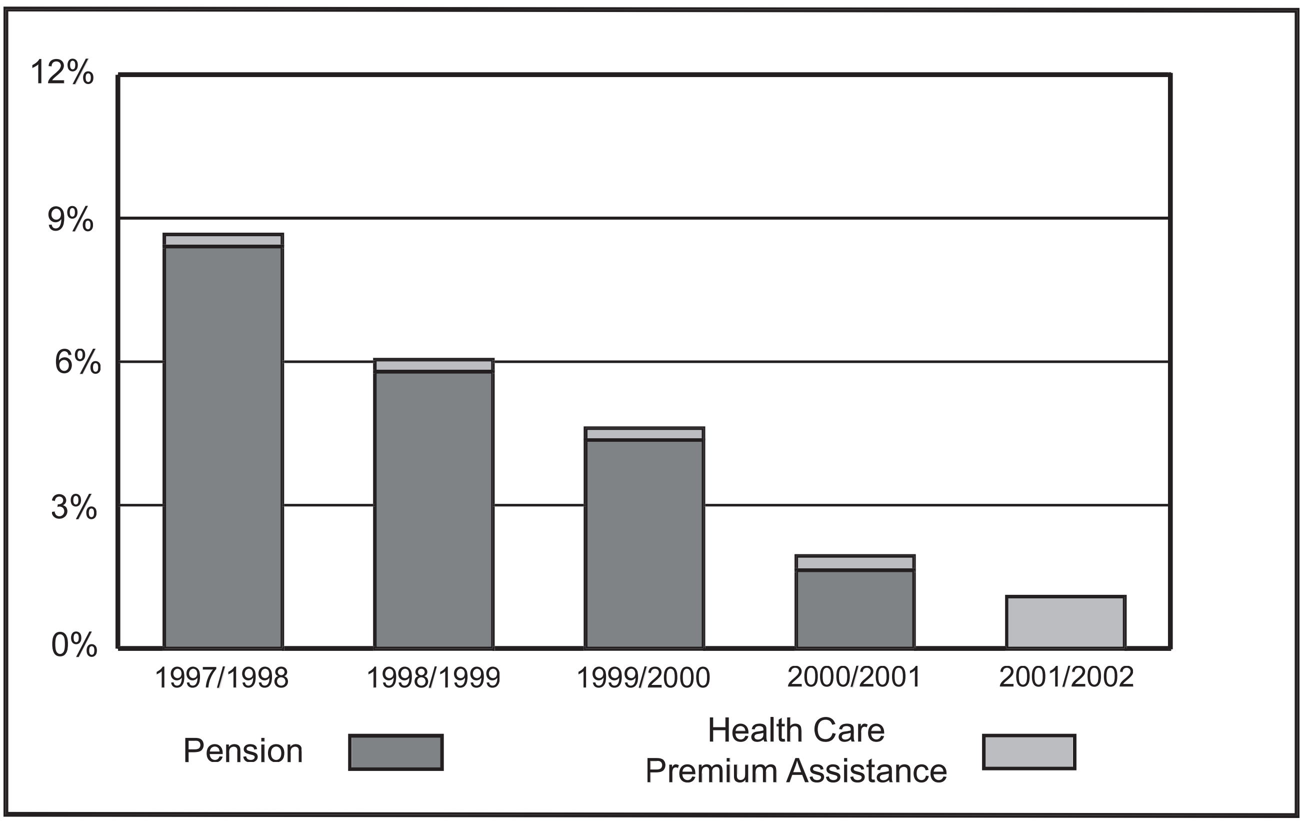
Item	June 30, 2000	June 30, 1999
Demographics		
Active Members		
· Number	234,210	223,495
· Average Annual Pay	$ 38,169	$ 36,903
Annuitants		
· Number	134,058	132,869
· Average Annual Benefit Payment	$ 14,029	$ 13,777
Contribution Rates (as a Percentage of Payroll)	(Fiscal Year 2001/2002)	(Fiscal Year 2000/2001)
Employer Contribution Rate:		
· Total Pension Contribution Rate	0.00%	1.64%
· Health Insurance Contribution Rate	1.09	0.30
· Total	1.09%	1.94%
Member Average Contribution Rate	5.80	5.77
· Total Rate	6.89%	7.71%
Actuarial Funded Status		
· Accrued Liability	$ 39,822.8 Mil	$ 37,499.1 Mil
· Actuarial Value of Assets	49,293.0	44,606.5
· Unfunded Accrued Liability	$ (9,470.2)	$ (7,107.4)
· Funded Ratio	123.8%	119.0%

Five-Year History of Principal Financial Results

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

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
2001/2002	5.80%	5.63%	(6.05)%	1.09%	1.09%
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

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 1.09% 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 123.8% as of June 30, 2000. The funded ratio is based on an actuarial value of assets of $49.3 billion and an accrued liability of $39.8 billion.

Reasons for Change in the Funded Ratio

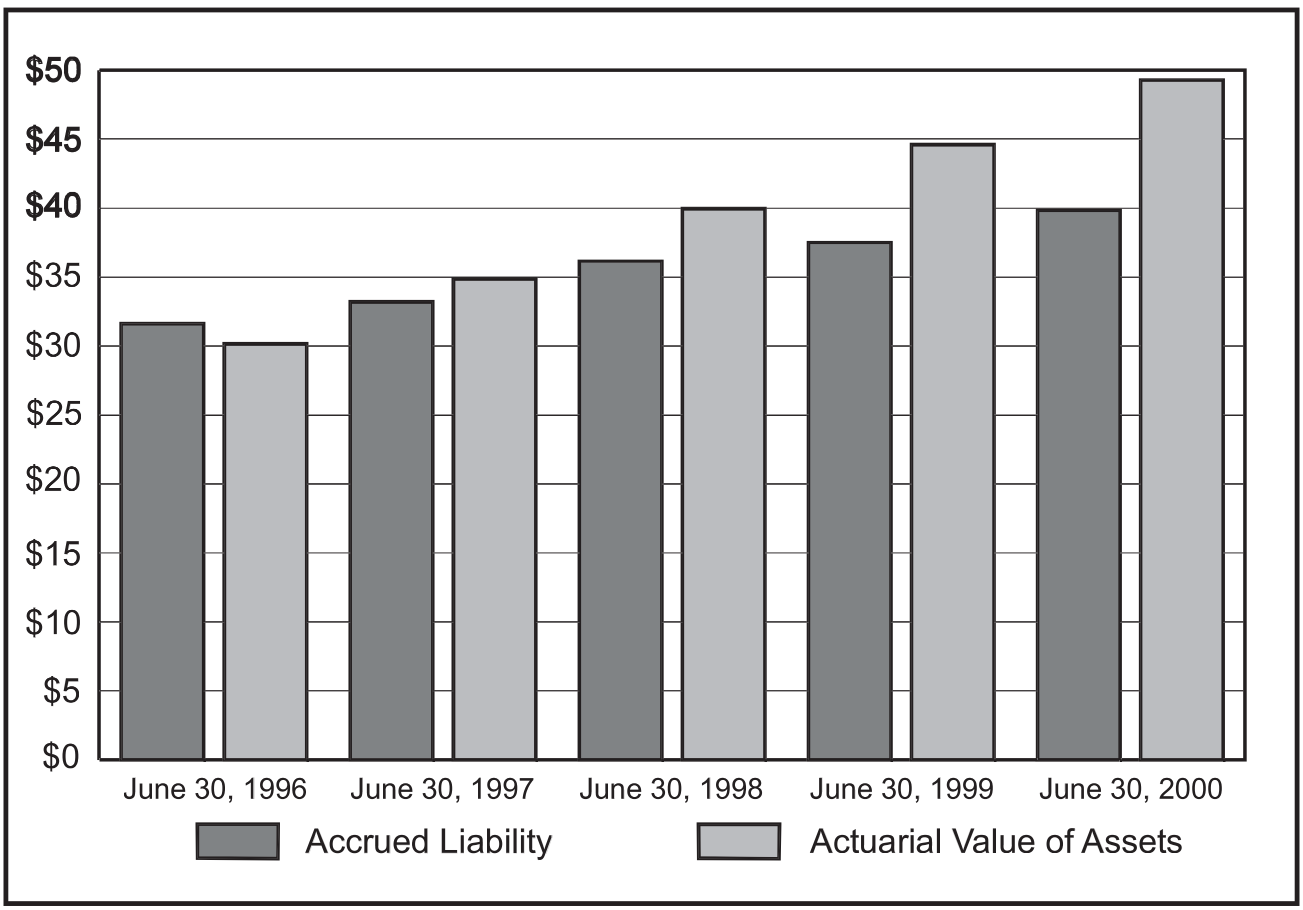
The funded ratio increased from 119.0% as of June 30, 1999 to 123.8% as of June 30, 2000. The increase is due to the net effect of asset and experience gains.

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
2000	$ 39,822.8	$ 49,293.0	$ (9,470.2)	123.8%
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

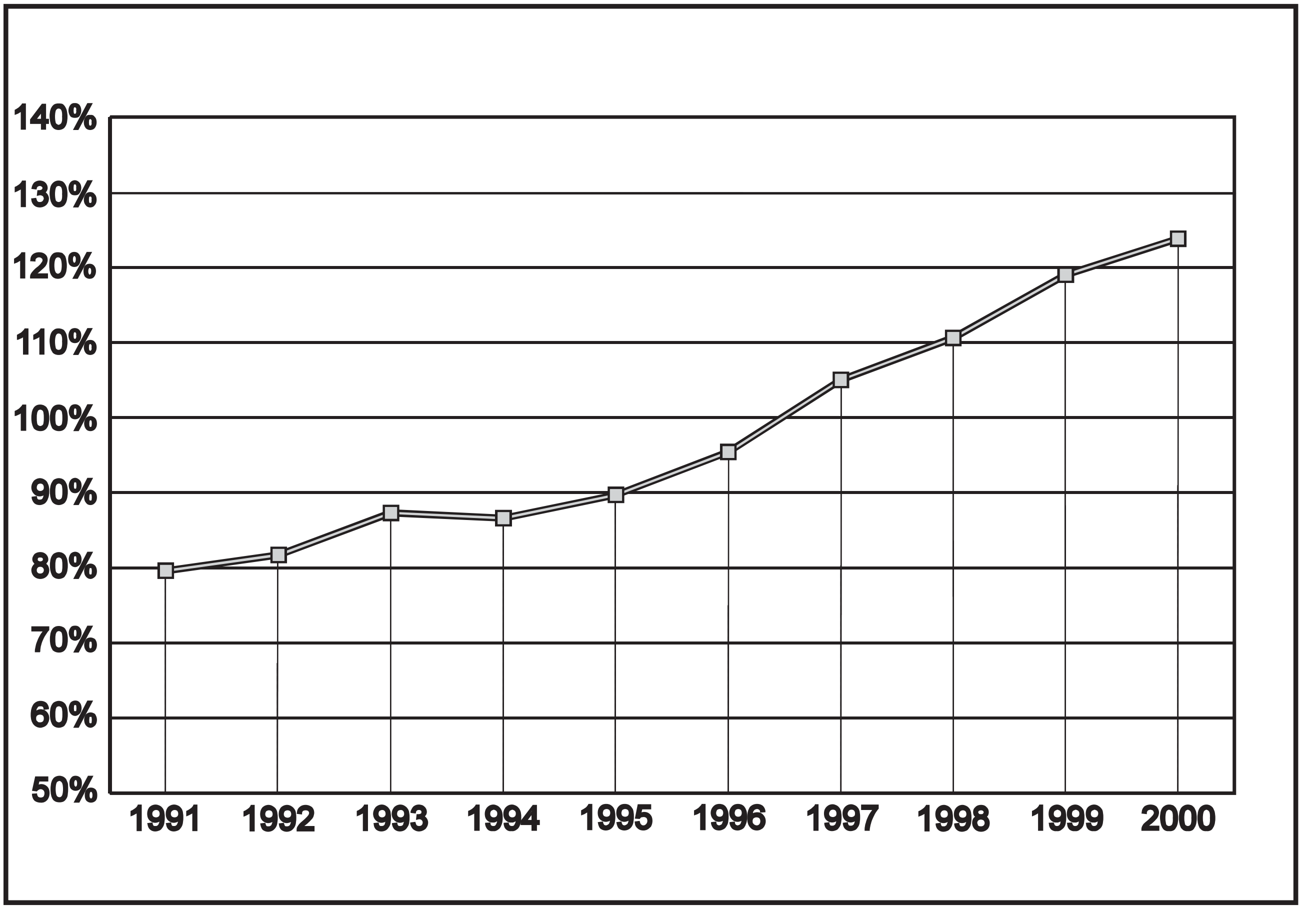
The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

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
(1991 - 2000)



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 123.8% as of June 30, 2000. The funded ratio is based on an actuarial value of assets of $49.3 billion and an accrued liability of $39.8 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 1995/1996 through 1999/2000 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
1999/2000	11.9%	13.6%
1998/1999	12.2	15.1
1997/1998	15.8	16.8
1996/1997	18.3	17.3
1995/1996	17.8	12.6

Table 1
Summary of Results of Actuarial Valuation
As of June 30, 2000
(Dollar Amounts in Thousands)

Item	Amount
Member Data	
1. Number of Members	
a) Active Members	234,210
b) Inactive Members and Vestees	50,682
c) Annuitants, Beneficiaries and Survivor Annuitants	134,058
d) Total	418,950
2. Annualized Salaries	$ 8,939,598
3. Annual Annuities	$ 1,880,644
Valuation Results	
4. Present Value of Future Pension Benefits	
a) Active Members	$ 33,352,814
b) Inactive Members and Vestees	480,534
c) Annuitants, Beneficiaries and Survivor Annuitants	15,985,652
d) Total	$ 49,819,000
5. Present Value of Future Pension Normal Cost	
a) Active Members	$ 5,098,416
b) Employer	4,948,980
c) Total	$ 10,047,396
6. Pension Accrued Liability	
a) Active Members (4a) - (5c)	
b) Inactive Members and Vestees	480,534
c) Annuitants, Beneficiaries and Survivor Annuitants	15,985,652
d) Total	$ 39,771,604
7. Health Care Premium Assistance Payments	$ 51,228
8. Total Accrued Liability (6) + (7)	$ 39,822,832
9. Actuarial Value of Assets	$ 49,293,047
10. Unfunded Accrued Liability (8) - (9)	$ (9,470,215)
11. Total Normal Cost Rate	11.43 %
12. Member Contribution Rate	5.80 %
13. Employer Normal Cost Rate (11) - (12)	5.63 %
Employer Annual Funding Requirement for Fiscal 2001/2002	
14. Employer Contribution Rate	
a) Normal	5.63 %
b) Unfunded Accrued Liability	(6.05)
c) Preliminary Pension Rate	(0.42) %
d) Final Pension Rate	0.00
e) Health Insurance Premium Assistance	1.09
f) Total	1.09 %

Table 2
Summary of Sources of Employer Contribution Rate
As of June 30, 2000

(Dollar Amounts in Thousands)

	Funding Period 20 Years from July 1	Initial Amount of Liability	Outstanding Balance as of July 1, 2000	Annual Payment Amount	Annual Payment Percent
1. Amortization of:					
a) Initial Unfunded Base	1991	$ 4,354,817	$ 4,614,716	$ 560,069	5.60%
b) Changes in 1991	1992	(140,035)	(151,823)	(17,152)	(0.17)%
c) Changes in 1992	1993	(135,127)	(148,861)	(15,763)	(0.16)%
d) Changes in 1993	1994	(1,224,680)	(1,362,886)	(136,059)	(1.36)%
e) Changes in 1994	1995	70,588	78,956	7,469	0.08%
f) 1994 COLA	1995	499,010	558,165	52,799	0.53%
g) Changes in 1995	1996	(740,020)	(828,354)	(74,571)	(0.74)%
h) Changes in 1996	1997	(1,569,397)	(1,751,312)	(150,615)	(1.51)%
i) Changes in 1997	1998	(2,950,869)	(3,271,689)	(269,710)	(2.70)%
j) Changes in 1998	1999	(2,799,000)	(3,074,059)	(243,646)	(2.44)%
k) 1998 COLA	1999	956,799	1,050,824	83,287	0.83%
l) Changes in 1999	2000	(2,986,434)	(3,240,281)	(247,583)	(2.48)%
m) Changes in 2000	2001	(1,943,611)	(1,943,611)	(153,457)	(1.53)%
Total Amortization Payments			$ (9,470,215)	$ (604,932)	(6.05)%
2. Employer Normal Cost Rate					5.63%
3. Preliminary Pension Rate (1) - (2)					(0.42)%
4. Final Pension Rate					0.00%
5. Health Insurance Premium Assistance Rate					1.09%
6. Total Employer Contribution Rate (4) + (5)					1.09%

Table 3
Determination of Health Insurance Contribution Rate
For Fiscal Year 2001/2002
(Dollar Amounts in Thousands)

Item	Amount
1. Estimated Number of Eligible Annuitants in Fiscal 2002/2003	90,000
2. Estimated Number of Eligible Annuitants Who Elect Coverage	72,900
3. Annual Health Insurance Premium Assistance Payments During Fiscal 2002/2003 (2) * $100 * 12	$ 87,480
4. Estimated Health Insurance Premium Assistance Administrative Expenses During Fiscal 2002/2003	962
5. Total Estimated Health Insurance Premium Assistance Account Disbursements During Fiscal 2002/2003 (3) + (4)	$ 88,442
6. Additional Disbursement in Fiscal 2001/2002 due to Increase in Health Insurance Premium Assistance	$ 19,834
7. Estimated Shortfall in Health Insurance Premium Assistance Account (5) + (6)	$ 108,276
8. Required Health Insurance Premium Assistance Contribution Rate	
(a) Estimated 2001/2002 Payroll	$ 9,998,568
(b) Required Health Insurance Premium Assistance Contribution Rate (7) / (8a) (rounded up)	1.09%

Table 4
Summary of Market Value of Plan Assets
As of June 30, 2000
(Dollar Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 1999	$ 48,971,751
2. Contributions During Fiscal 1999/2000	965,285
3. Disbursements During Fiscal 1999/2000	2,260,852
4. Investment Return During Fiscal 1999/2000	
a) Net Investment Return	$ 5,763,627
b) Administrative Expenses	26,861
c) Investment Return After Expenses (a) - (b)	$ 5,736,766
5. Market Value of Assets as of June 30 ,2000	
(1) + (2) - (3) + (4c)	$ 53,412,950
6. Rate of Return	11.87%
Asset Allocation by Account	
1. Members' Savings Account	$ 6,775,934
2. Annuity Reserve Account	16,567,998
3. State Accumulation Account	30,017,790
4. Health Care Account	51,228
5. Total (1) + (2) + (3) + (4)	$ 53,412,950

Table 5
Derivation of Actuarial Value of Assets
As of June 30, 2000
(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 2000			$ 53,412,950
2. Determination of Deferred Gain (Loss)			
Year	Gain (Loss)	% Deferred	Deferred Amount
1999/2000	$ 4,129,236	66-2/3%	$ 2,752,824
1998/1999	4,101,236	33-1/3%	1,637,079
1997/1998	4,893,203	- 0 -	0
Total	$ 13,123,675		$ 4,119,903
3. Actuarial Value of Assets (1) - (2)			$ 49,293,047
4. Actuarial Rate of Return *			13.61%

* The actuarial rate of return is the investment return on the increase in the actuarial value of the assets from the June 30, 1999 valuation to the June 30, 2000 valuation.

Table 6
Analysis of Change in Unfunded Accrued Liability
As of June 30, 2000
(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 1999	$ (7,107,410)
2. Interest Credit at 8.50% to June 30, 2000	(604,130)
3. Contributions Toward Unfunded Accrued Liability	(184,936)
4. Expected Unfunded Accrued Liability at June 30, 2000	
(1) + (2) - (3)	$ (7,526,604)
5. Actual Unfunded Accrued Liability at June 30, 2000	$ (9,470,215)
6. Increase (Decrease) from Expected	
(5) - (4)	$ (1,943,611)
7. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Gain from Investment Return on Actuarial Value of Assets	$ (2,245,595)
(ii) Loss from Salary Increases Greater than Expected	36,064
(iii) Loss from Retirement and Other Separation Experience	199,935
(iv) Loss from Annuitants' Mortality Experience	122,551
Subtotal	$ (1,887,045)
(b) Changes in Benefit Provisions	$ -
(c) Change in Assumptions	$ (56,566)
(d) Grand Total	$ (1,943,611)

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
2000	$ 49,293,047	$ 39,822,832	$ 9,470,215	123.8 %	$ 8,939,598	(105.9) %
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

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
2000	$ 390,504	100 %
1999	513,940	100 %
1998	718,431	100 %
1997	796,205	100 %
1996	860,898	100 %
1995	791,802	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, 1998 was contributed in the fiscal year ending June 30, 2000).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2000
Actuarial Cost Method:	Entry Age
Amortization Method:	Level percent closed
Remaining Amortization Period:	10 to 20 years
Asset Valuation Method:	3-year smoothed market

Actuarial Assumptions:

- Investment Rate of Return *	8.50%
- Projected Salaried Increases *	6.25%

* Includes Inflation at:	3.50%

Table 9
Solvency Test
Comparative Summary of Accrued Liability and Actuarial Value of Assets

(Dollar Amounts in Thousands)

Valuation as of June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Member Employer Financed	Actuarial Value of Assets	Portion of Accrued Liability Covered by Valuation Assets (1)	(2)	(3)
2000	$ 6,775,934	$ 16,036,880	$ 17,010,018	$ 49,293,047	100%	100%	100%
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%

Table 10
History of Contribution Rates

	Contribution Rates					
Fiscal Year	Member	Employer Normal Cost Rate	Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Insurance Rate	Total Employer Rate
1992/1993	5.48 %	7.90 %	5.84 %	13.74 %	0.50 %	14.24 %
1993/1994	5.51	7.34	5.58	12.92	0.25	13.17
1994/1995	5.55	6.43	4.18	10.61	0.45	11.06
1995/1996	5.59	6.43	4.67	11.10	0.62	11.72
1996/1997	5.62	6.44	3.56	10.00	0.60	10.60
1997/1998	5.65	6.44	2.17	8.61	0.15	8.76
1998/1999	5.69	6.33	(0.44)	5.89	0.15	6.04
1999/2000	5.72	6.40	(2.04)	4.36	0.25	4.61
2000/2001	5.77	6.29	(4.65)	1.64	0.30	1.94
2001/2002	**5.80**	**5.63**	**(6.05)**	**(0.42)**	**1.09**	**1.09**

The projection of 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
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			126,448	6,421	132,869	223,495
2000			**127,404**	**6,654**	**134,058**	**234,210**
2001	7,011	3,812	130,603	7,070	137,673	234,210
2002	6,878	3,946	133,535	7,451	140,986	234,210
2003	7,356	4,095	136,796	7,795	144,591	234,210
2004	7,909	4,230	140,475	8,101	148,576	234,210
2005	8,368	4,378	144,465	8,375	152,840	234,210
2006	8,782	4,515	148,732	8,616	157,348	234,210
2007	9,291	4,653	153,370	8,830	162,200	234,210
2008	9,675	4,795	158,250	9,020	167,270	234,210
2009	9,897	4,928	163,219	9,181	172,400	234,210
2010	9,949	5,061	168,107	9,324	177,431	234,210

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). The components are 3½% for inflation and 5% for the real rate of return. 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 2000):

	Annual Rate of:						
	Non-Vested Withdrawal						
Age	Less than 5 Years of Service	5 or More Years of Service	Death	Disability	Vested Withdrawal*	Early Retirement**	Superannuation Retirement
			Males				
25	13.00 %	5.50 %	.05 %	.02 %	1.40 %		
30	11.00	3.00	.05	.02	1.40		
35	11.00	3.00	.05	.10	1.10		
40	11.00	3.00	.07	.18	.80	.13 %	
45	11.00	3.00	.10	.18	.50	.15	
50	9.00	3.00	.16	.28	1.78	1.56	24.00 %
55	9.00	3.00	.25	.43	3.50	10.00	24.00
60	9.00	2.40	.46	.58	4.50	10.00	28.00
65			.90				20.00
69			1.44				20.00
			Females				
25	13.00 %	9.50 %	.01 %	.04 %	4.00 %		
30	13.00	7.50	.02	.04	4.00		
35	13.00	5.50	.03	.08	2.00		
40	10.00	3.50	.04	.13	1.00	.60 %	
45	10.00	3.00	.07	.18	.55	.60	
50	10.00	3.00	.10	.25	1.50	1.74	10.00 %
55	10.00	3.00	.15	.35	3.00	10.00	10.00
60	10.00	3.50	.23	.45	5.90	15.00	25.00
65			.48				28.00
69			.88				20.00

* Vested Withdrawal - At least 10 years service but not eligible for Early or Superannuation retirement.
** Early Retirement - Age 55 with 25 years service, but not eligible for Superannuation retirement.

Description of Actuarial Assumptions and Methods (Continued)

Death After Retirement: The 1995 George B. Buck Mortality Tables, rated forward one year for males and unadjusted for females, adopted in 2000, are used to project mortality for healthy annuitants and for dependent beneficiaries. Special mortality tables based on PSERS' experience are used for disability retirements. (The 1995 George B. Buck Mortality Tables, rated forward one year for males and unadjusted for females, adopted in 2000, are used to determine actuarial equivalent benefits.)

Salary Increase: Effective average of 6 1/4% per annum, compounded annually. The components are 3 1/2% 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	9.50
40	7.25
50	5.00
55	4.75
60	4.50
65	4.50
70	4.50

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 postemployment healthcare insurance 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, 2000 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 1995 George B. Buck mortality tables, rated forward one year for males and unadjusted for females.

Disability Annuity

Eligibility	5 years of service.
Amount	2% of final average salary per year of service, but not less than 33 1/3% of such salary, except that the benefit cannot be greater than the benefit member would have had at superannuation retirement age (or at current age, if later). Minimum of $100 per year of service.

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 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.

Summary of Benefit and Contribution Provisions (Continued)

Postemployment Health Care Insurance Premium Assistance

Eligibility	Retired members who: (a) have 24½ or more years of service, or (b) are disability annuitants, or (c) have 15 or more years of service and who both terminated school service and retired after attaining superannuation age and (d) participate in the PSERS Health Options Program or in an employer-sponsored health insurance program.
Amount	Participating eligible annuitants receive health insurance premium assistance payments from the Health Insurance Account equal to the lesser of \$55 per month (\$100 per month effective January 1, 2002) 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 employers	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 employers.

Table 14
Summary of Membership Data
As of June 30, 2000
(Dollar Amounts in Thousands)

Active Members *

Item	Male	Female	Total
Number of Members	68,408	165,802	234,210
Annual Salaries **	$ 3,081,711	$ 5,857,887	$ 8,939,598
Average Age	45.2	44.6	44.8
Average Service	14.4	11.3	12.2

* Excludes 50,682 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 $8,560,756 reported for the fiscal year ended June 30, 2000 and the expected salaries for the fiscal year ended June 30, 2001.

Annuitants and Beneficiaries

Item	Number	Annual Annuities	Average Annuities
Annuitants (Normal, Early and Withdrawal)	121,812	$ 1,775,523	$ 14,576
Survivors and Beneficiaries	6,654	43,204	6,493
Disabled Annuitants	5,592	61,917	11,072
Total	134,058	$ 1,880,644	$ 14,029

Exhibit I

Active Membership Data as of June 30, 2000
Number and Average Annual Salary

Age	Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 25	5,964	29								5,993
	$ 24,779	$ 25,682								$ 24,784
25 - 29	16,119	3,411	67							19,597
	$ 30,169	$ 38,308	$ 31,140							$ 31,589
30 - 34	9,987	8,218	2,408	51						20,664
	$ 26,802	$ 40,623	$ 43,397	$ 30,972						$ 34,243
35 - 39	10,497	5,064	5,620	1,871	131					23,183
	$ 19,610	$ 35,033	$ 45,630	$ 45,873	$ 31,736					$ 31,475
40 - 44	12,690	6,434	5,135	4,793	3,527	140				32,719
	$ 18,658	$ 29,402	$ 41,656	$ 50,665	$ 52,479	$ 34,514				$ 32,782
45 - 49	9,948	7,677	6,792	4,334	9,904	8,382	73			47,110
	$ 20,473	$ 29,775	$ 39,567	$ 48,039	$ 58,010	$ 60,059	$ 35,148			$ 42,235
50 - 54	5,578	5,018	5,948	4,350	4,710	12,713	7,905	34		46,256
	$ 21,209	$ 28,726	$ 36,956	$ 44,016	$ 52,564	$ 62,121	$ 64,101	$ 38,093		$ 47,974
55 - 59	2,994	2,555	3,306	2,895	3,303	3,095	4,380	1,519	12	24,059
	$ 18,525	$ 24,827	$ 31,778	$ 36,346	$ 42,717	$ 52,935	$ 64,166	$ 66,446	$ 32,681	$ 42,249
60 - 64	1,486	1,231	1,571	1,381	1,649	1,306	672	611	173	10,080
	$ 16,032	$ 21,445	$ 27,282	$ 29,782	$ 34,748	$ 43,437	$ 52,650	$ 66,032	$ 63,737	$ 33,234
Over 64	1,071	805	774	530	487	425	237	82	138	4,549
	$ 11,790	$ 15,544	$ 19,780	$ 21,773	$ 27,105	$ 33,455	$ 39,313	$ 53,669	$ 63,511	$ 22,398
Total	76,334	40,442	31,621	20,205	23,711	26,061	13,267	2,246	323	234,210
Ave. Sal.	$ 23,034	$ 32,316	$ 38,858	$ 43,940	$ 51,578	$ 58,815	$ 62,940	$ 65,438	$ 62,487	$ 38,169

Exhibit II
Annuitant and Beneficiary Membership Data
As of June 30, 2000

Number and Average Annual Benefit
Excludes Partial Lump Sum Payments

Age Last Birthday	Number	Annual Benefit (Dollars in Thousands)	Average Annual Benefit (Dollars)
Annuitants			
(Normal, Early and Withdrawal)			
Under 60	21,417	$ 372,848	$ 17,409
60 - 64	16,438	356,687	21,699
65 - 69	20,901	348,607	16,679
70 - 74	21,258	284,818	13,398
75 - 79	17,087	175,034	10,244
Over 79	24,711	237,529	9,612
Total	121,812	$ 1,775,523	$ 14,576
Survivors and Beneficiaries			
Under 60	604	$ 4,305	$ 7,128
60 - 64	391	3,640	9,310
65 - 69	600	5,303	8,838
70 - 74	966	7,120	7,371
75 - 79	1,300	8,069	6,207
Over 79	2,793	14,767	5,289
Total	6,654	$ 43,204	$ 6,493
Disabled Annuitants			
Under 60	2,413	$ 34,126	$ 14,143
60 - 64	949	10,205	10,754
65 - 69	814	7,044	8,653
70 - 74	603	4,695	7,787
75 - 79	404	2,905	7,190
Over 79	409	2,942	7,194
Total	5,592	$ 61,917	$ 11,072
Grand Total Average Annual Benefit	134,058	$ 1,880,644	$ 14,029

Exhibit III

10 Year History of Membership Data

Active Members

Valuation as of June 30	Number of Active Members	Percentage Change in Membership	Total Annual Payroll (Dollars in Thousands)	Percentage Change in Payroll
2000	234,210	4.79%	$ 8,939,598	8.39%
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%

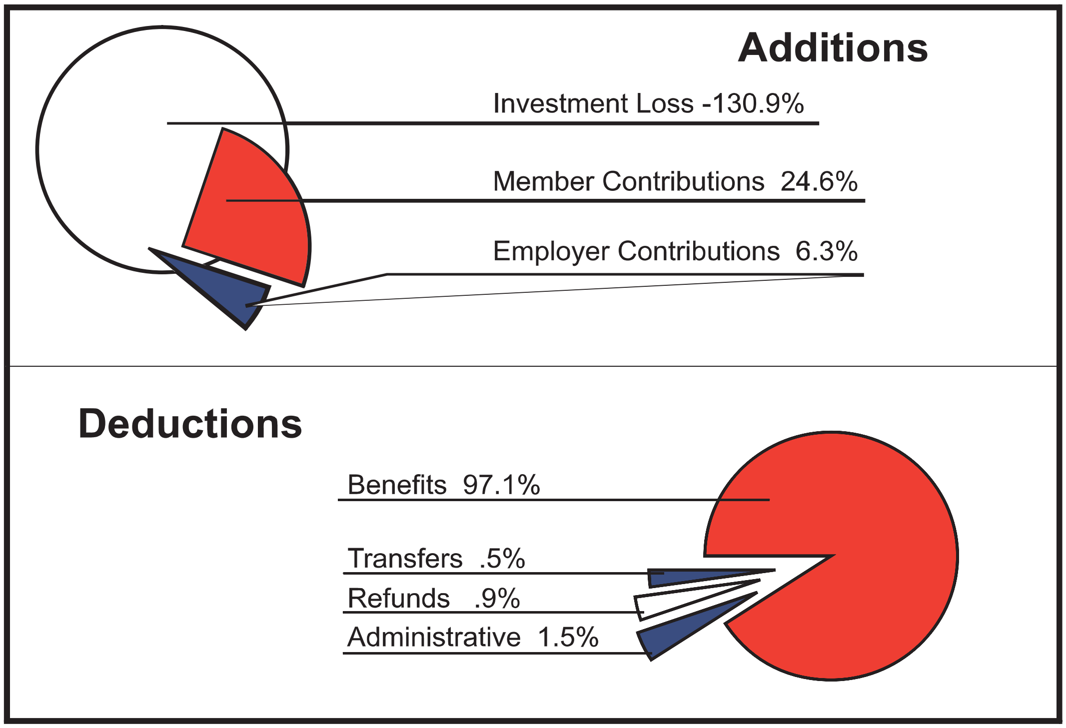
Annuitant and Survivor Annuitant Members

Year Ended June 30	Number on roll	Additions	Deletions	Percentage Change in Membership	Annual Annuities (Dollars in Millions)	Percentage Change in Annuities
2000	134,058	5,923	4,734	0.89%	$ 1,880.6	2.73%
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%

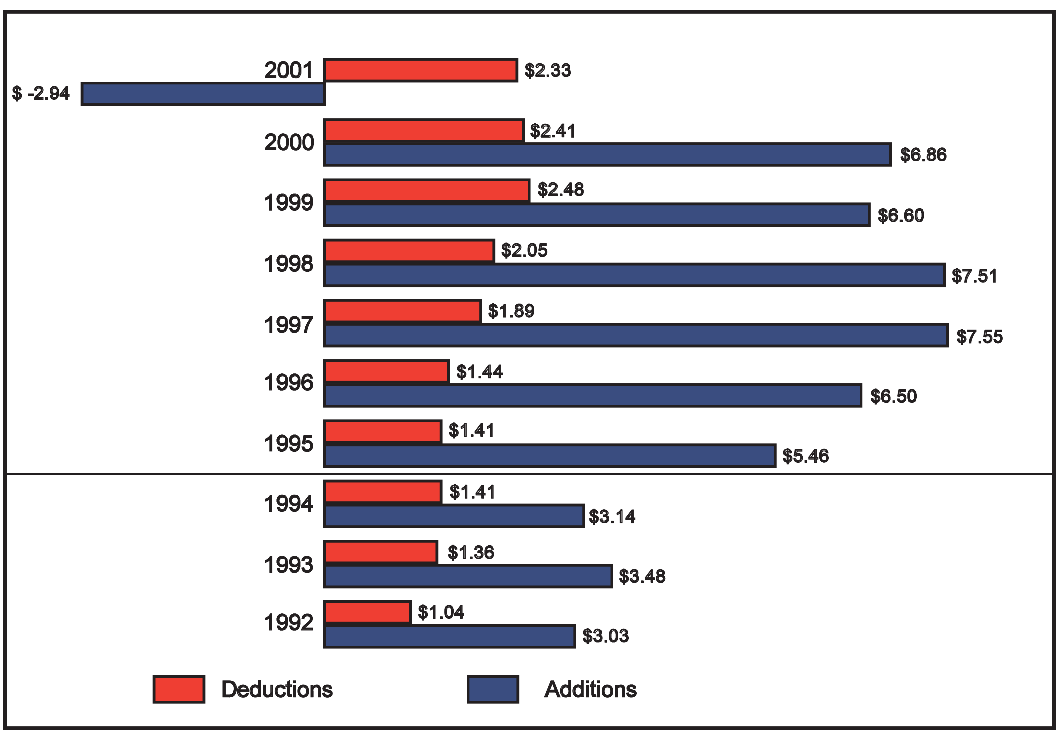
Public School Employees' Retirement System

Statistical Section

Changes in Plan Net Assets* 2001



Changes in Plan Net Assets* - 2001
Additions vs. Deductions - 10 Year Trend
(Dollar Amounts in Billions)



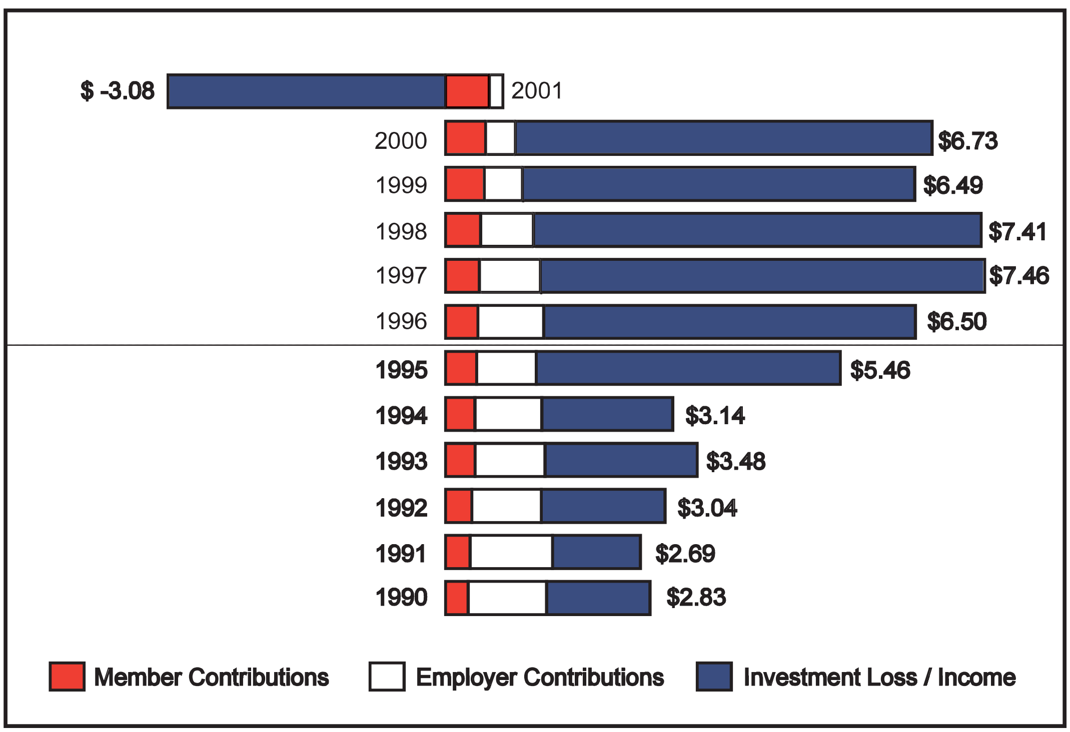
* Includes Postemployment Healthcare.
Data for years after 1994 includes effects of GASB Statement No. 25.

Additions to Plan Net Assets
12 Year Trend
(Dollar Amounts in Thousands)

Fiscal Year	Members Contributions	Employers and Commonwealth Contributions Dollar Amount	Employers and Commonwealth Contributions Percentage of Covered Payroll	Net Investment (Loss) / Income		Total Additions
(A) 2001	$ 579,850	$ 185,716	1.94 %	$ (3,845,437)	(1)	$ (3,079,871)
(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

(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)

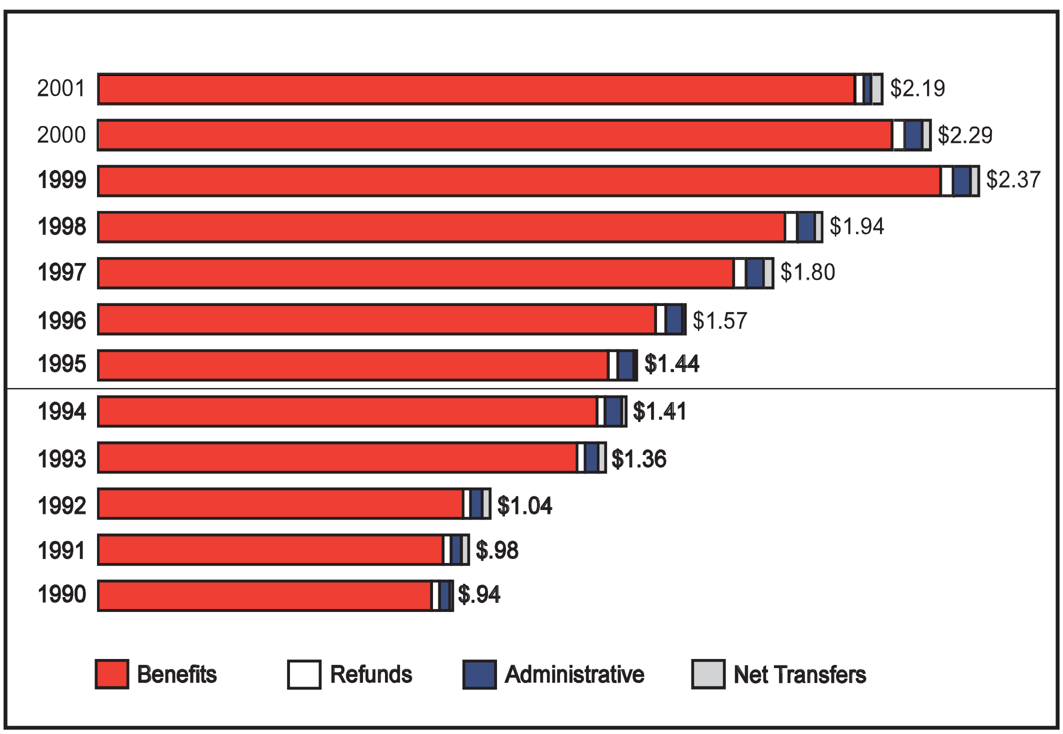


Deductions from Plan Net Assets
12 Year Trend
(Dollar Amounts in Thousands)

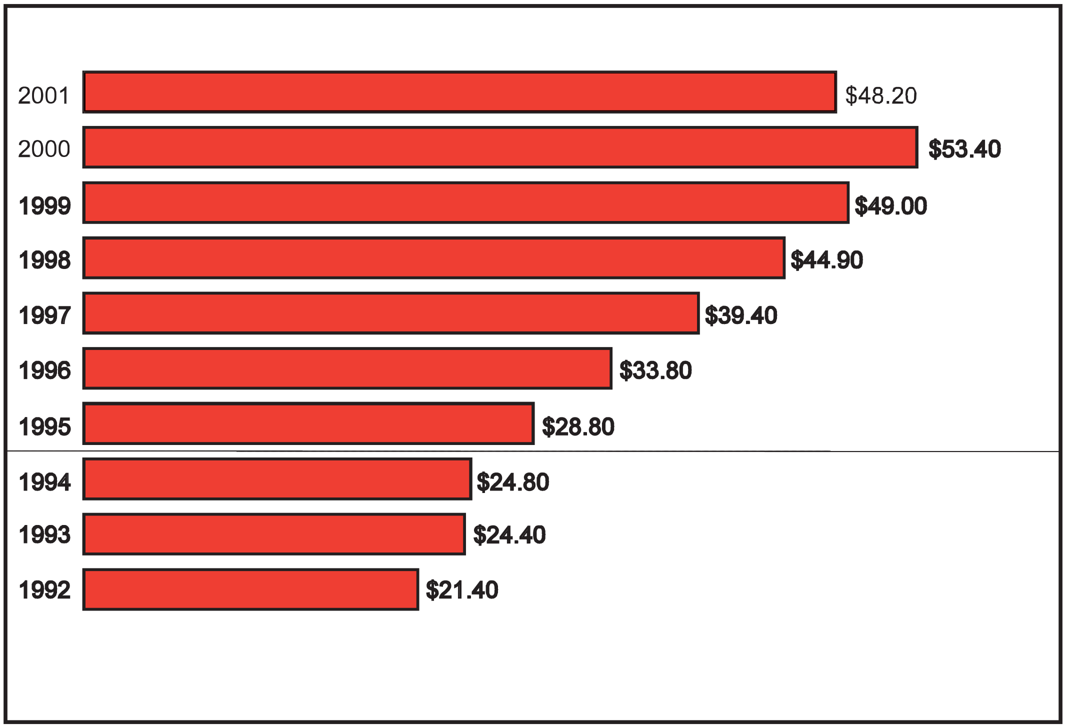
Fiscal Year	Benefits	Lump-Sum and Installment	Refunds	Administrative	Net Transfers*	Total Deductions
(A) 2001	$ 1,947,956	$ 176,228	$ 22,369	$ 32,332	$ 10,867	$ 2,189,752
(A) 2000	1,927,367	306,329	22,446	26,861	4,710	2,287,713
(A) 1999	1,723,722	591,532	20,110	24,932	10,247	2,370,543
(A) 1998	1,510,550	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

(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)

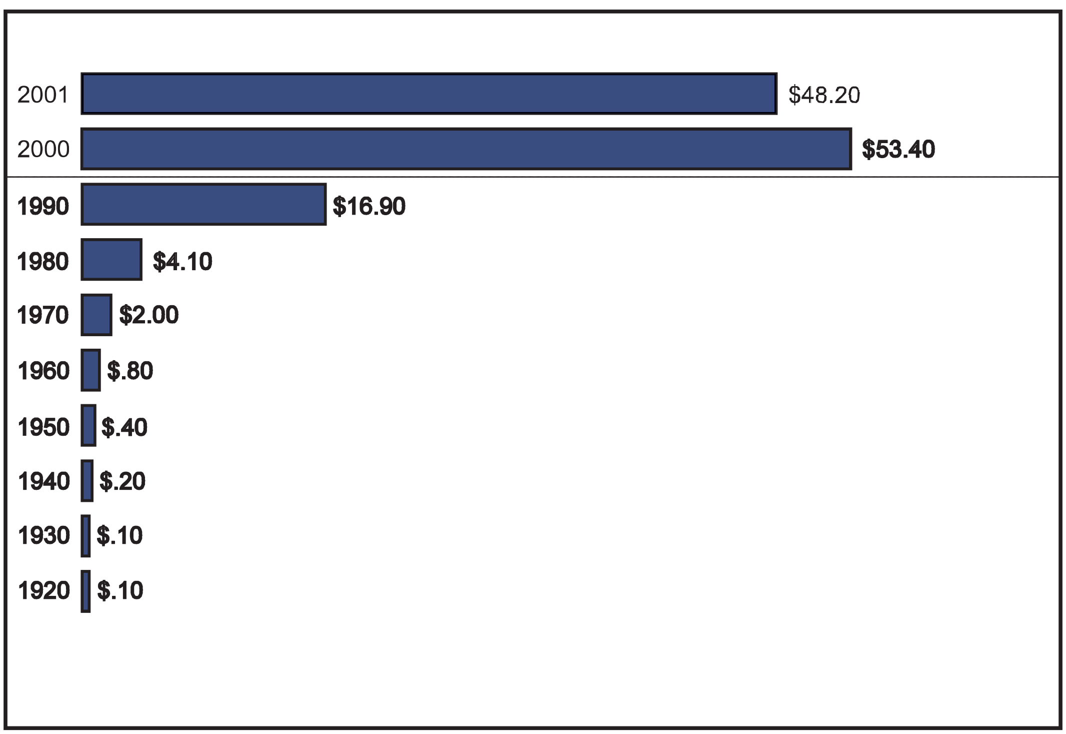


Total Net Assets* 10 Year Trend
(Fair Value - Amounts in Billions)

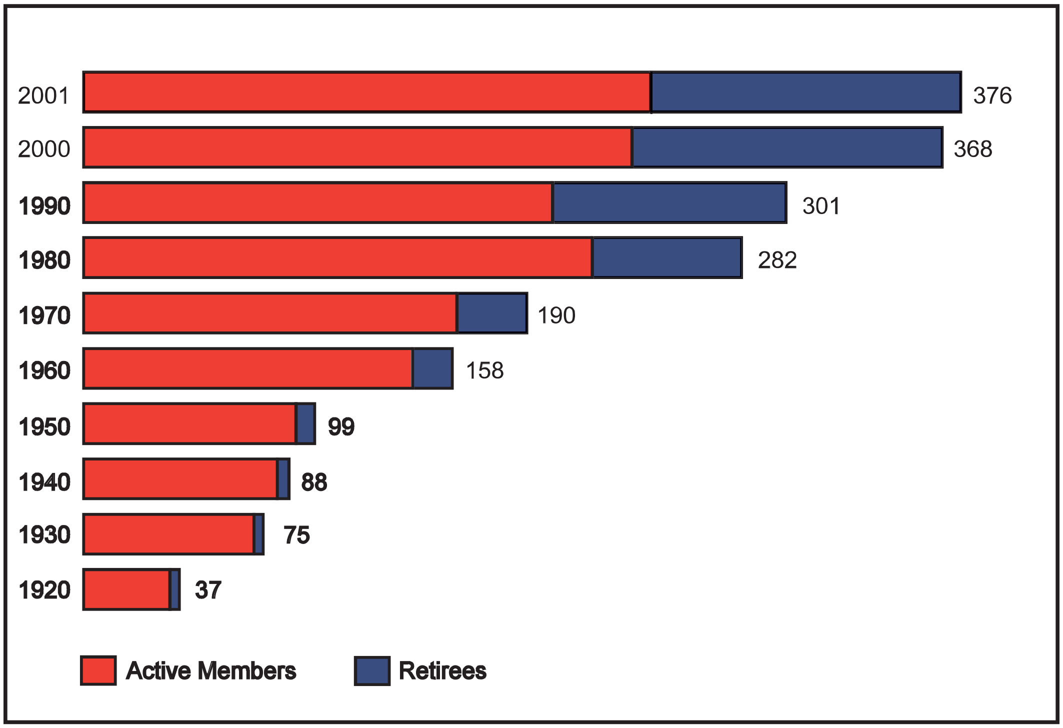


* Includes Postemployment Healthcare.
Data for years after 1994 includes effects of GASB Statement No. 25.

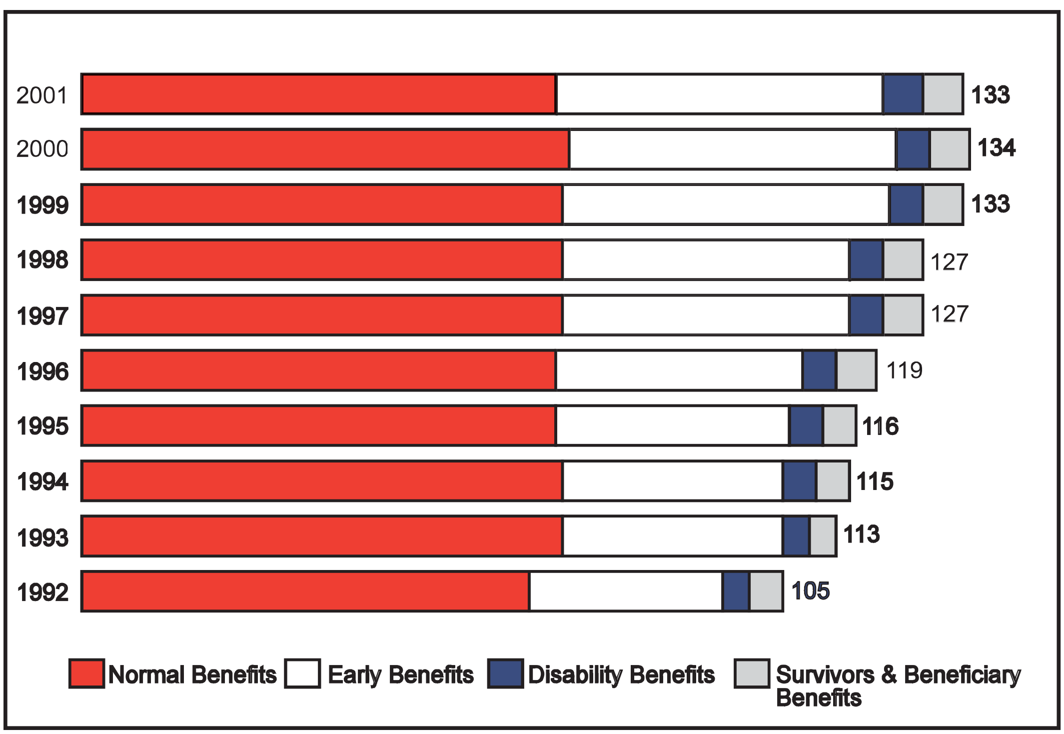
Total Net Assets - 1920 to June 30, 2001
(Fair Value - Amounts in Billions)



Total Membership - Active & Retired
(In Thousands)



Retired Members - 10 Year Trend
(In Thousands)



Components of Total Contribution Rate

(In Percentages)

	Employer Contribution					
Fiscal Year	Normal Requirement (A)	(Funded) / Unfunded Accrued Liability (B)	Heath Insurance Premium Assistance Contribution (C)	Total Employer	Member Contribution (Average)	Total Contribution Rate
2001-2002	5.63	(6.05)	1.09	1.09	5.80	6.89
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	10.95		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 the funding of PSERS' pension and postemployment health insurance premium assistance benefits.

The total employer rate is comprised of a normal requirement, an accrued liability requirement and a postemployment healthcare insurance premium assistance requirement.

(A) The normal requirement portion is the percentage of compensation necessary to fund any prospective pension benefits payable to the member.

(B) The total funded / unfunded accrued liability portion is the percentage of compensation necessary to fund past pension benefit enhancements, cost-of-living adjustments and other acturial gains and losses.

(C) The postemployment healthcare insurance premium assistance portion is the percentage of compensation necessary to fund the postemployment health insurance premium assistance program established under the provisions 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
2001	S	47,982	$1,241	7,681	$857	14,453	$1,334
	W	36,628	1,287	5,656	653	7,051	1,275
	D	4,864	909	13	567	895	1,167
	R	1	4	0	0	0	0
	B	175	790	7	426	6,029	562
		89,650		**13,357**		**28,428**	
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
		90,872		**13,563**		**28,557**	
1999	S	49,255	$1,183	8,046	$ 855	14,641	$1,309
	W	36,002	1,281	5,514	670	6,958	1,278
	D	4,587	854	14	545	782	1,105
	R	1	4	0	0	0	0
	B	120	754	1	1,160	5,655	519
		89,965		**13,575**		**28,036**	
1998	S	49,081	$1,151	8,134	$ 858	14,558	$1,293
	W	31,568	1,131	5,253	636	6,300	1,209
	D	4,439	828	15	541	724	1,074
	R	1	4	0	0	0	0
	B	84	792	1	1,160	5,421	493
		85,173		**13,403**		**27,003**	
1997	S	48,869	$1,011	8,185	$ 773	14,406	$1,162
	W	29,931	1,025	5,115	585	6,050	1,106
	D	4,334	733	16	439	694	974
	R	1	4	0	0	0	0
	B	54	766	1	1,160	5,275	475
		83,189		**13,317**		**26,425**	
1996	S	48,592	$977	8,210	$769	14,198	$1,135
	W	26,443	871	4,880	552	5,386	1,001
	D	4,198	702	18	465	628	907
	R	1	4	0	0	0	0
	B	34	812	0	0	5,040	455
		79,268		**13,108**		**25,252**	
1995	S	48,589	$952	8,256	$767	14,028	$1,116
	W	24,805	800	4,712	536	5,060	949
	D	4,044	676	21	454	605	866
	R	2	6	0	0	0	0
	B	21	751	0	0	4,813	436
		77,461		**12,989**		**24,506**	
1994	S	49,272	$939	8,387	$768	14,064	$1,102
	W	23,807	756	4,595	522	4,807	904
	D	3,907	646	22	456	573	812
	R	2	6	0	0	0	0
	B	12	629	0	0	4,583	418
		77,000		**13,004**		**24,027**	
1993	S	49,132	$831	8,337	$694	13,783	$983
	W	23,355	716	4,478	494	4,692	851
	D	3,752	586	26	420	528	741
	R	2	6	0	0	0	0
	B	3	451	0	0	4,367	399
		76,244		**12,841**		**23,370**	
1992	S	46,052	$718	7,829	$633	12,508	$876
	W	21,116	629	4,104	434	4,177	768
	D	3,632	562	27	436	487	699
	R	2	6	0	0	0	0
	B	0	0	0	0	4,142	380
		70,802		**11,960**		**21,314**	

*** OPTIONS:**

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

Schedule of Retired Members by Type of Benefit (Continued)

Year	Retirement Type**	Option SO* Number of Retirees	Option SO* Average Mo. Benefit	Option BO* Number of Retirees	Option BO* Average Mo. Benefit	Total Retirees	% Increase of Retirees
2001	S	473	$2,412	0	$ 0	70,589	-2.7%
	W	202	2,186	1	336	49,538	0.1%
	D	2	2,151	0	0	5,774	3.1%
	R	0	0	0	0	1	0.0%
	B	149	513	476	517	6,836	2.6%
		826		**477**		**132,738**	**-1.2%**
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%
		835		**489**		**134,316**	**1.1%**
1999	S	444	$2,379	0	$ 0	72,386	0.3%
	W	207	2,167	0	0	48,681	12.5%
	D	1	1,109	0	0	5,384	4.0%
	R	0	0	0	0	1	0.0%
	B	142	427	496	475	6,414	4.5%
		794		**496**		**132,866**	**4.8%**
1998	S	433	$2,365	0	$ 0	72,206	0.5%
	W	163	2,063	0	0	43,284	4.9%
	D	0	0	0	0	5,178	2.7%
	R	0	0	0	0	1	0.0%
	B	146	392	487	426	6,139	2.7%
		742		**487**		**126,808**	**2.2%**
1997	S	392	$2,125	0	$ 0	71,852	0.7%
	W	149	1,979	0	0	41,245	12.1%
	D	0	0	0	0	5,044	4.1%
	R	0	0	0	0	1	0.0%
	B	153	329	495	419	5,978	4.7%
		694		**495**		**124,120**	**4.6%**
1996	S	356	$2,046	0	$ 0	71,356	0.2%
	W	102	1,851	0	0	36,811	6.2%
	D	0	0	0	0	4,844	3.7%
	R	0	0	0	0	1	-50.0%
	B	149	302	485	400	5,708	4.9%
		607		**485**		**118,720**	**2.4%**
1995	S	353	$2,006	0	$ 0	71,226	-1.2%
	W	78	1,754	0	0	34,655	4.1%
	D	0	0	0	0	4,670	3.7%
	R	0	0	0	0	2	0.0%
	B	146	250	464	375	5,444	4.7%
		577		**464**		**115,997**	**0.8%**
1994	S	356	$1,959	0	$ 0	72,079	0.7%
	W	70	1,661	0	0	33,279	2.1%
	D	0	0	0	0	4,502	4.6%
	R	0	0	0	0	2	0.0%
	B	152	221	452	351	5,199	4.5%
		578		**452**		**115,061**	**1.4%**
1993	S	341	$1,754	0	$ 0	71,593	7.4%
	W	69	1,579	0	0	32,594	10.7%
	D	0	0	0	0	4,306	3.9%
	R	0	0	0	0	2	0.0%
	B	159	516	445	329	4,974	5.0%
		569		**445**		**113,469**	**8.1%**
1992	S	271	$1,525	0	$ 0	66,660	0.7%
	W	60	1,418	0	0	29,457	5.1%
	D	0	0	0	0	4,146	2.5%
	R	0	0	0	0	2	0.0%
	B	152	197	445	324	4,739	3.1%
		483		**445**		**105,004**	**2.0%**

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

Schedule of Employers
School Districts

A

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

B

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

C

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

D

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

E

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

F

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

Schedule of Employers (Continued)

G

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

H

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

I

Indiana Area
Interboro
Iroquois

J

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

K

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

L

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

M

Mahanoy Area
Manheim Central
Manheim Township
Marion Center Area
Marple Newtown
Mars Area
McGuffey
McKeesport Area
Mechanicsburg Area
Mercer Area
Methacton
Meyersdale Area
Mid Valley
Midd-West
Middletown Area
Midland Boro
Mifflin County
Mifflinburg Area
Millcreek Township
Millersburg Area
Millville Area
Milton Area
Minersville Area
Mohawk Area
Monaca
Monessen
Moniteau
Montgomery Area
Montour
Montoursville Area
Montrose Area
Moon Area
Morrisville Boro
Moshannon Valley
Mount Carmel Area
Mount Lebanon
Mount Pleasant Area
Mount Union Area
Mountain View
Muhlenberg
Muncy

N

Nazareth Area
Neshaminy
Neshannock Township
New Brighton Area
New Castle Area
New Hope-Solebury
New Kensington-Arnold
Newport
Norristown Area
North Allegheny
North Clarion County
North East
North Hills
North Penn
North Pocono
North Schuylkill
North Star
Northampton Area
Northeast Bradford
Northeastern York County
Northern Bedford County
Northern Cambria
Northern Lebanon
Northern Lehigh
Northern Potter
Northern Tioga
Northern York County
Northgate
Northwest Area
Northwestern
Northwestern Lehigh
Norwin

O

Octorara Area
Oil City Area
Old Forge
Oley Valley

Schedule of Employers (Continued)

Oswayo Valley
Otto Eldred
Owen J. Roberts
Oxford Area

P

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

Q

Quaker Valley
Quakertown Community

R

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

S

Saint Clair Area
Saint Marys Area
Salisbury-Elk Lick
Salisbury Township
Saucon Valley
Sayre Area
Schuylkill Haven Area
Schuylkill Valley
Scranton City
Selinsgrove Area
Seneca Valley
Shade-Central City
Shaler Area
Shamokin Area
Shanksville-Stonycreek
Sharon City
Sharpsville Area
Shenandoah Valley
Shenango Area
Shikellamy
Shippensburg Area
Slippery Rock Area
Smethport Area
Solanco
Somerset Area
Souderton Area
South Allegheny
South Butler County
South Eastern
South Fayette Township
South Middleton
South Park
South Side Area
South Western
South Williamsport Area
Southeast Delco
Southeastern Greene
Southern Columbia Area
Southern Fulton
Southern Huntingdon
Southern Lehigh
Southern Tioga
Southern York County
Southmoreland
Spring Cove
Spring-Ford Area
Spring Grove Area
Springfield
Springfield Township
State College Area
Steel Valley
Steelton-Highspire
Sto-Rox
Stroudsburg Area
Sullivan County
Susquehanna Community
Susquehanna Township
Susquenita

T

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

U

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

V

Valley Grove
Valley View

W

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

Schedule of Employers (Continued)

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

Y

York
York Suburban
Yough

Area Vocational Technical Schools

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

Intermediate Units

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

Schedule of Employers (Continued)

Colleges / Universities

Bloomsburg University
Bucks County Community College
Butler County Community College
California University
Cheyney University
Clarion University
Community College of Allegheny County
Community College of Beaver County
Community College of Delaware County
Community College of Philadelphia
East Stroudsburg University
Edinboro University
Harrisburg Area Community College
Indiana University
Kutztown University
Lehigh 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.
Bucks County Montessori 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.
Delaware Valley C.S.
Eugenio Maria de Hostos Community Bilingual C.S.
Family C.S.
Franklin Towne 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.
Leadership Learning PartnersC.S.
Lincoln-Edison C.S.
Manchester Academic C.S.
Mariana Bracetti Academy 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.
Philadelphia Performing Arts C.S.
Preparatory Charter of Mathematics, Science, Technology and Careers School
Raising Horizons Quest C.S.
Renaissance C.S.
Renaissance Academy - Edison C.S.
Ridgeview Academy C.S.
Roberto Clemente C.S.
Ronald H. Brown C.S.
Souderton C.S. Collaborative
Spectrum C.S.
Sugar Valley C.S.
SUSQ-CYBER C.S.
Sylvan Heights Science C.S.

Schedule of Employers (Continued)

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.