Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2002

PSERS

Public School Employees' Retirement System

A Component Unit of the Commonwealth of Pennsylvania

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

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

Comprehensive Annual Financial Report

for the
Fiscal Year Ended June 30, 2002

Report prepared by the Public School Employees' Retirement System staff

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public School Employees' Retirement System, Pennsylvania

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001

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

Timothy Grewe
President

Jeffrey L. Esser
Executive Director

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, 2002

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 (the System, PSERS), I am pleased to present this eighty-third *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2002. The report provides an in-depth review of the financial, actuarial and investment status of the Retirement Fund and the PSERS' postemployment healthcare programs.

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, 2001 Actuarial Valuation was 114.4%.
2. The net assets held in trust for pension benefits were $43.5 billion at fair value.
3. Net assets held in trust for postemployment healthcare benefits were $123.4 million at fair value.
4. The active contributing membership of the System numbered approximately 245,000.
5. The number of annuitants totaled over 140,000 and received in excess of $2.8 billion in pension and postemployment healthcare benefits during the fiscal 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
PO Box 125
Harrisburg PA 17108-0125

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

Building Location
5 North 5th Street
Harrisburg PA 17101

December 1, 2002

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

We are pleased to present the eighty-third edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 2002. 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 706 reporting entities in Pennsylvania. As of June 30, 2002, the System had almost 245,000 active members with an annual active payroll of $9.7 billion.

The annuitant membership is comprised of over 140,000 retirees and beneficiaries who receive over $167 million each month. The average yearly benefit paid to annuitants is $15,981. 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 706 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, 2002. For the year ended June 30, 2002, PSERS' investment portfolio generated a rate of return of (5.25) percent. The total net assets of the System decreased from $48.2 billion to $43.6 billion from July 1, 2001 to June 30, 2002. The decrease is primarily attributable to a net loss on investments and the payment of pension benefits that exceeded employee and employer contributions.

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

Pension Plan Amendments

Act 2001 - 9

Major retirement legislation, Act 2001 - 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 numerous provisions included in the legislation became effective July 1, 2001.

Act 2002 - 38

On April 23, 2002 the Pennsylvania Governor signed into law an act containing major pension legislation (known as Act 2002 - 38) that amended the System's Code.

Specific information concerning Act 2001 - 9 and Act 2002 - 38 is provided in the Management's Discussion and Analysis and the Notes to Financial Statements in the **Financial Section** of this report.

New Pension Administration System (NPAS)

PSERS continued the planning and development of a new system for the administration of pension information. This project is currently in the 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 issued a Request for Proposal (RFP) early in calendar year 2002 and on June 13, 2002 the Board selected Tier/Vitech as the vendor to develop and implement NPAS according to the business requirements identified by the project team.

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 $43.6 billion as of June 30, 2002. Based on this valuation of its assets, the System is the 13th largest public pension fund in the nation and the 21st 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 implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* (GASB 34), and GASB Statement No. 37, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments: Omnibus*, which amended certain provisions of GASB 34 for the fiscal year ended June 30, 2002. The adoption of GASB 34 required the presentation of Management's Discussion and Analysis as required supplemental information preceding the financial statements 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 2001/2002, the appropriation was $34.3 million.

Investments

Income from the investment portfolio represents the major source of revenue to the System, accounting for over 74 percent of total revenues over the period fiscal year 1991/1992 to fiscal year 2001/2002. Because of the depreciation in fair value of the System's investment assets during fiscal year 2001/2002, net investment loss was $2.5 billion. The investment portfolio totaled $44.5 billion, at fair value, as of June 30, 2002. For the fiscal year ended June 30, 2002, the time-weighted rate of return on the System's investments was (5.25) 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, 2001. 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 19 consecutive years (fiscal years ended June 30, 1983 - June 30, 2001). 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 2002 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*.

Respectfully submitted,

Dale H. Everhart
Executive Director

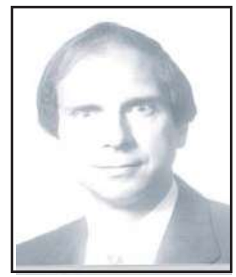
Arthur J. Granito
Chief Financial Officer

Administrative Organization
PSERS Board of Trustees

Treasurer of the
Commonwealth of Pennsylvania
Honorable Barbara Hafer
(ex officio)

Secretary of
Educaton
Honorable
Charles Zogby
(ex officio)

Executive Director
Pennsylvania School
Boards Association
Thomas J. Gentzel
(ex officio)



Two members appointed by the Governor
Thomas G. Paese **James H. Shacklett, III**

One member elected
by retired members
Sally J. Turley

Three members elected by active certified contributors
Thomas P. Hassall **Roger H. May** **Melva S. Vogler**

One member elected
by active noncertified
contributors
Susan L. Clapper

Two members appointed by the Speaker of
the Pennsylvania House of Representatives
Honorable Dwight Evans **Honorable Steven R. Nickol**

One member elected
by members of
Pennsylvania Public
School Boards
Richard N. Rose

Two members appointed by the President *Pro Tempore* of the Pennsylavania Senate
Honorable Vincent J. Fumo **Honorable Roger A. Madigan**

PSERS Board of Trustees

as of June 30, 2002

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. Thomas J. Gentzel

Two members appointed by the Governor of the Commonwealth of Pennsylvania

Mr. Thomas G. Paese (term expires 12/31/2003)
Mr. James H. Shacklett, III (term expires 12/31/2002)

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 12/31/2004)
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)

2002 Board Committees

as of February 1, 2002

Appeals / Member Services

Mr. Hassall, Chair
Ms. Clapper
Mr. Gentzel
Ms. Hafer
Mr. May
Mrs. Turley
Mr. Zogby

Health Care

Mr. May, Chair
Ms. Clapper
Rep. Evans
Mr. Gentzel
Rep. Nickol
Mrs. Turley
Mr. Zogby

Finance

Ms. Vogler, Chair

Committee is comprised of all Board members.

Elections

Rep. Evans, Chair
Ms. Clapper
Mr. Hassall

Audit / Budget

Mr. Rose, Chair
Rep. Evans
Sen. Fumo
Rep. Nickol
Ms. Vogler

Personnel

Rep. Nickol, Chair
Ms. Clapper
Rep. Evans
Mr. Gentzel
Ms. Hafer
Mr. Hassall
Sen. Madigan

Bylaws / Policy

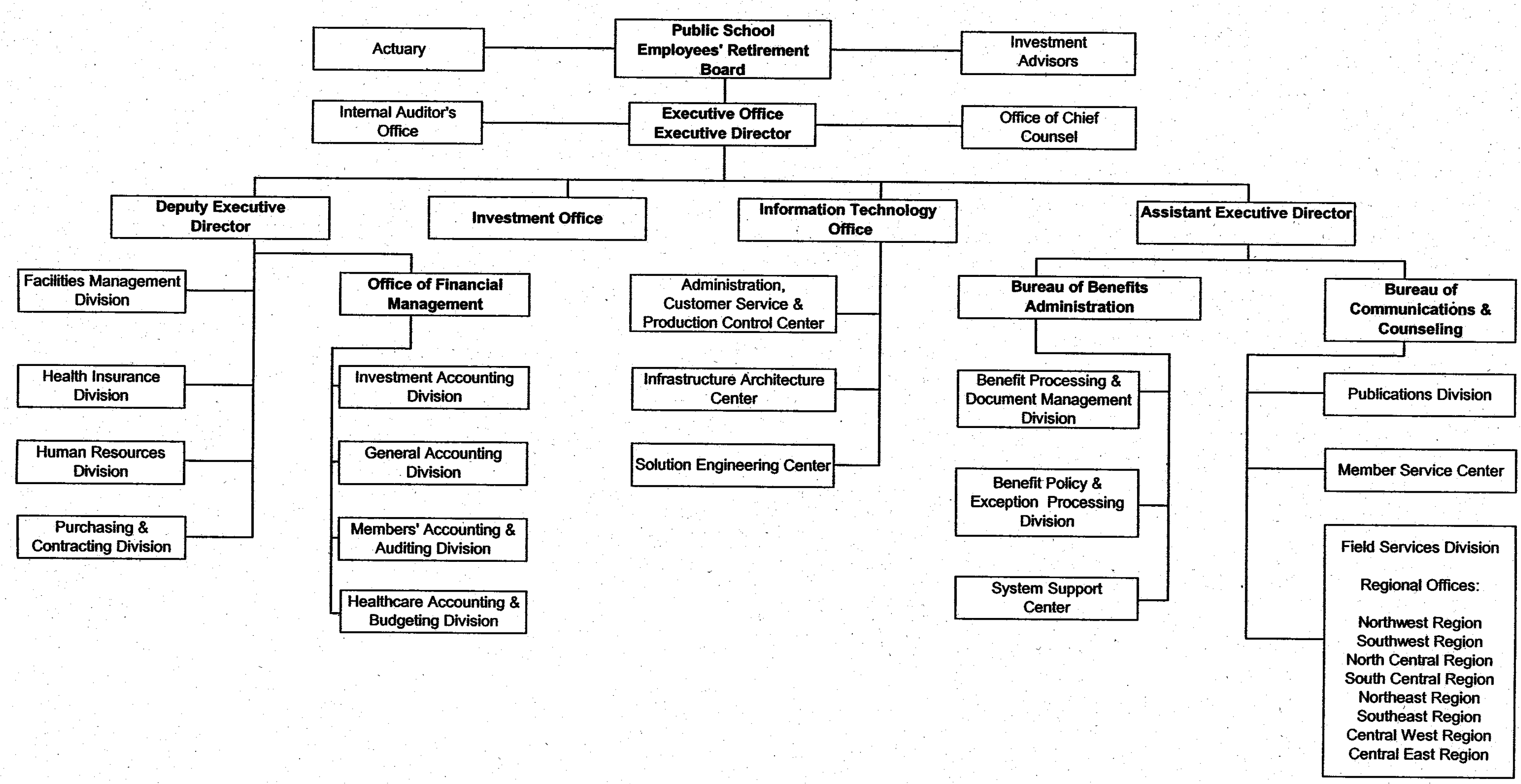
Mr. May, Chair
Rep. Evans
Sen. Madigan
Mrs. Turley
Mr. Zogby

Technology Steering

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

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 75 to 78 for lists of professional investment advisors and Page 58 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 in conformance with accounting principles generally accepted in the United States of America. 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. It maintains PSERS' General Ledger, audits and processes administrative expenses, and prepares interim and annual financial statements.

It 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 contracts with a third-party application service provider to assist with monitoring the overall internal control structure for investments and assure adequate custody of all investment assets. It serves as intermediary with the custodian bank, the State Treasury Department, brokers, investment managers, the investment evaluator, and investment consultants. It audits and approves investment expenses, prepares monthly investment financial reports and processes all investment funding allocations.

The Investment Accounting Division is also responsible for directing and administering the Class Action Revenue Recovery, the Foreign Cash Overdraft and the Foreign Tax Reclaim Collection programs as part of PSERS' investment activities. It also supports PSERS' Investment Office and the Board in achieving investment objectives and monitoring compliance with investment policy. The Division is comprised of the Public Market Reporting and Analysis, Special Investment Reporting and Analysis, and Treasury and Manager Administration sections.

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

Alan H. Van Noord
Chief Investment Officer

Thomas E. Ross
Chief Counsel

Terrill J. Savidge
Chief Technology Officer

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
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Toll Free 1-888-773-7748 ext. 5175

NORTHCENTRAL

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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
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FAX (570) 820-4868
Toll Free 1-888-773-7748 ext. 5375

SOUTHWEST

900 Sarah Street, Suite 208
Pittsburgh, PA 15203-1106
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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.

Financial Section

30 North Third Street
Suite 200
PO Box 1190
Harrisburg, PA 17108-1190

Independent Auditors' Report

The Board of Directors
Public School Employees' Retirement System:

We have audited the accompanying basic financial statements of the Public School Employees' Retirement System (PSERS), a component unit of the Commonwealth of Pennsylvania, as of and for the years ended June 30, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of PSERS'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 net assets of PSERS as of June 30, 2002 and 2001, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Required Supplemental Schedules 1 and 2 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical sections, as well as Supplemental Schedules 1 through 3, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental Schedules 1 through 3 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

As discussed in Note 2 to the basic financial statements, PSERS adopted the disclosure requirements of Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of and for the year ended June 30, 2002.

KPMG LLP

October 15, 2002

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Pennsylvania Public School Employees' Retirement System's (PSERS, the System) financial performance for the fiscal year ended June 30, 2002. It is presented as required supplemental information to the financial statements.

Overview of Financial Statements

PSERS is primarily responsible for administering a defined benefit pension plan for public school employees in the Commonwealth of Pennsylvania. PSERS also administers two postemployment healthcare plans, the premium assistance program (premium assistance) and the Health Options Program (HOP), for its annuitants. The financial statements present the financial activities for the pension plan and the two postemployment healthcare programs.

The *Statements of Plan Net Assets* provide a snapshot of the financial position of PSERS at June 30, 2002, including comparative amounts for the prior year.

The *Statements of Changes in Plan Net Assets* summarize PSERS' financial activities that occurred during the fiscal period from July 1, 2001 to June 30, 2002, including comparative amounts for the prior year.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The *Required Supplemental Schedules* immediately following the notes to financial statements provide two schedules showing historical information concerning the funded status of PSERS and the employer contributions.

The remaining supplemental schedules provide additional detailed information concerning the operating expenses, investment expenses and payments to non-investment consultants. All of this supplemental information is considered useful in understanding and evaluating the financial activities of PSERS.

Financial Highlights

- PSERS' plan net assets decreased by $4.6 billion from $48.2 billion at June 30, 2001 to $43.6 billion at June 30, 2002. The decrease is primarily attributable to a net loss on investments and the payment of pension benefits that exceeded employer and employee contributions.
- Two significant pieces of legislation were enacted that have impacted the financial position of the Fund. Act 9 of 2001 was signed into law on May 17, 2001. Act 38 of 2002 was signed into law on April 23, 2002. See the "Pension Plan Amendments" section for additional information on these Acts' provisions and their effects on PSERS.
- The funded ratio as of the latest actuarial valuation dated June 30, 2001 decreased from 123.8% to 114.4%. The decrease is due to the net effect of the Act 9 of 2001 benefit changes, Act 38 of 2002 actuarial asset method change, and asset and experience losses.
- The rate of return for the fiscal year ended June 30, 2002 (FY 2002) was (5.25)% compared to the fiscal year ended June 30, 2001 (FY 2001) return of (7.34)%.
- Total employee and employer contributions remained relatively consistent with approximately $900 million contributed during both FY 2002 and FY 2001.
- Total pension plan benefit payouts increased by 26.8% from $2.3 billion during FY 2001 to $2.9 billion during FY 2002. The increase is primarily due to a larger than normal number of new retirements attributable to the Act 9 of 2001 benefit changes.
- Administrative expenses increased by 1.5% from $34.9 million during FY 2001 to $35.4 million during FY 2002 and were within PSERS' budgeted amounts for both years.

Management's Discussion and Analysis (Continued)

Funded Status

PSERS uses an actuarial reserve type of funding that is financed by member contributions, employer contributions and earnings from invested assets. An independent actuarial valuation of PSERS' actuarial assets and liabilities is performed annually. As part of this valuation, the progress toward funding pension obligations of the retirement system is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or funded status. PSERS has been at least 100% funded since 1997 which is one indicator of the financial soundness of the plan. The most recent actuarial valuation reports that PSERS is 114.4% funded as of June 30, 2001. The results of operations for FY 2002 will be reflected in the actuarial valuation for the year ended June 30, 2002. Due to the normal lag time for completion of the actuarial valuation, the resulting funded status will be available at the end of the calendar year and will be reported in the financial statements for the fiscal year ended June 30, 2003.

Analysis of Plan Net Assets

(Dollar Amounts in Thousands)

Summary of Plan Net Assets:	**FY 2002**	FY 2001	Change
Assets:			
Receivables	**$ 1,386,127**	$ 1,154,293	$ 231,834
Investments	**44,456,217**	49,679,776	(5,223,559)
Securities Lending Collateral Pool	**2,282,799**	2,519,806	(237,007)
Fixed Assets	**3,150**	3,969	(819)
Total Assets	**48,128,293**	53,357,844	(5,229,551)
Liabilities	**4,531,643**	5,204,650	673,007
Plan Net Assets	**$ 43,596,650**	$ 48,153,194	$ (4,556,544)

Summary of Changes in Plan Net Assets:	**FY 2002**	FY 2001	Change
Additions:			
Contributions	**$ 915,017**	$ 907,441	$ 7,576
Net Investment Loss	**(2,523,025)**	(3,843,713)	1,320,688
Total Additions	**(1,608,008)**	(2,936,272)	1,328,264
Deductions:			
Benefit Payments, Refunds & Transfers to State Employees' Retirement System	**2,913,163**	2,297,332	615,831
Administrative Expenses	**35,373**	34,854	519
Total Deductions	**2,948,536**	2,332,186	616,350
Changes in Plan Net Assets	**$ (4,556,544)**	$ (5,268,458)	$ 711,914

Management's Discussion and Analysis (Continued)

Investments

PSERS is a long-term investor and manages the Fund with long-term objectives in mind. A primary element of PSERS' investment philosophy is that diversification among various asset classes is the best way to achieve its goals. PSERS makes estimates of future long-term market returns and establishes an asset allocation plan taking into account the risk associated with each asset class as well as the financial objectives of the Fund.

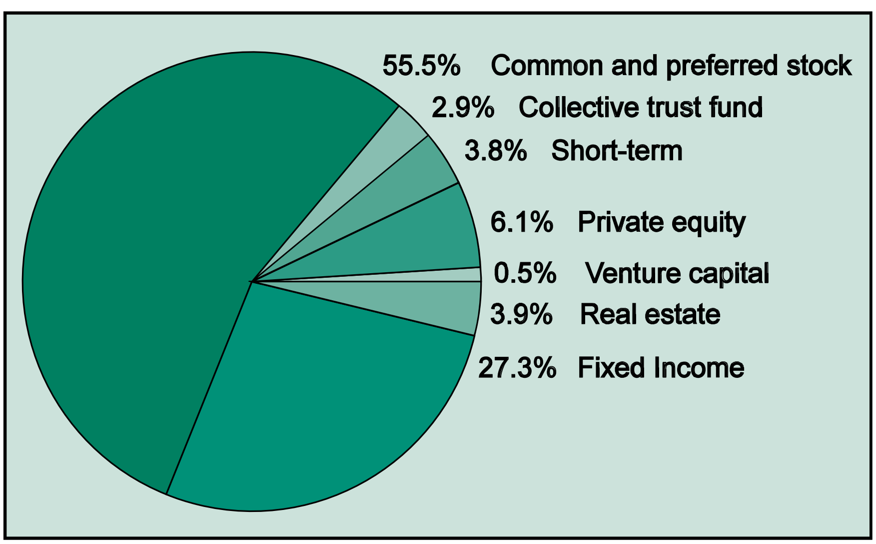
For FY 2002, PSERS' rate of return on investments was (5.25)% which is primarily attributable to downturns in the domestic and international equity markets. The annualized rate of return over the past three and five-years ended June 30, 2002 was (0.53)% and 5.07%, respectively. The Fund's long-term actuarial investment return assumption is 8.50%.

The asset distribution of PSERS' investment portfolio at June 30, 2002 and June 30, 2001, at fair market value, including postemployment healthcare assets was:

(Dollar Amounts in Thousands)

Asset Class	FY 2002	%	FY 2001	%
Short-term	$ 1,707,628	3.8	$ 1,382,683	2.8
Fixed income	12,117,727	27.3	14,357,157	29.0
Common and preferred stock	24,663,004	55.5	28,879,195	58.1
Collective trust fund	1,269,174	2.9	1,189,897	2.4
Real estate	1,754,636	3.9	1,646,196	3.3
Private equity	2,712,854	6.1	1,901,038	3.8
Venture capital	231,194	0.5	323,610	0.6
Total	$ 44,456,217	100.0	$ 49,679,776	100.0

Asset Distribution
Fiscal Year Ended June 30, 2002



Management’s Discussion and Analysis (Continued)

Fixed Income

Fixed income decreased $2.2 billion from June 30, 2001 to June 30, 2002 primarily due to reductions to the asset class during FY 2002 and the change in pending purchases/sales from FY 2001 to FY 2002. The decrease was partially offset by the positive domestic and international bond market performance during FY 2002.

Common and preferred stock

Common and preferred stock decreased $4.2 billion from June 30, 2001 to June 30, 2002 primarily due to negative returns in the domestic and international equity markets and reductions to the asset class during FY 2002 in accordance with PSERS’ asset allocation plan targets.

Private equity

Private equity increased $0.8 billion from June 30, 2001 to June 30, 2002 due to the addition of new investment partnerships and the drawdowns of commitments to existing investment partnerships in accordance with PSERS’ asset allocation plan targets.

Contributions and Investment Income

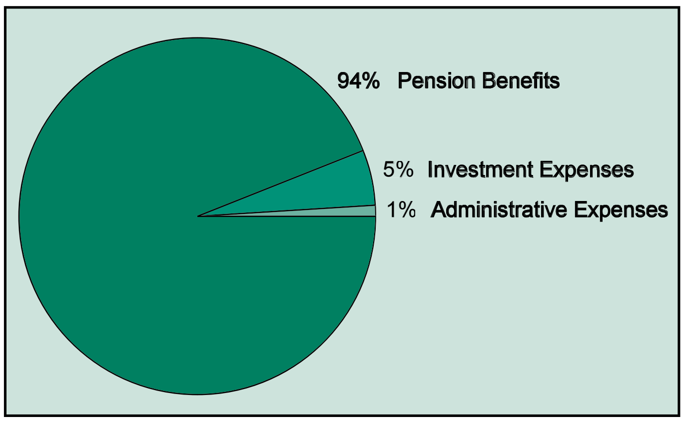
During FY 2002, contributions from employers and members, including the postemployment healthcare program, totaled $915.0 million compared to $907.4 million during FY 2001. Employer contributions decreased by $157.7 million due to the decrease in the pension contribution rate from 1.64% in FY 2001 to 0.00% in FY 2002. The contributions for premium assistance increased by $81.4 million due to the increase in the premium assistance contribution rate from 0.30% in FY 2001 to 1.09% in FY 2002. The rate increase is largely attributable to the Act 9 of 2001 benefit changes that increased premium assistance payments from $55 to $100 per month. See “Pension Plan Amendments” section that follows for additional information on Act 9 of 2001. Net investment losses during FY 2002 were ($2.5) billion compared to ($3.8) billion during FY 2001. Investment losses were primarily attributable to downturns in the domestic and international equity markets during the last two fiscal years. Net investment loss also includes investment expenses as a deduction. See the “Pension Plan Benefits and Expenses” section that follows for an analysis of investment expenses.

Management's Discussion and Analysis (Continued)

Pension Plan Benefits and Expenses

The primary source of expense during FY 2002 was for payment of pension benefits totaling $2.9 billion which compares to $2.3 billion during FY 2001. Pension benefits increased $0.6 billion primarily due to a larger than normal number of new retirements attributable to the Act 9 of 2001 benefit changes. Investment expenses increased $19.1 million from $143.7 million during FY 2001 to $162.8 million during FY 2002 due primarily to the increase in management fees that resulted from the growth in private equity investments. Administrative expenses totaled $35.4 million during FY 2002 as compared to $34.9 million during FY 2001.

Pension Plan Benefits and Expenses
Fiscal Year Ended June 30, 2002



Pension Plan Amendments

Act 9 of 2001 increased the pension benefit formula multiplier from 2% to 2.5% for eligible members who elected the new service class. The legislation also increased the basic employee contribution rate for those members who elected the new service class. Act 9 revised the method and time period for amortizing liabilities of the plan. Prior to the Act, amortization of actuarial liabilities was calculated over a 20-year period with installments increasing by 5% each year. The legislation amended the language to provide for 10-year amortization of actuarial liabilities with level dollar installments each year. Act 9 increased the System's unfunded accrued liability at June 30, 2001 by approximately $5.6 billion.

Act 38 of 2002 provided a two-phase cost-of-living adjustment (COLA) for retirees. Eligible members who retired prior to July 2, 1990 received a cost-of-living adjustment ranging from 8% to 25% depending on their date of retirement effective, July 1, 2002. Eligible members who retired on or after July 2, 1990 will receive a cost-of-living adjustment ranging from 2.27% to 9% based on their date of retirement effective, July 1, 2003. Act 38 also provided that the actuarial assets of the Fund will be calculated by recognizing the actuarially expected investment return immediately and recognizing the difference between the actual investment return and the actuarially expected investment return over a five-year period. In prior years, the System immediately recognized interest and dividends when earned, and recognized realized and unrealized gains and losses on the market value of assets over a three-year period. Act 38 decreased the System's unfunded accrued liability at June 30, 2001 by approximately $4.6 billion.

The effects of both Act 9 of 2001 and Act 38 of 2002 are included in the System's actuarial valuation at June 30, 2001.

Statements of Plan Net Assets

Years ended June 30, 2002 and 2001

(Dollar Amounts in Thousands)

	2002			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 166,238	$ 658	$ 31	$ 166,927
Employers	1,465	35,076	–	36,541
Investment income	180,821	411	51	181,283
Investment proceeds	1,000,379	–	–	1,000,379
Miscellaneous	713	251	33	997
Total Receivables	1,349,616	36,396	115	1,386,127
Investments, at fair value:				
Short-term	1,595,427	67,063	45,138	1,707,628
Fixed income	12,117,727	–	–	12,117,727
Common and preferred stock	24,663,004	–	–	24,663,004
Collective trust fund	1,269,174	–	–	1,269,174
Real estate	1,754,636	–	–	1,754,636
Private equity	2,712,854	–	–	2,712,854
Venture capital	231,194	–	–	231,194
Total Investments	44,344,016	67,063	45,138	44,456,217
Securities lending collateral pool	2,282,799	–	–	2,282,799
Capital assets (net of accumulated depreciation of $8,127)	3,150	–	–	3,150
Total Assets	47,979,581	103,459	45,253	48,128,293
Liabilities:				
Accounts payable and accrued expenses	33,703	125	14,657	48,485
Benefits payable	197,558	30	–	197,588
Participant premium advances	–	–	10,499	10,499
Investment purchases and other liabilities	1,992,272	–	–	1,992,272
Obligations under securities lending	2,282,799	–	–	2,282,799
Total Liabilities	4,506,332	155	25,156	4,531,643
Net assets held in trust for pension and postemployment healthcare benefits (A schedule of funding progress is presented on page 53.)	$ 43,473,249	$ 103,304	$ 20,097	$ 43,596,650

See accompanying notes to financial statements.

Statements of Plan Net Assets

Years ended June 30, 2002 and 2001

(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	1,298,531	38,046	46,106	1,382,683
Fixed income	14,357,157	–	–	14,357,157
Common and preferred stock	28,879,195	–	–	28,879,195
Collective trust fund	1,189,897	–	–	1,189,897
Real estate	1,646,196	–	–	1,646,196
Private equity	1,901,038	–	–	1,901,038
Venture capital	323,610	–	–	323,610
Total Investments	49,595,624	38,046	46,106	49,679,776
Securities lending collateral pool	2,519,806	–	–	2,519,806
Capital assets (net of accumulated depreciation of $7,385)	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 and other liabilities	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 53.)	$ 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, 2002 and 2001

(Dollar Amounts in Thousands)

	2002			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 662,561	$ –	$ 143,006	$ 805,567
Employers	539	108,911	–	109,450
Total contributions	663,100	108,911	143,006	915,017
Investment (loss) income:				
From investing activities:				
Net depreciation in fair value of investments	(3,776,589)	(564)	–	(3,777,153)
Short-term	43,668	2,159	1,035	46,862
Fixed income	774,029	–	–	774,029
Common and preferred stock	440,533	–	–	440,533
Collective trust fund depreciation and income	(10,957)	–	–	(10,957)
Real estate	131,890	–	–	131,890
Private equity	16,230	–	–	16,230
Venture capital	2,064	–	–	2,064
Total investment activity (loss) income	(2,379,132)	1,595	1,035	(2,376,502)
Investment expenses	(162,755)	(22)	–	(162,777)
Net (loss) income from investing activities	(2,541,887)	1,573	1,035	(2,539,279)
From securities lending activities:				
Securities lending income	57,391	–	–	57,391
Securities lending expense	(41,137)	–	–	(41,137)
Net income from securities lending activities	16,254	–	–	16,254
Total net investment (loss) income	(2,525,633)	1,573	1,035	(2,523,025)
Total Additions	(1,862,533)	110,484	144,041	(1,608,008)
Deductions:				
Benefits	2,707,125	51,738	130,008	2,888,871
Refunds of contributions	14,858	–	–	14,858
Net transfer to State Employees' Retirement System	9,434	–	–	9,434
Administrative expenses	29,756	1,814	3,803	35,373
Total Deductions	2,761,173	53,552	133,811	2,948,536
Net (decrease) increase	(4,623,706)	56,932	10,230	(4,556,544)
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	48,096,955	46,372	9,867	48,153,194
Balance, end of year	$ 43,473,249	$ 103,304	$ 20,097	$ 43,596,650

See accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 2002 and 2001

(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 (loss) income:				
From investing activities:				
Net (depreciation) appreciation in fair value of investments	(5,137,879)	260	–	(5,137,619)
Short-term	79,321	2,274	1,724	83,319
Fixed income	832,808	–	–	832,808
Common and preferred stock	446,439	–	–	446,439
Collective trust fund depreciation and income	(125,006)	–	–	(125,006)
Real estate	166,006	–	–	166,006
Private equity	7,681	–	–	7,681
Venture capital	2,717	–	–	2,717
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.

Notes to Financial Statements
June 30, 2002 and 2001

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

(a) Organization

The System was established on July 18, 1917, under the provisions of Public Law 1043, No. 343 as 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, 2002, there were 706 participating employers, generally school districts. Membership as of June 30, 2001, the most recent year for which actual amounts are available, consisted of:

Currently employed members:		
Vested	163,000	
Nonvested	80,000	
Total currently employed members		**243,000**
Retirees and beneficiaries currently receiving benefits	133,000	
Inactive members and vestees entitled to but not receiving benefits	54,000	
Total retirees and other members		**187,000**
Total number of members		**430,000**

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 Director 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. Pursuant to state law, 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)

Based upon the criterion of financial accountability as defined by governmental accounting standards, the System 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% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. In most cases after completion of five 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 various types of prior school and non-school service on a lump-sum, 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% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) 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 normal retirement age. Members over normal retirement age may apply for disability benefits. Certain exceptions apply to normal disability retirements.

Death benefits are payable upon the death of an active member who has reached age 62 or who has at least five 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. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. The maximum premium assistance benefit had previously been $55 per month. To receive premium assistance, eligible annuitants must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP).

Notes to Financial Statements (Continued)

The HOP is a PSERS-sponsored voluntary health insurance program for the sole benefit of PSERS retirees, their spouses or surviving spouses, and their dependents. Private health care insurers and providers provide the medical coverage and services available through HOP. Program participants are offered basic health coverage through an indemnity plan, Point-of-Service, Health Maintenance Organization, or Preferred Provider Organization coverage. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect. HOP purchases stop-loss insurance to safeguard the assets of the program from the potential adverse effect of catastrophic claims. The PSERS pension fund assets are not available to fund or satisfy obligations of the HOP.

(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 retirement 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 the current service year and subsequent benefit increases, which represents the amount necessary to fund accrued liabilities over a period of ten years as required by the Code.

Contribution rates for active members are set by law (redefined with the provisions of Act 9 of 2001) and are dependent upon members' class. In most cases, the contribution rates based on qualified member compensation are as follows:

Membership Class T-C	Active members hired before July 22, 1983	5.25%
Membership Class T-C	Active members hired on or after July 22, 1983	6.25%
Membership Class T-D	Active members hired before July 22, 1983	6.50%
Membership Class T-D	Active members hired on or after July 22, 1983	7.50%

Active members newly hired after July 1, 2001, the effective date of Act 9 of 2001, are automatically Class T-D. The contribution rates for all members in Membership Class T-D were effective January 1, 2002.

The total contribution rate for the employers and the Commonwealth was 1.09% and 1.94% of qualified compensation for the years ended June 30, 2002 and 2001, respectively. According to requirements established in Act 29 of 1994, the Commonwealth reimburses school entity employers a portion of the 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.

A portion of each employer and Commonwealth contribution to the System is set aside for the funding of the health insurance premium assistance program. 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 1.09% and 0.30% for the years ended June 30, 2002 and 2001, respectively.

Notes to Financial Statements (Continued)

(2)
Summary of Significant Accounting Policie

(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.

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.

The System follows Governmental Accounting Standards Board (GASB) guidance as applicable to proprietary funds and applies only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

(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 investments are primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at cost or the present value of the projected future net income stream. Private equity, venture capital and equity real estate investments are primarily valued based on amounts established by valuation committees. The values for private equity, venture capital and equity real estate investments are reported on a one-quarter lag (March 31) adjusted for cash flows and significant unrealized gains/losses through June 30. 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 the 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 Fund investments (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.

Notes to Financial Statements (Continued)

Investment expenses consist of investment manager fees and those administrative expenses directly related to the System's investment operations. Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are included in investment purchases and other liabilities.

(c) Capital Assets

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

(d) Benefits Payable

Benefits payable identifies the obligations of the System, on an accrual basis, for the estimated retirement and death benefits payable to PSERS' members or members' beneficiaries at the end of the fiscal year.

(e) Compensated Absences

The System uses the accrual basis of accounting for measuring vacation leave, sick leave, and other compensated absences liabilities. Employees of the System are paid for accumulated vacation leave upon termination or retirement. Retiring employees of the System that meet service, age, or disability requirements are paid between 30% and 100% of sick days available at retirement, up to 163 maximum days paid. As of June 30, 2002 and 2001, $2,947,000 and $2,819,000, respectively, was accrued for unused vacation and sick leave for the System's employees.

(f) Participant Premium Advances

Participant premium advances are for HOP premiums paid in advance in 2002 and 2001 related to health care coverage to be provided in 2003 and 2002, respectively.

(g) 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.

Federal tax legislation was enacted in 2001 that modified the rules for making rollovers to or from pension systems and also established maximum amounts of retirement benefits that can be paid from pension systems. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) expanded the opportunity for members to roll over funds received from PSERS at retirement to a wider variety of plans including, but not limited to, 403(b) tax sheltered annuities and government 457 deferred compensation plans. The Act permits the rollover of after-tax contributions from PSERS. EGTRRA similarly expanded the variety of plans that can be used to roll money into PSERS to purchase eligible

Notes to Financial Statements (Continued)

service credits. EGTRRA increased the annual compensation limits for qualified plans to $200,000, effective July 1, 2002, from the prior amount of $170,000. The annual benefit limits for defined benefit plans also increased to $160,000, effective July 1, 2001, from the previous amount of $140,000.

(h) 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.

(i) Reclassifications

Certain 2001 balances have been reclassified to conform with the 2002 presentation.

(j) New Accounting Pronouncement

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* (GASB 34). In June 2001, the GASB issued Statement No. 37, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments: Omnibus*, which amended certain provisions of GASB 34. The System implemented GASB 34 in the fiscal year ended June 30, 2002. The adoption of GASB 34 required the presentation of Management's Discussion and Analysis as required supplemental information preceding the financial statements. The System's adoption of GASB 34 did not have an impact on its net assets.

(k) Members Receivables

Members receivables include an amount for members' obligations to the System for the purchase of service credit in the amount of $103,000,000. Members have a variety of options to remit purchase of service payments:

- remit a lump sum payment
- request an installment plan from one to seven years where the member's employer establishes a payroll deduction process The member's employer then forwards quarterly payments of the withheld amounts to PSERS.
- accept an actuarial reduction debt through which the amount of the purchase plus accumulated interest will reduce the member's retirement or death benefit

Because members have control over the timing of their remittances to the System, many purchases of service receivables extend beyond one year. An estimated $82,900,000 of the $166,238,000 members receivables at June 30, 2002 are expected to be collected by the System subsequent to June 30, 2003.

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 health insurance premium assistance program. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. The maximum premium assistance benefit had previously been $55 per month. 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)	
	2002	2001
Pension:		
State accumulation account	**$ 16,040,082**	$ 24,403,575
Members' savings account	**7,780,370**	7,464,404
Reserve for retirement account	**19,652,797**	16,228,976
	$ 43,473,249	$ 48,096,955
Postemployment healthcare:		
Health insurance account	**$ 103,304**	$ 46,372
Health insurance program account	**20,097**	9,867

(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)	
	2002	2001
Pension investments:		
Short-term:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$ 1,275,222**	$ 981,803
Other domestic short-term	**270,667**	173,826
International short-term	**49,538**	142,902
	1,595,427	1,298,531
Fixed income:		
Domestic mortgage-backed securities	**5,171,543**	6,096,578
U.S. government and agency obligations	**1,156,844**	1,420,662
Domestic corporate and taxable municipal bonds	**4,277,616**	5,443,559
Miscellaneous domestic fixed income	**377,566**	345,068
International fixed income	**1,134,158**	1,051,290
	12,117,727	14,357,157
Common and preferred stock:		
Domestic common and preferred stock	**17,036,387**	20,725,016
International common stock	**7,626,617**	8,154,179
	24,663,004	28,879,195
Collective trust fund	**1,269,174**	1,189,897
Real estate:		
Real estate owned	**481,810**	504,652
Equity real estate	**1,272,826**	1,141,544
	1,754,636	1,646,196
Private equity	**2,712,854**	1,901,038
Venture capital	**231,194**	323,610
Pension investments at fair value	**$ 44,344,016**	$ 49,595,624
Postemployment Healthcare short-term investments:		
Premium Assistance:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$ 27,101**	$ 8,244
Other domestic short-term	**39,962**	29,802
	67,063	38,046
Health Options Program:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**28,676**	25,644
Other domestic short-term	**16,462**	20,462
	45,138	46,106
Postemployment Healthcare investments at fair value	**$ 112,201**	$ 84,152

Notes to Financial Statements (Continued)

During the fiscal years ended June 30, 2002 and 2001, 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, 2002 and 2001. 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, 2002 and 2001

(Dollar Amounts in Thousands)

	Fair Value	
	2002	2001
Investments – Category 1		
U.S. government and agency obligations	**$ 411,106**	$ 717,781
Domestic corporate and taxable municipal bonds	**3,911,696**	5,044,396
Domestic common and preferred stock	**16,851,562**	20,548,212
Domestic mortgage-backed securities	**5,171,543**	6,096,578
Miscellaneous domestic fixed income	**377,566**	345,068
International fixed income	**1,055,057**	927,537
International common stock	**6,777,450**	7,131,838
International short-term (1)	**49,538**	142,902
Other domestic short-term (2)	**327,091**	224,090
Subtotal	**34,932,609**	41,178,402
Investments - not categorized		
Investments held by broker dealers under securities loans:		
U.S. government and agency obligations	**745,738**	702,881
Domestic corporate and taxable municipal bonds	**365,920**	399,163
Domestic common and preferred stock	**184,825**	176,804
International fixed income	**79,101**	123,753
International common stock	**849,167**	1,022,341
Collective trust fund	**1,269,174**	1,189,897
Real estate owned	**481,810**	504,652
Equity real estate	**1,272,826**	1,141,544
Private equity	**2,712,854**	1,901,038
Venture capital	**231,194**	323,610
Pennsylvania Treasury Short-Term Investment Fund (3)	**1,330,999**	1,015,691
Total Pension and Postemployment Healthcare investments	**$ 44,456,217**	$ 49,679,776

(1) International short-term investments consist of foreign currency holdings.
(2) Includes $56,424 and $50,264 of Postemployment Healthcare investments at June 30, 2002 and 2001, respectively. The remaining other domestic short-term investments consist primarily of U.S. Treasury bills and certain government and agency obligations due in less than one year.
(3) Includes $55,777 and $33,888 of Postemployment Healthcare investments at June 30, 2002 and 2001, 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, 2002 and 2001, 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 losses during the fiscal years ended June 30, 2002 and 2001 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, 2002 and 2001.

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 27 days and 23 days at June 30, 2002 and 2001, 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, 2002, the fair value of loaned securities was $2,364,972,000 which includes $140,221,000 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 $2,426,955,000 of which $2,282,799,000 was cash. 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. 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 (CMOs); 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 notional or contractual 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, 2002 and 2001 (in thousands):

	2002	2001
Futures contracts – long	$ **4,974,538**	$ 6,726,727
Futures contracts – short	**3,286,061**	3,998,444
Foreign exchange forward and spot contracts, gross	**3,287,684**	3,444,850
Options – calls purchased	**83,000**	55,528
Options – calls sold	**214,148**	10,483
Options – puts sold	**129,602**	9,840

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. In addition, the System enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral or by cash held in segregated accounts by the System's custodial bank or short sale broker. 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, 2002 and 2001 represent a restriction on the amount of assets 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 option. 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 $3,287,684,000 of foreign currency contracts outstanding at June 30, 2002 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $2,223,356,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $1,064,328,000. The $3,444,850,000 of foreign currency contracts outstanding at June 30, 2001 consist of "buy" contracts of $2,008,293,000 and "sell" contracts of $1,436,557,000. The unrealized gain/(loss) on contracts of $54,776,000 and ($8,916,000) at June 30, 2002 and 2001, respectively, is included in the System's net assets and represents the fair value of the contracts.

The System also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments by mortgagees, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2002 and 2001 is $2,229,059,000 and $1,903,057,000, respectively.

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

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

The contribution requirements of plan members and the System are mandated by Commonwealth statute. Most SERS plan members are required to contribute 5% or 6.25% of their annual covered payroll depending upon service class. The System is required to contribute at an actuarially determined rate. The rates applied to annual covered payroll were 0% at June 30, 2002 and .61% at June 30, 2001. The System's annual required contributions to SERS for the years ending June 30, 2002 and 2001 were $0 and $87,000, respectively.

Notes to Financial Statements (Continued)

(7)
Litigation and Contingencies

The System is subject to various threatened and pending lawsuits which deal with the questions 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) became effective July 1, 2001. A summary of the amendments to the System's Code follow.

(a) Benefit Formula Change

(1) Created a new Class T-D service as of July 1, 2001. Allowed 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 had to:

(i) Be 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 was 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 was earlier.

(2) Upon election to become a Class T-D member, all prior school service and intervening military service that had been classified as Class T-C service was converted to Class T-D service. All other non-school service is not eligible for Class T-D service and will remain Class T-C service.

(3) Members who chose not to elect Class T-D membership by December 31, 2001 must have their service remain as Class T-C. Those members cannot convert this Class T-C service to Class T-D service at any time in the future.

(4) Persons who are newly enrolled on or after July 1, 2001, or retirees who returned to service on or after July 1, 2001 and have prior school service, 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 member earns three eligibility points by performing school service after July 1, 2001. Non-school service purchases are not eligible for Class T-D service.

Notes to Financial Statements (Continued)

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

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

(c) Section 415(b) Limits

Specified 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

(1) Reduced the vesting period for all members from ten years to five years, effective July 1, 2001 with certain exceptions.

(2) In determining whether a former member who returns to service has five eligibility points for vesting, only the eligibility points earned after July 1, 2001 shall be counted, until the member earns one eligibility point. Thereafter, the prior eligibility points earned will be counted.

(3) Members earning ten eligibility points before the one-year period can vest without returning for the full one-year time period.

(4) Vesting does not automatically convert a member's prior service to Class T-D. A member newly enrolled after July 1, 2001 must still earn three eligibility points for the conversion to Class T-D on the prior service, even though the member may be vested after one year.

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

(1) Created 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 had until the later of one year or December 31, 2003 to make the election. After December 31, 2003, new members or newly enrolled members have one year to make the election.

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

Notes to Financial Statements (Continued)

(f) Postemployment Healthcare Benefits

(1) Restated the Board's authority to operate the HOP.

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

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

(4) Increased maximum premium assistance payments to eligible annuitants electing to participate from $55 per month to $100 per month, effective 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 ended June 30, 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 comprised the entire employer contribution rate for fiscal year ended June 30, 2002.

(g) Miscellaneous Provisions

(1) Amended 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, it provided that all the existing actuarial liabilities and assets, whether or not they represent actuarially realized or unrealized gains or losses, will be 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.

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

(3) Granted 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 returned to school service under the emergency return to service provisions of the Retirement Code, the days worked during that period shall not be counted in calculating the 95 days a retiree may work without affecting the annuity.

(4) Allowed 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 must remit the delinquent amount directly to the System rather than to a sponsoring school district or the charter school.

Notes to Financial Statements (Continued)

(9)
Act 2002 - 38

On April 23, 2002, the Pennsylvania Governor signed into law an act containing major pension legislation. The numerous provisions included in this legislation (known as Act 2002 - 38) amend the System's Code as follows.

(a) Annuitant Cost of Living Allowance (COLA)

Provided separate COLA's for two groups of retirees:

(i) Those who retired before July 2, 1990 start receiving a COLA beginning July 1, 2002, with funding over ten years at level dollar beginning July 1, 2003. The percentages of increase in monthly benefits are based upon retirement date:

Date of Retirement	Percentage Increase
Before July 2, 1980	25.00%
July 2, 1980 - July 1, 1983	15.00%
July 2, 1983 - July 1, 1988	10.00%
July 2, 1988 - July 1, 1990	8.00%

(ii) Those who retired on or after July 2, 1990 and on or before July 1, 2002 will receive a COLA beginning July 1, 2003, with funding over ten years at level dollar beginning July 1, 2004. This second COLA includes retirees from July 2, 2001 through July 1, 2002, but excludes anyone who has any PSERS Class T-D, SERS Class D-4 or SERS Class AA service credit. The percentages of increase in monthly benefits are based upon retirement date:

Date of Retirement	Percentage Increase
July 2, 1990 - July 1, 1994	9.00%
July 2, 1994 - July 1, 1998	7.50%
July 2, 1998 - July 1, 1999	6.35%
July 2, 1999 - July 1, 2000	4.87%
July 2, 2000 - July 1, 2001	3.08%
July 2, 2001 - July 1, 2002	2.27%

Notes to Financial Statements (Continued)

(b) PSERS Actuarial Funding Methodology

(i) Required PSERS to use a five-year smoothing methodology of recognizing investment gains and losses, based upon the SERS method. This method immediately recognizes the difference between the actual investment return and the actuarially expected investment return (total investment return including interest, dividends and realized and unrealized gains and losses) over a five-year period. Previously, PSERS immediately recognized interest and dividends when earned, and recognized realized and unrealized gains and losses on the market value of assets over a three-year period.

(ii) Provided for an employer contribution rate floor of 1%, exclusive of the healthcare premium assistance rate. In effect, this imposes a minimum employer pension rate of 1%, plus the amount necessary to fund healthcare premium assistance. Established that the total employer contribution rate for fiscal year ended June 30, 2003 cannot exceed 1.15%. Required PSERS' Board of Trustees to recertify the previously adopted employer contribution rate of 5.64% for fiscal year ended June 30, 2003 within ten days of enactment of the legislation. In compliance, the PSERS Board of Trustees met on April 26, 2002 and recertified the employer contribution rate for fiscal year ended June 30, 2003 at 1.15%. The 1.15% is composed of a .97% rate for healthcare insurance premium assistance and a .18% rate for pensions.

(c) Miscellaneous Provisions

(i) Increased the minimum death benefit eligible for an annuity from $5,000 to $10,000.

(ii) Allowed multiple service members to take advantage of the System's debt plan for payment of member debts.

(iii) Required school districts to reduce their real estate taxes by the amount saved by the recertification of the employer contribution rate for Fiscal Year 2002-2003 if those tax rates had already been increased. School districts that had not raised their tax rates were required to base that portion of the tax millage attributable to pension costs on the recertified employer contribution rate for Fiscal Year 2002-2003.

Required Supplemental Schedule 1
Schedule of Funding Progress*

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

Valuation as of June 30		(1) Actuarial accrued liabilities (AAL)	(2) Actuarial value of assets	(3) (Funded) Unfunded actuarial accrued liabilities (FAAL) or UAAL (1) - (2)	(4) Ratio of assets to AAL (2) / (1)	(5) Covered payroll	(6) (FAAL) or UAAL as a percentage of covered payroll (3) / (5)
2001	#	$ 47,917.3	$ 54,830.3	$ (6,913.0)	114.4%	$ 9,414.9	(73.4)%
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 %

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

Includes the effects of Act 9 of 2001 and Act 38 of 2002.

See accompanying notes to required supplemental 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
2002	$ 539	100%
2001	158,193	100%
2000	390,504	100%
1999	513,940	100%
1998	718,431	100%
1997	796,205	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 supplemental schedules.

Notes to Required Supplemental Schedules

June 30, 2002 and 2001

(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. The 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, 2001 unfunded accrued liability is being amortized over a 10-year period commencing July 1, 2002, with level dollar funding. Changes in the unfunded accrued liability, including actuarial gains and losses, subsequent to June 30, 2001 are to be amortized over a period of 10 years from the first day of July next following the change, with level dollar funding.

(b) Asset Valuation Method

For actuarial purposes, assets are valued using a five-year moving market average value that will recognize the 8.5% actuarial expected investment return immediately and spread the difference between actual and expected investment return (beginning with fiscal year ending June 30, 2001) over a period of five years (adopted as of June 30, 2001). Previously, PSERS immediately recognized interest and dividends when earned, and recognized realized and unrealized gains and losses on the market value of assets over a three-year period.

Notes to Required Supplemental Schedules (Continued)

(c) Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2001, 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 – level dollar funding
- Remaining amortization period – 10 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 funded or unfunded actuarial accrued liability.

Supplemental Schedule 1
Schedule of Operating Expenses
Fiscal Year Ended June 30, 2002

(Dollar Amounts in Thousands)

	Administrative expenses (1)	Investment expenses (2)	Total
Personnel costs:			
Salaries and wages	$ 12,577	$ 2,116	$ 14,693
Social security contributions	960	134	1,094
Retirement contributions	17	–	17
Employees' insurance contributions	2,233	250	2,483
Other employee benefits	484	12	496
Total personnel costs	**16,271**	**2,512**	**18,783**
Operating costs:			
Investment managers' fees	–	157,133	157,133
Custodian fees	–	344	344
Specialized services	8,263	4	8,267
Rental of real estate, electricity	1,560	117	1,677
Consultant and legal fees	869	1,241	2,110
Treasury and other Commonwealth services	803	82	885
Postage	1,838	–	1,838
Contracted maintenance services	475	–	475
Office supplies	920	128	1,048
Rental of equipment	544	1	545
Printing	1,108	–	1,108
Travel	238	18	256
Telephone and telegraph	870	12	882
Mscellaneous expenses	678	1,185	1,863
Total operating expenses	**18,166**	**160,265**	**178,431**
Fixed charges:			
Depreciation	936	–	936
Total fixed charges	**936**	**–**	**936**
Total operating expenses	**$ 35,373**	**$ 162,777**	**$ 198,150**

(1) Includes administrative expenses of $1,814 related to Postemployment Healthcare Premium Assistance and $3,803 related to Postemployment Healthcare Health Options Program for the fiscal year ended June 30, 2002.

(2) Does not include $33,563 in capitalized broker commissions for the fiscal year ended June 30, 2002.

Supplemental Schedule 2
Summary of Investment Expenses
Fiscal Year Ended June 30, 2002

(Dollar Amounts in Thousands)

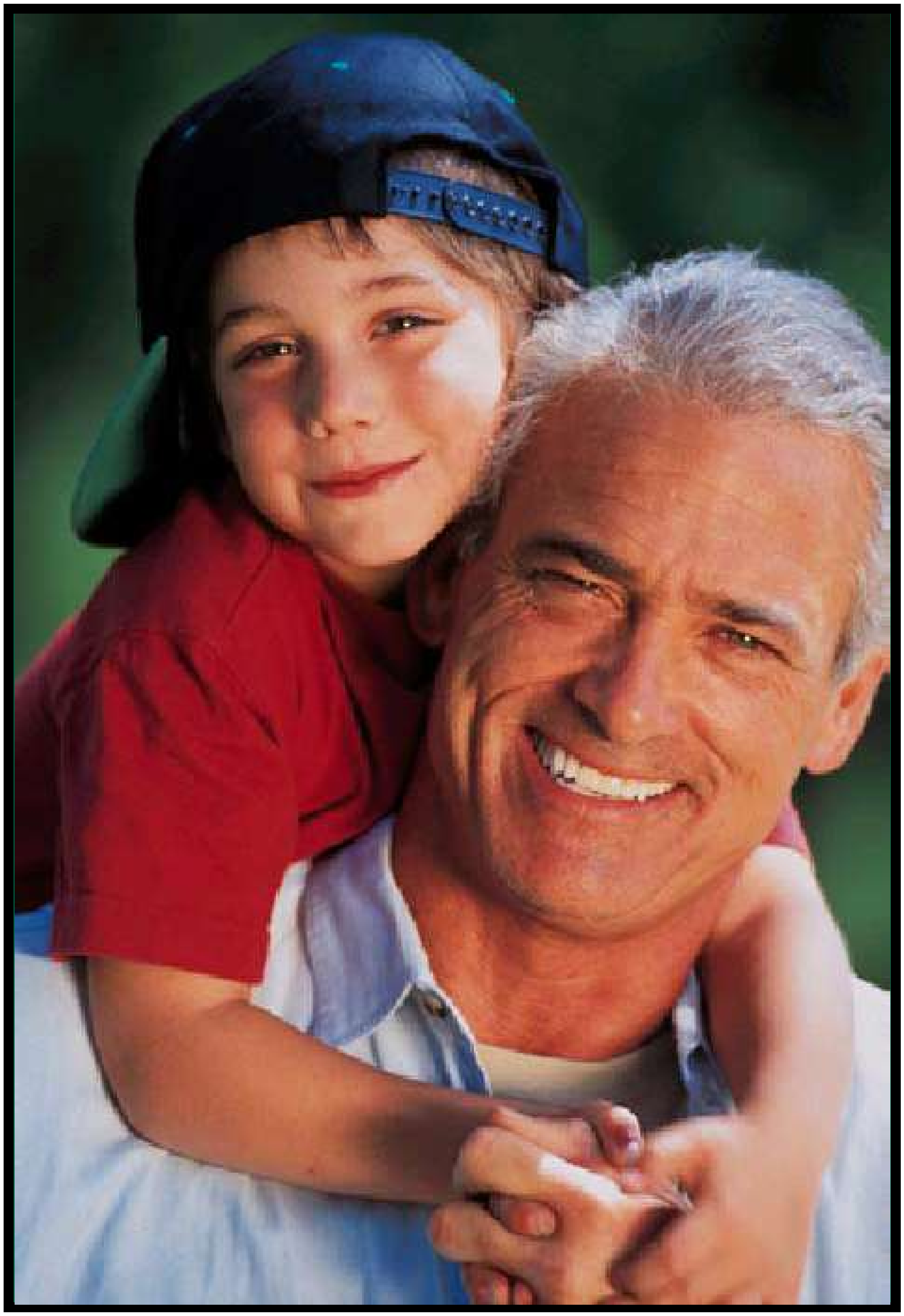
	Assets under management *	Fees
External management		
Domestic equity	$ 6,170,000	$ 18,926
Domestic fixed	5,671,000	8,808
International equity	7,407,000	19,421
International fixed	1,699,000	2,187
Real estate	2,322,000	28,090
Private equity	2,713,000	61,957
Venture capital	231,000	10,912
Global asset allocation	3,660,000	6,832
Total external management	**29,873,000**	**157,133**
Total internal management	**13,773,000**	**3,602**
Total investment management	**$ 43,646,000**	**160,735**
Custodian fees		344
Consultant and legal fees		1,241
Miscellaneous expenses		457
Total investment expenses		**$ 162,777**

*Net asset value at June 30, 2002.

Supplemental Schedule 3
Schedule of Payments to Non-Investment Consultants
Fiscal Year Ended June 30, 2002

(Payment amounts greater than $50,000)

Consultant	Fees	Services Provided
CoreSource, Inc.	$ 1,581,350	Postemployment healthcare benefits administration
Buck Consultants, Inc.	827,711	Pension benefit actuarial services
Info-Matrix Corporation	752,042	Computer programming / analysis
L. R. Wechsler Ltd.	269,859	Information technology consulting
Peterson Consulting	266,163	Data analysis & consulting
Intellimark, Inc.	252,276	Information technology consulting
Whitehead Mann, Inc.	117,975	Chief Investment Officer search
AON	116,819	Communication services, HOP open enrollment, HOP consulting
Gartner Group, Inc.	114,285	Information technology consulting
KPMG LLP	103,500	Financial audit of pension system and postemployment healthcare programs



Investment Section

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ALAN H. VAN NOORD, CPA
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, internal investment managers and investment accounting office staff assist the Board in achieving investment objectives and monitoring compliance with investment policy. For the fiscal year ended June 30, 2002, 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 Russell Real Estate Advisors 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 $25.1 billion in assets of the System, $13.8 billion in assets were managed by the System's internal investment managers, and the remaining $5.6 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 FY 2002 included an equity target allocation of **62.00%** consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (42.00%) and diversified international equity exposure (20.00%). Within each of these targets, the portfolios are diversified between large and small cap managers and growth and value managers.

The fixed income target allocation of **24.00%** consisted of U.S. fixed income exposure (15.10%), specialty fixed income exposure (3.90%), and global fixed income exposure (5.00%). 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 8.80% (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 **7.00%** consists primarily of opportunistic real estate partnerships and publicly traded real estate investment trusts (REITs).

Private equity and venture capital investments have a combined target of **7.00%**. 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, 2002, the market value of the investment portfolio was $44.5 billion. The market value decreased approximately $5.2 billion over last year's value. This decrease came primarily from net investment losses ($2.5 billion) and from benefit payments in excess of employee and employer contributions ($2.0 billion). The investment portfolio, as invested, was composed of 56.90% of common and preferred stocks, 31.20% of fixed income investments, 5.30% real estate, and 6.60% of private equity/venture capital investments at June 30, 2002. The table on page 66 illustrates a more detailed description of the investment portfolio's asset classes in dollars and as a percent of the total investment portfolio.

This past fiscal year has been marked by the tragic events of September 11th and concerns over terrorism, corporate accounting fraud, corporate profitability, and a slowing economy. After one of the greatest bull markets in history for the U.S. equity markets, we have entered into one of the greatest bear markets in history. This is reflected by the (16.62)% and (15.34)% annualized returns of the Wilshire 5000 Index for the fiscal years ended June 30, 2002 and 2001, respectively. These types of returns are also indicative of the returns in the international equity markets. The fixed income markets provided a safe haven for investors with positive returns during the past couple of years as the Federal Reserve has cut the Federal Funds Target Rate by 200 basis points (2.00%) and 275 basis points (2.75%) in the fiscal years ended June 30, 2002 and 2001, respectively. The domestic bond market, as measured by the Lehman Aggregate Bond Index, returned 8.63% and 11.23% during the past two fiscal years ended June 30, 2002 and 2001, respectively.

As a result of weakness in the domestic and international equity markets, the System generated a return of (5.25)% for the one-year period ended June 30, 2002. Annualized returns for the three- and five-year periods ending June 30, 2002 were (0.53)% and 5.07%, respectively. The System continues to remain fully funded on an actuarial basis even though the five-year return no longer exceeds the actuarial interest rate assumption of 8.5%.

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.

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 (%) Net of Fees Ending June 30, 2002		
	1 Year	**3 Years**	**5 Years**
PSERS TOTAL PORTFOLIO	**(5.25)**	**(0.53)**	**5.07**
Median Fund Universe - Public Funds (Wilshire Database)	(5.90)	(0.40)	5.16
PSERS DOMESTIC STOCK PORTFOLIOS	**(12.82)**	**(3.43)**	**6.14**
Wilshire 5000 Index	(16.62)	(8.22)	3.57
Median Fund Universe - Domestic Equities (Wilshire Database)	(16.46)	(7.18)	3.95
PSERS INTERNATIONAL STOCK PORTFOLIOS	**(6.76)**	**(3.20)**	**(0.99)**
MSCI All-Country World Index Free Ex. U.S.	(8.12)	(6.25)	(1.76)
Median Fund Universe - International Equities (Wilshire Database)	(8.37)	(4.33)	(0.13)
PSERS DOMESTIC FIXED INCOME PORTFOLIOS	**7.92**	**7.39**	**7.14**
Lehman Aggregate Index	8.63	8.11	7.57
Median Fund Universe - Domestic Bonds (Wilshire Database)	7.13	7.52	7.17
PSERS GLOBAL FIXED INCOME PORTFOLIOS	**13.53**	**3.84**	**4.23**
J.P. Morgan Global Bond Index	13.75	4.42	4.55
Median Fund Universe - Global Bonds (Wilshire Database)	8.73	6.91	4.68
PSERS GLOBAL ASSET ALLOCATION PORTFOLIOS	**(7.62)**	**(8.99)**	**N/A**
PSERS REAL ESTATE	**4.78**	**9.09**	**11.17**
NCREIF Index	6.40	9.89	11.99
PSERS PRIVATE EQUITY / VENTURE CAPITAL *	**(9.92)**	**(1.48)**	**1.76**

* 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 $16.3 million in additional net income during the year.

Accomplishments

During the fiscal year-ended June 30, 2002, the System's funds invested in private equity and venture capital increased approximately 32% allowing the System to reach the target allocation.

In addition, on August 1, 2002, the System entered into a contract with Financial Control Systems, Inc. (FCS) to provide a comprehensive, multi-currency investment accounting system, reconciliation and technology services to the System. Over the next two to three years, the System's staff and FCS will implement an independent accounting book of record for the System's investment transactions. 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, 2002 due to the slowing world economies. Positive returns in the domestic fixed income and real estate portfolios were not sufficient enough to completely offset the negative returns generated by the equity portfolios. While the System was unable to achieve its targeted actuarial rate of return during the fiscal year-ended June 30, 2002, we believe that 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.

Alan H. Van Noord, CFA
Chief Investment Officer

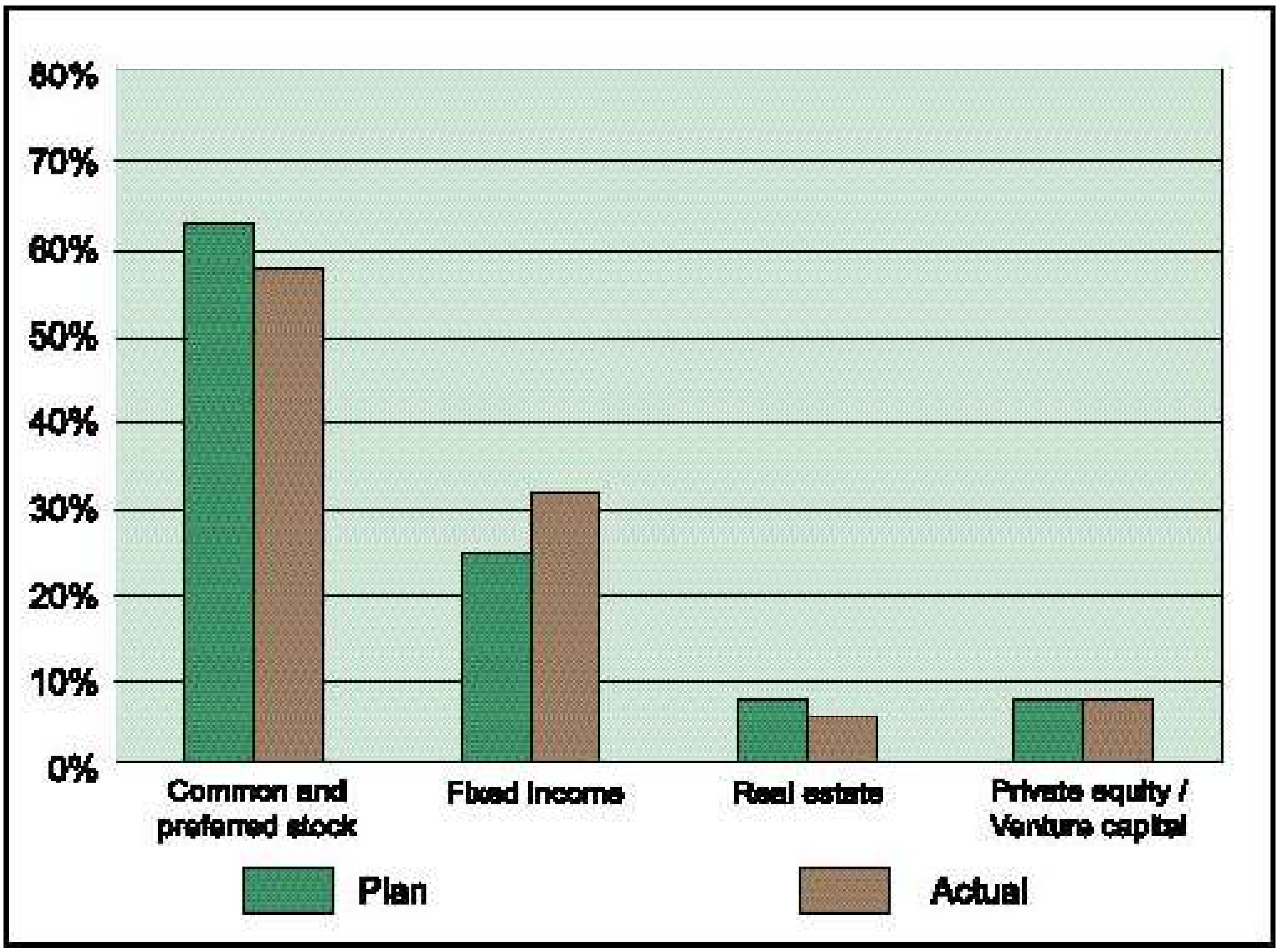
Portfolio Summary Statistics
Asset Allocation
As of June 30, 2002
(Dollar Amounts in Thousands)

Pension investments	Fair Value ($)	% Fair Value
Common and preferred stock:		
Domestic common and preferred stock	$ 17,036,387	38.4%
International common stock	7,626,617	17.2%
Subtotal per Statement of Plan Net Assets	24,663,004	55.6%
Collective trust fund *	617,249	1.4%
Short-term *	531,471	1.2%
Publicly traded REITs	(567,364)	(1.3%)
Total Common and preferred stock - Asset Allocation Basis	**25,244,360**	**56.9%**
Fixed income:		
Domestic mortgage-backed securities	5,171,543	11.7%
U.S. government and agency obligations	1,156,844	2.6%
Domestic corporate and taxable municipalbonds	4,277,616	9.6%
Miscellaneous domestic fixed income	377,566	0.9%
International fixed income	1,134,158	2.5%
Subtotal per Statement of Plan Net Assets	12,117,727	27.3%
Collective trust fund *	651,925	1.5%
Short-term *	1,063,956	2.4%
Total Fixed income - Asset Allocation Basis	**13,833,608**	**31.2%**
Real estate:		
Real estate owned	481,810	1.1%
Equity real estate	1,272,826	2.9%
Subtotal per Statement of Plan Net Assets	1,754,636	4.0%
Publicly traded REITs	567,364	1.3%
Total Real estate - Asset Allocation Basis	**2,322,000**	**5.3%**
Private equity / Venture capital:		
Private equity	2,712,854	6.1%
Venture capital	231,194	0.5%
Total Private equity / Venture capital - Asset Allocation Basis	**2,944,048**	**6.6%**
Pension investments - Asset Allocation Basis	**$ 44,344,016**	**100.0%**
Postemployment Healthcare short-term investments	**$ 112,201**	**100.0%**

* - For asset allocation purposes, Collective trust fund and Short-term investments are included with the asset class of the investment manager which holds them and publicly traded REIT portfolios are reclassified from Common and preferred stock to Real estate. See the table and graph which follow.

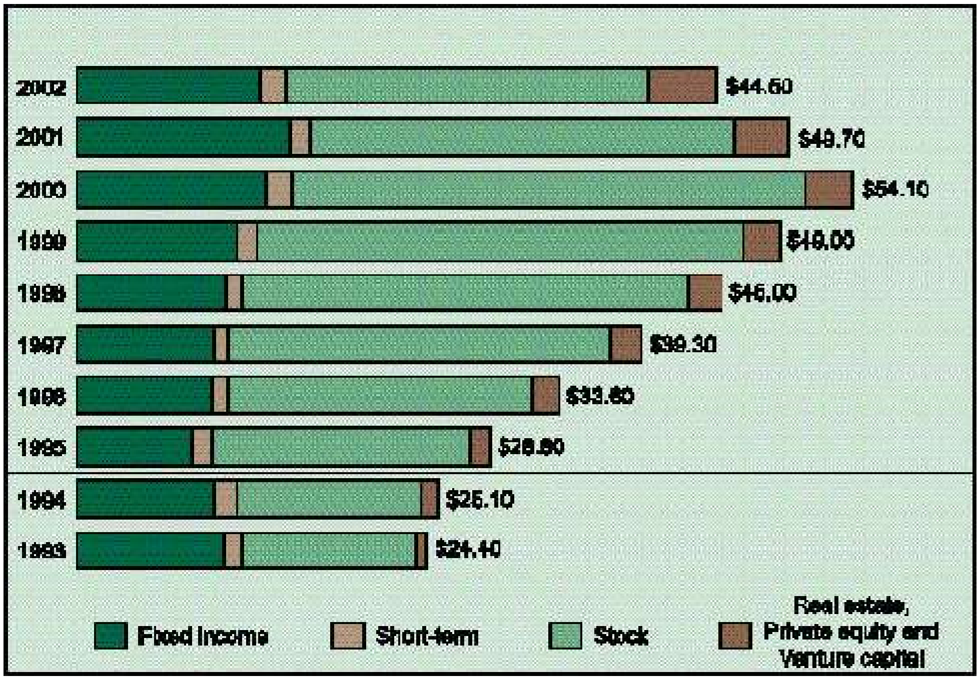
Comparison of Actual Portfolio Distribution to Asset Allocation Plan As of June 30, 2002

Asset Category	Plan	Actual
Common and preferred stock	62%	57%
Fixed income	24%	31%
Real estate	7%	5%
Private equity / Venture capital	7%	7%
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, Office of Financial Management, P O Box 125, Harrisburg, PA 17108.

Portfolio Detail Statistics as of June 30, 2002

Domestic common and preferred stock

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Microsoft Corporation	5,117	279,877
General Electric Company	9,342	271,383
Exxon Mobil Corporation	6,046	247,390
Security Capital Preferred Growth	9,674	246,676
Citigroup Inc.	5,987	232,002
Pfizer Inc.	6,052	211,806
Wal-Mart Stores, Inc.	3,645	200,516
American International Group, Inc.	2,218	151,331
Johnson & Johnson	2,535	132,491
Verizon Communications Inc.	3,101	124,499
Total of 10 Largest Holdings		**2,097,971**
Total System Holdings - Domestic common and preferred stock		**17,036,387**

Portfolio Detail Statistics as of June 30, 2002

International common stock

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Total Fina Elf	853	138,501
Vodafone Group PLC	85,606	117,441
Novartis AG	2,530	111,281
Glaxosmithkline	4,390	94,884
ING Groep	3,681	94,530
Royal Bank of Scotland	3,280	92,991
BP PLC	10,179	85,494
ENI SpA	4,992	79,379
Sanofi-Synthelaboratories	1,237	75,271
Nestle SA	320	74,516
Total of 10 Largest Holdings		**964,288**
Total System Holdings - International common stock		**7,626,617**

Portfolio Detail Statistics as of June 30, 2002

Collective trust fund

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Capital Guardian U.S. Fixed Income Fund	1,776	172,979
Martin Currie Business Trust Global Emerging Markets Fund	25,421	154,559
MGT High Yield Bond Fund	16,157	109,061
MAS Funds Advisory Mortgage Fund	8,494	90,718
Midcap SPDR Trust Series 1	950	85,085
PIMCO Funds International Portfolio	9,710	64,569
MS Institutional Trust Funds Emerging Markets Portfolio	5,414	61,070
PIMCO Funds Emerging Markets Portfolio	4,818	50,011
Deutsche Asset Management Emerging Markets Portfolio	7,620	44,575
iShares S & P Small Cap 600 Index Fund	371	42,495
Total of 10 Largest Holdings		**875,122**
Total System Holdings - Collective trust fund		**1,269,174**

Portfolio Detail Statistics as of June 30, 2002

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 ($)	Fair Value ($)
Lehman Brothers Commercial Conduit 1999 C2 Class A2 144A	10/15/32	7.325	50,000	55,380
Pemex Finance Limited	05/15/12	7.330	42,050	45,611
Coastal Corporation	07/21/03	2.513	30,650	30,722
Resolution Funding Corporation STRIP Principal	10/15/19	0.000	87,025	29,696
Credit Suisse First Boston 02 P1 A 144A	03/25/32	2.478	29,312	29,312
Ford Motor Credit Company	08/01/05	7.600	27,355	28,679
Florida Windstorm Underwriting Association 144A	08/25/02	6.500	26,525	26,663
General Electric Capital Corporation	01/19/10	7.375	24,000	26,429
Morgan Stanley Dean Witter & Company Global	04/15/06	6.100	25,000	26,028
Morgan Stanley Dean Witter & Company Global	04/01/12	6.600	23,975	24,446
Total of 10 Largest Holdings				**322,966**
Total System Holdings - Domestic corporate and taxable municipal bonds				**4,277,616**

Portfolio Detail Statistics as of June 30, 2002

Domestic mortgage-backed securities

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
GNMA II Pool #0002909	04/20/30	8.000	54,027	57,303
Small Business Investment Companies 2000-P10B Class 1	08/01/10	7.449	31,039	33,711
FNMA Guaranteed REMIC 1993-120 Class HA	01/22/21	6.500	30,000	30,994
FNMA Guaranteed REMIC 1998-35 Class BA	12/20/27	7.000	28,533	30,869
FNMA Guaranteed REMIC 1998-3 Class PE	07/18/23	6.250	30,000	30,863
Nomura Asset 1998-D6 Class A1-B	03/15/30	6.590	28,450	30,581
FNMA Pool #0535811	04/01/31	6.500	29,938	30,518
FHLMC Multiclass 26 Class C	07/25/18	6.500	28,386	29,673
FNMA Guaranteed REMIC 1998-25 Class J	12/18/25	6.500	28,309	29,424
FHLMC Pool #G0-1381	04/01/32	7.000	26,209	27,143
Total of 10 Largest Holdings				**331,079**
Total System Holdings - Domestic mortgage-backed securities				**5,171,543**

Portfolio Detail Statistics as of June 30, 2002

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 Notes	05/15/07	4.375	80,144	81,246
U.S. Treasury Notes	08/15/07	6.125	65,801	71,723
U.S. Treasury Bonds	02/15/31	5.375	71,377	69,905
U.S. Treasury Notes	11/15/04	5.875	52,485	55,782
U.S. Treasury - Inflation Index	07/15/02	3.625	51,745	51,794
U.S. Treasury Bonds	08/15/19	8.125	36,032	46,155
U.S. Treasury Notes	02/15/12	4.875	44,202	44,368
U.S. Treasury Bonds	05/15/16	7.250	37,219	43,860
U.S. Treasury Notes	11/15/06	3.500	41,771	41,027
Federal National Mortgage Association	07/15/05	7.000	37,390	40,895
Total of 10 Largest Holdings				**546,755**
Total System Holdings - U.S. government and agency obligations				**1,156,844**

Portfolio Detail Statistics as of June 30, 2002

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	67,832
Japan (Government)	06/20/06	0.400	40,464	40,686
Italy (Republic of) BTP	07/01/05	4.750	40,116	40,614
UK Treasury	12/07/05	8.500	35,214	39,106
Netherlands (Government)	07/15/08	5.250	35,056	35,992
France (Government)	10/25/32	5.750	29,445	31,374
Spain (Government)	07/30/12	5.000	31,208	30,724
UK Treasury	12/07/06	7.500	27,834	30,492
France (Government)	04/25/07	5.500	28,640	29,792
Austria (Republic of)	07/15/12	5.000	29,332	29,012
Total of 10 Largest Holdings				**375,624**
Total System Holdings - International fixed income				**1,134,158**

Portfolio Detail Statistics as of June 30, 2002

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	-	29,918
Carco Auto Loan Master Trust 1999-4 Class A	11/15/04	6.430	26,780	27,140
BMW Vehicle Owner Trust 2000-A Class A3	10/25/03	6.670	23,235	24,314
Household Automotive Trust V 2000-2002 Class A4	04/17/07	7.430	22,410	23,891
Household Automotive Trust II 2000-2001 Class A4	12/18/06	7.480	20,452	21,665
Ford Credit Auto Owner Trust 2000-E Class A4	06/15/04	6.740	19,564	20,034
BMW Vehicle Owner Trust 2001-A Class A3	03/25/05	4.700	15,695	16,026
Ford Credit Auto Owner Trust 1999-D Class B	01/15/04	6.870	13,650	14,017
The Mall at Steamtown Mortgage Loan	11/14/04	8.500	-	12,755
Auto Owner Trust 2002-2 Class A4	03/15/10	4.300	12,110	12,235
Total of 10 Largest Holdings				**201,995**
Total System Holdings - Miscellaneous domestic fixed income				**377,566**

Portfolio Detail Statistics as of June 30, 2002

Postemployment Healthcare short-term investments

10 Largest Holdings in Descending Order by Fair Value

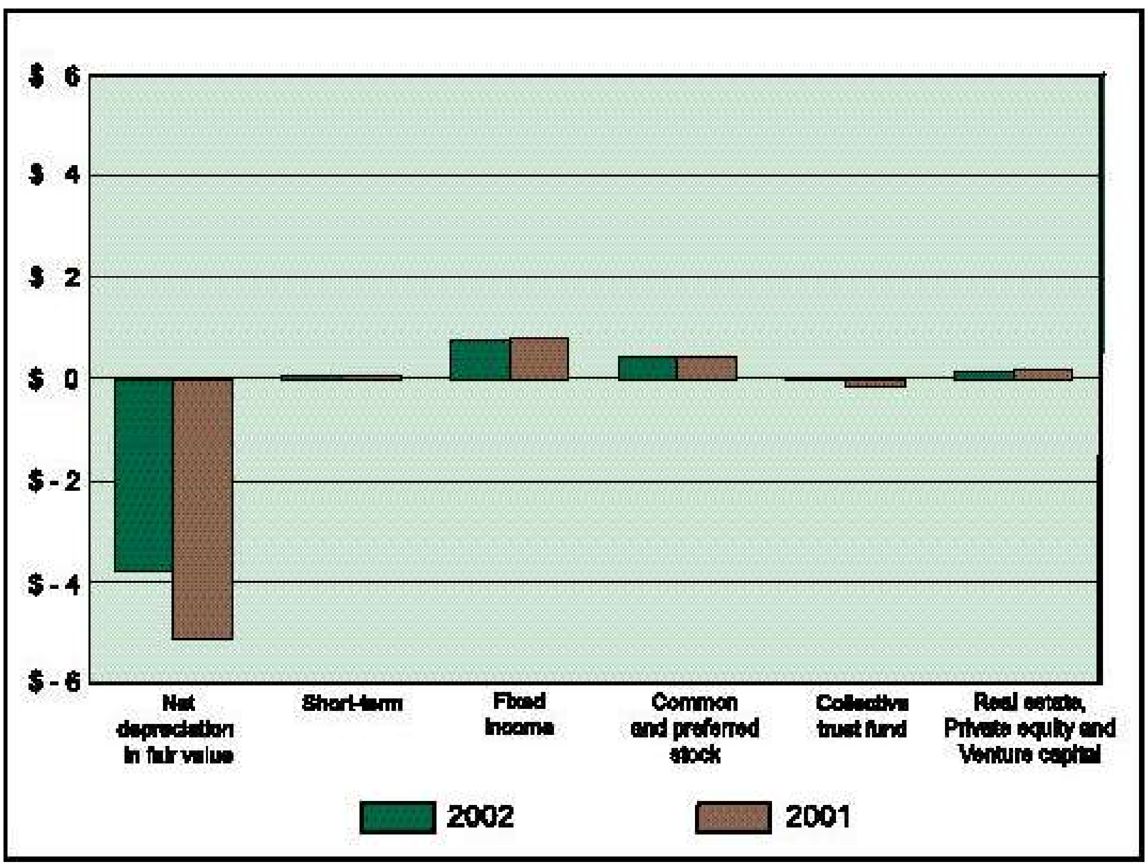
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
Treasury Short-Term Investment Fund	Various	Various	55,777	55,777
Allfirst Repurchase Agreement	07/01/02	1.600	12,000	12,000
Allfirst Repurchase Agreement	07/01/02	1.700	3,400	3,400
FNMA Guaranteed REMIC 1998-19 Class PG	03/18/21	5.750	2,500	2,572
FNMA Guaranteed REMIC 1999-52 Class PA	08/25/16	6.500	1,974	2,011
FNMA Guaranteed REMIC 1998-34 Class PG	11/18/17	6.000	1,713	1,745
General Electric Capital Mortgage Services, Inc. 1999-18 Class A8	09/25/29	7.000	1,600	1,630
FNMA Guaranteed REMIC 1996-23 Class A	09/25/21	6.500	1,579	1,595
Ford Credit Auto Owner Trust 1999-D Class A5	09/15/03	6.520	1,533	1,551
FNMA Guaranteed REMIC 1998-48 Class PK	08/18/18	6.000	1,500	1,536
Total of 10 Largest Holdings				**83,817**
Total System Holdings - Postemployment Healthcare short-term investments				**112,201**

Comparison of Investment Activity (Loss) Income
For Fiscal Years Ended June 30, 2002 and 2001
(Dollar Amounts in Thousands)

Asset Category	2002	2001
Net depreciation in fair value	**$ (3,777,153)**	$ (5,137,619)
Short-term	**46,862**	83,319
Fixed income	**774,029**	832,808
Common and preferred stock	**440,533**	446,439
Collective trust fund depreciation and income	**(10,957)**	(125,006)
Real estate	**131,890**	166,006
Private equity	**16,230**	7,681
Venture capital	**2,064**	2,717
Totals	**$ (2,376,502)**	$ (3,723,655)

(Dollar Amounts in Billions)



Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2002 were $ 33.6 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, 2002, the System earned $8.8 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, 2002

Broker Name	Fees Paid ($)
Morgan Stanley and Company	3,143,513
Goldman Sachs and Company	3,061,638
Merrill Lynch	2,962,482
UBS PaineWebber	2,760,103
Lehman Brothers	2,313,459
Salomon Smith Barney	1,722,654
Deutsche Bank	1,499,447
Bear, Stearns and Company	1,292,142
Execution Services Inc.	1,115,341
Credit Suisse First Boston	1,049,701
J.P. Morgan, Inc.	753,163
Jones & Associates	666,982
Overseas Corp.	664,556
Investment Technology Group	602,443
Union Bank	476,561
Dresdner Bank, A.G.	471,885
HSBC Securities	428,616
Scottsdale Securities Inc. St. Louis	394,319
ANC Nominees, Melbourne	389,698
Instinet Corporation	365,183
Weeden and Company	245,085

Broker Name	Fees Paid ($)
Credit Lyonnais Securities	244,449
Lynch, Jones and Ryan	243,406
Swiss Bank Corporation	224,616
Wheat, First Securities, Inc.	220,125
ABN Amro Bank	217,917
Jefferies and Company Inc.	211,380
Banc One Capital Corp.	179,213
J. Cheuvreux De Virieu, SA	177,429
Legg Mason Wood Walker	166,950
ING Barings	166,184
Cowen & Company	163,693
Kokusai Securities	160,245
First Union	158,549
Status Securities	141,377
Cazenove Inc.	139,031
BNP Securities	136,582
Lewco/BHC Securities	126,636
Nomura Securities International	121,738
Cathay Financial Corp.	118,409
Montgomery Securities	102,824

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)

Apax Partners
(Venture Capital)

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

BG Media Investors
(Private Equity)

Baillie Gifford Overseas, Ltd.
(Equity)

Bank of Ireland Asset Management (U.S.), Ltd.
(Equity)

Bastion Capital Corporation
(Private Equity)

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

Berwind Property Group, Inc.
(Real Estate)

BlackRock Financial Management, Inc.
(Fixed Income)

Boston Company Asset Management, L.L.C.
(Equity)

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)

Cerberus Capital Management
(Private Equity)

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)

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)

Professional Consultants (Continued)

Gordon Management, Inc.
(Private Equity)

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

Greenwich Street Capital Partners
(Private Equity)

Grotech Capital Group, Inc.
(Venture Capital)

Halifax Group (The)
(Private Equity)

Hanseatic Management Services, Inc.
(Developmental)

Heritage Partners, Inc.
(Private Equity)

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)

Laureate Capital, L.L.C.
(Real Estate)

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

Legg Mason Real Estate Services
(Real Estate)

Lehman Brothers
(Private Equity & Real Estate)

Leonard Green & Partners, Inc.
(Private Equity)

Lexington Capital Partners, Inc.
(Private Equity)

Lindsay Goldberg & Bessemer, L.P.
(Private Equity)

Longwood Investment Advisors
(Developmental)

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)

Mercator Asset Management, L.P.
(Equity)

Mid-Atlantic Venture Funds
(Venture Capital)

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

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

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

NorthPointe Capital, L.L.C.
(Equity)

PAI Management
(Private Equity)

PNC Equity Management Corp.
(Private Equity)

Pacific Investment Management Company
(Fixed Income & Equity)

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

Professional Consultants (Continued)

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)

Perseus-Soros BioPharmaceutical Fund, L.P.
(Private Equity)

Philadelphia Ventures, Inc.
(Venture Capital)

Piedra Capital Inc.
(Developmental)

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)

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

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)

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)

Professional Consultants (Continued)

Investment Accounting Application Service Provider

Financial Control Systems, Inc.

Custodian and Securities Lending Agent

Mellon Bank N.A.

Investment Evaluator

Wilshire Associates Inc.

Real Estate Consultant

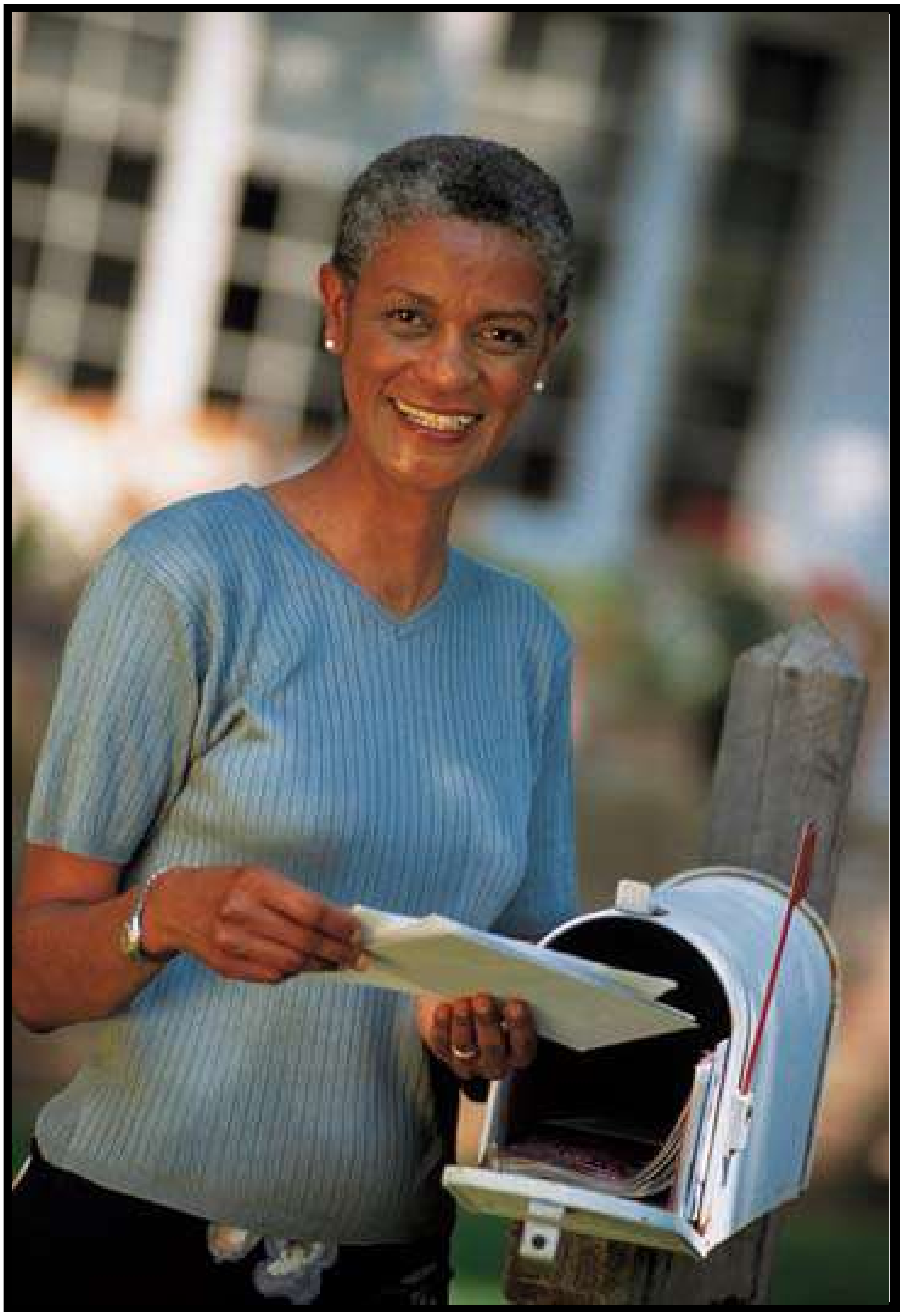
Russell Real Estate Advisors

Private Equity / Venture Capital Consultant

Sovereign Financial Services, Inc.

Proxy Voting Agent

Institutional Shareholder Services



Actuarial Section

BUCK CONSULTANTS
A Mellon Financial Company℠
One North Dearborn, Suite 1400
Chicago, Illinois 60602-4336

September 10, 2002

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, 2001. The valuation was revised to reflect Act 38 of 2002 which amended the Code. The Act 38 revisions effective with this valuation are:

- Established 1% floor on the pension rate commencing with 2002/2003 fiscal year contribution
- Established 1.15% cap on the total rate for 2002/2003 fiscal year only
- Changed the method of calculating the actuarial value of assets from a three-year smoothing method to a five-year smoothing method

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 2002/2003 fiscal year in conformance with the Retirement Code.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees, including a valuation interest rate of 8½% per annum compounded annually. The actuarial assumptions are unchanged from the prior valuation. The actuarial cost method has been revised in accordance with Act 9 and Act 38. The outstanding balance of the unfunded accrued liability as of June 30, 2001 is amortized over a 10-year period, with level dollar funding beginning July 1, 2002. The increase in liability due to new benefits provided by Act 9, the decrease in unfunded actuarial liability due to the new actuarial asset valuation method provided by Act 38, and future actuarial gains and losses are amortized over a 10-year period with level dollar funding.

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

Assets and Membership Data

The Retirement System reported the individual data for members of the System as of the valuation date to the actuary. 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 2002/2003 is 1.15%. The funded status of the plan determined as of June 30, 2001 based on the accrued liability and the actuarial value of assets is 114.4%.

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. The actuary prepared supporting schedules included in the Actuarial and Statistical Section of PSERS Comprehensive Annual Financial Report. The actuary prepared the trend data schedules included in the Financial Section of PSERS Comprehensive Annual Financial Report.

Qualified actuaries completed the valuations 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 has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Kim M. Nicholl

S Lynn Hill

Kim M. Nicholl, F.S.A.	S. Lynn Hill
Principal, Consulting Actuary	Associate Principal, Retirement Consulting

Executive Summary

This report presents the actuarial valuation as of June 30, 2001 for the Public School Employees' Retirement System of Pennsylvania.

The principal valuation results include:

- The employer contribution rate for fiscal year 2002/2003 which is 1.15%.
- The funded status of the plan determined as of June 30, 2001 based on the accrued liability and the actuarial value of assets as of that date which is 114.4%.
- The determination of the actuarial gain or loss as of June 30, 2001 which is a loss of $2.0 billion.
- Annual disclosure as of June 30, 2001 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. The actuary prepared supporting schedules included in the Actuarial and Statistical Section of PSERS Comprehensive Annual Financial Report. The actuary prepared the trend data schedules included in the Financial Section of PSERS Comprehensive Annual Financial Report.

Changes Since Last Year

Legislative and Administrative Changes

Act 9 of 2001 amended Section 8509(B) of the PSERS Code. Act 9 created a new Class T-D service as of July 1, 2001 and allows members to have prior school service and intervening military service converted to Class T-D service. Members who are active or inactive as of July 1, 2001 must affirmatively elect Class T-D service by December 31, 2001. The multiplier for members with Class T-D service will increase from 2% to 2.5%. The multiplier for non-school service will remain at 2%.

Effective January 1, 2002, the member contribution rate will increase by 1.25% for members who elect to convert to Class T-D service and for all members enrolled on or after July 1, 2001. Members who were enrolled after July 22, 1983 who elect Class T-D service will pay an employee contribution rate of 7.5%. Members who were enrolled prior to July 22, 1983 who elect Class T-D service will pay an employee contribution rate of 6.5%. In addition, Act 9 reduced the vesting period from 10 years to five years of eligibility points.

Act 38 provides for a split COLA to be paid commencing July 1, 2002 for members retired before July 2, 1990 and commencing July 1, 2003 for members retired from July 2, 1990 through July 1, 2002. Funding for the cost of the COLA will commence July 1 following each effective date.

The benefit provisions and contribution provisions are summarized in Table 13.

Actuarial Assumptions and Methods

The actuarial assumptions are unchanged from the prior valuation with the exception of the actuarial cost method which has been revised in accordance with Act 9 of 2001 and the actuarial asset method which has been revised in accordance with Act 38 of 2002.

Act 38 of 2002 amended the actuarial asset valuation method. The new actuarial value of assets is determined by immediately recognizing the 8.5% actuarial expected investment return and recognizing the difference between the actual and expected investment return over a five-year period. Under the transition rule, the remaining unrecognized gains from the 1999/2000 and 2000/2001 fiscal years under the former three-year smoothing method are immediately recognized.

Under Act 9 the outstanding balance of the unfunded accrued liability as of June 30, 2001 is amortized over a 10-year period, with level dollar funding beginning July 1, 2002. The increase in liability due to new benefits provided by Act 9, the decrease in the unfunded accrued liability due to the new actuarial asset method provided by Act 38, and future actuarial gains and losses are amortized over a 10-year period with level dollar funding.

Act 38 of 2002 amended Section 8328(a) of the PSERS Code. Act 38 established a floor on the total contribution rate equal to 1% plus the premium assistance rate. In addition, Act 38 established a cap on the total contribution rate for the 2002/2003 fiscal year only of 1.15%.

The actuarial assumptions and methods are outlined in Table 12.

Contribution Rates

The results of the valuation as of June 30, 2001 determine the employer contribution rate for fiscal year 2002/2003. The total contribution rate payable by the employer is 1.15% of payroll as provided by Act 38 of 2002. This includes .18% of payroll for pension benefits plus 0.97% of payroll for the health insurance premium assistance program.

The average contribution rate payable by the members is 7.10%. Effective January 1, 2002 the employee contribution rate for members who elect to have prior school service and intervening military service converted to Class T-D service will increase by 1.25%. The average member contribution rate of 7.10% represents an average of the members who were most recently hired prior to July 22, 1983 contributing 6.50%, and the remaining members who are contributing 7.50%.

Reasons for Change in the Rate

The employer contribution rate increased from 1.09% for fiscal year 2001/2002 to 1.15% for fiscal year 2002/2003. The increase of .06% is due to the following reasons:

· Decrease due to reamortization of the unfunded accrued liability over 10 years	(8.72)%
· Increase due to Act 9 benefit increases*	10.59
· Decrease due to change in asset method under Act 38*	(7.50)
· Increase due to actuarial loss on assets*	2.97
· Increase due to actuarial loss on liabilities*	.25
· Decrease due to change in health insurance contribution rate	(.12)
· Decrease due to zero minimum pension contribution rate for fiscal 2001/2002	(.42)
· Increase due to floor and cap on contribution rate under Act 38	3.01
· Total	.06%

* Changes in Unfunded Accrued Liability amortized over 10 years

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, 2001. Comparable results from the June 30, 2000 valuation are also shown.

Item	June 30, 2001	June 30, 2000
Demographics		
Active Members		
· Number	243,311	234,210
· Average Annual Pay	$ 38,695	$ 38,169
Annuitants		
· Number	132,716	134,058
· Average Annual Benefit Payment	$ 14,105	$ 14,029
Contribution Rates (as a Percentage of Payroll)	(Fiscal Year 2002/2003)	(Fiscal Year 2001/2002)
Employer Contribution Rate:		
· Total Pension Contribution Rate	0.18%	0.00%
· Health Insurance Contribution Rate	0.97	1.09
· Total	1.15%	1.09%
Member Average Contribution Rate	7.10	5.80
· Total Rate	8.25%	6.89%
Actuarial Funded Status		
· Accrued Liability	$ 47,917.3 Mil	$ 39,822.8 Mil
· Actuarial Value of Assets	54,830.3	49,293.0
· Unfunded Accrued Liability	$ (6,913.0)	$ (9,470.2)
· Funded Ratio	114.4%	123.8%

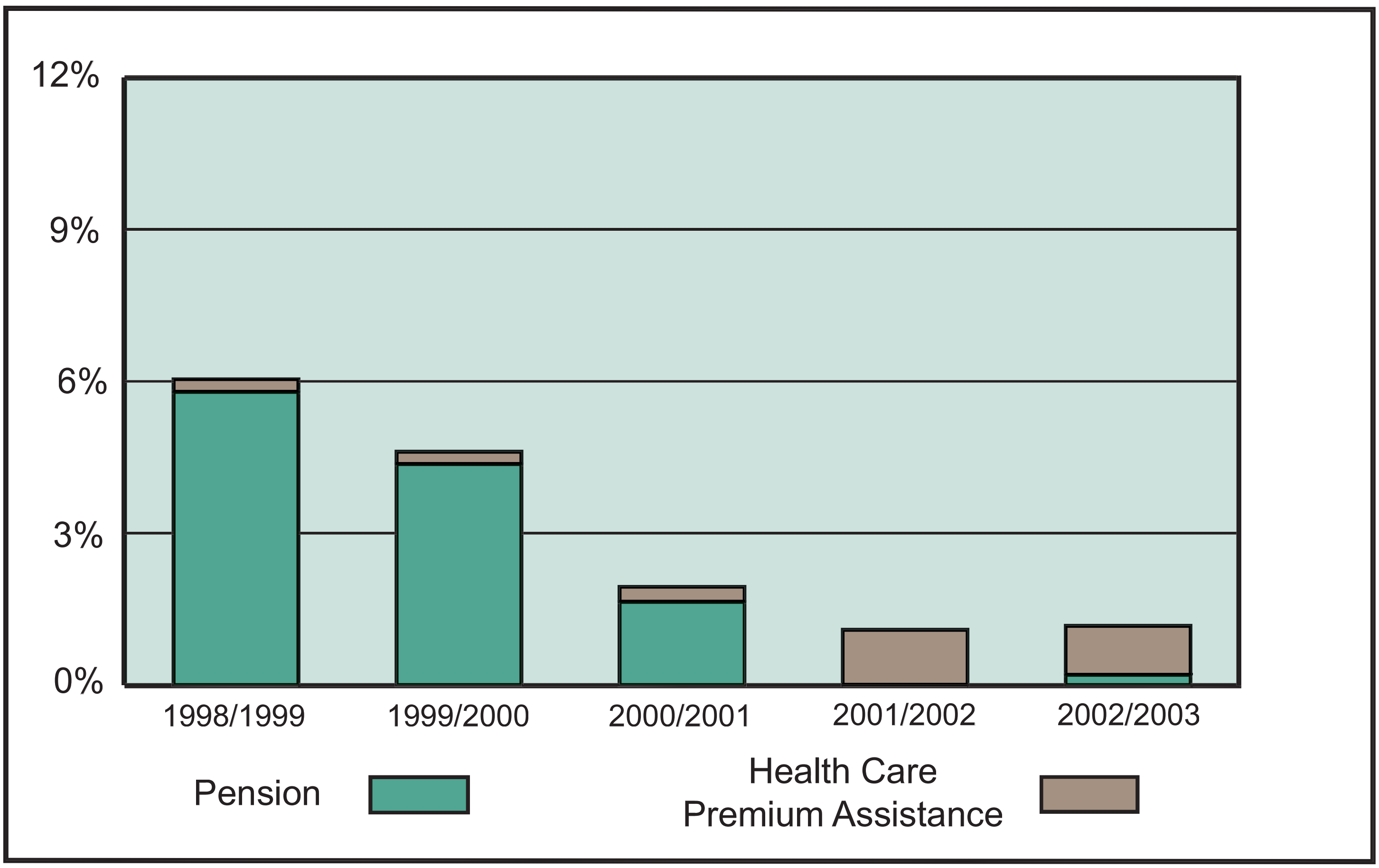
Five-Year History of Principal Financial Results

Five-Year History of Contribution Rates

(As a % of Payroll)

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
2002/2003	7.10%	7.20%	(10.03)%	.97%	1.15%
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

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 10 years for each change in the unfunded accrued liability.

The total contribution rate of 1.15% 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 5-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 114.4% as of June 30, 2001. The funded ratio is based on an actuarial value of assets of $54.8 billion and an accrued liability of $47.9 billion.

Reasons for Change in the Funded Ratio

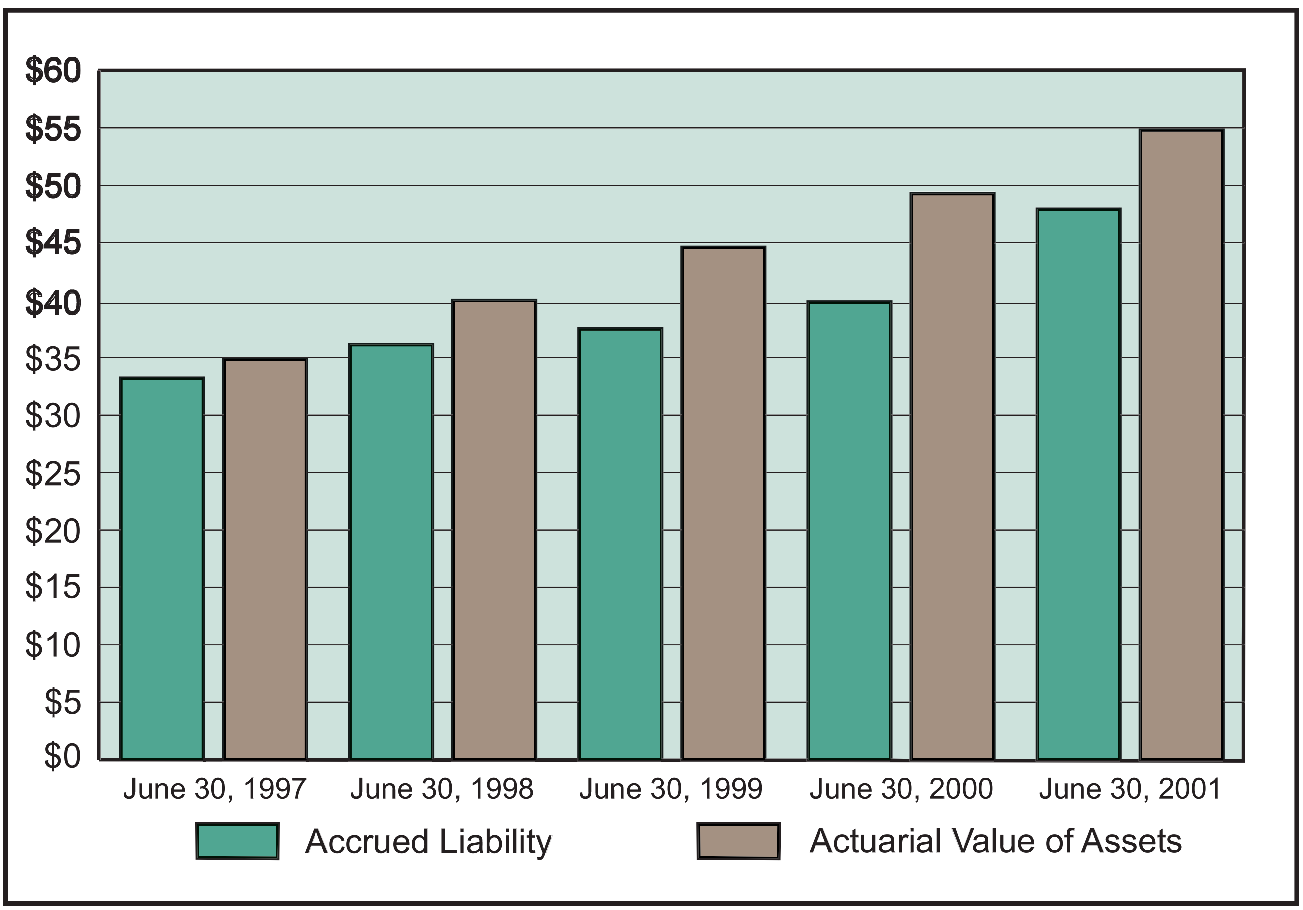
The funded ratio decreased from 123.8% as of June 30, 2000 to 114.4% as of June 30, 2001. The decrease is due to the net effect of the Act 9 benefit changes, Act 38 actuarial asset method change, and asset and experience losses.

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

Valuation as of June 30	Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio
2001	$ 47,917.3	$ 54,830.3	$ (6,913.0)	114.4%
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

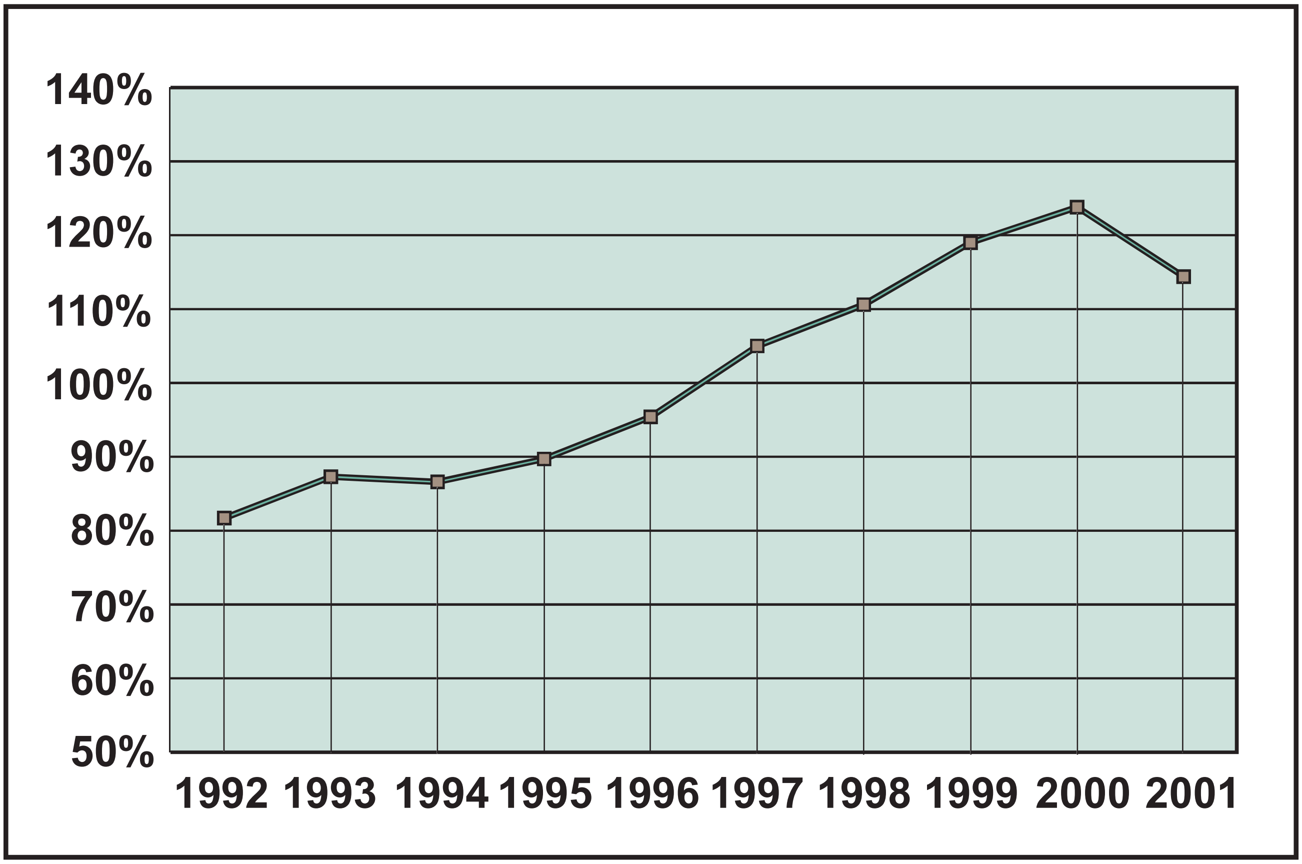
The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

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
(1992 - 2001)



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 5-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 114.4% as of June 30, 2001. The funded ratio is based on an actuarial value of assets of $54.8 billion and an accrued liability of $47.9 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 10-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 1996/1997 through 2000/2001 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
2000/2001	(7.4)%	14.3%
1999/2000	11.9	13.6
1998/1999	12.2	15.1
1997/1998	15.8	16.8
1996/1997	18.3	17.3

Table 1
Summary of Results of Actuarial Valuation
As of June 30, 2001
(Dollar Amounts in Thousands)

Item	Amount
Member Data	
1. Number of Members	
a) Active Members	243,311
b) Inactive Members and Vestees	53,979
c) Annuitants, Beneficiaries and Survivor Annuitants	132,716
d) Total	430,006
2. Annualized Salaries	$ 9,414,884
3. Annual Annuities	$ 1,871,995
Valuation Results	
4. Present Value of Future Pension Benefits	
a) Active Members	$ 44,380,684
b) Inactive Members and Vestees	542,625
c) Annuitants, Beneficiaries and Survivor Annuitants	15,755,768
d) Total	$ 60,679,077
5. Present Value of Future Pension Normal Cost	
a) Active Members	$ 6,359,294
b) Employer	6,448,861
c) Total	$ 12,808,155
6. Pension Accrued Liability	
a) Active Members (4a) - (5c)	$ 31,572,529
b) Inactive Members and Vestees	542,625
c) Annuitants, Beneficiaries and Survivor Annuitants	15,755,768
d) Total	$ 47,870,922
7. Health Care Premium Assistance Payments	$ 46,372
8. Total Accrued Liability (6) + (7)	$ 47,917,294
9. Actuarial Value of Assets	$ 54,830,300
10. Unfunded Accrued Liability (8) - (9)	$ (6,913,006)
11. Total Normal Cost Rate	14.30 %
12. Member Contribution Rate	7.10 %
13. Employer Normal Cost Rate (11) - (12)	7.20 %
Employer Annual Funding Requirement for Fiscal 2002/2003	
14. Employer Contribution Rate	
a) Normal	7.20 %
b) Unfunded Accrued Liability	(10.03)
c) Preliminary Pension Rate	(2.83) %
d) Preliminary Pension Rate with 1% Floor	1.00
e) Health Insurance Premium Assistance	0.97
f) Preliminary Total Rate	1.97 %
g) Minimum of (f) and 1.15%	1.15
h) Final Pension Rate (g) - (e)	0.18
i) Total Rate (h) + (e)	1.15 %

Table 2
Summary of Sources of Employer Contribution Rate
As of June 30, 2001
(Dollar Amounts in Thousands)

	Funding Period 10 Years from July 1	Initial Amount of Liability	Outstanding Balance as of July 1, 2001	Annual Payment Amount	Annual Payment Percent
1. Amortization of:					
a) Initial Unfunded Base	2002	$ (9,845,207)	$ (9,845,207)	$ (1,510,937)	(14.77)%
b) Changes in 2001	2002	2,932,201	2,932,201	484,845	4.74 %
Total Amortization Payments			(6,913,006)	(1,026,093)	(10.03)%
2. Employer Normal Cost Rate					7.20 %
3. Preliminary Pension Rate (1) + (2)					(2.83)%
4. Preliminary Pension Rate with 1% Floor -- Maximum of (3) and 1%					1.00 %
5. Health Insurance Premium Assistance Rate					0.97 %
6. Preliminary Total Employer Contribution Rate (4) + (5)					1.97 %
7. Final Total Employer Contribution Rate with 1.15% Cap -- Minimum of (6) and 1.15%					1.15 %

Table 3
Determination of Health Insurance Contribution Rate
For Fiscal Year 2002/2003
(Dollar Amounts in Thousands)

Item	Amount
1. Estimated Number of Eligible Annuitants in FiscalYear 2003/2004	95,500
2. Estimated Number of Eligible Annuitants Who Elect Coverage	77,355
3. Estimated Annual Health Insurance Premium Assistance Payments During Fiscal Year 2003/2004 (2) x $100 x 12	$ 92,826
4. Estimated Health Insurance Premium Assistance Administrative Expenses During Fiscal Year 2003/2004	2,084
5. Total Estimated Health Insurance Premium Assistance Account Disbursements During Fiscal Year 2003/2004 (3) + (4)	$ 94,910
6. Estimated Shortfall in Health Insurance Premium Assistance Account for Prior Fiscal Year 2002/2003	$ 3,580
7. Estimated Shortfall in Health Insurance Premium Assistance Account (5) + (6)	$ 98,490
8. Required Health Insurance Premium Assistance Contribution Rate	
(a) Estimated 2002/2002 Payroll	$ 10,227,097
(b) Required Health Insurance Premium Assistance Contribution Rate (7) / (8a) (rounded up)	0.97%

Table 4
Summary of Market Value of Plan Assets
As of June 30, 2001
(Dollar Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 2000	$ 53,412,950
2. Contributions During Fiscal Year 2000/2001	765,566
3. Disbursements During Fiscal Year 2000/2001	2,157,420
4. Investment Return During Fiscal Year 2000/2001	
a) Net Investment Return	$ (3,845,437)
b) Administrative Expenses	32,332
c) Investment Return After Expenses (a) - (b)	$ (3,877,769)
5. Market Value of Assets as of June 30, 2001	
(1) + (2) - (3) + (4c)	$ 48,143,327
6. Rate of Return	(7.36)%
Asset Allocation by Account	
1. Members' Savings Account	$ 7,464,404
2. Annuity Reserve Account	16,228,976
3. State Accumulation Account	24,403,575
4. Health Care Account	46,372
5. Total (1) + (2) + (3) + (4)	$ 48,143,327

Table 5
Derivation of Actuarial Value of Assets
As of June 30, 2001
(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 2001 — $ 48,143,327

2. Determination of Deferred Gain (Loss)

	Return on Assets				
Year	Actual	Expected	Difference	% Deferred	Deferred Amount
2000/2001	$ (3,877,769)	$ 4,480,947	$ (8,358,716)	80%	$ (6,686,973)

3. Actuarial Value of Assets (1) - (2) — $ 54,830,300

4. Actuarial Rate of Return * — 14.26%

* The actuarial rate of return is the investment return on the increase in the actuarial value of the assets from the June 30, 2000 valuation to the June 30, 2001 valuation.

Table 6
Analysis of Change in Unfunded Accrued Liability
As of June 30, 2001
(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 2000	$ (9,470,215)
2. Interest Credit at 8.50% to June 30, 2001	(804,968)
3. Contributions Toward Unfunded Accrued Liability	(429,976)
4. Change due to Act 9	5,578,700
5. Change due to Act 38	(4,638,306)
6. Expected Unfunded Accrued Liability at June 30, 2001 (1) + (2) - (3) + (4) + (5)	$ (8,904,813)
7. Actual Unfunded Accrued Liability at June 30, 2001	$ (6,913,006)
8. Increase (Decrease) from Expected	
(6) - (7)	$ (1,991,807)
9. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Loss from Investment Return on Actuarial Value of Assets	$ 1,839,954
(ii) Gain from Salary Increases Less than Expected	(27,891)
(iii) Loss from Retirement and Other Separation Experience	128,321
(iv) Loss from Annuitants' Mortality Experience	51,423
Subtotal	$ 1,991,807
(b) Change in Assumptions	$ -
(c) Grand Total	$ 1,991,807

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
2001	$ 54,830,300	$ 47,917,294	$ 6,913,006	114.4 %	$ 9,414,884	(73.4) %
2000	49,293,047	49,822,832	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

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
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 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, 1999 was contributed in the fiscal year ending June 30, 2001).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2001
Actuarial Cost Method:	Entry Age
Amortization Method:	Level percent closed
Remaining Amortization Period:	10 years
Asset Valuation Method:	5-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)
2001	$ 7,464,404	$ 15,802,140	$ 24,650,750	$ 54,830,300	100%	100%	100%
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%

Table 10
History of Contribution Rates
(4.5%) FY 2001-2002 Assumed Rate of Return

	Contribution Rates					
Fiscal Year	Member	Employer Normal Cost Rate	Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Insurance Rate	Total Employer Rate
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	6.43	5.63	(6.05)	(0.42)	1.09	1.09
2002/2003	**7.10**	**7.20**	**(10.03)**	**1.00**	**0.97**	**1.15**

The return on the market value of assets is assumed to be -4.5% for FY 2001-2002 and 8.5% for subsequent fiscal years. Otherwise, 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
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			**125,880**	**6,836**	**132,716**	**243,311**
2002	11,000	3,890	132,990	7,260	140,250	241,384
2003	9,719	4,057	138,652	7,655	146,307	241,384
2004	10,175	4,206	144,621	8,006	152,627	241,384
2005	10,759	4,348	151,032	8,316	159,348	241,384
2006	11,233	4,502	157,763	8,595	166,358	241,384
2007	11,352	4,644	164,471	8,840	173,311	241,384
2008	11,689	4,793	171,367	9,055	180,422	241,384
2009	11,876	4,942	178,301	9,244	187,545	241,384
2010	11,828	5,075	185,054	9,408	194,462	241,384
2011	11,675	5,224	191,505	9,551	201,056	241,384

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

* Vested Withdrawal - At least 5 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, 2001 unfunded accrued liability is to be amortized over a 10 year period commencing July 1, 2002, with level dollar funding. Changes in the unfunded accrued liability, including actuarial gains and losses, subsequent to June 30, 2001 are to be amortized over a period of 10 years from the first day of July next following the change, with level dollar funding.

Description of Actuarial Assumptions and Methods (Continued)

Asset Valuation Method: A five-year moving market average value of assets that recognizes the 8½% actuarial expected investment return immediately and spreads the difference between the actual and expected return (beginning with the 2000/2001 fiscal year) over a period of five years (adopted as of June 30, 2001).

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, 2001 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 and assumed to elect coverage under Class T-D. 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	2.5% of final average salary times years of school service and intervening military service. 2% of final average salary for non-school service and for members who do not elect Class T-D coverage. Minimum of $100 per year of service. "Final average salary" means the highest average annual salary for any 3 years of service.
	Annual salary is subject to a limit of $200,000, as adjusted under Section 401(a)(17).
	For members who elect coverage under Class T-D, the maximum benefit is equal to the limit established by Section 415 of the Internal Revenue Code.

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.
	For members who elect coverage under Class T-D, the maximum benefit is equal to the limit established by Section 415 of the Internal Revenue Code.

Withdrawal Annuity

Eligibility	5 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.

Summary of Benefit and Contribution Provisions (Continued)

Disability Annuity

Eligibility	5 years of service.
Amount	The standard single life annuity if the total number of credited service is greater than 16.667, otherwise the standard single life annuity multiplied by the lesser of the following ratios: (Y*/Y) or (16.667/Y) where Y is the number of years of credited service and Y* is the total years of credited service if the member were to continue as a school employee until superannuation retirement age (or at current age, if later). Minimum of $100 per year of service.

Return of Contributions

Eligibility	Death or separation from service and member does not qualify for other benefits.
Amount	Refund of accumulated deductions includes interest (less annuity payments received prior to death in the case of a retired member).

Death Benefit

Eligibility	Death of an active member or vestee who was eligible to receive an annuity.
Amount	The present value of the annuity which would have been effective if the member retired on the day before death. Option 1 (see next page) assumed payable if no other option elected.

Normal and Optional Forms of Benefits

Normal Form:	Life annuity with a guaranteed payment equal to member contributions with interest.
Option 1:	Reduced benefit with refund of balance of present value of annuity at retirement over payments received. If balance is less than $5,000, benefit is paid in lump sum; otherwise, beneficiary may elect annuity and/or lump sum.
Option 2:	Joint and 100% survivorship annuity.
Option 3:	Joint and 50% survivorship annuity.
Option 4:	Benefit of equivalent actuarial value, including lump sum payment of member contributions.

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 elect coverage under Class T-D and who were hired prior to July 22, 1983 contribute at a rate of 6½% of compensation, while members who elect coverage under Class T-D who were most recently hired on or after July 22, 1983 contribute at a rate of 7½% of compensation. Members who do not elect coverage under Class T-D and who were hired prior to July 22, 1983 contribute at a rate of 5¼% of compensation, while members who do not elect coverage under Class T-D who were most recently hired on or after July 22, 1983 contributed 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, 2001
(Dollar Amounts in Thousands)

Active Members *

Item	Male	Female	Total
Number of Members	70,329	172,982	243,311
Annual Salaries **	$ 3,213,059	$ 6,201,825	$ 9,414,884
Average Age	45.5	44.9	45.1
Average Service	14.6	11.6	12.5

* Excludes 53,979 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 $9,156,268 reported for the fiscal year ended June 30, 2001 and the expected salaries for the fiscal year ended June 30, 2002.

Annuitants and Beneficiaries

Item	Male	Female	Total
Number of Members	70,329	172,982	243,311
Annual Salaries **	$ 3,213,059	$ 6,201,825	$ 9,414,884
Average Age	45.5	44.9	45.1
Average Service	14.6	11.6	12.5

Exhibit I
Active Membership Data as of June 30, 2001
Number and Average Annual Salary

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 25	62,218	17								6,235
	$ 24,792	$ 25,318								$ 24,791
25 - 29	16,366	3,305	44							19,715
	$ 30,806	$ 38,770	$ 31,187							$ 32,142
30 - 34	10,666	9,300	2,329	481						22,343
	$ 27,871	$ 41,154	$ 44,522	$ 32,671						$ 35,146
35 - 39	10,587	5,144	5,665	1,928	121					23,445
	$ 20,466	$ 36,248	$ 46,265	$ 47,601	$ 34,232					$ 32,465
40 - 44	12,997	6,444	4,906	4,755	2,973	141				32,216
	$ 18,945	$ 29,951	$ 42,057	$ 51,111	$ 52,544	$ 37,897				$ 32,597
45 - 49	10,720	7,669	6,611	4,396	8,561	7,140	87			45,184
	$ 20,892	$ 29,938	$ 39,321	$ 48,448	$ 57,735	$ 59,690	$ 36,219			$ 40,946
50 - 54	6,196	5,438	6,236	4,848	4,891	13,077	9,938	53		50,677
	$ 21,642	$ 29,441	$ 37,260	$ 44,613	$ 53,411	$ 62,222	$ 64,131	$ 36,260		$ 48,484
55 - 59	3,222	2,552	3,300	3,148	3,229	3,281	5,520	2,317	14	26,583
	$ 19,894	$ 25,496	$ 32,079	$ 38,373	$ 43,392	$ 53,650	$ 64,676	$ 66,986	$ 38,729	$ 44,567
60 - 64	1,653	1,289	1,581	1,522	1,785	1,690	904	916	241	11,581
	$ 16,630	$ 22,145	$ 27,886	$ 31,572	$ 35,136	$ 44,589	$ 53,821	$ 65,870	$ 62,824	$ 35,435
Over 64	1,232	832	889	647	579	530	311	128	184	5,332
	$ 13,040	$ 16,624	$ 20,629	$ 24,289	$ 28,303	$ 32,280	$ 40,023	$ 50,684	$ 62,499	$ 23,984
Total	79,857	41,990	31,561	21,292	22,139	25,859	16,760	3,414	439	243,311
Ave. Sal.	$ 23,595	$ 33,053	$ 39,101	$ 44,627	$ 51,271	$ 58,537	$ 63,162	$ 65,598	$ 61,919	$ 38,695

Exhibit II
The Number and Average Annual Annuity
As of June 30, 2001

Retired on Account of Superannuation, Early Retirement and Those in Receipt of Withdrawal Annuities

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50			1,654	490	193	34	2			2,373
			$ 1,039	$ 2,851	$ 6,846	$ 11,614	$ 12,120			$ 2,046
50 - 54			2,162	833	447	417	997	4		4,860
			$ 1,039	$ 2,884	$ 7,328	$ 14,269	$ 29,779	$ 29,415		$ 8,988
55 - 59		1	1,960	1,132	640	764	6,903	726	1	12,127
		$ 2,050	$ 1,317	$ 3,354	$ 7,054	$ 16,751	$ 31,616	$ 36,800	$ 16,126	$ 22,155
60 - 64	76	148	1,759	1,534	1,468	1,853	5,325	3,714	160	16,037
	$ 575	$ 1,813	$ 2,419	$ 5,013	$ 9,284	$ 17,732	$ 29,440	$ 35,959	$ 39,082	$ 22,156
65 - 69	360	714	2,571	2,443	2,819	3,012	3,988	3,132	1,507	20,546
	$ 520	$ 1,872	$ 3,015	$ 5,590	$ 9,801	$ 15,980	$ 24,149	$ 32,326	$ 37,507	$ 17,169
70 - 74	595	1,120	2,849	2,956	3,292	3,339	3,460	2,337	1,460	21,408
	$ 485	$ 1,642	$ 3,080	$ 5,522	$ 9,748	$ 14,939	$ 21,423	$ 28,392	$ 36,890	$ 14,179
75 - 79	584	1,206	2,865	2,954	2,723	2,537	2,038	1,860	773	17,540
	$ 465	$ 1,477	$ 2,997	$ 5,450	$ 9,323	$ 13,526	$ 17,909	$ 22,697	$ 32,947	$ 10,868
80 - 84	450	1,034	2,393	2,118	1,815	1,588	1,222	1,408	492	12,520
	$ 503	$ 1,473	$ 2,971	$ 5,298	$ 8,143	$ 11,566	$ 15,580	$ 18,943	$ 25,581	$ 8,908
85 - 89	294	748	1,262	1,182	985	928	767	1,015	596	7,777
	$ 581	$ 1,677	$ 3,186	$ 5,428	$ 8,382	$ 11,139	$ 14,767	$ 17,840	$ 20,936	$ 9,305
Over 89	40	374	532	569	507	628	528	779	963	4,920
	$ 779	$ 2,091	$ 3,851	$ 6,121	$ 9,182	$ 10,855	$ 13,880	$ 16,509	$ 19,600	$ 11,561
Total	2,399	5,345	20,007	16,211	14,889	15,100	25,230	14,975	5,952	120,108
	$ 508	$ 1,644	$ 2,454	$ 5,088	$ 9,103	$ 14,560	$ 25,737	$ 28,570	$ 31,260	$ 14,655

Exhibit III
The Number and Average Annual Annuity
As of June 30, 2001

Beneficiaries and Survivor Annuitants

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50	1	17	43	34	40	28	15	8	15	201
	$ 217	$ 859	$ 1,444	$ 2,315	$ 4,810	$ 7,122	$ 8,525	$ 6,848	$ 11,267	$ 4,473
50 - 54	2	2	20	21	24	25	41	18	13	166
	$ 291	$ 2,184	$ 1,598	$ 2,348	$ 4,900	$ 9,475	$ 10,736	$ 10,617	$11,385	$ 7,349
55 - 59	2	7	25	30	26	41	78	41	14	264
	$ 381	$ 1,358	$ 1,980	$ 3,107	$ 4,791	$ 10,342	$ 13,277	$ 14,178	$ 6,202	$ 9,111
60 - 64	3	7	51	49	46	43	101	88	36	424
	$ 178	$ 1,293	$ 2,900	$ 3,540	$ 5,481	$ 9,117	$ 12,973	$15,805	$ 15,927	$ 10,022
65 - 69	9	17	76	69	72	66	128	106	60	603
	$ 535	$ 1,620	$ 2,410	$ 3,791	$ 5,604	$ 8,752	$ 11,415	$ 14,622	$ 16,675	$ 9,071
70 - 74	17	49	116	131	112	124	141	186	93	969
	$ 726	$ 1,194	$ 2,441	$ 3,461	$ 5,423	$ 7,124	$ 10,563	$11,646	$15,968	$ 7,677
75 - 79	14	75	183	182	153	173	178	245	95	1,298
	$ 746	$ 1,226	$ 2,232	$ 3,331	$ 5,529	$ 7,401	$ 8,849	$ 10,074	$ 12,665	$ 6,541
80 - 84	20	119	190	152	150	129	176	250	158	1,344
	$ 503	$ 1,073	$ 1,958	$ 3,136	$ 4,712	$ 6,515	$ 7,174	$ 8,964	$ 10,061	$ 5,675
85 - 89	9	77	113	95	87	74	121	196	184	956
	$ 574	$ 1,107	$ 1,870	$ 2,979	$ 4,229	$ 4,856	$ 5,899	$ 7,391	$ 8,523	$ 5,275
Over 89	5	27	50	38	35	46	65	143	200	609
	$ 1,516	$ 895	$ 1,927	$ 2,698	$ 3,670	$ 5,043	$ 5,762	$ 6,315	$ 6,938	$ 5,347
Total	82	397	867	801	745	749	1,044	1,281	868	6,834
	$ 640	$ 1,140	$ 2,129	$ 3,219	$ 5,029	$ 7,244	$ 9,378	$ 10,144	$ 10,612	$ 6,745

Exhibit IV
The Number and Average Annual Annuity
As of June 30, 2001

Retired on Account of Disability

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50		188	187	99	89	18				581
		$ 7,587	$ 9,472	$ 12,765	$ 18,225	$ 24,410				$ 11,227
50 - 54		156	67	129	192	228	24			896
		$ 6,411	$ 9,107	$ 11,904	$ 19,439	$ 27,895	$ 31,244			$ 16,628
55 - 59		159	212	172	220	228	35			1,026
		$ 6,373	$ 7,674	$ 10,258	$ 16,790	$ 25,478	$ 33,883			$ 14,711
60 - 64		162	259	230	206	125	17	2		1,001
		$ 4,859	$ 6,914	$ 9,232	$ 13,696	$ 22,881	$ 26,800	$ 40,265		$ 10,908
65 - 69		153	216	180	145	93	18	1		806
		$ 3,941	$ 5,958	$ 7,940	$ 12,009	$ 18,213	$ 25,002	$ 40,167		$ 8,988
70 - 74		125	176	112	116	65	9	1	1	605
		$ 3,254	$ 4,984	$ 7,568	$ 11,789	$ 16,022	$ 20,384	$ 22,501	$ 50,092	$ 7,928
75 - 79		97	109	78	71	48	18	1		422
		$ 3,062	$ 5,025	$ 6,442	$ 9,723	$ 13,691	$ 16,020	$ 25,335		$ 7,129
80 - 84		47	69	51	47	26	27			267
		$ 2,597	$ 4,749	$ 6,729	$ 8,558	$ 12,334	$ 17,214			$ 7,418
85 - 89		10	34	35	18	16	9			122
		$ 2,669	$ 4,697	$ 6,364	$ 8,041	$ 12,232	$ 13,210			$ 7,119
Over 89			15	12	8	10	2			47
			$ 5,175	$ 5,851	$ 8,714	$ 10,590	$ 11,073			$ 7,353
Total		1,097	1,444	1,098	1,112	857	159	5	1	5,773
		$ 5,180	$ 6,916	$ 9,201	$ 14,645	$ 22,734	$ 24,648	$ 33,707	$ 50,092	$ 11,377

Exhibit V
The Number and Average Annual Annuity
As of June 30, 2001

Those in Receipt of a Refund Annuity

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50										
50 - 54										
55 - 59										
60 - 64										
65 - 69										
70 - 74										
75 - 79										
80 - 84										
85 - 89										
Over 89	1 $ 53									1 $ 53
Total	1 $ 53									1 $ 53

Exhibit VI
Annualtant and Beneficiary Membership Data
As of June 30, 2001

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	19,360	$ 317,209	$ 16,385
60 - 64	16,037	355,318	22,156
65 - 69	20,546	352,762	17,169
70 - 74	21,408	303,535	14,179
75 - 79	17,540	190,624	10,868
Over 79	25,217	240,771	9,548
Total	120,108	$ 1,760,219	$ 14,655
Survivors and Beneficiaries			
Under 60	631	$ 4,524	$ 7,170
60 - 64	424	4,250	10,022
65 - 69	603	5,470	9,071
70 - 74	969	7,439	7,677
75 - 79	1,298	8,490	6,541
Over 79	2,910	15,926	5,473
Total	6,835	$ 46,098	$ 6,744
Disabled Annuitants			
Under 60	2,503	$ 36,515	$ 14,588
60 - 64	1,001	10,919	10,908
65 - 69	806	7,244	8,988
70 - 74	605	4,797	7,928
75 - 79	422	3,008	7,129
Over 79	436	3,195	7,327
Total	5,773	$ 65,678	$ 11,377
Grand Total Average Annual Benefit	132,716	$ 1,817,995	$ 14,105

Exhibit VII

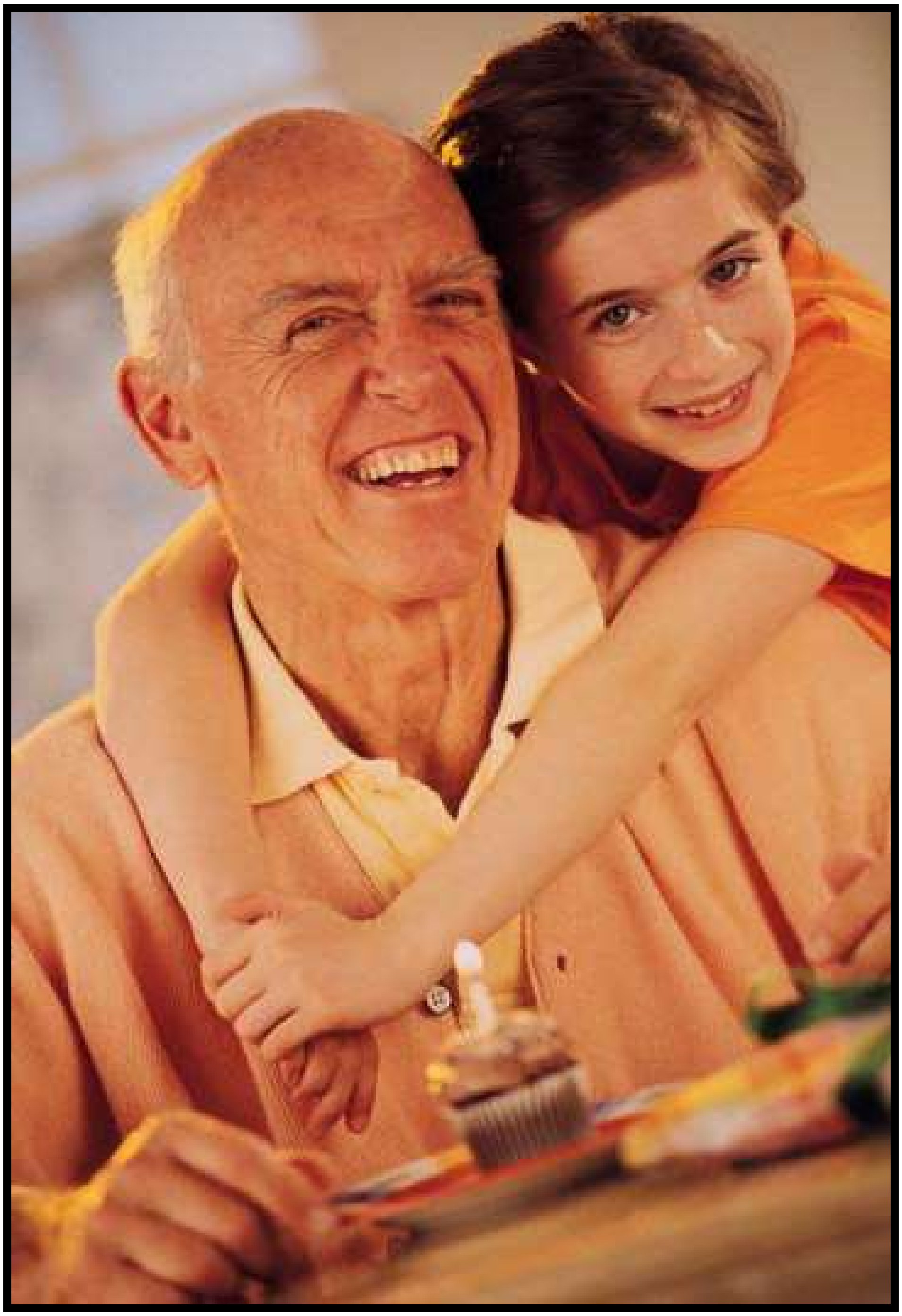
10 Year History of Membership Data

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
2001	243,311	3.89%	$ 9,414,884	5.32%
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%

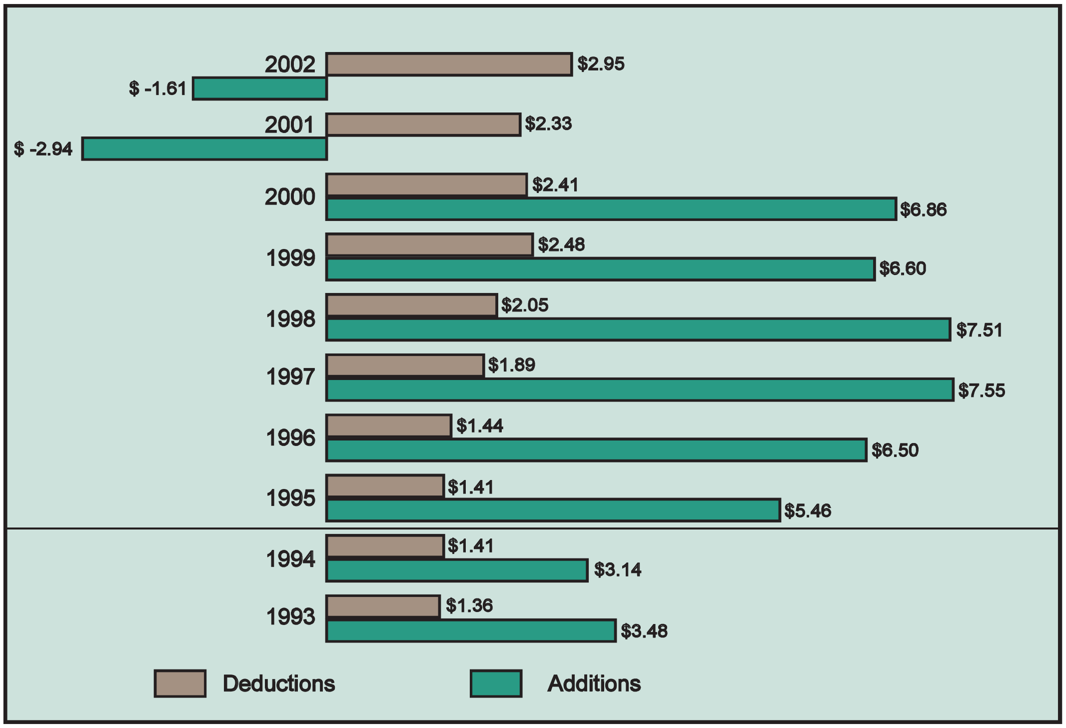
Annuitant and Survivor Annuitant Members

Year Ended June 30	Number on roll	Additions	Deletions	Percentage Change in Membership	Annual Annuities (Dollars in Millions)	Percentage Change in Annuities
2001	132,716	3,140	4,482	(1.00)%	$ 1,872.0	(0.46)%
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%



Statistical Section

Changes in Plan Net Assets* - 2002
Additions vs. Deductions - 10 Year Trend
(Dollar Amounts in Billions)



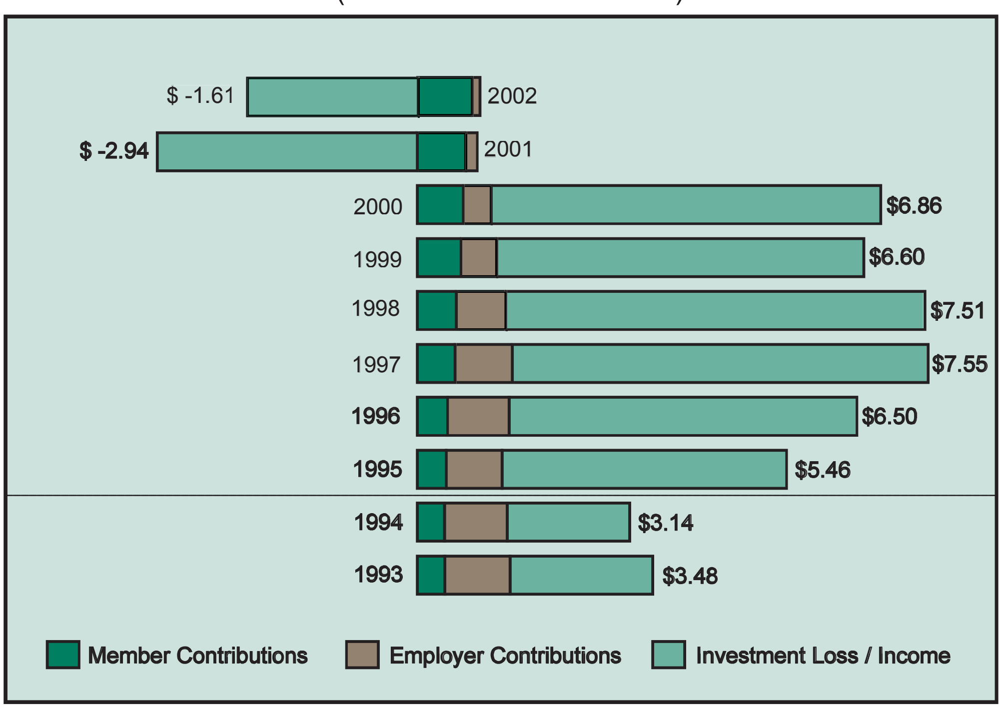
* Data for years after 1994 includes effects of GASB Statement No. 25.

Additions to Plan Net Assets
10 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
2002	$ 805,567	$ 109,450	1.09 %	$ (2,523,025)	(1)	$ (1,608,008)
2001	721,725	185,716	1.94	(3,843,713)	(1)	(2,936,272)
2000	680,040	412,783	4.61	5,765,133	(1)	6,857,956
1999	646,507	526,960	6.04	5,428,659	(1)	6,602,126
1998	578,322	731,131	8.76	6,195,893	(1)	7,505,346
1997	559,070	844,599	10.60	6,147,462	(1)	7,551,131
1996	447,855	909,031	11.72	5,143,223	(1)	6,500,109
1995	428,584	825,446	11.06	4,205,763	(1)	5,459,793
1994	404,183	926,819	13.17	1,810,919		3,141,921
1993	408,588	966,180	14.24	2,107,170		3,481,938

(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)

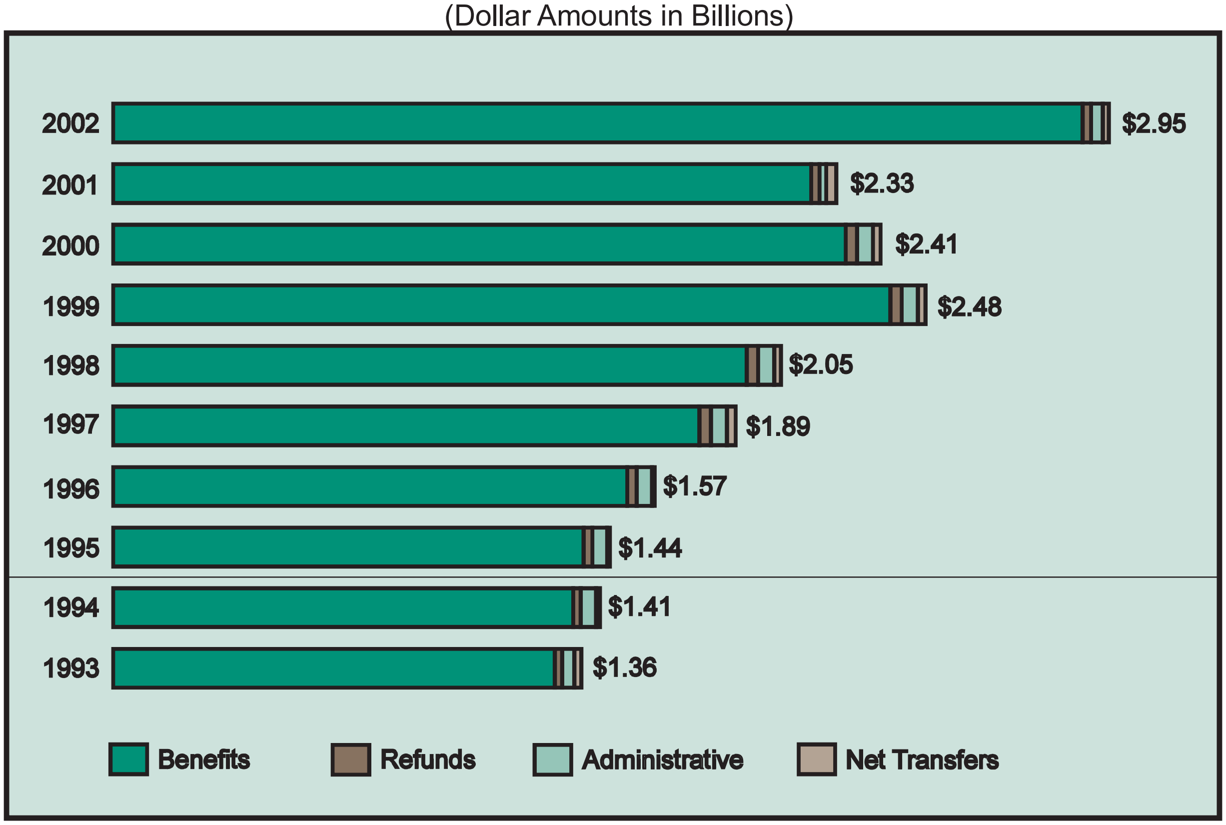


Deductions from Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

Fiscal Year	Benefits	Lump-Sum and Installment	Refunds	Administrative	Net Transfers*	Total Deductions
2002	$ 2,651,049	$ 237,822	$ 14,858	$ 35,373	$ 9,434	$ 2,948,536
2001	2,087,868	176,228	22,369	34,854	10,867	$ 2,332,186
2000	2,048,792	306,329	22,446	29,333	4,710	2,411,610
1999	1,834,494	591,532	20,110	27,786	10,247	2,484,169
1998	1,611,137	376,575	20,503	29,947	7,094	2,045,256
1997	1,445,515	384,234	17,296	26,940	12,074	1,886,059
1996	1,274,235	258,298	14,124	22,643	1,630	1,570,930
1995	1,289,099	112,580	13,008	21,756	1,263	1,437,706
1994	1,148,388	222,918	10,851	23,311	3,843	1,409,311
1993	931,789	384,477	10,876	18,045	10,482	1,355,669

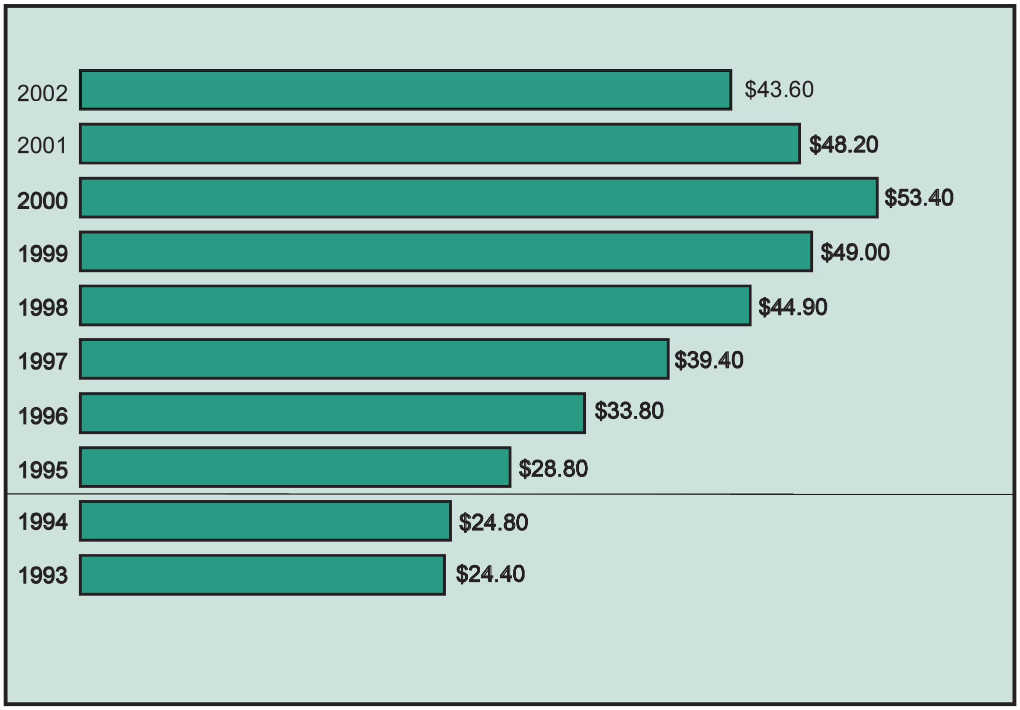
* Net transfers to the Commonwealth of Pennsylvania, State Employees' Retirement System.

(Dollar Amounts in Billions)



Total Net Assets* 10 Year Trend

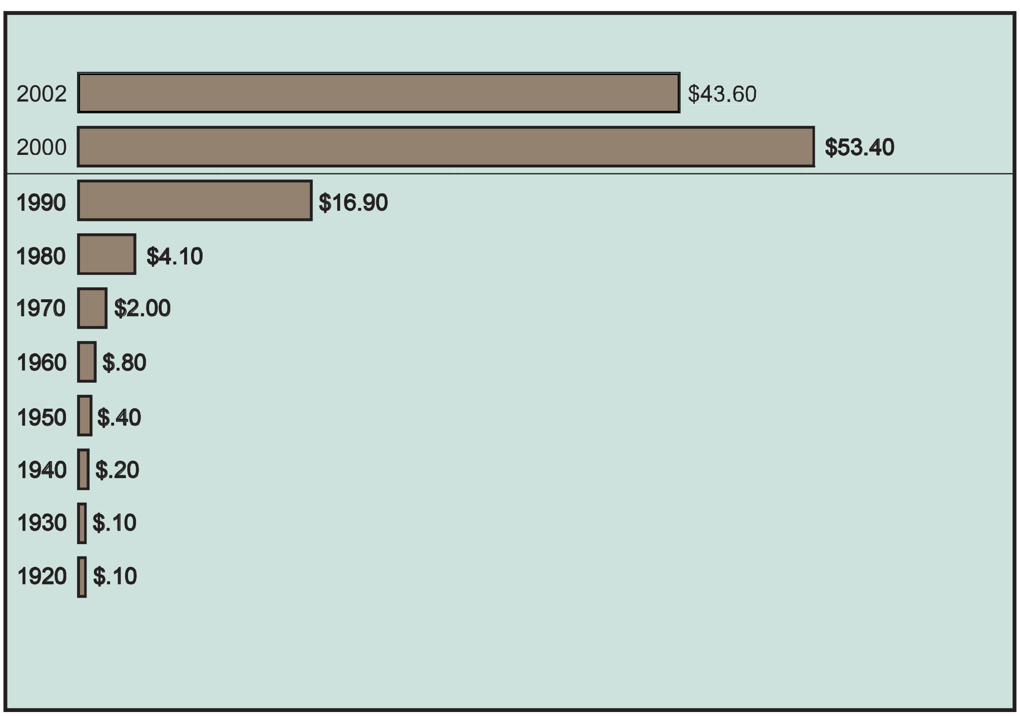
(Fair Value - Amounts in Billions)



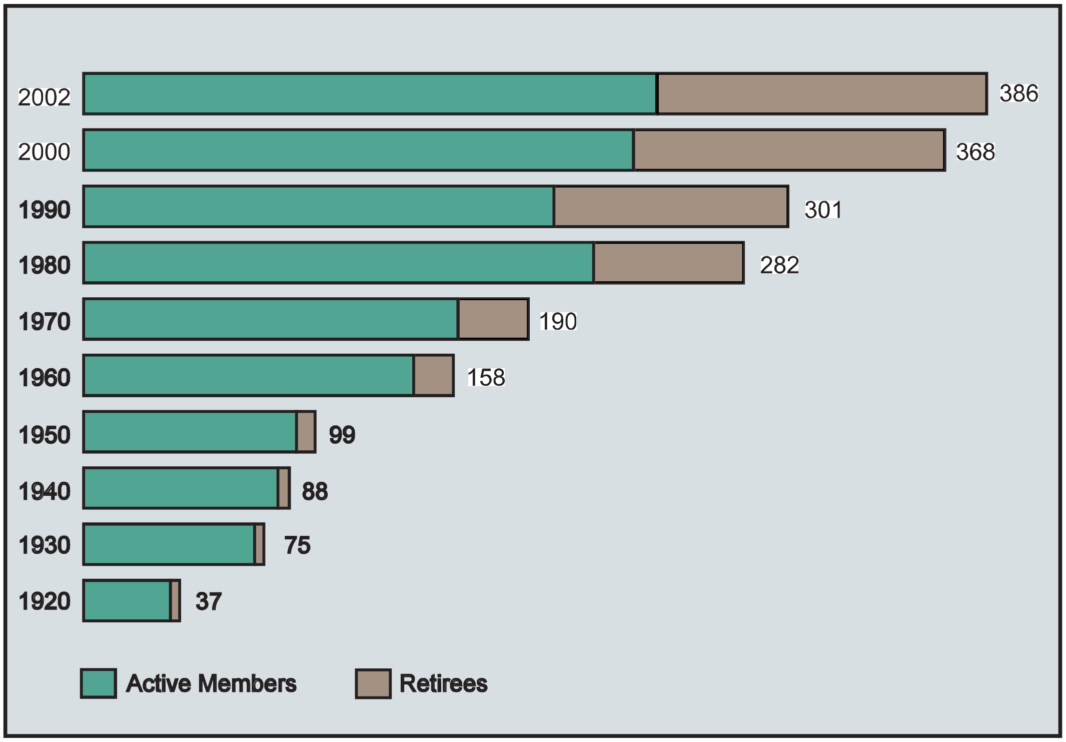
* Includes Postemployment Healthcare.
Data for years after 1994 includes effects of GASB Statement No. 25.

Total Net Assets - 1920 to June 30, 2001

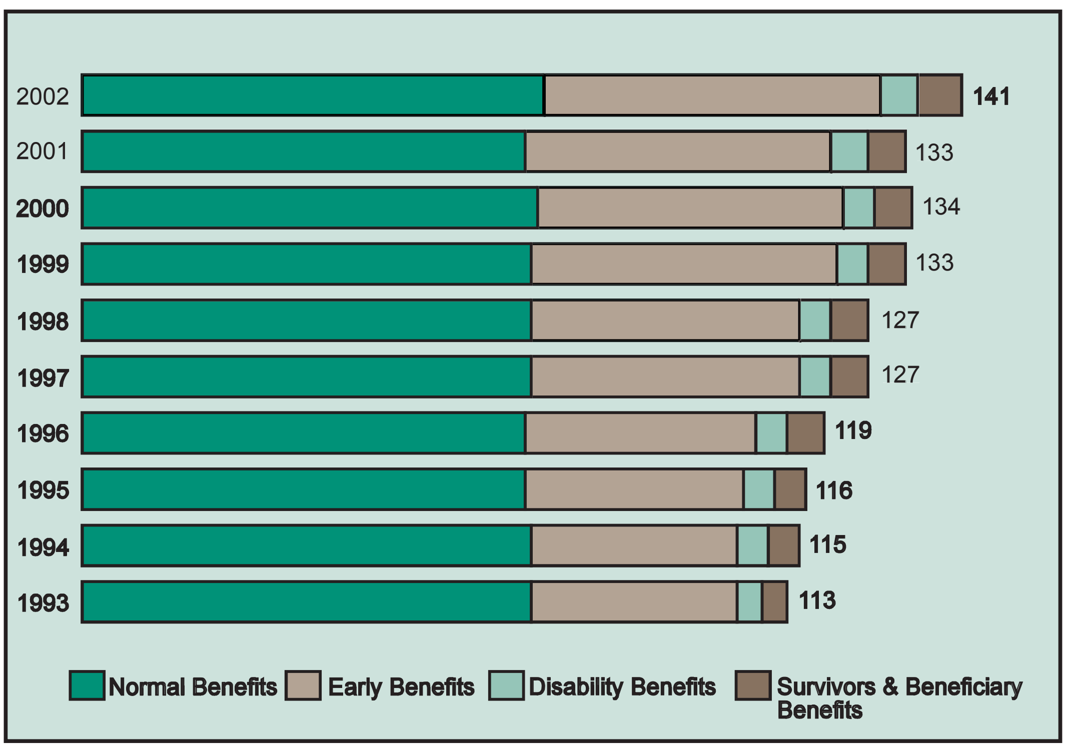
(Fair Value - Amounts in Billions)



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
2002	S	49,368	$1,431	8,422	$1,064	15,695	$1,572
	W	38,679	1,389	6,696	820	7,948	1,415
	D	5,049	1,017	11	700	1,015	1,305
	R	1	5	0	0	0	0
	B	232	814	11	557	6,206	586
		93,329		**15,140**		**30,864**	
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**	

*** 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
2002	S	562	$2,727	0	$ 0	74,047	4.9%
	W	235	2,312	0	0	53,558	8.1%
	D	3	2,099	0	0	6,078	5.3%
	R	0	0	0	0	1	0.0%
	B	148	559	475	553	7,072	3.5%
		948		**475**		**140,756**	**6.0%**
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%**

**** 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.)

21st Century Cyber 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.
Crispus Attucks Youthbuild C.S.
Delaware Valley C.S.
Erin Dudley Forbes 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.
High Tech High Philadelphia C.S.
Imani Education Circle C.S.
IMHOTEP Institute C.S.
Independence 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.
Multi-Cultural Academy
New Foundations C.S.
Northeast C.S.
Northside Urban Pathways C.S.
Nueva Esperanza Academy C.S.
PA Learners Online Regional Cyber C.S.
Pennsylvania Virtual C.S.
People for People 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.

Schedule of Employers (Continued)

Renaissance Academy - Edison C.S.
Richard Allen Preparatory C.S.
Ridgeview Academy C.S.
Roberto Clemente C.S.
Ronald H. Brown C.S.
Russell Byers C.S.
School Lane C.S.
Souderton C.S. Collaborative
Spectrum C.S.
Sugar Valley C.S.
SUSQ-CYBER C.S.
Sylvan Heights Science C.S.
Universal Institute C.S.
Urban League of Pittsburgh C.S.
Village C.S. of Chester-Upland
Wakisha C.S.
West Oak Lane C.S.
Western Pennsylvania Cyber C.S.
Wonderland C.S.
World Communications C.S.
Young Scholars C.S.