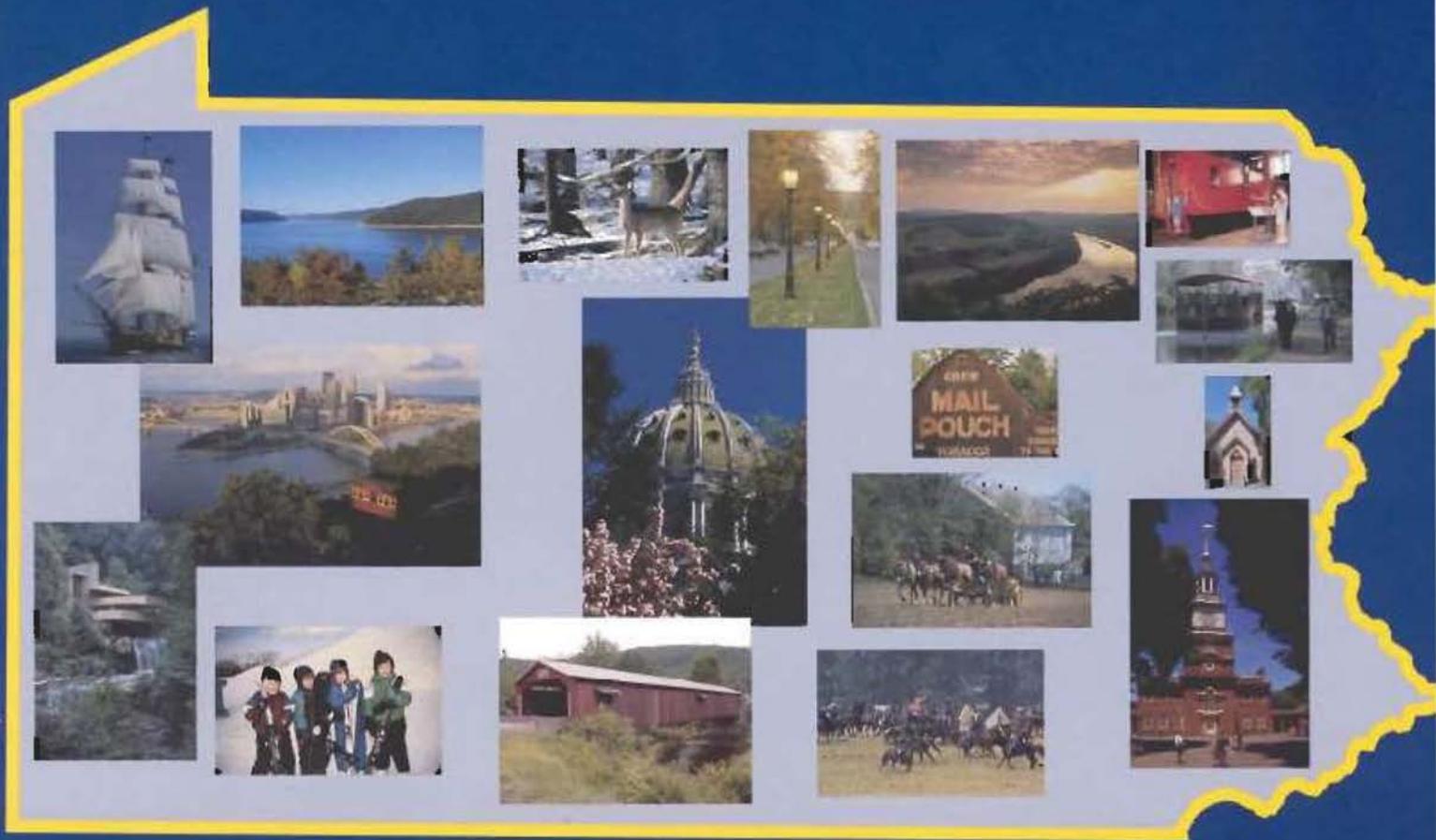


# Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2003



**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

(1-888-PSERS4U)

**Local** - 717-787-8540

## **Comprehensive Annual Financial Report**

for the

Fiscal Year Ended June 30, 2003

**Honorable Barbara Hafer**

***Chairman***

**Roger H. May**

***Vice Chairman***

***Board of Trustees***

**Jeffrey B. Clay**

***Executive Director***

*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, 2002

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.



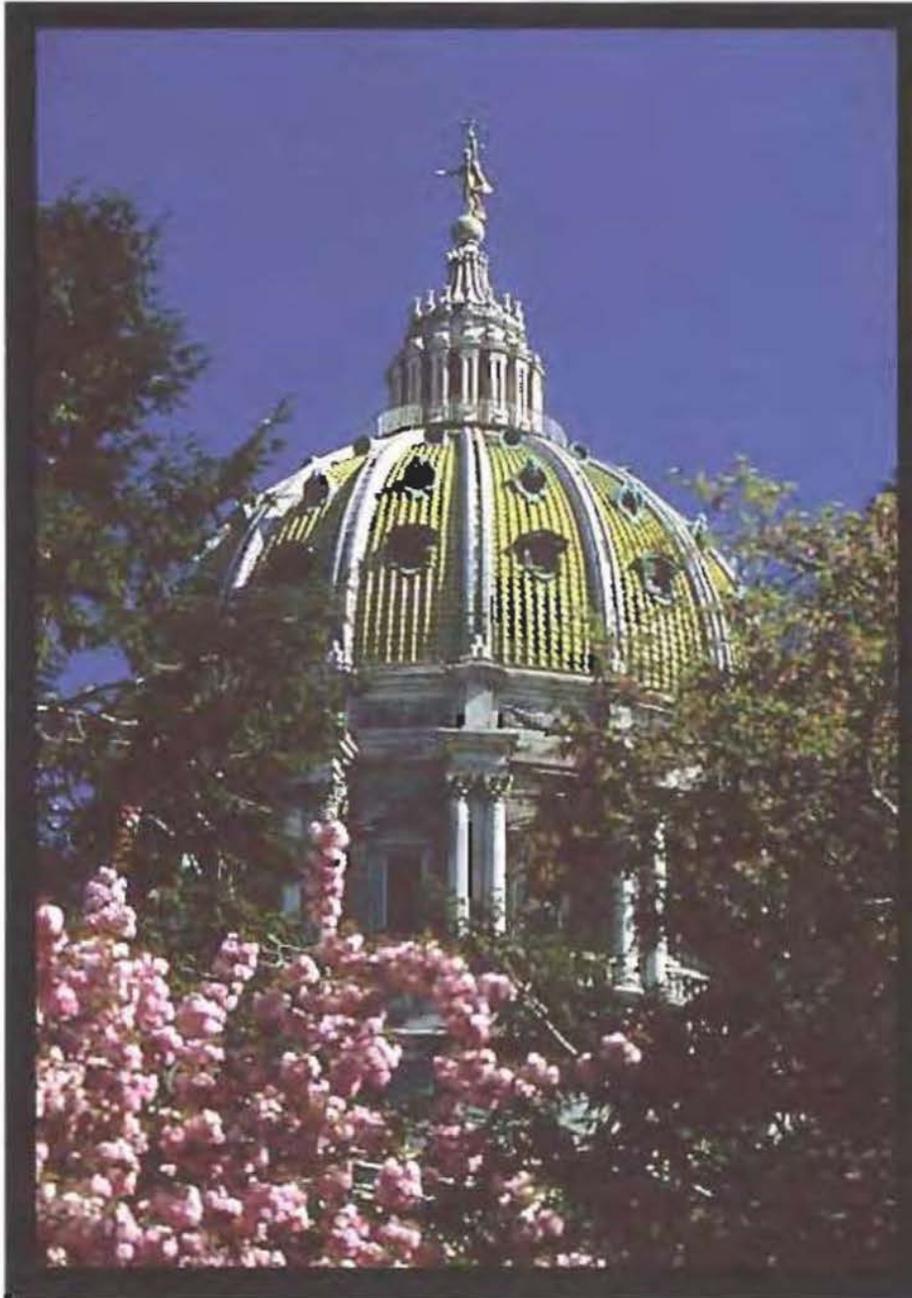
*William Patrick Harte*

President

*Jeffrey R. Emer*

Executive Director

# Introductory Section



*Dome of the Capitol*

Photo By: *Terry Way*  
Provided by: *Commonwealth Media Services*

## Chairman's Report



COMMONWEALTH OF PENNSYLVANIA  
**PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**

Telephone (717) 720-4749

Honorable Barbara Hafer, Chairman of the Board

December 1, 2003

The Honorable Edward G. Rendell  
Governor of Pennsylvania

Members of the Legislature  
Members of the Retirement System

Dear Governor Rendell, 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-fourth *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2003. 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, 2002 Actuarial Valuation was 104.8%.
2. The net assets held in trust for pension benefits were \$42.3 billion at fair value.
3. Net assets held in trust for postemployment healthcare benefits were \$171.5 million at fair value.
4. The active contributing membership of the System numbered approximately 247,000.
5. The number of annuitants totaled over 145,000 and received in excess of \$3.0 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  
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, 2003

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

We are pleased to present the eighty-fourth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 2003. 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 726 reporting entities in Pennsylvania. As of June 30, 2003, the System had approximately 247,000 active members with an annual active payroll of \$10.2 billion.

The annuitant membership at June 30, 2003 was comprised of over 145,000 retirees and beneficiaries who receive nearly \$191 million each month. The average yearly benefit paid to annuitants is \$17,407. 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 726 reporting units contribute. PSERS is administered by a staff of 290. The System is headquartered in Harrisburg, Pennsylvania, and maintains eight field offices in strategic areas of the state to enable direct contact with the membership and the System's employers.

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, the financial statements of the System, and Management's Discussion and Analysis of the financial statements (MD&A); 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. PSERS 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. PSERS has contracted with Clifton Gunderson 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 showed improvement during the fiscal year ended June 30, 2003 (FY2003) enabling PSERS' investment portfolio to generate a rate of return of 2.74%. Despite the positive investment returns, the total net assets of the System decreased from \$43.6 billion to \$42.5 billion from July 1, 2002 to June 30, 2003. The decrease is primarily attributable to the payment of pension benefits that exceeded the sum of member contributions, employer contributions and net investment income.

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 among the top twenty five largest public pension systems in the nation.

## **Major Initiatives**

### **Pension Plan Amendment**

#### **Act 2002 - 38**

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

Specific information concerning 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' project to develop and implement a new pension administration system which began at the end of FY2002, progressed on time and within budget during FY2003. The first part of FY2003 was spent confirming system requirements and developing planning and methodology documents for various aspects of the project, including a Project Management Plan, Software Development Plan, Data Analysis and Cleansing Plan, Data Mapping, Cleansing, and Conversion Plan, Organizational Change Management Plan, Training Plan, System Architecture Design Document, Business Process Analysis Report, and a Concept of Operations Document. These activities and documents established a solid foundation for the complex activities to follow.

The second part of FY2003 was spent finalizing the design of the first release of NPAS, which is scheduled for a July 2004 implementation. Release 1 System Design Specifications and Data Mapping, Cleansing, Conversion, and Bridging Design Specifications were produced. Additionally, the System Test Plan and Training Curricula Design were completed.

The NPAS Team closed FY2003 by meeting with the System's employers, who are most affected with Release 1 of NPAS, to introduce them to the project, its benefits, and the anticipated changes required, and with starting the design of the second Release of NPAS, scheduled for June 2005.

### **Imagine PA Project**

Imagine PA is the Commonwealth's multi-year project to modernize, streamline and standardize key business processes in accounting, budgeting, payroll, human resources and procurement. The aim of the project is to improve public services delivery by redesigning administrative functions and incorporating state-of-the art technology.

To improve its internal business operations, the Commonwealth will use mySAP.com as the Enterprise Resource Planning (ERP) software package to integrate these processes onto a single computer system. The Imagine PA project is being deployed to manage the accounting, budgeting, personnel, payroll, and purchasing functions for state agencies under the Governor's jurisdiction.

During FY2003 PSERS administrative staff involved in these functional areas participated in planning, training and implementation processes to enable PSERS to migrate to the Commonwealth's new ERP-based business information system. The Imagine PA functions are being implemented to affected State agencies over a phased multi-year step plan. PSERS "went live" on July 1, 2002 in the budgeting functional area and on October 1, 2002 in the functional areas of purchasing, and accounting. During the fiscal year ending June 30, 2004, the System is scheduled to begin using Imagine PA employee self-service processes related to employee human resource areas such as employee personal information, leave management, work scheduling, payroll and benefits administration.

### **Investment Accounting System and Independent Accounting Book of Record Projects**

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, and reconciliation and technology services to the System. Over the next two to three years, the System's investment accounting 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.

### **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** of this report.

The System has established policies and procedures for the review and verification of all payments made by PSERS.

The fair value of the System's net assets totaled \$42.5 billion as of June 30, 2003. The System is the 14th 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** of this report.

The System implemented 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 FY2002. The adoption of GASB 34 required the presentation of MD&A as required supplemental information preceding the financial statements in the **Financial Section** of this report.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly and funded by the investment income of the System. For FY2003, the appropriation was \$42.1 million.

## Funding

Funding is the process of specifically setting aside money for current and future use. Proper funding entails an actuarial examination of the fund balances to ensure money will be available for future and current benefit payments.

The results of the latest published actuarial valuation (as of June 30, 2002) indicated that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System at that date. The actuarial valuation measures the progress toward funding pension obligations of the System by comparing the actuarial assets to the actuarial liabilities of the System. The funded status as of the latest actuarial valuation was 104.8%. Additional comparative information on the funded status of PSERS can be found in the **Actuarial Section** and MD&A in the **Financial Section** of this report.

## Investments

Income from the investment portfolio represents the major source of revenue to the System, accounting for over 71% of total revenues over the period from FY1994 to FY2003. During FY2003 net investment income was \$1.0 billion. The investment portfolio totaled \$43.7 billion, at fair value, as of June 30, 2003. For FY2003, the time-weighted rate of return on the System's investments was 2.74%.

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 PSERS 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 PSERS. The investment performance of the System is reviewed by an investment evaluation firm 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 FY2002. 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 20 consecutive years for FY1983 to FY2002. 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 2003 certificate.

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



Jeffrey B. Clay  
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)*



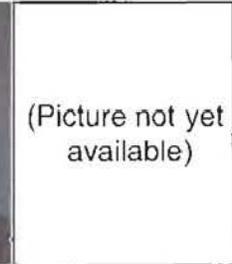
Secretary of Education  
**Honorable Vicki L. Phillips**  
*(ex officio)*



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



Two members appointed by the Governor  
**Thomas G. Paese**



(Picture not yet available)

**Tina S. Byles Poitevien**



One member elected by retired members  
**Sally J. Turley**



Three members elected by active certified contributors  
**Gerald A. Katona**



**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 Pennsylvania Senate  
**Honorable Vincent J. Fumo**



**Honorable Roger A. Madigan**

## PSERS Board of Trustees

as of July, 2003

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

Honorable Barbara Hafer, *Chairman*

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

Honorable Vicki L. Phillips

**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)

Ms. Tina S. Byles Poitevien (term expires 12/31/2005)

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

Mr. Gerald A. Katona, (term expires 12/31/2004)

Mr. Roger H. May, *Vice-Chairman* (term expires 12/31/2003)

Ms. Melva S. Vogler (term expires 12/31/2005)

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

Ms. Susan L. 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 12/31/2005)

**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 11/30/2004)

Honorable Steven R. Nickol (term expires 11/30/2004)

**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)

## 2003 Board Committees

as of July 16, 2003

### Appeals / Member Services

Ms. Clapper, Chair  
 Mr. Gentzel  
 Ms. Hafer  
 Mr. Katona  
 Mr. May  
 Mr. Rose  
 Mrs. Turley  
 Rep. Nickol

### Health Care

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

### Finance

Ms. Vogler, Chair  
 Committee is comprised  
 of all Board members.

### Elections

Rep. Evans, Chair  
 Ms. Clapper  
 Ms. Phillips

### Audit / Budget

Mr. Rose, Chair  
 Rep. Evans  
 Mr. Gentzel  
 Sen. Fumo  
 Sen. Madigan  
 Ms. Vogler

### Personnel

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

### Bylaws / Policy

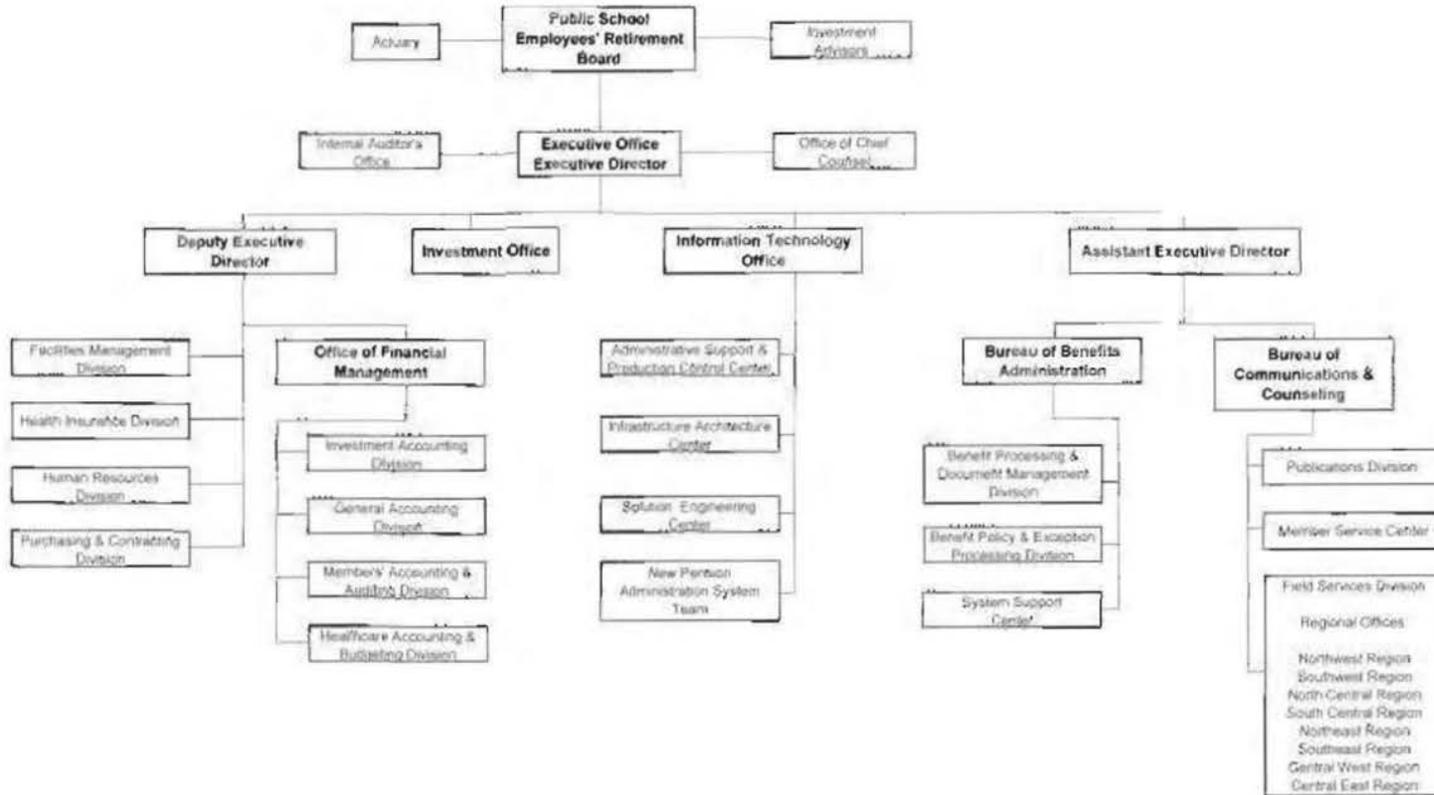
Rep. Nickol, Chair  
 Rep. Evans  
 Mr. Katona  
 Sen. Madigan  
 Ms. Poitevien  
 Mrs. Turley  
 Ms. Vogler

### Technology Steering

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

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

# Organizational Chart of the Public School Employees' Retirement System



## Organizational Structure of the Public School Employees' Retirement System

### Executive Office

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

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

### Investment Office

The Investment Office is responsible for the investment activities of the System. In compliance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous outside professional investment advisors and internal investment professionals. Refer to the **Investment Section** Pages 72 to 76 for lists of professional investment advisors and Page 57 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 \$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 (IAD) 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 IAD 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.

### ***Administrative Support and Production Control Center***

The Administrative Support 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



**Jeffrey B. Clay**  
Executive Director



**Donald J. Halke, II**  
Internal Auditor



**Alan H. Van Noord**  
Chief  
Investment Officer



**Gerald Gornish**  
Chief Counsel



**Terrill J. Savldge**  
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  
Local (814) 437-9845  
FAX (814) 437-5826  
Toll Free 1-888-773-7748 ext. 5175

**NORTHCENTRAL**

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

**NORTHEAST**

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

**SOUTHWEST**

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

**SOUTHEAST**

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

**CENTRALWEST**

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

**SOUTHCENTRAL**

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

**CENTRALEAST**

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

## PSERS Headquarters Building

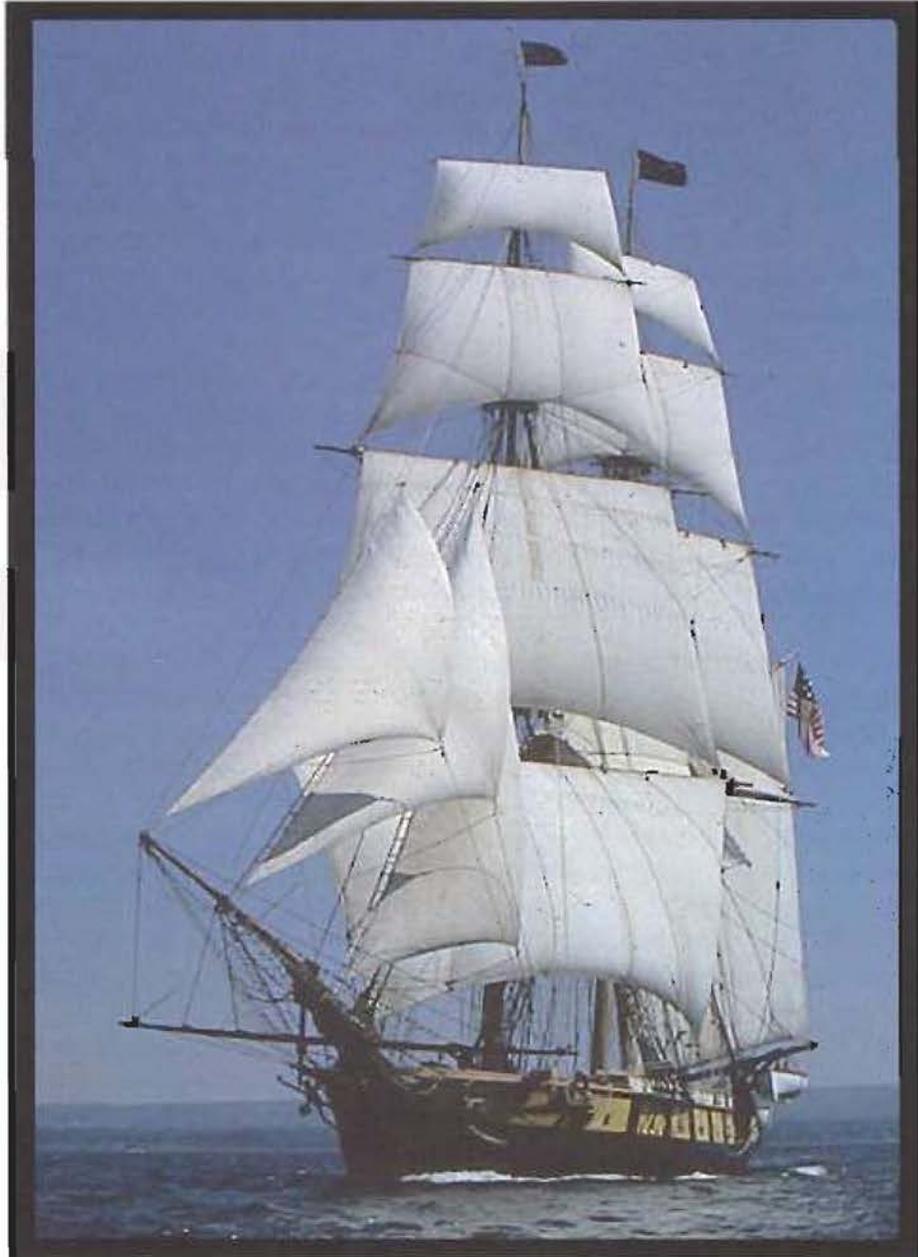


The headquarters of the Public School Employees' Retirement System is located at 5 North Fifth Street in downtown Harrisburg, Pennsylvania near the State Capitol complex. Regional field offices are also maintained in Fleetwood, Franklin, Johnstown, Lock Haven, Mechanicsburg, Pittsburgh, Warminster and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

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



# Financial Section



*U.S. Brig Niagara, Lake Erie*

Photo By: *Jeff Hixon*  
Provided by: *Commonwealth Media Services, 1996*



# Clifton Gunderson LLP

Certified Public Accountants & Consultants

## Independent Auditor's Report

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

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 year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the PSERS' management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of PSERS as of June 30, 2002 were audited by other auditors whose report dated October 15, 2002, expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, PSERS' plan net assets as of June 30, 2003, and the changes in its plan net assets for the year 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 of Funding Progress and Employer Contributions (Schedules 1 and 2) are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The 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 presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

*Clifton Gunderson LLP*

Baltimore, Maryland  
September 16, 2003

Offices in 13 states and Washington, DC



## Management's Discussion and Analysis

This section presents management's discussion and analysis of the Pennsylvania Public School Employees' Retirement System's (PSERS) financial performance for the fiscal year ended June 30, 2003. 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 programs, 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, 2003, 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, 2002 to June 30, 2003, 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 \$1.1 billion from \$43.6 billion at June 30, 2002 to \$42.5 billion at June 30, 2003. The decrease is primarily attributable to the payment of pension benefits that exceeded contributions and net investment income.
- The funded ratio as of the latest actuarial valuation dated June 30, 2002 decreased from 114.4% to 104.8%. The decrease is due to the net effect of the Cost of Living Adjustments (COLA) provided by Act 38 of 2002, the residual effect of Act 9 of 2001, as well as asset and experience losses.
- The rate of return on investments for the fiscal year ended June 30, 2003 (FY 2003) was 2.74% compared to the fiscal year ended June 30, 2002 (FY 2002) return of (5.25)%.
- Total member and employer contributions increased from \$915.0 million in FY 2002 to \$1.0 billion in FY 2003.
- Total PSERS' benefit payouts increased by 6.9% from \$2.9 billion during FY 2002 to \$3.1 billion during FY 2003. The increase is primarily attributable to the impact of the first phase of the Act 38 of 2002 COLA that was effective on July 1, 2002.
- Administrative expenses increased by 19.5% from \$35.4 million in FY 2002 to \$42.3 million in FY 2003 primarily due to the planned increase for the New Pension Administration System (NPAS) project and increases in the HOP claim processing fees under a newly implemented self-funding plan. All administrative expenses 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 PSERS 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 104.8% funded as of June 30, 2002. The results of operations for FY 2003 will be reflected in the actuarial valuation for the year ended June 30, 2003. 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, 2004.

Analysis of Plan Net Assets

(Dollar Amounts in Thousands)

<u>Summary of Plan Net Assets:</u>	<u>FY 2003</u>	<u>FY 2002</u>	<u>Change</u>
<b>Assets:</b>			
Receivables	\$ 1,282,433	\$ 1,386,127	\$ (103,694)
Investments	43,720,004	44,456,217	(736,213)
Securities lending collateral pool	3,387,690	2,282,799	1,104,891
Fixed assets	<u>2,428</u>	<u>3,150</u>	<u>(722)</u>
<b>Total Assets</b>	<b>48,392,555</b>	<b>48,128,293</b>	<b>264,262</b>
<b>Liabilities:</b>			
Payables	2,516,947	2,248,844	268,103
Obligations under securities lending	<u>3,387,690</u>	<u>2,282,799</u>	<u>1,104,891</u>
<b>Total Liabilities</b>	<b>5,904,637</b>	<b>4,531,643</b>	<b>1,372,994</b>
<b>Plan Net Assets</b>	<b><u>\$42,487,918</u></b>	<b><u>\$43,596,650</u></b>	<b><u>\$(1,108,732)</u></b>
<b>Summary of Changes in Plan Net Assets:</b>			
	<u>FY 2003</u>	<u>FY 2002</u>	<u>Change</u>
<b>Additions:</b>			
Contributions	\$ 1,013,763	\$ 915,017	\$ 98,746
Net investment income (loss)	<u>1,022,467</u>	<u>(2,523,025)</u>	<u>3,545,492</u>
<b>Total Additions</b>	<b>2,036,230</b>	<b>(1,608,008)</b>	<b>3,644,238</b>
<b>Deductions:</b>			
Benefit payments	\$ 3,102,684	\$ 2,913,163	\$ 189,521
Administrative expenses	<u>42,278</u>	<u>35,373</u>	<u>6,905</u>
<b>Total Deductions</b>	<b>3,144,962</b>	<b>2,948,536</b>	<b>196,426</b>
<b>Changes in Plan Net Assets</b>	<b><u>\$ (1,108,732)</u></b>	<b><u>\$ (4,556,544)</u></b>	<b><u>\$ 3,447,812</u></b>

## Management's Discussion and Analysis (Continued)

### Investments

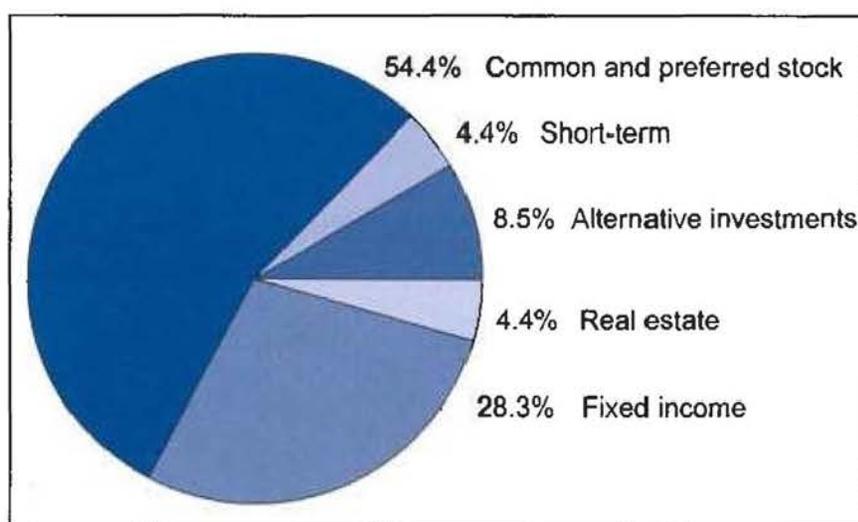
PSERS is a long-term investor and manages the pension fund with long-term objectives in mind. A primary element of PSERS' investment philosophy is that diversification among various asset classes is the best way to achieve its goals. PSERS makes estimates of future long-term returns and establishes an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

For FY 2003, PSERS' rate of return on investments was 2.74%, which is primarily attributable to a strong fixed income market during FY 2003. The annualized rate of return over the past three and five-year periods ended June 30, 2003 was (3.39)% and 2.57%, respectively. The annualized rate of return for the ten-year period ended June 30, 2003 was 8.30% on a gross of fees basis.

The asset distribution of PSERS' portfolio at June 30, 2003 and June 30, 2002, at fair value, including postemployment healthcare assets, was:

<b>Asset Class</b>	(Dollar Amounts in Thousands)			
	<u>2003</u>	<u>%</u>	<u>2002</u>	<u>%</u>
Short-term	\$ 1,907,821	4.4	\$ 1,707,628	3.8
Fixed income	12,372,930	28.3	12,769,652	28.7
Common and preferred stock	23,768,325	54.4	25,280,253	57.0
Real estate	1,934,156	4.4	1,754,636	3.9
Alternative investments	3,736,772	8.5	2,944,048	6.6
<b>Total</b>	<b>\$ 43,720,004</b>	<b>100.0</b>	<b>\$44,456,217</b>	<b>100.0</b>

**Asset Distribution**  
Fiscal Year Ended June 30, 2003



## Management's Discussion and Analysis (Continued)

### Common and preferred stock

Common and preferred stock decreased \$1.5 billion from June 30, 2002 to June 30, 2003 primarily due to negative returns in the domestic and international equity markets and reductions to the asset class during FY 2003 in accordance with PSERS' asset allocation plan.

### Alternative investments

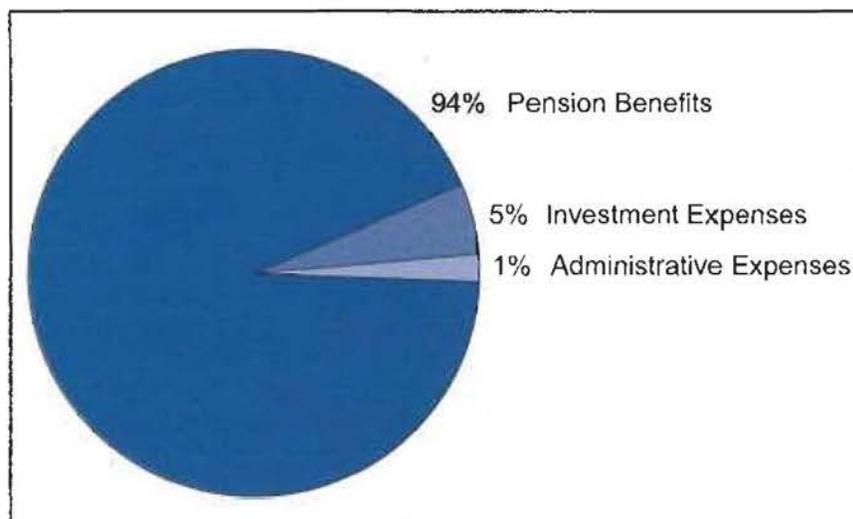
Alternative investments increased \$792.7 million from June 30, 2002 to June 30, 2003 due primarily to the addition of new investment partnerships and the drawdowns of commitments to existing partnerships in accordance with PSERS' asset allocation plan.

### **Contributions and Investment Income**

During FY 2003, contributions from employers and members, including the postemployment healthcare program, totaled \$1.0 billion compared to \$915.0 million during FY 2002. Employer pension contributions increased by \$20.3 million from \$539.0 thousand in FY 2002 to \$20.8 million in FY 2003. The increase was attributable to the increase in the employer pension contribution rate from 0.00% in FY 2002 to 0.18% in FY 2003. Member pension contributions increased by \$89.5 million from \$662.6 million in FY 2002 to \$752.1 million in FY 2003 as a result of the first full-year impact of the increase in the member contribution rate that went into effect January 1, 2002 for members electing T-D class membership service under Act 9 of 2001. The contributions for Premium Assistance decreased by \$13.3 million from \$108.9 million in FY 2002 to \$95.6 million in FY 2003 due to the reduction in the Premium Assistance contribution rate from 1.09% in FY 2002 to 0.97% in FY 2003. Net investment income increased by \$3.5 billion from a net investment loss of \$(2.5) billion in FY 2002 to net investment income of \$1.0 billion in FY 2003. The significant increase in investment performance was primarily attributable to higher returns generated from domestic and international equity and fixed income markets from FY 2002 to FY 2003. Net investment income also includes investment expenses as a deduction. The "Pension Plan Benefits and Expenses" section that follows includes an analysis of investment expenses.

**Management's Discussion and Analysis (Continued)****Pension Plan Benefits and Expenses**

The primary source of expense during FY 2003 was for payment of benefits totaling \$3.1 billion that compares to \$2.9 billion during FY 2002. Investment expenses increased \$16.2 million from \$162.8 million during FY 2002 to \$179.0 million during FY 2003 due primarily to the increase in investment management fees that resulted from growth in alternative investments. Administrative expenses totaled \$42.3 million during FY 2003 compared to \$35.4 million during FY 2002. The increase was largely due to the planned increase for the NPAS project and increases in the HOP claim processing fees under a newly implemented self-funding plan.

**Pension Plan Benefits and Expenses  
Fiscal Year Ended June 30, 2003****Pension Plan Amendments**

Act 38 of 2002 provided a two-phase COLA for retirees. Eligible members who retired prior to July 2, 1990, received a COLA ranging from 8% to 25% depending on their date of retirement. This first phase of the COLA began July 1, 2002. Eligible members who retired on or after July 2, 1990 received a COLA ranging from 2.27% to 9% based on their date of retirement. This second phase of the COLA began 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.

## Statements of Plan Net Assets

Years ended June 30, 2003 and 2002

(Dollar Amounts in Thousands)

	2003			Totals
	Pension	Postemployment Healthcare Premium Assistance	Health Options Program	
<b>Assets:</b>				
Receivables:				
Members	\$ 190,922	\$ 650	\$ 36	\$ 191,608
Employers	7,421	29,344	-	36,765
Investment income	151,801	574	42	152,417
Investment proceeds	899,329	-	-	899,329
Miscellaneous	2,246	26	42	2,314
<b>Total Receivables</b>	<b>1,251,719</b>	<b>30,594</b>	<b>120</b>	<b>1,282,433</b>
Investments, at fair value:				
Short-term	1,745,381	100,198	62,242	1,907,821
Fixed income	12,372,930	-	-	12,372,930
Common and preferred stock	23,768,325	-	-	23,768,325
Real estate	1,934,156	-	-	1,934,156
Alternative investments	3,736,772	-	-	3,736,772
<b>Total Investments</b>	<b>43,557,564</b>	<b>100,198</b>	<b>62,242</b>	<b>43,720,004</b>
Securities lending collateral pool	3,387,690	-	-	3,387,690
Capital assets (net of accumulated depreciation of \$8,921)	2,428	-	-	2,428
<b>Total Assets</b>	<b>48,199,401</b>	<b>130,792</b>	<b>62,362</b>	<b>48,392,555</b>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	29,287	250	8,453	37,990
Benefits payable	175,331	95	-	175,426
Participant premium advances	-	-	12,817	12,817
Investment purchases and other liabilities	2,290,714	-	-	2,290,714
Obligations under securities lending	3,387,690	-	-	3,387,690
<b>Total Liabilities</b>	<b>5,883,022</b>	<b>345</b>	<b>21,270</b>	<b>5,904,637</b>
<b>Net assets held in trust for pension and postemployment healthcare benefits:</b>				
(A schedule of funding progress is presented on Required Supplemental Schedule 1)	\$42,316,379	\$ 130,447	\$ 41,092	\$42,487,918

These financial statements should be read only in connection with the accompanying notes to financial statements.

## Statements of Plan Net Assets

Years ended June 30, 2003 and 2002

(Dollar Amounts in Thousands)

	2002			Totals
	Pension	Postemployment Healthcare Premium Assistance	Health Options Program	
<b>Assets:</b>				
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
<b>Total Receivables</b>	<b>1,349,616</b>	<b>36,396</b>	<b>115</b>	<b>1,386,127</b>
Investments, at fair value:				
Short-term	1,595,427	67,063	45,138	1,707,628
Fixed income	12,769,652	-	-	12,769,652
Common and preferred stock	25,280,253	-	-	25,280,253
Real estate	1,754,636	-	-	1,754,636
Alternative investments	2,944,048	-	-	2,944,048
<b>Total Investments</b>	<b>44,344,016</b>	<b>67,063</b>	<b>45,138</b>	<b>44,456,217</b>
Securities lending collateral pool	2,282,799	-	-	2,282,799
Capital assets (net of accumulated depreciation of \$8,127)	3,150	-	-	3,150
<b>Total Assets</b>	<b>47,979,581</b>	<b>103,459</b>	<b>45,253</b>	<b>48,128,293</b>
<b>Liabilities:</b>				
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
<b>Total Liabilities</b>	<b>4,506,332</b>	<b>155</b>	<b>25,156</b>	<b>4,531,643</b>
<b>Net assets held in trust for pension and postemployment healthcare benefits:</b>				
(A schedule of funding progress is presented on Required Supplemental Schedule 1)	\$43,473,249	\$ 103,304	\$ 20,097	\$43,596,650

These financial statements should be read only in connection with the accompanying notes to financial statements.

## Statements of Changes in Plan Net Assets

Years ended June 30, 2003 and 2002

(Dollar Amounts in Thousands)

	2003			Totals
	Postemployment Healthcare			
	Pension	Premium Assistance	Health Options Program	
<b>Additions:</b>				
Contributions:				
Members	\$ 752,110	\$ -	\$ 145,197	\$ 897,307
Employers	20,831	95,625	-	116,456
<b>Total contributions</b>	<b>772,941</b>	<b>95,625</b>	<b>145,197</b>	<b>1,013,763</b>
Investment income (loss):				
From investing activities:				
Net depreciation in fair value of investments	(170,101)	(2,405)	-	(172,506)
Short-term	26,016	3,566	596	30,178
Fixed income	655,861	-	-	655,861
Common and preferred stock	480,735	-	-	480,735
Real estate	139,267	-	-	139,267
Alternative investments	52,956	-	-	52,956
<b>Total investment activity income (loss)</b>	<b>1,184,734</b>	<b>1,161</b>	<b>596</b>	<b>1,186,491</b>
Investment expenses	(179,033)	(23)	-	(179,056)
<b>Net income (loss) from investing activities</b>	<b>1,005,701</b>	<b>1,138</b>	<b>596</b>	<b>1,007,435</b>
From securities lending activities:				
Securities lending income	43,870	-	-	43,870
Securities lending expense	(28,838)	-	-	(28,838)
<b>Net income from securities lending activities</b>	<b>15,032</b>	<b>-</b>	<b>-</b>	<b>15,032</b>
<b>Total net investment income (loss)</b>	<b>1,020,733</b>	<b>1,138</b>	<b>596</b>	<b>1,022,467</b>
<b>Total Additions</b>	<b>1,793,674</b>	<b>96,763</b>	<b>145,793</b>	<b>2,036,230</b>
<b>Deductions:</b>				
Benefits	2,890,192	67,688	118,745	3,076,625
Refunds of contributions	13,943	-	-	13,943
Net transfer to State Employees' Retirement System	12,116	-	-	12,116
Administrative expenses	34,293	1,932	6,053	42,278
<b>Total Deductions</b>	<b>2,950,544</b>	<b>69,620</b>	<b>124,798</b>	<b>3,144,962</b>
<b>Net (decrease) increase</b>	<b>(1,156,870)</b>	<b>27,143</b>	<b>20,995</b>	<b>(1,108,732)</b>
<b>Net assets held in trust for pension and postemployment healthcare benefits:</b>				
<b>Balance, beginning of year</b>	<b>43,473,249</b>	<b>103,304</b>	<b>20,097</b>	<b>43,596,650</b>
<b>Balance, end of year</b>	<b>\$42,316,379</b>	<b>\$ 130,447</b>	<b>\$ 41,092</b>	<b>\$42,487,918</b>

These financial statements should be read only in connection with the accompanying notes to financial statements.

## Statements of Changes in Plan Net Assets

Years ended June 30, 2003 and 2002

(Dollar Amounts in Thousands)

	2002			
	Pension	Postemployment Healthcare		Totals
		Premium Assistance	Health Options Program	
<b>Additions:</b>				
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 income (loss):				
From investing activities:				
Net depreciation in fair value of investments	(3,826,141)	(564)	-	(3,826,705)
Short-term	43,668	2,159	1,035	46,862
Fixed income	806,373	-	-	806,373
Common and preferred stock	446,784	-	-	446,784
Real estate	131,890	-	-	131,890
Alternative investments	18,294	-	-	18,294
Total investment activity income (loss)	(2,379,132)	1,595	1,035	(2,376,502)
Investment expenses	(162,755)	(22)	-	(162,777)
Net income (loss) 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 income (loss)	(2,525,633)	1,573	1,035	(2,523,025)
<b>Total Additions</b>	<b>(1,862,533)</b>	<b>110,484</b>	<b>144,041</b>	<b>(1,608,008)</b>
<b>Deductions:</b>				
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
<b>Total Deductions</b>	<b>2,761,173</b>	<b>53,552</b>	<b>133,811</b>	<b>2,948,536</b>
<b>Net (decrease) increase</b>	<b>(4,623,706)</b>	<b>56,932</b>	<b>10,230</b>	<b>(4,556,544)</b>
<b>Net assets held in trust for pension and postemployment healthcare benefits:</b>				
Balance, beginning of year	48,096,955	46,372	9,867	48,153,194
<b>Balance, end of year</b>	<b>\$ 43,473,249</b>	<b>\$ 103,304</b>	<b>\$ 20,097</b>	<b>\$ 43,596,650</b>

These financial statements should be read only in connection with the accompanying notes to financial statements.

## Notes to Financial Statements

### June 30, 2003 and 2002

#### (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 Pamphlet 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, 2003, there were 726 participating employers, generally school districts. Membership as of June 30, 2002, the most recent year for which actual amounts are available, consisted of:

Currently employed members:		
Vested	162,000	
Nonvested	<u>81,000</u>	
<b>Total currently employed members</b>		<b>243,000</b>
Retirees and beneficiaries currently receiving benefits	141,000	
Inactive members and vestees entitled to but not receiving benefits	<u>61,000</u>	
<b>Total retirees and other members</b>		<b><u>202,000</u></b>
<b>Total number of members</b>		<b><u>445,000</u></b>

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 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 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 care program for the sole benefit of PSERS retirees, survivor annuitants, and the spouse, surviving spouse and dependents of retirees or survivor annuitants. Benefits are provided by insurance carriers, health maintenance organizations or by third-party administrators. All retirees are eligible to participate in the High or Standard Options (indemnity plans) regardless of their residence. The HMO, POS and PPO Options (managed care plans) are available to retirees residing in the plan's service area. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect. The hospital, medical/surgical and major medical benefits of the High and Standard Option are self-funded with aggregate stop-loss insurance. PSERS uses a third-party administrator to process these claims. An independent actuarial consulting firm sets the rates for the self-funded benefits so that the combination of contributions and the claims fluctuation reserve equal 125% of expected annual incurred claims. Aggregate stop-loss insurance is purchased to pay claims in excess of 125% of expected annual incurred claims up to the limit of the policy. The HOP maintains a reserve for claims that are incurred but not reported (IBNR). At June 30, 2003, PSERS recorded \$5.5 million in IBNR. The prescription drug benefits of the High Option and the HMO, POS and PPO Options are fully insured. 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 1.15% and 1.09% of qualified compensation for the years ended June 30, 2003 and 2002, 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.

**Notes to Financial Statements (Continued)**

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 .97% and 1.09% for the years ended June 30, 2003 and 2002, respectively.

**(2)****Summary of Significant Accounting Policies****(a) Basis of Accounting**

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

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. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2003, \$132,000,000 in line of credit advances were netted against the related property valuation. The line of credit balance is due on March 19, 2004. The line is payable at an interest rate equivalent to the lender's commercial paper rate and is collateralized by certain fixed income investments of the System.

**Notes to Financial Statements (Continued)**

Private equity, private debt, venture capital and equity real estate investments are primarily valued based on amounts established by valuation committees. The values for private equity, private debt, venture capital and equity real estate investments are reported on a one-quarter lag (March 31) adjusted for cash flows and significant unrealized 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.

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.

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, 2003 and 2002, \$3,023,000 and \$2,947,000, 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 2003 and 2002 related to health care coverage to be provided in 2004 and 2003, respectively.

**Notes to Financial Statements (Continued)****(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 sponsored 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 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 2002 balances have been reclassified to conform with 2003 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.

## Notes to Financial Statements (Continued)

### (k) Members Receivables

Members receivables include an amount for members' obligations to the System for the purchase of service credit in the amount of \$121,900,000. 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 \$99,700,000 of the \$190,922,000 members pension receivables at June 30, 2003 are expected to be collected by the System subsequent to June 30, 2004.

### (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.

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

**(f) Pension and Postemployment Healthcare Net Assets**

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

	<b>(Dollar Amounts in Thousands)</b>	
	<b>2003</b>	<b>2002</b>
Pension:		
State accumulation account	\$ 11,318,193	\$ 16,040,082
Members' savings account	8,282,753	7,780,370
Reserve for retirement account	<u>22,715,433</u>	<u>19,652,797</u>
	<u>\$ 42,316,379</u>	<u>\$ 43,473,249</u>
Postemployment healthcare:		
Health insurance account	\$ 130,447	\$ 103,304
Health insurance program account	41,092	20,097

**(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)	
	2003	2002
<b>Pension investments:</b>		
<b>Short-term:</b>		
Pennsylvania Treasury Domestic Short-Term Investment Fund	\$ 1,352,515	\$ 1,275,222
Other domestic short-term	324,702	270,667
International short-term	68,164	49,538
	<b>1,745,381</b>	<b>1,595,427</b>
<b>Fixed income:</b>		
Domestic mortgage-backed securities	5,745,057	5,171,543
U.S. government and agency obligations	1,013,771	1,156,844
Domestic corporate and taxable municipal bonds	3,519,398	3,889,054
Miscellaneous domestic fixed income	325,203	377,566
Collective trust funds	380,408	651,925
International fixed income	1,389,093	1,522,720
	<b>12,372,930</b>	<b>12,769,652</b>
<b>Common and preferred stock:</b>		
Domestic common and preferred stock	15,737,452	16,399,629
Collective trust funds	539,600	617,249
International common stock	7,491,273	8,263,375
	<b>23,768,325</b>	<b>25,280,253</b>
<b>Real estate:</b>		
Equity real estate	1,511,803	1,272,826
Real estate owned	422,353	481,810
	<b>1,934,156</b>	<b>1,754,636</b>
<b>Alternative investments:</b>		
Private equity	2,392,040	2,068,683
Private debt	1,153,106	644,171
Venture capital	191,626	231,194
	<b>3,736,772</b>	<b>2,944,048</b>
Pension investments at fair value	<b>\$43,557,564</b>	<b>\$44,344,016</b>
<b>Postemployment Healthcare short-term investments:</b>		
Premium Assistance:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	\$ 27,154	\$ 27,101
Other domestic short-term	73,044	39,962
	<b>100,198</b>	<b>67,063</b>
Health Options Program:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	30,431	28,676
Other domestic short-term	31,811	16,462
	<b>62,242</b>	<b>45,138</b>
Postemployment Healthcare investments at fair value	<b>\$ 162,440</b>	<b>\$ 112,201</b>

**Notes to Financial Statements (Continued)**

During the fiscal years ended June 30, 2003 and 2002, 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, 2003 and 2002. 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, 2003 and 2002**  
(Dollar Amounts in Thousands)

	Fair Value	
	2003	2002
Investments – Category 1		
Domestic mortgage-backed securities	\$ 5,510,242	\$ 5,171,543
U.S. government and agency obligations	300,975	411,106
Domestic corporate and taxable municipal bonds	3,225,505	3,523,134
Miscellaneous domestic fixed income	325,203	377,566
International fixed income	1,189,225	1,443,619
Domestic common and preferred stock	15,080,959	16,214,804
International common stock	6,329,856	7,414,208
International short-term (1)	68,164	49,538
Other domestic short-term (2)	429,557	327,091
Subtotal	<b>32,459,686</b>	<b>34,932,609</b>
Investments – not categorized		
Investments held by broker dealers under securities loans:		
Domestic mortgage-backed securities	234,815	-
U.S. government and agency obligations	712,796	745,738
Domestic corporate and taxable municipal bonds	293,893	365,920
International fixed income	199,868	79,101
Domestic common and preferred stock	656,493	184,825
International common stock	1,161,417	849,167
Collective trust funds – fixed income and equity	920,008	1,269,174
Equity real estate	1,511,803	1,272,826
Real estate owned	422,353	481,810
Private equity	2,392,040	2,068,683
Private debt	1,153,106	644,171
Venture capital	191,626	231,194
Pennsylvania Treasury Domestic Short-Term Investment Fund (3)	1,410,100	1,330,999
Total Pension and Postemployment Healthcare investments	<b>\$ 43,720,004</b>	<b>\$ 44,456,217</b>

(1) International short-term investments consist of foreign currency holdings.

(2) Includes \$104,855 and \$56,424 of Postemployment Healthcare investments at June 30, 2003 and 2002, respectively. The remaining other domestic short-term investments consist primarily of U.S. Treasury Bills and certain government and agency obligations.

(3) Includes \$57,585 and \$55,777 of Postemployment Healthcare investments at June 30, 2003 and 2002, 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, 2003 and 2002, 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 same 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, 2003 and 2002 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, 2003 and 2002.

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 18 days and 27 days at June 30, 2003 and 2002, 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, 2003, the fair value of loaned securities was \$3,439,882,000 which includes \$180,600,000 of loaned securities which are collateralized by securities and irrevocable letters of credit that are not included in the Statement of Plan Net Assets. The fair value of the associated collateral was \$3,569,998,000 of which \$3,387,690,000 was cash. 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 was 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. 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 obtain or 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, 2003 and 2002 (in thousands):

	2003	2002
Futures contracts – long	\$5,067,677	\$4,974,538
Futures contracts – short	2,727,179	3,286,061
Foreign exchange forward and spot contracts, gross	2,792,438	3,287,684
Options – calls purchased	85,070	83,000
Options – puts purchased	66,213	-
Options – calls sold	96,320	214,148
Options – puts sold	1,523,489	129,602

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, 2003 and 2002 represent a restriction on the amount of assets available as of year-end for 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 \$2,792,438,000 of foreign currency contracts outstanding at June 30, 2003 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of \$1,766,479,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of \$1,025,959,000. The \$3,287,684,000 of foreign currency contracts outstanding at June 30, 2002 consist of "buy" contracts of \$2,223,356,000 and "sell" contracts of \$1,064,328,000. The unrealized gain on contracts of \$3,234,000 and \$54,776,000 at June 30, 2003 and 2002, 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 of mortgages, 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, 2003 and 2002 is \$2,325,381,000 and \$2,229,059,000, 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 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 0.18% at June 30, 2003, 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, 2003, June 30, 2002 and June 30, 2001 were \$0, \$0 and \$87,000 respectively.

## Notes to Financial Statements (Continued)

(7)  
**Litigation and Contingencies**

The System is subject to various threatened and pending lawsuits. These lawsuits include issues related to benefit calculations and eligibility including challenges to amendments to the Public School Employees' Retirement Code which increased retirement benefits for certain active public school employees but did not provide for increased benefits for employees who retired before the effective date of the amendments. 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 2002 - 38**

On April 23, 2002, Governor Mark Schweiker 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 of 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:

**Notes to Financial Statements (Continued)**

Date of Retirement	Percentage of 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%

**(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 of percentage of covered payroll (3) / (5)
2002	# \$ 51,796.5	\$ 54,296.4	\$ (2,499.9)	104.8%	\$ 9,378.9	(26.7)%
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)%

\* 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
2003	\$ 20,831	100%
2002	539	100%
2001	158,193	100%
2000	390,504	100%
1999	513,940	100%
1998	718,431	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, 2003 and 2002

(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, 2002, 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 amortizations 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, 2003**

(Dollar Amounts in Thousands)

	Administrative expenses (1)	Investment expenses (2)	Total
<b>Personnel costs:</b>			
Salaries and wages	\$ 13,269	\$ 2,017	\$ 15,286
Social security contributions	1,010	155	1,165
Retirement contributions	9	1	10
Employees' insurance contributions	2,331	267	2,598
Other employee benefits	303	315	618
<b>Total personnel costs</b>	<b>16,922</b>	<b>2,755</b>	<b>19,677</b>
<b>Operating costs:</b>			
Investment managers' fees	-	171,709	171,709
Custodian fees	-	370	370
Specialized services	14,464	7	14,471
Rental of real estate, electricity	1,522	111	1,633
Consultant and legal fees	1,047	2,153	3,200
Treasury and other Commonwealth services	1,102	83	1,185
Postage	1,407	-	1,407
Contracted maintenance and repair services	475	12	487
Office supplies	361	6	367
Rental of equipment and software	1,311	3	1,314
Printing	703	-	703
Travel and training	348	35	383
Telecommunications	709	5	714
Equipment (not capitalized)	676	114	790
Miscellaneous expenses	350	1,693	2,043
<b>Total operating expenses</b>	<b>24,475</b>	<b>176,301</b>	<b>200,776</b>
<b>Fixed charges:</b>			
Furniture and fixtures	9	-	9
Depreciation	872	-	872
<b>Total fixed charges</b>	<b>881</b>	<b>-</b>	<b>881</b>
<b>Total operating expenses</b>	<b>\$ 42,278</b>	<b>\$ 179,056</b>	<b>\$ 221,334</b>

(1) Includes administrative expenses of \$1,932 related to Postemployment Healthcare Premium Assistance and \$6,053 related to Postemployment Healthcare Health Options Program for the fiscal year ended June 30, 2003.

(2) Does not include \$23,368 in capitalized broker commissions for the fiscal year ended June 30, 2003.

**Supplemental Schedule 2**  
**Summary of Investment Expenses**  
**Fiscal Year Ended June 30, 2003**

(Dollar Amounts in Thousands)

	<b>Assets under management*</b>	<b>Fees</b>
<b>External management</b>		
Domestic equity	\$ 6,126,000	\$ 17,140
International equity	7,379,000	20,131
Fixed income	7,301,000	13,115
Real estate	2,508,000	35,143
Private equity and debt	3,545,000	75,265
Venture capital	192,000	10,915
<b>Total external management</b>	<b>27,051,000</b>	<b>171,709</b>
<b>Total internal management</b>	<b>15,430,000</b>	<b>3,937</b>
<b>Total investment management</b>	<b>\$ 42,481,000</b>	<b>175,646</b>
Custodian fees		370
Consultant and legal fees		2,153
Miscellaneous expenses		887
<b>Total investment expenses</b>		<b>\$ 179,056</b>

\* Net asset value at June 30, 2003.

## Supplemental Schedule 3

### Schedule of Payments to Non-Investment Consultants

### Fiscal Year Ended June 30, 2003

(Payment amounts greater than \$50,000)

<u>Consultant</u>	<u>Fees</u>	<u>Services Provided</u>
CoreSource, Inc.	\$ 3,841,183	Postemployment healthcare benefits administration and claims adjudication
Tier Technologies, Inc.	3,468,295	NPAS project development
AON	1,199,746	HOP Communication, open enrollment and consulting services
Buck Consultants, Inc.	670,540	Pension benefit actuarial services
Info-Matrix Corporation	605,950	Computer programming/analysis
Intellimark, Inc.	406,659	Information technology consulting
L.R. Wechsler Ltd.	394,860	Information technology consulting
KPMG LLP	103,192	Financial audit of pension system and postemployment healthcare programs
The Segal Company	90,106	HOP consulting
Eckert Seamans Cherin & Mellot LLC	83,266	Legal services

# Investment Section



*Pittsburgh*

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COMMONWEALTH OF PENNSYLVANIA  
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ALAN H. VAN NOORD, CFA  
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 at least once per year to establish an overall asset allocation plan and investment policies for the System. Implementation of the investment policies is accomplished through external investment management firms who act as agents for the System and through internal investment managers. The Board also retains various investment consultants to assist with the formulation and implementation of investment policy.

### Operations

The Board provides oversight of investment activities through the Finance Committee that makes recommendations to the Board. The Finance Committee generally conducts eight meetings per 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, 2003, Wilshire Associates Incorporated (Wilshire) 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 Portfolio Advisors, LLC as an alternative investment consultant. Alternative investments generally consist of investments in private debt, private equity, and venture capital limited partnerships. 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, 26 external investment management firms were managing \$21.7 billion in assets of the System, \$15.4 billion in assets were managed by the System's internal investment managers, and the remaining \$6.6 billion in assets were managed by numerous developmental, alternative investment, and real estate managers. The performance of each external investment management firm and each internal manager is monitored annually against a pre-established benchmark as well as the performance of their peers.

### **Asset Allocation**

The Board reviews the long-term asset allocation targets of the System at least annually, usually in the calendar first 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 2003 included an equity target allocation of **60.00%** consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (42.00%) and diversified international equity exposure (18.00%). Within the U.S. equity target, the portfolios are diversified between large and small cap managers and growth and value managers. The international equity exposure includes both developed and emerging markets portfolios.

The fixed income target allocation of **22.00%** consisted of U.S. fixed income exposure (14.30%), specialty fixed income exposure (3.30%), and global fixed income exposure (4.40%). Within these categories, all sectors of the bond market are represented. Specialty fixed income includes high yield and mortgage-backed portfolios.

The real estate target allocation of **7.00%** consists primarily of opportunistic limited partnerships and publicly traded real estate investment trusts (REITs).

Alternative investments have a target of **11.00%**. The primary vehicle used to invest funds in this asset class 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, 2003, the fair value of the investment portfolio was \$43.7 billion. The fair value decreased approximately \$0.7 billion from last year's value. This decrease came primarily from benefit payments in excess of employee and employer contributions (\$2.1 billion) which were partially offset by net investment income (\$1.0 billion) and net changes in other investment assets and liabilities (\$0.4 billion). The investment portfolio, as invested, was composed of 62.50% of common and preferred stocks (equity), 23.10% of fixed income investments, 5.90% real estate, and 8.50% of alternative investments at June 30, 2003. The table on page 65 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 early by extreme market pessimism and fear that eased towards the end of the fiscal year. The financial markets had to contend with increasing jobless claims, a higher unemployment rate, fears of deflation, lower industrial production, a war in Iraq, and the Severe Acute Respiratory Syndrome (SARS) epidemic in the Far East and Canada. These fears led to lower consumer confidence and kept investors nervous about an economic recovery in the U.S. The monetary authorities in the U.S. and abroad; however, have provided record amounts of monetary stimulus to the global economy. In the U.S., the Federal Reserve cut the Federal Funds rate twice during this past fiscal year, lowering the rate from 1.75% to 1.00%. The lower interest rates allowed consumers to refinance their mortgages in record numbers during the fiscal year which provided additional spending power for consumers through cash out of equity, reduced mortgage payments, or both. In addition, a massive fiscal stimulus package in the U.S. was also passed during the latter half of the fiscal year. All of this monetary and fiscal-policy stimulation has driven economic growth expectations up which fueled a significant rally in the stock markets worldwide during the quarter ended June 30, 2003.

The System's returns for the fiscal year were driven by strong fixed income markets as well as modestly accretive returns from the real estate investments. In the U.S., the Lehman Aggregate Index, a domestic bond index, was up 10.40%, driven by the reduction of interest rates by the Federal Reserve and concerns about deflation that led to a significant rally in bond prices. This rally was evidenced by the yield, which moves in the opposite direction of price, on the ten-year Treasury note falling to 3.51% as of June 30, 2003 from 4.80% at June 30, 2002. In the corporate bond market, credit spreads tightened significantly during the fiscal year which led to a strong rally in the high yield bond market as evidenced by the 20.78% return in the Credit Suisse First Boston High Yield Bond Index during the fiscal year. In the global markets, the returns generated from the drop in interest rates were magnified by weakness in the U.S. dollar versus other foreign currencies. The Lehman Global Aggregate Index, a global bond index, was up 15.97% for the fiscal year.

Strong returns in the System's bond portfolios were offset by weakness in both the domestic and international equity portfolios as well as in alternative investments. The U.S. stock market, as measured by the Wilshire 5000 Index, generated an annualized return of 1.28% for the fiscal year ended June 30, 2003. The international stock market, as measured by the Morgan Stanley Capital International (MSCI) All Country World Free Ex. U.S. Index, generated an annualized return of (4.19)% for the fiscal year ended June 30, 2003.

As a result of the strong returns from the bond portfolios, the System was able to generate a total return of 2.74% for the one-year period ended June 30, 2003. Annualized returns for the three- and five-year periods ending June 30, 2003 were (3.39)% and 2.57%, respectively.

Wilshire 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, 2003		
	1 Year	3 Years	5 Years
<b>PSERS TOTAL PORTFOLIO</b>	<b>2.74</b>	<b>(3.39)</b>	<b>2.57</b>
Median Public Defined Benefit Plan (DBP) Fund Universe (Wilshire Database)	3.84	(2.93)	2.52
<b>PSERS DOMESTIC STOCK PORTFOLIOS</b>	<b>(0.30)</b>	<b>(6.53)</b>	<b>1.16</b>
Wilshire 5000 Index	1.28	(10.58)	(1.30)
Median Public DBP Fund Universe - Domestic Equities (Wilshire Database)	0.56	(9.74)	(0.92)
<b>PSERS INTERNATIONAL STOCK PORTFOLIOS</b>	<b>(4.76)</b>	<b>(11.44)</b>	<b>(1.47)</b>
MSCI All-Country World Index Free Ex. U.S.	(4.19)	(12.58)	(2.87)
Median Public DBP Fund Universe - International Equities (Wilshire Database)	(5.76)	(12.46)	(2.44)
<b>PSERS DOMESTIC FIXED INCOME PORTFOLIOS</b>	<b>13.05</b>	<b>10.01</b>	<b>7.42</b>
Lehman Aggregate Index	10.40	10.08	7.54
Median Public DBP Fund Universe - Domestic Bonds (Wilshire Database)	12.09	9.63	7.21
<b>PSERS GLOBAL FIXED INCOME PORTFOLIOS</b>	<b>17.36</b>	<b>9.50</b>	<b>6.26</b>
Lehman Global Aggregate Index	15.97	8.73	6.47
Median Public DBP Fund Universe - Global Bonds (Wilshire Database)	20.13	7.72	5.78
<b>PSERS REAL ESTATE*</b>	<b>5.58</b>	<b>8.86</b>	<b>8.71</b>
NCREIF Index**	7.16	8.55	10.24
Median Public DBP Fund Universe - Real Estate (Wilshire Database)	5.61	9.59	8.64
<b>PSERS ALTERNATIVE INVESTMENTS ***</b>	<b>(0.88)</b>	<b>(6.06)</b>	<b>0.26</b>

\* Returns reported on a one-quarter lag, except for publicly traded REIT investments

\*\* Returns presented are on a one-quarter lag

\*\*\* Internal rate of return, reported on a one-quarter lag, for private debt, private equity and venture capital investments

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 \$15.0 million in additional net income during the year.

## Accomplishments

During the fiscal year ended June 30, 2003, the System increased the amount of money managed internally by \$1.7 billion. This was accomplished through asset allocation changes that reallocated money from external investment advisors. The end result is that this change saves the System millions of dollars per year in management fees while at the same time not adversely affecting the performance of the investment portfolio. The System has very capable investment professionals on staff who have produced excellent relative returns over the years.

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, and 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 positive returns during the fiscal year ended June 30, 2003 for the first time in three years. Positive returns in the bond and real estate portfolios more than 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, 2003, 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. In addition, we are starting to see **the effects of the massive monetary and fiscal-policy stimulus in the economy** which should lead to a more positive investment environment for equities, and the System as a whole, during the upcoming fiscal year.



Alan H. Van Noord, CFA  
Chief Investment Officer

**Portfolio Summary Statistics**  
**Asset Allocation**  
**As of June 30, 2003**  
(Dollar Amounts in Thousands)

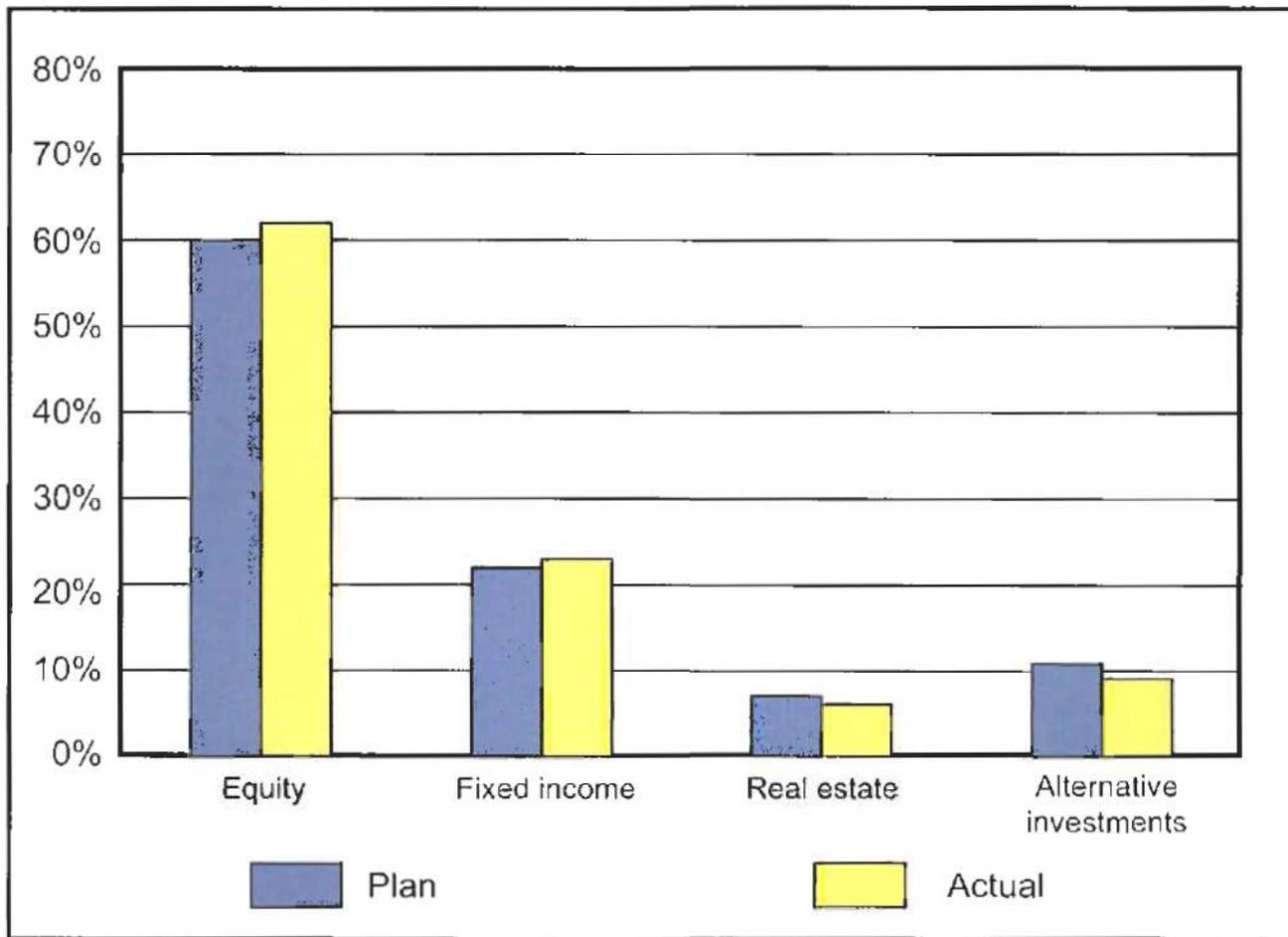
Pension investments	Fair Value (\$)	% Fair Value
<b>Common and preferred stock (Equity):</b>		
Domestic common and preferred stock	\$ 15,737,452	36.2%
Collective trust fund	539,600	1.2%
International common stock	7,491,273	17.2%
Subtotal per Statement of Plan Net Assets	23,768,325	54.6%
Short-term *	420,477	1.0%
Enhanced S&P 500 Index *	3,650,746	8.3%
Publicly traded REITs *	(617,389)	(1.4%)
<b>Total Common and preferred stock - Asset Allocation Basis</b>	<b>27,222,159</b>	<b>62.5%</b>
<b>Fixed income:</b>		
Domestic mortgage-backed securities	5,745,057	13.2%
U.S. government and agency obligations	1,013,771	2.3%
Domestic corporate and taxable municipal bonds	3,519,398	8.1%
Miscellaneous domestic fixed income	325,203	0.7%
Collective trust fund	380,408	0.9%
International fixed income	1,389,093	3.2%
Subtotal per Statement of Plan Net Assets	12,372,930	28.4%
Short-term *	1,324,904	3.0%
Enhanced S&P 500 Index *	(3,650,746)	(8.3%)
<b>Total Fixed income - Asset Allocation Basis</b>	<b>10,047,088</b>	<b>23.1%</b>
<b>Real estate:</b>		
Equity real estate	1,511,803	3.5%
Real estate owned	422,353	1.0%
Subtotal per Statement of Plan Net Assets	1,934,156	4.5%
Publicly traded REITs *	617,389	1.4%
<b>Total Real estate - Asset Allocation Basis</b>	<b>2,551,545</b>	<b>5.9%</b>
<b>Alternative investments:</b>		
Private equity	2,392,040	5.5%
Private debt	1,153,106	2.6%
Venture capital	191,626	0.4%
<b>Total Alternative investments - Asset Allocation Basis</b>	<b>3,736,772</b>	<b>8.5%</b>
<b>Pension investments - Asset Allocation Basis</b>	<b>\$ 43,557,564</b>	<b>100.0%</b>
<b>Postemployment Healthcare short-term investments</b>	<b>\$ 162,440</b>	<b>100.0%</b>

\* - For asset allocation purposes, Short-term investments are included with the asset class of the investment manager which holds them, Publicly traded REIT portfolios are reclassified from Common and preferred stock (Equity) to Real estate, and Enhanced S&P 500 Index portfolios are reclassified from Fixed income to Common and preferred stock (Equity). See the table and graph which follow.

## Comparison of Actual Portfolio Distribution

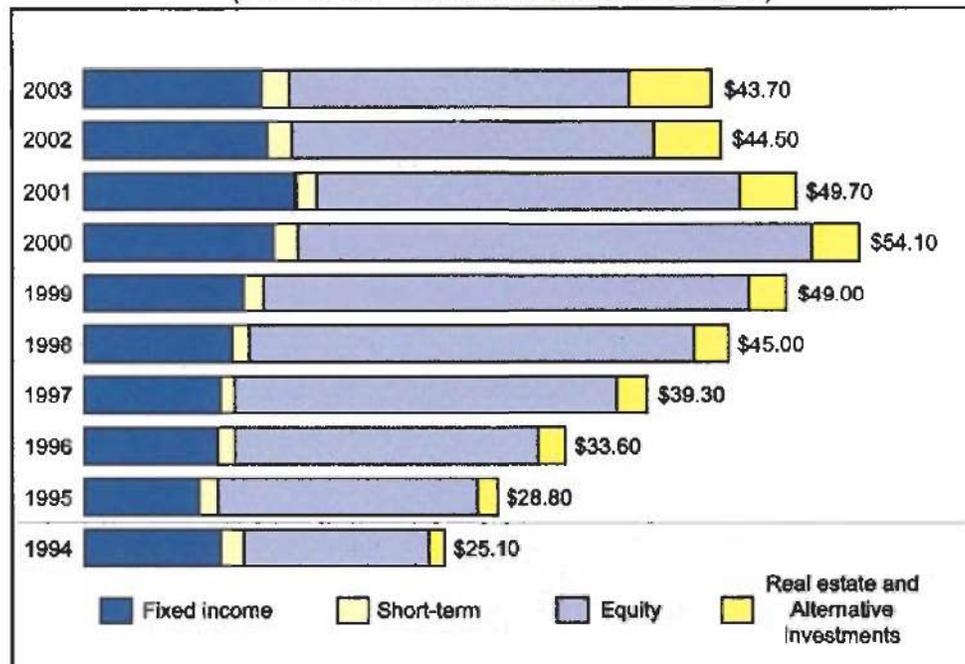
### to Asset Allocation Plan As of June 30, 2003

Asset Category	Plan	Actual
Common and preferred stock (Equity)	60%	62%
Fixed income	22%	23%
Real estate	7%	6%
Alternative investments	11%	9%
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 for the largest asset classes. 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 125, Harrisburg, PA 17108.

### Portfolio Detail Statistics as of June 30, 2003

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	12,491	320,279
Pfizer Inc.	9,207	314,409
General Electric Company	9,653	276,861
Citigroup Inc.	6,025	257,858
Security Capital Preferred Growth	9,674	253,738
Wal-Mart Stores, Inc.	4,504	241,739
Exxon Mobil Corporation	6,410	230,192
Intel Corporation	8,193	170,493
American International Group, Inc.	2,974	164,095
Johnson & Johnson	3,046	157,503
<b>Total of 10 Largest Holdings</b>		<b>2,387,167</b>
<b>Total System Holdings - Domestic common and preferred stock</b>		<b>15,737,452</b>

## Portfolio Detail Statistics as of June 30, 2003

### International common stock

#### 10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value (\$)
Vodafone Group PLC	97,828	191,599
Royal Bank of Scotland	4,580	128,468
Novartis AG	3,233	127,924
Nokia OYJ	6,914	113,782
Glaxosmithkline PLC	4,560	92,027
Total SA	604	91,236
ENI SpA	5,948	89,963
Astrazeneca PLC	2,149	86,607
Canon, Inc.	1,544	70,851
Samsung Electronics Company Ltd.	255	64,904
<b>Total of 10 Largest Holdings</b>		<b>1,057,361</b>
<b>Total System Holdings - International common stock</b>		<b>7,491,273</b>

## Portfolio Detail Statistics as of June 30, 2003

### Domestic and international fixed income

#### 10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value(\$) or No. of Shares	Fair Value (\$)
Scudder High Income Plus Fund	-	-	11,782	85,773
U.S. Treasury Bonds	02/15/26	6.000	70,650	84,471
FHLMC Pool #E9-6459	05/01/18	5.000	79,704	82,460
U.S. Treasury Notes	04/30/05	1.625	65,506	65,958
PIMCO Funds International Portfolio	-	-	8,197	61,393
U.S. Treasury - Inflation Index	01/15/08	3.625	52,907	59,347
GNMA Pool #0003362	03/20/33	6.000	54,790	57,301
GNMA Pool #0609371	03/15/33	6.000	51,846	54,465
Federal National Mortgage Association	10/09/19	0.000	118,000	49,129
U.S. Treasury - Inflation Index	01/15/11	3.500	42,139	47,880
<b>Total of 10 Largest Holdings</b>				<b>648,177</b>
<b>Total System Holdings - Domestic and international fixed income</b>				<b>12,372,930</b>

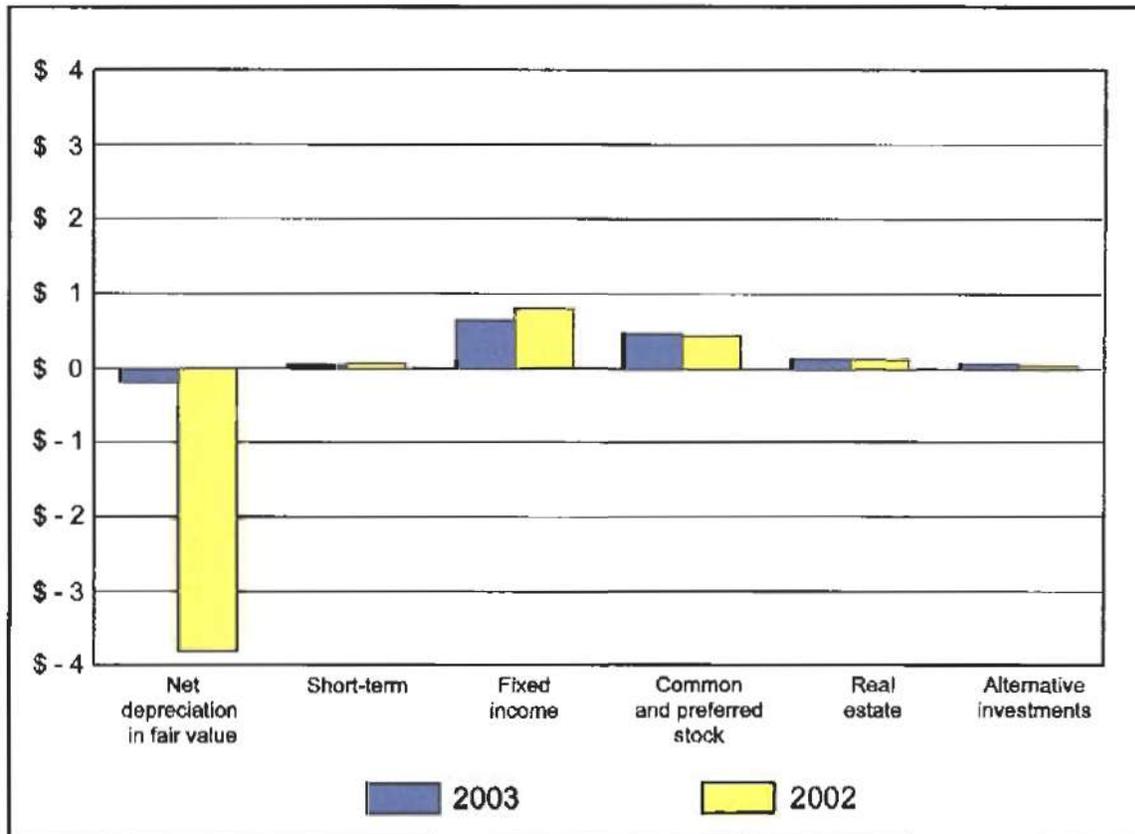
**Portfolio Detail Statistics as of June 30, 2003**  
**Postemployment Healthcare short-term investments**  
**10 Largest Holdings in Descending Order by Fair Value**  
**(Dollar Amounts in Thousands)**

Description	Maturity Date	Interest Rate (%)	Par Value (\$)	Fair Value (\$)
PA Treasury Short-Term Investment Fund	Various	Various	57,585	57,585
M & T Bank Repurchase Agreement	07/01/03	0.786	15,000	15,000
M & T Bank Repurchase Agreement	07/01/03	0.875	14,449	14,449
FHLMC Multiclass 2103 Class TC	11/15/23	6.000	3,860	3,875
FHLMC Multiclass 2555 Class A	09/15/07	4.250	3,571	3,584
Honda Auto Owner Trust 2001-2 Class A4	10/18/06	5.090	3,005	3,095
FNMA Guaranteed REMIC 1993-251 Class VC	03/25/10	6.500	3,000	3,005
FHLMC Multiclass 2098 Class VA	10/15/05	6.000	2,812	2,929
FHLMC Multiclass 1584 Class HA	11/15/21	3.500	2,440	2,446
FHLMC Multiclass 1609 Class GB	02/15/22	6.500	2,345	2,366
<b>Total of 10 Largest Holdings</b>				<b>108,334</b>
<b>Total System Holdings - Postemployment Healthcare short-term investments</b>				<b>162,440</b>

## Comparison of Investment Activity Income (Loss) For Fiscal Years Ended June 30, 2003 and 2002 (Dollar Amounts in Thousands)

Investing Activities	2003	2002
Net depreciation in fair value of investments	\$ (172,506)	\$ (3,826,705)
Short-term	30,178	46,862
Fixed income	655,861	806,373
Common and preferred stock	480,735	446,784
Real estate	139,267	131,890
Alternative investments	52,956	18,294
<b>Total investment activity income (loss)</b>	<b>\$ 1,186,491</b>	<b>\$ (2,376,502)</b>

(Dollar Amounts in Billions)



Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2003 were \$23.4 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 fiscal year ended June 30, 2003, the System earned \$3.1 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, 2003**

<b>Broker Name</b>	<b>Fees Paid (\$)</b>	<b>Broker Name</b>	<b>Fees Paid (\$)</b>
Bear, Stearns and Company	2,905,205	Cantor, Fitzgerald & Company	356,455
Morgan Stanley and Company	2,075,408	Dresdner Kleinwort Wasserstein	323,558
Goldman Sachs and Company	1,609,069	Weeden and Company	269,526
UBS Warburg	1,342,697	HSBC Securities	254,712
Merrill Lynch	1,319,090	Union Bank	245,521
Lehman Brothers	1,180,336	Credit Lyonnais Securities	203,562
J. P. Morgan, Inc.	1,079,574	Jefferies and Company Inc.	182,900
Credit Suisse First Boston	828,576	Instinet Corp.	156,769
Deutsche Bank	946,644	SG Securities	142,245
Citigroup	733,591	ING Barings	134,344
Lynch, Jones & Ryan	658,178	Nomura Securities International	126,213
Execution Services Ltd.	595,519	Pictet	121,731
Jones & Associates	527,002	Banco Bilbao Vizcaya	119,315
Investment Technology Group	455,050	Legg Mason Wood Walker	116,680
Knight Securities	449,767	Wheat, First Securities, Inc.	106,013
Tradition Asiel Securities Inc.	437,613	Hoare Govett Ltd.	104,745

## Professional Consultants External Investment Advisors



### **Concentrated Domestic Large Cap Equity**

- Alliance Capital Management, LP
- Delaware Investment Advisors
- MacKay-Shields Financial Corporation



### **Domestic Enhanced Equity Index**

- Acorn Derivatives Management Corp.
- Pacific Investment Management Company
- Smith Breeden Associates, Inc.



### **Domestic Small Cap Equity**

- The Boston Company Asset Management, LLC
- Duncan-Hurst Capital Management, Inc.
- Emerald Advisors, Inc.
- First Pacific Advisors, Inc.
- MacKay-Shields Financial Corporation
- Mellon Equity Associates
- NorthPointe Capital
- Wellington Management Company, LLP



### **Publicly Traded REIT**

- Morgan Stanley Investment Management, Inc.
- Security Capital Global Capital Management Group, Inc.



### **International Large Cap Equity**

- Baillie Gifford Overseas Ltd.
- Bank of Ireland Asset Management
- The Boston Company Asset Management, LLC
- Capital Guardian Trust Company
- Marathon Asset Management Limited
- Martin Currie, Inc.
- Mercator Asset Management, LP
- Putnam Advisory Company, Inc.



### **International Emerging Market Equity**

- The Boston Company Asset Management, LLC
- Templeton Investment Counsel, Inc.

## Professional Consultants (Continued)



### Domestic Fixed Income

- BlackRock Financial Management, Inc.
- Deutsche Asset Management, Inc.



### Specialty Fixed Income

- MacKay-Shields Financial Corporation
- W.R. Huff Asset Management Company, LLC
- Wellington Management Company, LLP



### Global Fixed Income

- Deutsche Asset Management
- Fischer Francis Trees & Watts, Inc.
- Rogge Global Partners



### Real Estate

- Berwind Property Group, Inc.
- Carlyle Group (The)
- Charter Oak Advisors, Inc.
- Credit Suisse First Boston Advisory Partners, LLC
- Fortress Investment Fund, LP
- GF Management, Inc.
- Goldman Sachs Asset Management
- L&B Realty Advisors
- LaSalle Investment Management, Inc.
- Laureate Capital, LLC
- Lazard Freres Real Estate Investors, LLC
- Legg Mason Real Estate Services
- Lehman Brothers
- Lubert-Adler Partners
- Morgan Stanley Investment Management, Inc.
- Paladin Realty Partners, LLC
- Peabody Group (The)
- Prudential Agricultural Group
- RREEF America, LLC
- Security Capital Global Capital Management Group, Inc.
- Stockbridge Capital Group, LLC
- UBS Brinson Realty Investors, LLC
- Westbrook Partners, LLC

## Professional Consultants (Continued)



### Private Equity

- ABS Capital Partners
- BG Media Investors
- Bastion Capital Corporation
- Bear Stearns Merchant Banking Partners II, LP
- Blue Point Capital Partners, LLC
- Bridgepoint Capital Limited
- Bruckmann, Rosser, Sherrill & Company, Inc.
- Clarity Partners, LP
- Credit Suisse First Boston Advisory Partners, LLC
- Deutsche Asset Management, Inc.
- Dubin Clark & Company, Inc.
- Goldman Sachs Asset Management
- Gordon Management, Inc.
- Graham Partners Investments, LP
- Greenwich Street Capital Partners
- Halifax Group (The)
- Heritage Partners, Inc.
- Houlihan, Lokey, Howard & Zukin Investment Fund
- ING Barings
- KRG Capital Partners, LLC
- Landmark Advisors, Inc.
- Lehman Brothers
- Leonard Green & Partners, Inc.
- Lexington Capital Partners, Inc.
- Lindsay, Goldberg & Bessemer, LP
- Morgan Stanley Investment Management, Inc.
- New Mountain Capital, LLC
- New York Life Capital Partners, LP
- PAI Management
- PNC Equity Management Corp.
- Palladium Equity Partners II, LLC
- Perseus-Soros BioPharmaceutical Fund, LP
- Quadrangle Capital Partners, LP
- SC Partners, LP
- SCP Private Equity Partners, LP
- TPG Partners, LP
- Wasserstein & Co.
- Wicks Communications & Media Partners, LP
- Willis Stein & Partners

## Professional Consultants (Continued)



### Venture Capital

- Adams Capital Management, Inc.
- Apax Partners
- Cross Atlantic Capital Partners, Inc.
- Edison Venture Funds
- Franklin Capital Associates III, LP
- Grotech Capital Group, Inc.
- Jefferson Partners
- KBL Healthcare Ventures, LP
- Keystone Venture Capital
- LLR Equity Partners, LP
- Landmark Advisors, Inc.
- Mid-Atlantic Venture Funds
- Pennsylvania Early Stage Partners, LP
- Philadelphia Ventures, Inc.
- Quaker BioVentures Capital, LP
- Spectrum Equity Partners
- StarVest Management, Inc.
- Sterling Venture Partners, LLC
- TDH III, LP
- Technology Leaders, LP



### Private Debt

- ARCap REIT, Inc.
- Avenue Capital Management, LLC
- Cerberus Institutional Associates, LLC
- Gleacher & Co., LLC
- Greenwich Street Capital Partners
- Legg Mason Real Estate Capital, Inc.



### Developmental Fund

- Charter Financial Group, Inc.
- Connors Investor Services, Inc.
- EDMP, Inc.
- Hanseatic Management Services, Inc.
- John Hsu Capital Group, Inc.
- Longwood Investment Advisors, Inc.
- Palladium Capital Management
- Piedra Capital, Inc.
- Roli & Ross Asset Management, LP
- Smithbridge Asset Management, Inc.
- Snow Capital Management, LP
- Tanaka Capital Management, Inc.
- Tucker Hargrove Management, Inc.
- West Chester Capital Advisors

**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



**Alternative Investment Consultant**

- Portfolio Advisors, LLC



**Proxy Voting Agent**

- Institutional Shareholder Services

# Actuarial Section



*Kids on the Slopes*

Photo by: **Commonwealth Media Services**  
Provided by: Commonwealth Media Services



A Mellon Financial Company™

One North Dearborn, Suite 1100  
Chicago, Illinois 60602-4336

January 30, 2003

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, 2002.

The valuation takes into account all of the promised benefits to which members are entitled, including pension and survivor benefits and establishes the contribution rate for the 2003/2004 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 increase in liability due to the cost-of-living adjustment provided by Act 38 is reflected in the valuation.

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

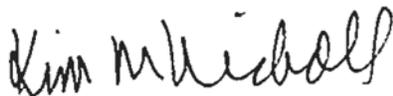
The valuation results determine that the employer contribution rate for fiscal year 2003/2004 is 3.77%. The funded status of the plan determined as of June 30, 2002 based on the accrued liability and the actuarial value of assets is 104.8%.

### Financial Results and Membership Data

Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report. 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, F.S.A.  
Principal, Consulting Actuary



S. Lynn Hill  
Associate Principal, Retirement Consulting

## Executive Summary

This report presents the actuarial valuation as of June 30, 2002 for the Public School Employees' Retirement System of Pennsylvania.

The principal valuation results include:

- The employer contribution rate for fiscal year 2003/2004 which is 3.77%.
- The funded status of the plan determined as of June 30, 2002 based on the accrued liability and the actuarial value of assets as of that date which is 104.8%.
- The determination of the actuarial gain or loss as of June 30, 2002 which is a loss of \$3.1 billion.
- Annual disclosure as of June 30, 2002 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 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 and methods are outlined in Table 12.

### Contribution Rates

The results of the valuation as of June 30, 2002 determine the employer contribution rate for fiscal year 2003/2004. The total contribution rate payable by the employer is 3.77% of payroll. This includes 2.98% of payroll for pension benefits plus 0.79% of payroll for the health insurance premium assistance program.

The average contribution rate payable by the members is 7.08%. 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 7.08% represents an average of the member rates that vary based on date of hire and Class T-D election.

## Reasons for Change in the Rate

The employer contribution rate increased from 1.15% for fiscal year 2002/2003 to 3.77% for fiscal year 2003/2004. The increase of 2.62% is due to the following reasons:

• Increase due to change in normal rate	.05%
• Decrease for members who did not elect T-D service	(.19)
• Increase due to payroll growth	.31
• Increase due to July 1, 2002 COLA under Act 38	.73
• Increase due to actuarial loss on assets	4.85
• Increase due to actuarial loss on liabilities	.06
• Decrease due to change in health insurance contribution rate	(.18)
• Decrease due to floor and cap on contribution rate under Act 38	<u>(3.01)</u>
• Total	2.62%

## 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, 2002. Comparable results from the June 30, 2001 valuation are also shown.

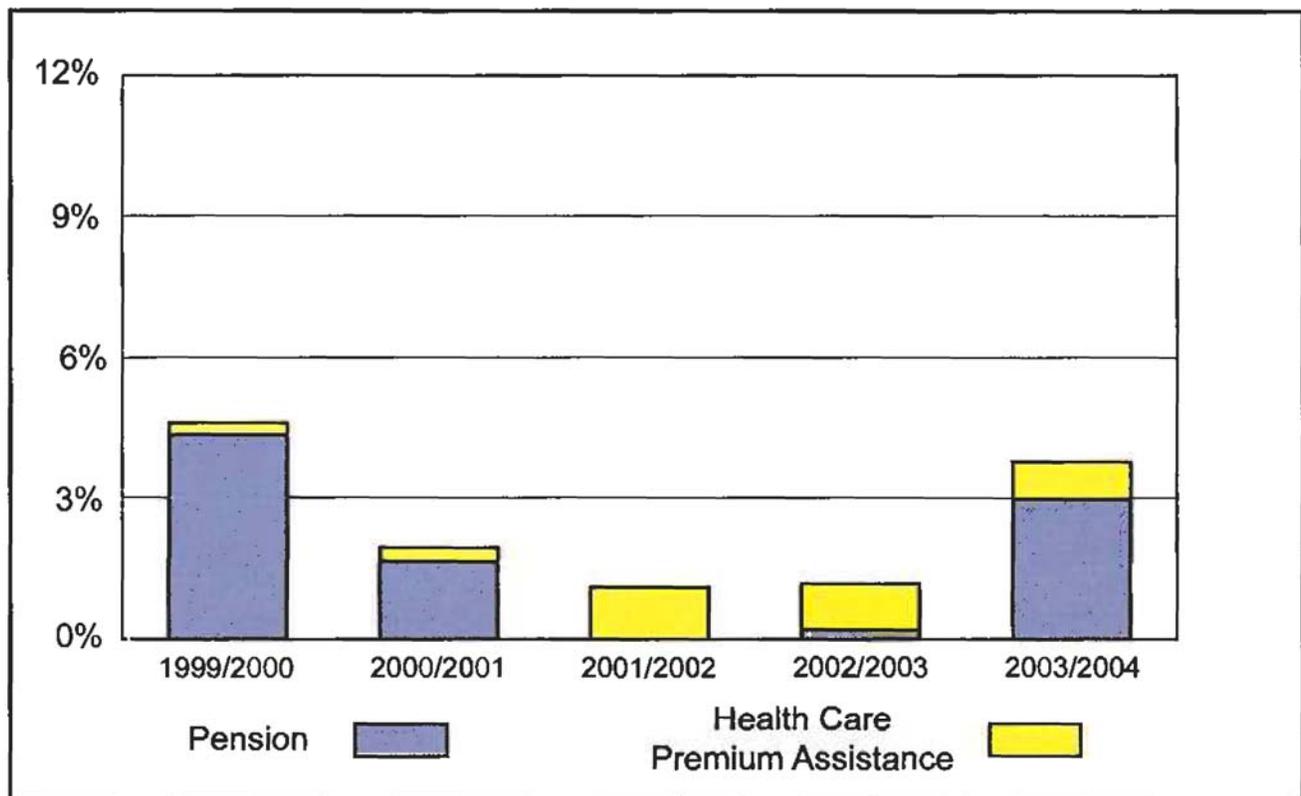
Item	June 30, 2002	June 30, 2001
<b>Demographics</b>		
Active Members		
• Number	242,616	243,311
• Average Annual Pay	\$ 38,658	\$ 38,695
Annuitants		
• Number	141,414	132,716
• Average Annual Benefit Payment	\$ 15,899	\$ 14,105
<b>Contribution Rates (as a Percentage of Payroll)</b>		
	(Fiscal Year 2003/2004)	(Fiscal Year 2002/2003)
Employer Contribution Rate:		
• Total Pension Contribution Rate	2.98%	0.18%
• Health Insurance Contribution Rate	<u>0.79</u>	<u>0.97</u>
• Total	3.77%	1.15%
Member Average Contribution Rate		
• Total Rate	<u>7.08</u>	<u>7.10</u>
	10.85%	8.25%
<b>Actuarial Funded Status</b>		
• Accrued Liability	\$ 51,796.5 Mil	\$ 47,917.3 Mil
• Actuarial Value of Assets	<u>54,296.4</u>	<u>54,830.3</u>
• Unfunded Accrued Liability	\$ (2,499.9)	\$ (6,913.0)
• Funded Ratio	104.8%	114.4%

### Five-Year History of Principal Financial Results

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

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
2003/2004	7.08%	7.25%	(4.27)%	.79%	3.77%
2002/2003	7.10	7.20	(10.03)	.97	1.15
2001/2002	6.43	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

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 3.77% 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 104.8% as of June 30, 2002. The funded ratio is based on an actuarial value of assets of \$54.3 billion and an accrued liability of \$51.8 billion.

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

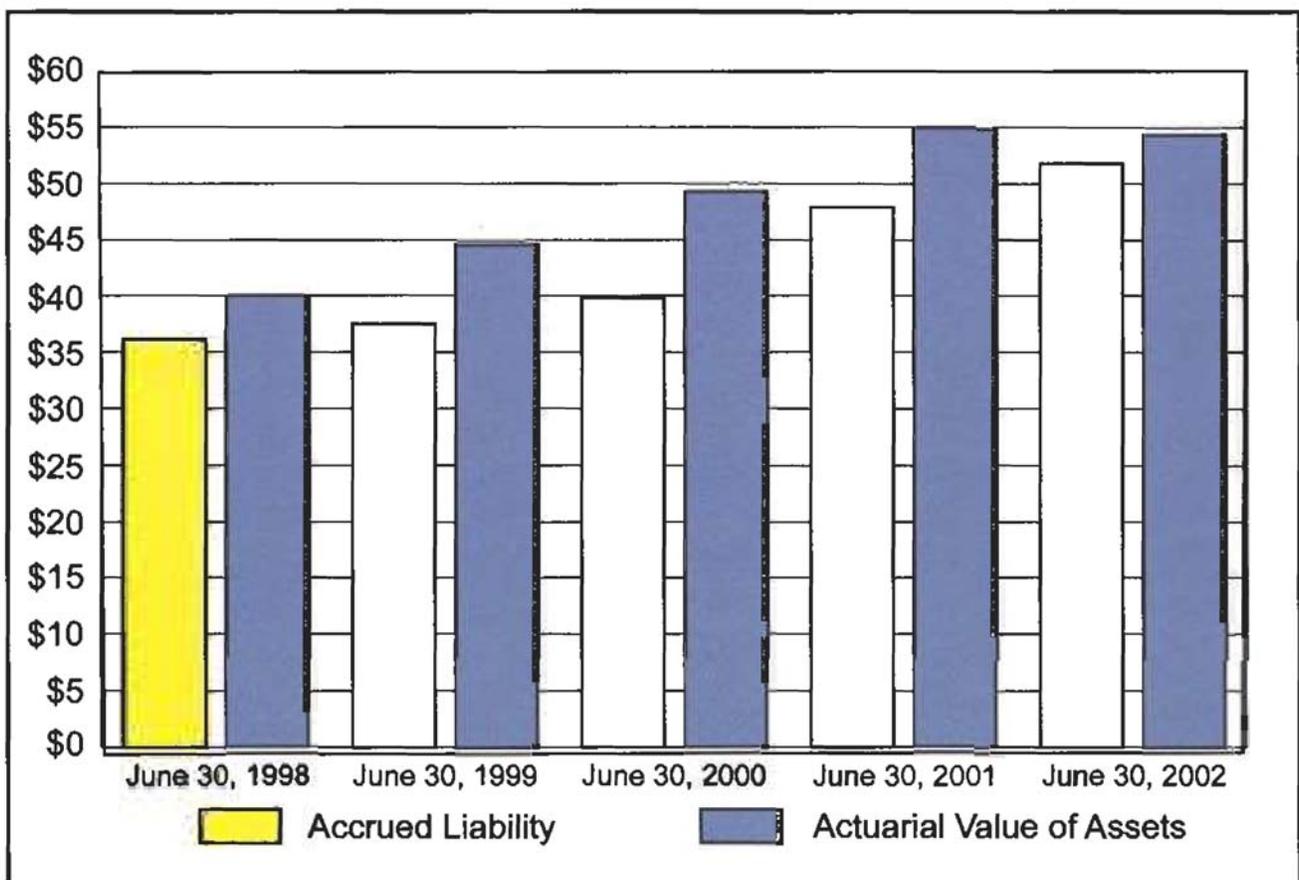
The funded ratio decreased from 114.4% as of June 30, 2001 to 104.8% as of June 30, 2002. The decrease is due to the net effect of the COLAs provided by Act 38 and asset and experience losses.

### 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
<b>2002</b>	\$ 51,796.5	\$ 54,296.4	\$ (2,499.9)	104.8%
<b>2001</b>	47,917.3	54,830.3	(6,913.0)	114.4
<b>2000</b>	39,822.8	49,293.0	(9,470.2)	123.8
<b>1999</b>	37,499.1	44,606.5	(7,107.4)	119.0
<b>1998</b>	36,136.2	39,969.0	(3,832.8)	110.6

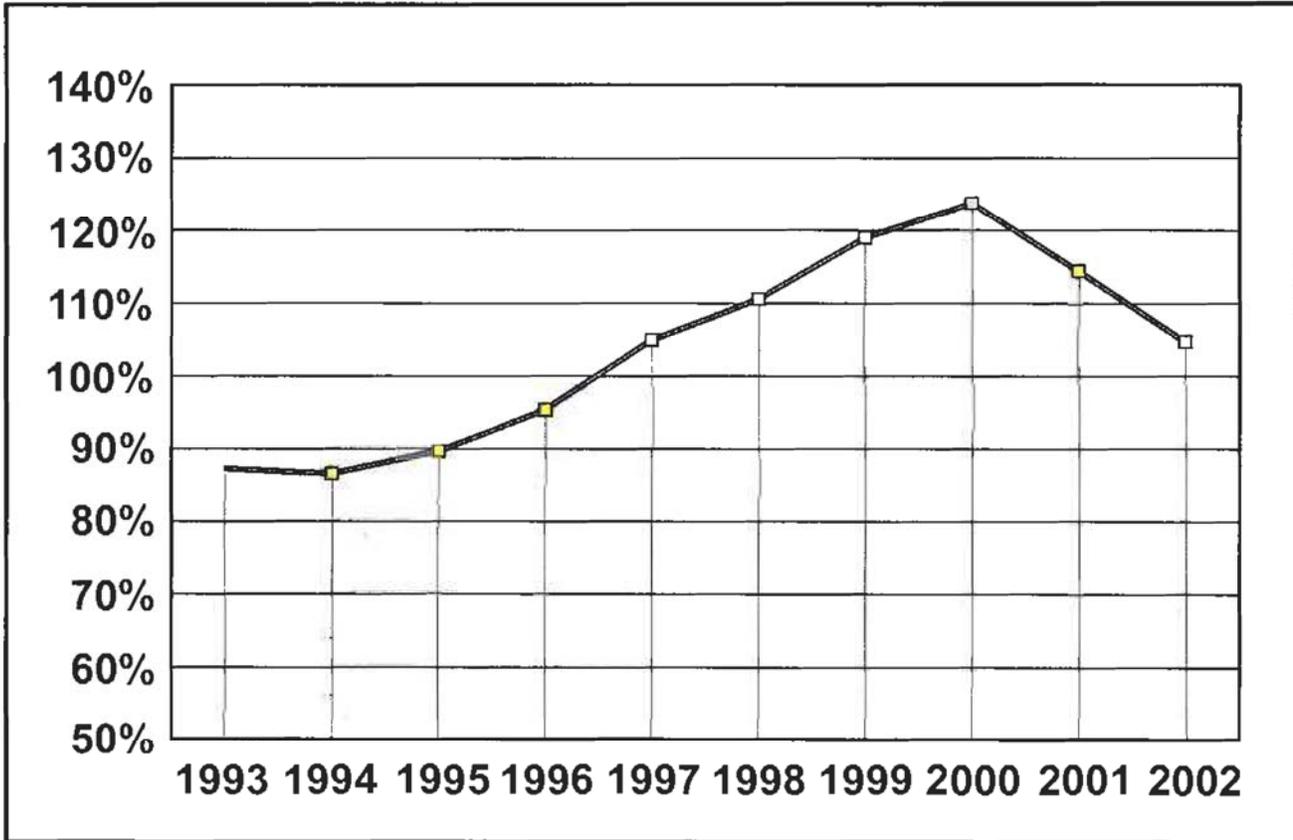
The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

### Five-Year History of Accrued Liability and Actuarial Value of Assets (Dollar Amounts in Billions)



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

**Ten-Year History of Funded Ratio  
(1993 - 2002)**



## 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 104.8% as of June 30, 2002. The funded ratio is based on an actuarial value of assets of \$54.3 billion and an accrued liability of \$51.8 billion.

The "schedule of employer contributions" shows historical trend information about the annual required contributions (ARC) of the employer and the percentage of the ARC contributed to the System. The ARC is equal to the normal cost plus amortization of the unfunded actuarial accrued liability. The maximum period of amortizing the unfunded actuarial accrued liability permitted by GASB No. 25 is 40 years. The maximum amortization period decreases to 30 years in 2006. The employer contributions to the System are equal to the normal cost plus a 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 1997/1998 through 2001/2002 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
2001/2002	(5.3)%	2.7%
2000/2001	(7.3)	14.3
1999/2000	12.1	13.6
1998/1999	12.3	15.1
1997/1998	15.9	16.8

\* Market rate of return provided by Wilshire

**Table 1**  
**Summary of Results of Actuarial Valuation**  
**As of June 30, 2002**  
(Dollar Amounts in Thousands)

Item	Amount
<b>Member Data</b>	
1. Number of Members	
a) Active Members	242,616
b) Inactive Members and Vestees	61,295
c) Annuitants, Beneficiaries and Survivor Annuitants	141,414
d) Total	445,325
2. Annualized Salaries	\$ 9,378,944
3. Annual Annuities	\$ 2,248,291
<b>Valuation Results</b>	
4. Present Value of Future Pension Benefits	
a) Active Members	\$ 43,894,324
b) Inactive Members and Vestees	759,418
c) Annuitants, Beneficiaries and Survivor Annuitants	19,875,263
d) Total	\$ 64,529,005
5. Present Value of Future Pension Normal Cost	
a) Active Members	\$ 6,341,762
b) Employer	6,494,036
c) Total	\$ 12,835,798
6. Pension Accrued Liability	
a) Active Members (4a) - (5c)	\$ 31,058,526
b) Inactive Members and Vestees	759,418
c) Annuitants, Beneficiaries and Survivor Annuitants	19,875,263
d) Total	\$ 51,693,207
7. Health Care Premium Assistance Payments	\$ 103,304
8. Total Accrued Liability (6) + (7)	\$ 51,796,511
9. Actuarial Value of Assets	\$ 54,296,368
10. Unfunded Accrued Liability (8) - (9)	\$ (2,499,857)
11. Total Normal Cost Rate	14.33 %
12. Member Contribution Rate	7.08 %
13. Employer Normal Cost Rate (11) - (12)	7.25 %
<b>Employer Annual Funding Requirement for Fiscal 2003/2004</b>	
14. Employer Contribution Rate	
a) Normal	7.25 %
b) Unfunded Accrued Liability	(4.27)
c) Preliminary Pension Rate	2.98 %
d) Preliminary Pension Rate with 1% Floor	2.98
e) Health Insurance Premium Assistance	0.79
f) Total Rate	3.77 %

**Table 2**

**Summary of Sources of Employer Contribution Rate**  
**As of June 30, 2002**  
(Dollar Amounts in Thousands)

	Funding Period 10 Years from July 1	Initial Amount of Liability	Outstanding Balance as of July 1, 2002	Annual Payment	
				Amount	Percent
1. Amortization of:					
a) July 1, 2001 Fresh Start Unfunded Base	2002	\$ (9,137,130)	\$ (9,913,786)	\$ (1,510,937)	(14.31)%
b) Changes in 2001	2002	2,932,201	3,181,438	484,876	4.59 %
c) Changes in 2002	2003	3,014,171	3,014,171	484,430	4.72 %
d) 2002 COLA	2003	463,795	463,795	76,694	0.73 %
e) 2003 COLA	2004	754,524	754,524	-	0.00 %
Total Amortization Payments			(2,499,858)	(450,937)	(4.27)%
2. Employer Normal Cost Rate					7.25 %
3. Preliminary Pension Rate (1) + (2)					2.98 %
4. Preliminary Pension Rate with 1% Floor -- Maximum of (3) and 1%					2.98 %
5. Health Insurance Premium Assistance Rate					0.79 %
6. Final Total Employer Contribution Rate (4) and (5)					3.77 %

**Table 3**  
**Determination of Health Insurance Contribution Rate**  
**For Fiscal Year 2003/2004**  
(Dollar Amounts in Thousands)

Item	Amount
1. Estimated Number of Eligible Annuitants in Fiscal Year 2004/2005	97,900
2. Estimated Number of Eligible Annuitants Who Elect Coverage	79,299
3. Estimated Annual Health Insurance Premium Assistance Payments During Fiscal Year 2004/2005 (2) x \$100 x 12	\$ 95,159
4. Estimated Health Insurance Premium Assistance Administrative Expenses During Fiscal Year 2004/2005	1,953
5. Total Estimated Health Insurance Premium Assistance Account Disbursements During Fiscal Year 2004/2005 (3) + (4)	\$ 97,112
6. Estimated Balance in Health Insurance Premium Assistance Account for Prior Fiscal Year 2003/2004	\$ 13,971
7. Estimated Shortfall in Health Insurance Premium Assistance Account (5) - (6)	\$ 83,141
8. Required Health Insurance Premium Assistance Contribution Rate	
(a) Estimated 2003/2004 Payroll	\$ 10,554,969
(b) Required Health Insurance Premium Assistance Contribution Rate (7) / (8a) (rounded up)	0.79%

**Table 4**  
**Summary of Market Value of Plan Assets**  
**As of June 30, 2002**  
(Dollar Amounts in Thousands)

<b>Market Value</b>	
1. Market Value of Assets as of June 30, 2001	\$ 48,143,327
2. Contributions During Fiscal Year 2001/2002	772,011
3. Disbursements During Fiscal Year 2001/2002	2,783,155
4. Investment Return During Fiscal Year 2001/2002	
a) Net Investment Return	\$ (2,524,060)
b) Administrative Expenses	31,570
c) Investment Return After Expenses (a) - (b)	\$ (2,555,630)
5. Market Value of Assets as of June 30, 2002 (1) + (2) - (3) + (4c)	\$ 43,576,553
6. Rate of Return (per Wilshire)	(5.25)%
<b>Asset Allocation by Account</b>	
1. Members' Savings Account	\$ 7,780,370
2. Annuity Reserve Account	19,652,797
3. State Accumulation Account	16,040,082
4. Health Care Account	103,304
5. Total (1) + (2) + (3) + (4)	\$ 43,576,553

**Table 5**  
**Derivation of Actuarial Value of Assets**  
**As of June 30, 2002**  
(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 2002					\$ 43,576,553
2. Determination of Deferred Gain (Loss)					
	Return on Assets				
<u>Year</u>	<u>Actual</u>	<u>Expected</u>	<u>Difference</u>	<u>% Deferred</u>	<u>Deferred Amount</u>
2001/2002	\$ (2,555,630)	\$ 4,575,102	\$ (7,130,732)	80%	\$ (5,704,585)
2000/2001	(3,877,769)	4,480,947	(8,358,716)	60%	(5,015,230)
					\$ (10,719,815)
3. Actuarial Value of Assets (1) - (2)					\$ 54,296,368
4. Actuarial Rate of Return *					2.74%

\* The actuarial rate of return is the investment return on the increase in the actuarial value of the assets from the June 30, 2001 valuation to the June 30, 2002 valuation.

## Table 6

### Analysis of Change in Unfunded Accrued Liability

As of June 30, 2002

(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 2001	\$ (6,913,006)
2. Interest Credit at 8.50% to June 30, 2002	(587,606)
3. Contributions Toward Unfunded Accrued Liability	(551,700)
4. FY 2001/2002 Act 9 Normal Cost Not Covered by Contributions	216,564
5. Decrease for Members Who Did Not Elect TD Service	(118,871)
6. Change due to 7/1/2002 COLA	463,796
7. Change due to 7/1/2003 COLA	754,524
8. Expected Unfunded Accrued Liability at June 30, 2002 (1) + (2) - (3) + (4) + (5) + (6) + (7)	\$ (5,632,899)
9. Actual Unfunded Accrued Liability at June 30, 2002	\$ (2,499,857)
10. Increase (Decrease) from Expected (8) - (9)	\$ 3,133,042
11. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Loss from Investment Return on Actuarial Value of Assets	\$ 3,097,890
(ii) Gain from Salary Increases Less than Expected	(162,903)
(iii) Loss from Retirement and Other Separation Experience	128,154
(iv) Loss from Annuitants' Mortality Experience	69,901
Subtotal	\$ 3,133,042
(b) Change in Assumptions	\$ -
(c) Grand Total	\$ 3,133,042

**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
2002	\$ 54,296,368	\$ 51,796,511	\$ 2,499,857	104.8 %	\$ 9,378,944	(26.7) %
2001	54,830,300	47,917,294	6,913,006	114.4	9,414,884	(73.4)
2000	49,293,047	39,822,832	9,470,215	123.8	8,939,598	(105.9)
1999	44,606,526	37,499,115	7,107,411	119.0	8,247,602	(86.2)
1998	39,968,957	36,136,163	3,832,794	110.6	8,091,481	(47.4)
1997	34,872,643	33,209,493	1,663,150	105.0	7,745,001	(21.5)

**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
2002	\$ 539	100 %
2001	158,193	100 %
2000	390,504	100 %
1999	513,940	100 %
1998	718,431	100 %
1997	726,205	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, 2000 was contributed in the fiscal year ending June 30, 2002).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2002
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%
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**Table 9**  
**Solvency Test**  
**Comparative Summary of Accrued Liability**  
**and Actuarial Value of Assets**  
(Dollar Amounts in Thousands)

Valuation as of June 30	(1)	(2)	(3)	Actuarial Value of Assets	(1)   (2)   (3)		
	Active Member Contributions	Retirees and Beneficiaries	Active Member Employer Financed		Portion of Accrued Liability Covered by Valuation Assets		
2002	\$ 7,780,370	\$ 19,978,567	\$ 24,037,574	\$ 54,296,368	100%	100%	100%
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%

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

<b>Contribution Rates</b>						
<b>Fiscal Year</b>	<b>Member</b>	<b>Employer Normal Cost Rate</b>	<b>Unfunded Liability Rate</b>	<b>Preliminary Employer Pension Rate</b>	<b>Health Insurance Rate</b>	<b>Total Employer Rate</b>
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
2003/2004	7.08	7.25	(4.27)	2.98	0.79	3.77

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
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			<b>134,300</b>	<b>7,114</b>	<b>141,414</b>	<b>242,616</b>
2003	9,927	4,042	140,185	7,556	147,741	242,616
2004	9,941	4,181	145,945	7,965	153,910	242,616
2005	10,526	4,336	152,135	8,332	160,467	242,616
2006	10,985	4,490	158,630	8,657	167,287	242,616
2007	11,439	4,638	165,431	8,946	174,377	242,616
2008	11,573	4,793	172,211	9,201	181,412	242,616
2009	11,443	4,940	178,714	9,426	188,140	242,616
2010	11,466	5,098	185,082	9,625	194,707	242,616
2011	11,305	5,243	191,144	9,801	200,945	242,616
2012	11,141	5,395	196,890	9,957	206,847	242,616

## 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):

Age	Annual Rate of:						
	Non-Vested Withdrawal	Vested Withdrawal*		Death	Disability	Early Retirement**	Superannuation Retirement
		Less than 10 Years of Service	10 or More Years of Service				
<b>Males</b>							
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
<b>Females</b>							
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, 2000). 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.

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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, 2002 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, 2002**  
(Dollar Amounts in Thousands)

**Active Members \***

Item	Male	Female	Total
Number of Members	68,847	173,769	242,616
Annual Salaries **	\$ 3,110,662	\$ 6,268,282	\$ 9,378,944
Average Age	45.2	44.9	45.0
Average Service	14.0	11.3	12.1

\* Excludes 61,295 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 \$9,178,679 reported for the fiscal year ended June 30, 2002 and the expected salaries for the fiscal year ended June 30, 2003.

**Annuitants and Beneficiaries**

Item	Number	Annual Annuities	Average Annuities	Average Age
Annuitants (Normal, Early and Withdrawal)	128,203	\$ 2,120,597	\$ 16,541	70.1
Survivors and Beneficiaries	7,114	50,146	7,049	76.0
Disabled Annuitants	6,097	77,548	12,719	62.3
Total	141,414	\$ 2,248,291	15,899	70.1

**Exhibit I****Active Membership Data as of June 30, 2002  
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	6,340	53								6,393
	\$22,517	\$24,543								\$22,534
25 - 29	15,994	3,753	35							19,782
	\$30,311	\$39,013	\$32,381							\$31,966
30 - 34	10,731	10,377	2,353	58						23,519
	\$27,672	\$41,572	\$45,586	\$32,643						\$35,609
35 - 39	10,398	5,504	5,653	2,096	82					23,733
	\$20,967	\$37,369	\$47,597	\$49,102	\$34,119					\$33,644
40 - 44	12,962	6,555	4,604	4,803	2,379	138				31,441
	\$19,219	\$30,769	\$42,899	\$52,138	\$52,386	\$36,161				\$32,707
45 - 49	11,058	8,054	6,197	4,499	7,303	5,740	104			42,955
	\$20,640	\$29,968	\$39,268	\$49,357	\$58,466	\$60,068	\$37,439			\$39,825
50 - 54	6,530	5,726	6,234	5,203	4,638	12,241	9,912	48		50,532
	\$21,586	\$30,436	\$37,948	\$45,769	\$55,090	\$63,028	\$65,014	\$36,788		\$48,745
55 - 59	3,817	2,952	3,544	3,482	3,479	3,385	6,286	1,565	11	28,521
	\$20,120	\$26,913	\$33,501	\$40,263	\$45,536	\$55,699	\$66,164	\$68,114	\$33,379	\$45,055
60 - 64	1,844	1,307	1,502	1,535	1,614	1,424	723	601	154	10,704
	\$17,209	\$22,979	\$28,284	\$32,796	\$35,492	\$43,244	\$52,869	\$67,578	\$65,897	\$33,860
Over 64	1,338	816	803	628	476	472	289	92	122	5,036
	\$14,731	\$17,309	\$21,365	\$24,420	\$27,588	\$30,667	\$37,488	\$48,453	\$63,310	\$23,222
<b>Total</b>	81,012	45,097	30,925	22,304	19,971	23,400	17,314	2,306	287	242,616
<b>Ave. Sal.</b>	\$23,318	\$33,832	\$39,879	\$45,790	\$52,013	\$59,226	\$64,300	\$66,538	\$63,551	\$38,658

**Exhibit II**  
**The Number and Average Annual Annuity**  
**As of June 30, 2002**

**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		344	1,594	484	198	42					2,662
		\$700	\$1,183	\$3,095	7,648	\$13,920					\$2,150
50 - 54		46	1,921	747	415	526	539	8			4,202
		\$1,318	\$1,185	\$3,265	\$7,906	\$17,998	\$29,118	\$29,164			\$7,961
55 - 59	1	53	2,317	1,217	716	1,116	7,733	1,777	6		14,936
	\$2,833	\$2,199	\$1,496	\$3,896	\$8,230	\$20,766	\$33,107	\$45,696	\$28,221		\$25,093
60 - 64	90	218	1,918	1,799	1,587	2,285	6,721	4,411	193		19,222
	\$620	\$2,487	\$2,761	\$5,977	\$10,883	\$20,463	\$31,075	\$39,493	\$45,845		\$24,585
65 - 69	366	706	2,628	2,496	2,904	3,081	4,168	3,676	1,291		21,316
	\$570	\$1,962	\$3,158	\$6,024	\$10,283	\$16,695	\$25,488	\$33,106	\$38,875		\$18,031
70 - 74	565	1,132	2,828	2,863	3,213	3,365	3,695	2,360	1,664		21,685
	\$491	\$1,699	\$3,189	\$5,668	\$10,028	\$15,538	\$23,124	\$30,312	\$37,563		\$15,284
75 - 79	598	1,207	2,844	2,965	2,916	2,725	2,199	1,949	888		18,291
	\$491	\$1,591	\$3,270	\$5,952	\$10,088	\$15,082	\$20,288	\$26,131	\$35,210		\$12,382
80 - 84	453	1,032	2,418	2,215	1,864	1,671	1,266	1,387	490		12,796
	\$538	\$1,613	\$3,323	\$5,931	\$9,338	\$13,607	\$18,298	\$22,613	\$29,725		\$10,341
85 - 89	310	744	1,400	1,285	1,022	956	799	966	517		7,999
	\$651	\$1,938	\$3,769	\$6,463	\$9,858	\$13,447	\$18,239	\$22,228	\$26,005		\$10,957
Over 89	60	409	578	599	563	663	539	807	876		5,094
	\$878	\$2,501	\$4,720	\$7,611	\$11,482	\$13,819	\$17,571	\$20,834	\$24,605		\$14,100
Total	2,443	5,891	20,446	16,670	15,398	16,430	27,659	17,341	5,925		128,203
	\$547	\$1,751	\$2,718	\$5,659	\$9,962	\$16,407	\$27,625	\$32,838	\$34,184		\$16,541

**Exhibit III**  
**The Number and Average Annual Annuity**  
**As of June 30, 2002**

**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	2	17	41	35	50	29	14	12	13	213
	\$228	\$1,060	\$1,436	\$2,179	\$4,981	\$6,977	\$9,897	\$7,431	\$13,432	\$4,729
50 - 54	2	2	19	21	20	25	33	18	12	152
	\$291	\$533	\$2,111	\$3,151	\$4,308	\$10,582	\$12,168	\$12,946	\$10,836	\$8,047
55 - 59	2	8	26	35	31	43	83	39	20	287
	\$381	\$2,067	\$1,917	\$3,062	\$4,976	\$10,234	\$11,799	\$11,978	\$7,387	\$8,233
60 - 64	3	8	52	44	40	45	108	102	36	438
	\$354	\$1,348	\$2,844	\$3,951	\$5,518	\$9,307	\$14,511	\$16,441	\$15,965	\$10,941
65 - 69	7	22	87	71	76	73	138	118	59	651
	\$456	\$1,626	\$2,652	\$3,811	\$6,244	\$9,421	\$11,942	\$15,235	\$17,167	\$9,464
70 - 74	17	37	108	134	116	119	154	166	95	946
	\$564	\$1,093	\$2,467	\$3,569	\$5,343	\$6,961	\$11,390	\$12,614	\$16,348	\$8,080
75 - 79	23	80	179	183	144	176	195	262	92	1,334
	\$778	\$1,244	\$2,320	\$3,567	\$5,735	\$8,084	\$9,276	\$10,660	\$13,528	\$6,957
80 - 84	15	110	191	153	163	153	194	274	153	1,406
	\$485	\$1,154	\$2,041	\$3,091	\$5,006	\$6,406	\$7,600	\$9,457	\$10,629	\$6,035
85 - 89	10	85	133	102	102	83	115	211	174	1,015
	\$623	\$1,074	\$1,893	\$3,072	\$4,337	\$5,554	\$6,325	\$7,985	\$9,110	\$5,481
Over 89	8	29	55	57	41	50	78	145	208	671
	\$1,085	\$896	\$2,040	\$2,860	\$3,781	\$5,296	\$5,779	\$6,461	\$7,258	\$5,405
Total	89	398	891	835	783	796	1,112	1,347	862	7,113
	\$626	\$1,172	\$2,203	\$3,322	\$5,164	\$7,501	\$9,847	\$10,664	\$11,089	\$7,050

**Exhibit IV**  
**The Number and Average Annual Annuity**  
**As of June 30, 2002**

**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		186	188	92	83	17					566
		\$7,825	\$10,203	\$13,622	\$18,601	\$24,549					\$11,640
50 - 54		161	163	135	197	243	46	1			946
		\$7,088	\$9,242	\$12,621	\$20,449	\$30,707	\$41,319	\$29,253			\$18,786
55 - 59		175	223	189	244	264	65	2			1,162
		\$7,022	\$8,356	\$11,044	\$17,763	\$26,768	\$36,321	\$37,345			\$16,365
60 - 64		179	276	248	226	152	17				1,098
		\$5,300	\$7,487	\$9,746	\$14,784	\$23,876	\$29,927				\$11,759
65 - 69		149	221	175	144	96	18	3			806
		\$4,412	\$6,573	\$8,287	\$12,843	\$19,526	\$25,510	\$40,232			\$9,757
70 - 74		123	189	129	130	59	9			1	640
		\$3,551	\$5,692	\$8,428	\$12,888	\$18,858	\$23,350			\$50,092	\$8,825
75 - 79		94	92	76	74	57	15	2			410
		\$3,576	\$5,967	\$7,716	\$11,567	\$16,704	\$20,002	\$26,943			\$8,862
80 - 84		58	79	52	50	28	24				291
		\$3,482	\$6,057	\$7,510	\$10,335	\$15,592	\$20,910				\$8,681
85 - 89		12	41	38	16	15	10				132
		\$2,622	\$5,548	\$7,912	\$10,489	\$15,838	\$18,851				\$8,739
Over 89			15	10	8	9	4				46
			\$6,361	\$7,676	\$11,011	\$13,648	\$13,311				\$9,486
Total		1,137	1,487	1,144	1,172	940	208	8	1		6,097
		\$5,662	\$7,554	\$9,924	\$15,701	\$24,799	\$31,170	\$34,816	\$50,092		\$12,719

**Exhibit V**  
**The Number and Average Annual Annuity**  
**As of June 30, 2002**

**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 \$ 66									1 \$ 66
<b>Total</b>	<b>1</b> <b>\$ 66</b>									<b>1</b> <b>\$ 66</b>

**Exhibit VI**  
**Annuitant and Beneficiary Membership Data**  
**As of June 30, 2002**

**Number and Average Annual Benefit**  
**Excludes Partial Lump Sum Payments**

Age Last Birthday	Number	Annual Benefit (Dollars in Thousands)	Average Annual Benefit (Dollars)
<b>Annuitants</b>			
<b>(Normal, Early and Withdrawal)</b>			
Under 60	21,800	\$ 413,961	\$ 18,989
60 - 64	19,222	472,581	24,585
65 - 69	21,316	384,345	18,031
70 - 74	21,685	331,435	15,284
75 - 79	18,291	226,483	12,382
Over 79	25,889	291,793	11,271
Total	128,203	\$ 2,120,597	\$ 16,541
<b>Survivors and Beneficiaries</b>			
Under 60	652	\$ 4,593	\$ 7,045
60 - 64	438	4,792	10,941
65 - 69	651	6,161	9,464
70 - 74	946	7,644	8,080
75 - 79	1,334	9,280	6,957
Over 79	3,093	17,675	5,715
Total	7,114	\$ 50,146	\$ 7,049
<b>Disabled Annuitants</b>			
Under 60	2,674	\$ 43,376	\$ 16,221
60 - 64	1,098	12,911	11,759
65 - 69	806	7,864	9,757
70 - 74	640	5,648	8,825
75 - 79	410	3,634	8,862
Over 79	469	4,116	8,776
Total	6,097	\$ 77,548	\$ 12,719
<b>Grand Total</b>			
<b>Average Annual Benefit</b>		141,414	\$ 2,248,291
			\$ 15,899

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

<b>Valuation as of June 30</b>	<b>Number of Active Members</b>	<b>Percentage Change in Membership</b>	<b>Total Annual Payroll (Dollars in Thousands)</b>	<b>Percentage Change in Payroll</b>
2002	242,616	(0.29%)	\$ 9,378,944	(0.38%)
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%

**Annuitant and Survivor Annuitant Members**

<b>Year Ended June 30</b>	<b>Number on roll</b>	<b>Additions</b>	<b>Deletions</b>	<b>Percentage Change in Membership</b>	<b>Annual Annuities (Dollars in Millions)</b>	<b>Percentage Change in Annuities</b>
2002	141,414	13,003	4,305	6.55%	\$ 2,248.3	20.10%
2001	132,716	3,140	4,482	(1.00)%	1,872.0	0.00%
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%

# Statistical Section

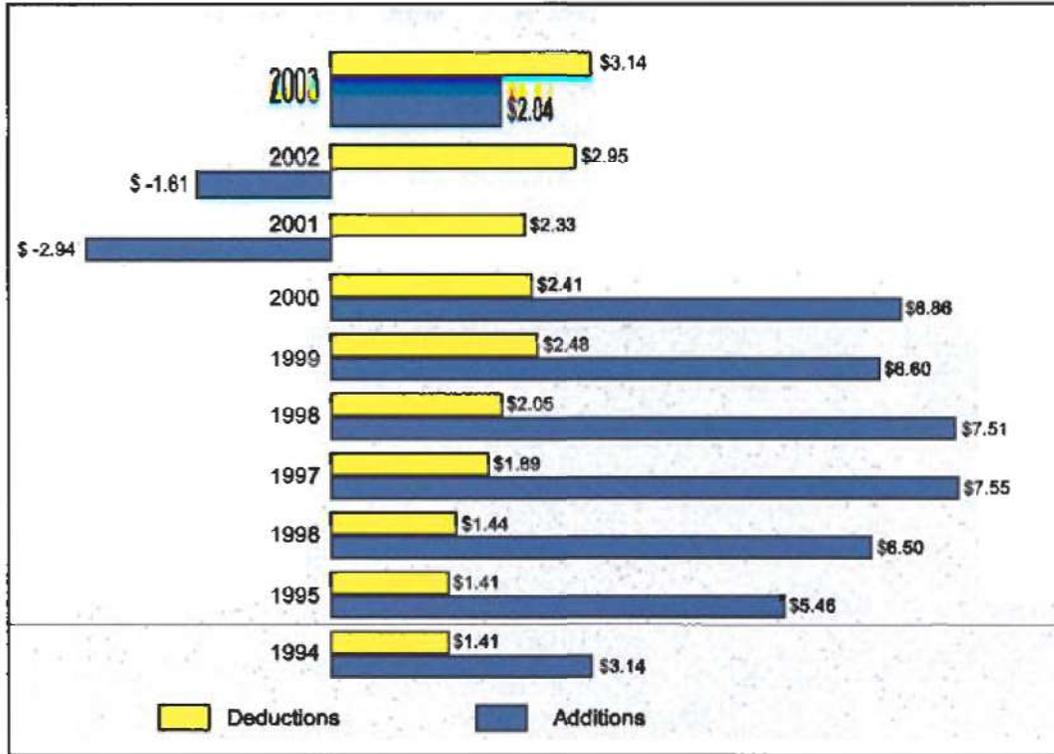


*Farming in Lancaster County*

## Changes in Plan Net Assets\* - 2003

### Additions vs. Deductions - 10 Year Trend

(Dollar Amounts in Billions)



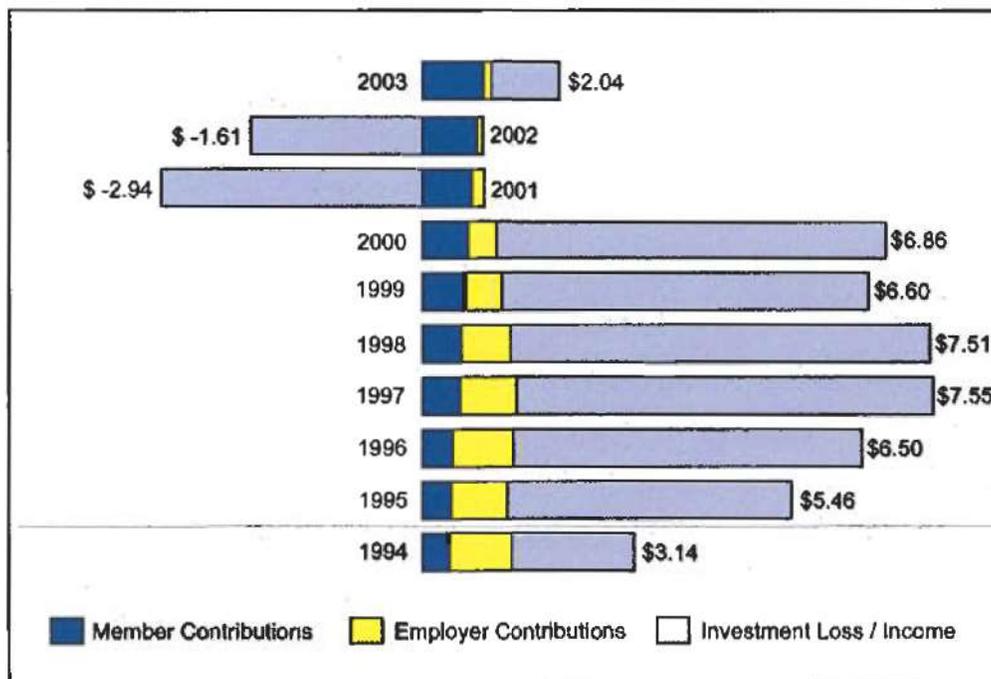
\* Data for years after 1994 includes effects of GASB Statement No. 25.

## Additions to Plan Net Assets 10 Year Trend (Dollar Amounts in Thousands)

Fiscal Year	Members Contributions	Employers and Commonwealth Contributions		Net Investment Income / (Loss)	Total Additions
		Dollar Amount	Percentage of Covered Payroll		
2003	\$ 897,307	\$ 116,456	1.15 %	\$ 1,022,467 (1)	\$ 2,036,230
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

(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)

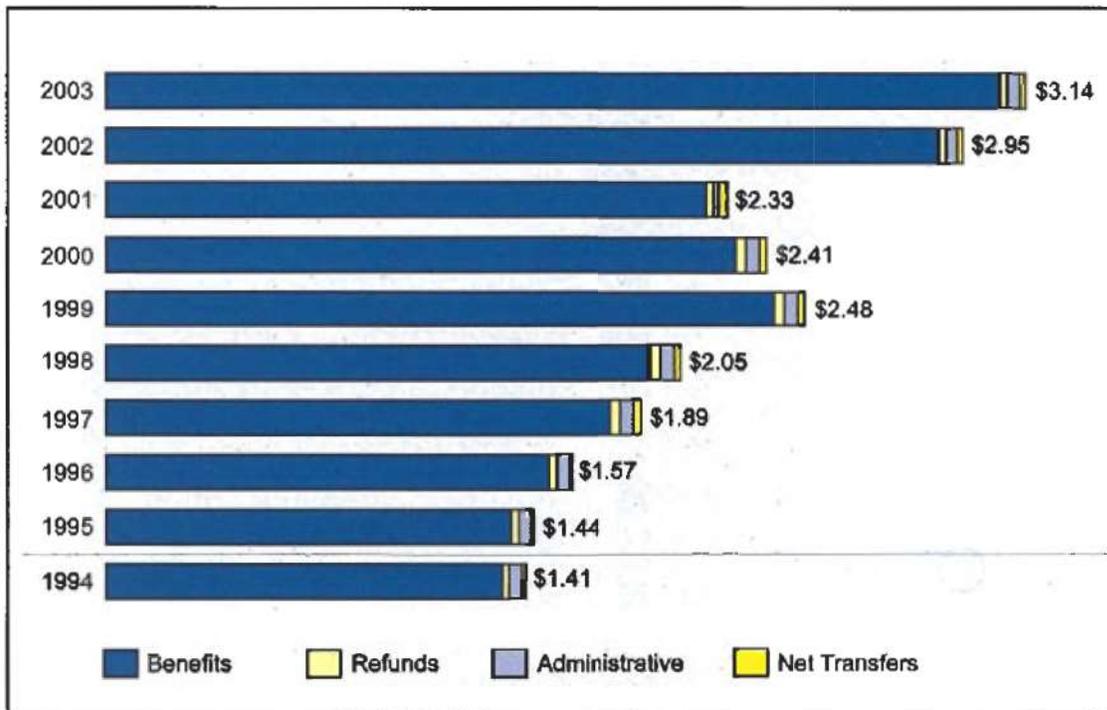


### Deductions from Plan Net Assets 10 Year Trend (Dollar Amounts in Thousands)

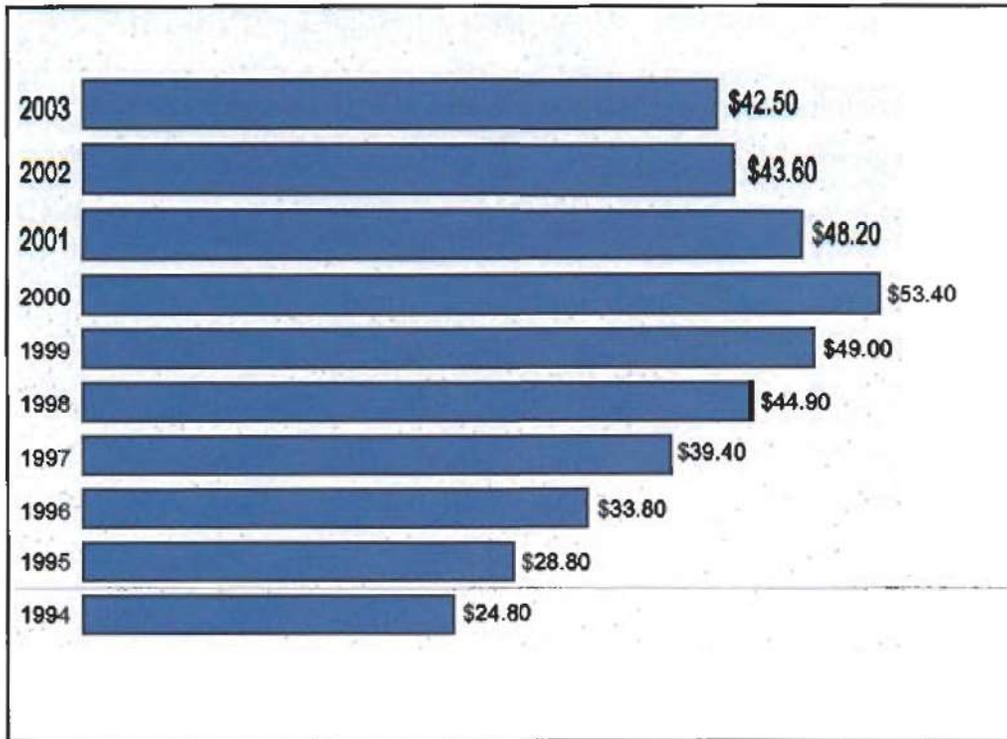
Fiscal Year	Benefits	Lump-Sum			Net Transfers*	Total Deductions
		and Installment	Refunds	Administrative		
2003	\$ 2,591,130	\$ 485,495	\$ 13,943	\$ 42,278	\$ 12,116	\$ 3,144,962
2002	2,293,687	595,184	14,858	35,373	9,434	2,948,536
2001	2,087,868	176,228	22,369	34,854	10,867	2,332,186
2000	2,048,792	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

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

(Dollar Amounts in Billions)

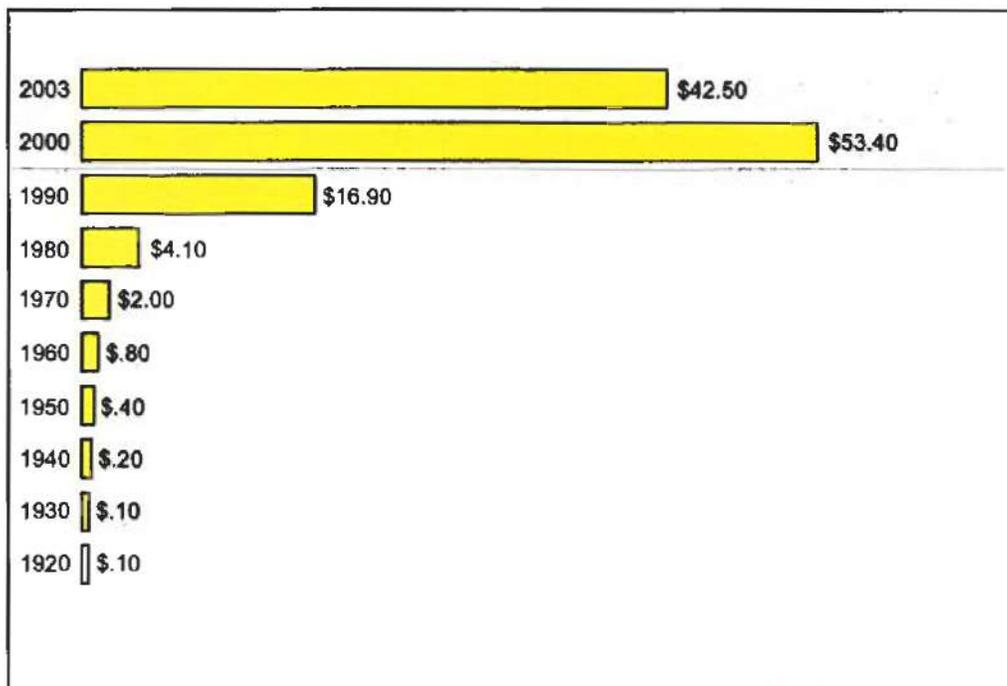


### Total Net Assets\* 10 Year Trend (Fair Value - Amounts in Billions)

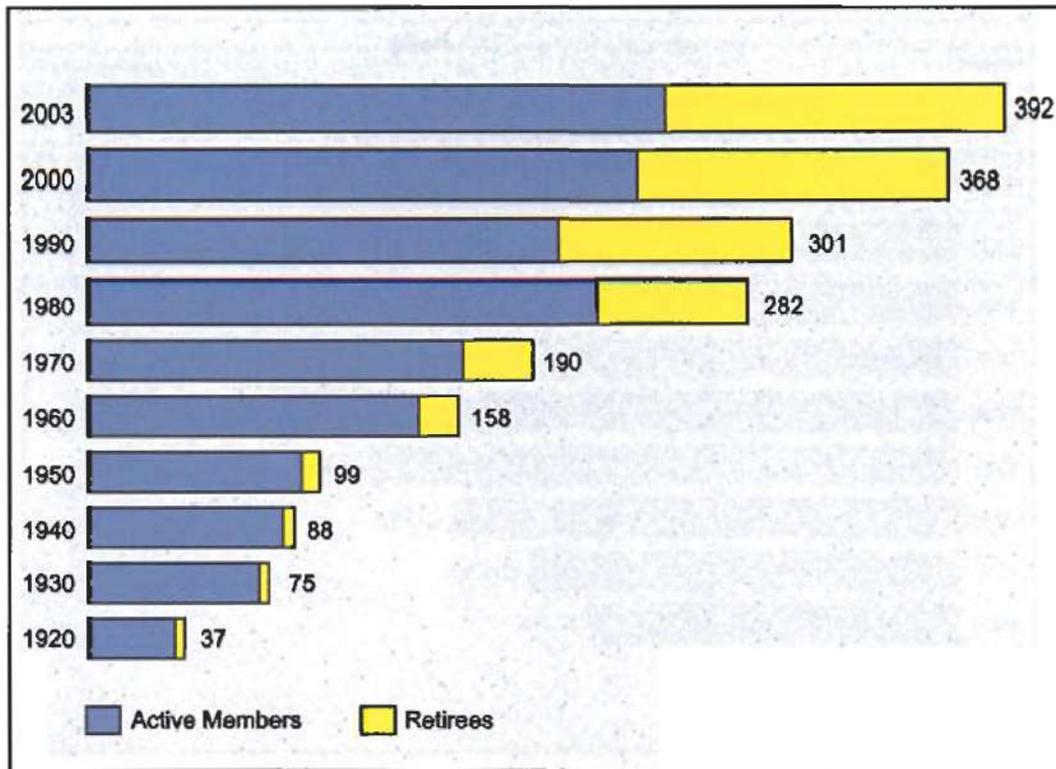


\* Includes Postemployment Healthcare.  
Data for years after 1994 includes effects of GASB Statement No. 25.

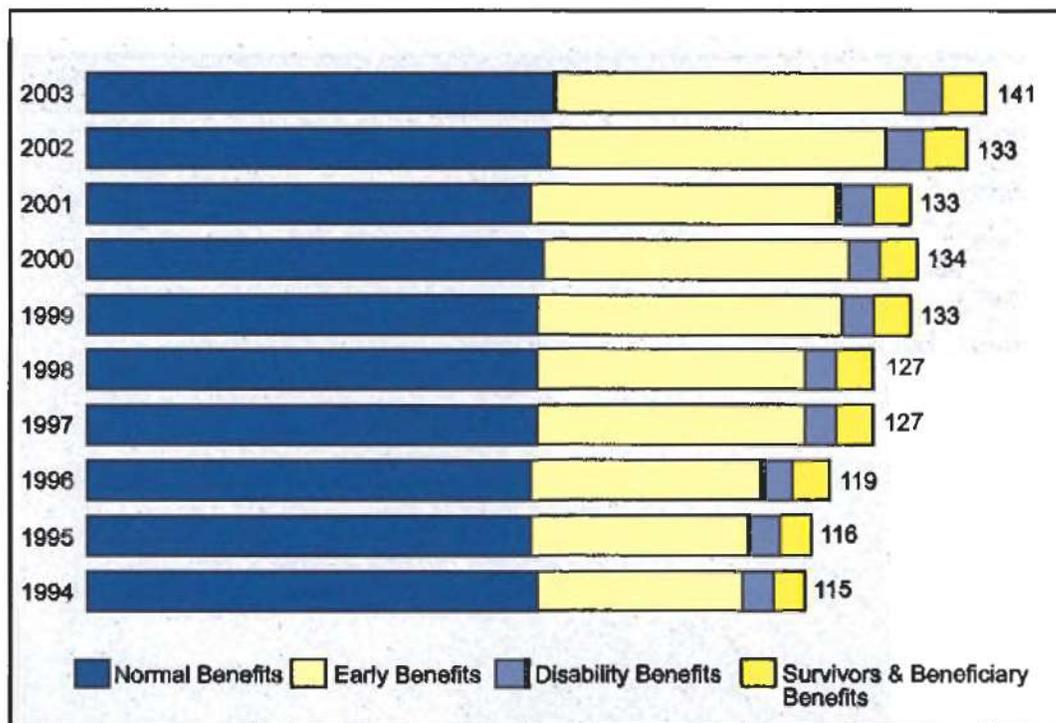
### Total Net Assets - 1920 to June 30, 2003 (Fair Value - Amounts in Billions)



### Total Membership - Active & Retired (In Thousands)



### Retired Members - 10 Year Trend (In Thousands)



## Components of Total Contribution Rate (In Percentages)

Fiscal Year	Normal Requirement (A)	Employer Contribution			Member Contribution (Average)	Total Contribution Rate
		(Funded) / Unfunded Accrued Liability (B)	Health Insurance Premium Assistance Contribution (C)	Total Employer		
2003-2004	7.25	(4.27)	.79	3.77	7.08	10.85
2002-2003	7.20	(10.03)	.97	1.15	7.10	8.25
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

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 actuarial 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
2003	S	49,231	\$1,580	8,999	\$1,188	16,408	\$1,725
	W	39,707	1,494	7,541	964	8,696	1,569
	D	5,170	1,105	9	656	1,156	1,459
	R	1	5	0	0	0	0
	B	258	881	11	542	6,348	614
		<b>94,367</b>		<b>16,560</b>		<b>32,608</b>	
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
		<b>93,329</b>		<b>15,140</b>		<b>30,864</b>	
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
		<b>89,650</b>		<b>13,357</b>		<b>28,428</b>	
2000	S	49,367	\$1,225	7,923	\$860	14,768	\$1,326
	W	36,620	1,288	5,623	660	7,063	1,281
	D	4,740	886	14	545	847	1,141
	R	1	4	0	0	0	0
	B	144	762	3	435	5,879	544
		<b>90,872</b>		<b>13,563</b>		<b>28,557</b>	
1999	S	49,255	\$1,183	8,046	\$ 855	14,641	\$1,309
	W	36,002	1,281	5,514	670	6,958	1,278
	D	4,587	854	14	545	782	1,105
	R	1	4	0	0	0	0
	B	120	754	1	1,160	5,655	519
		<b>89,965</b>		<b>13,575</b>		<b>28,036</b>	
1998	S	49,081	\$1,151	8,134	\$ 858	14,558	\$1,293
	W	31,568	1,131	5,253	636	6,300	1,209
	D	4,439	828	15	541	724	1,074
	R	1	4	0	0	0	0
	B	84	792	1	1,160	5,421	493
		<b>85,173</b>		<b>13,403</b>		<b>27,003</b>	
1997	S	48,869	\$1,011	8,185	\$ 773	14,406	\$1,162
	W	29,931	1,025	5,115	585	6,050	1,106
	D	4,334	733	16	439	694	974
	R	1	4	0	0	0	0
	B	54	766	1	1,160	5,275	475
		<b>83,189</b>		<b>13,317</b>		<b>26,425</b>	
1996	S	48,592	\$977	8,210	\$769	14,198	\$1,135
	W	26,443	871	4,880	552	5,386	1,001
	D	4,198	702	18	465	628	907
	R	1	4	0	0	0	0
	B	34	812	0	0	5,040	455
		<b>79,268</b>		<b>13,108</b>		<b>25,252</b>	
1995	S	48,589	\$952	8,256	\$767	14,028	\$1,116
	W	24,805	800	4,712	536	5,060	949
	D	4,044	676	21	454	605	866
	R	2	6	0	0	0	0
	B	21	751	0	0	4,813	436
		<b>77,461</b>		<b>12,989</b>		<b>24,506</b>	
1994	S	49,272	\$939	8,387	\$768	14,064	\$1,102
	W	23,807	756	4,595	522	4,807	904
	D	3,907	646	22	456	573	812
	R	2	6	0	0	0	0
	B	12	629	0	0	4,583	418
		<b>77,000</b>		<b>13,004</b>		<b>24,027</b>	

\* OPTIONS:

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

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

Year	Retirement Type**	Option SO*		Option BO*		Total Retirees	% Increase of Retirees
		Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit		
2003	S	613	\$2,984	0	\$ 0	75,261	1.6%
	W	266	2,494	0	0	56,210	5.0%
	D	3	2,211	0	0	6,338	4.3%
	R	0	0	0	0	1	0.0%
	B	146	637	489	590	7,252	2.6%
		<b>1,028</b>		<b>489</b>		<b>145,062</b>	<b>6.0%</b>
2002	S	562	\$2,727	0	\$ 0	74,047	4.9%
	W	235	2,312	0	0	53,556	8.1%
	D	3	2,099	0	0	6,076	5.3%
	R	0	0	0	0	1	0.0%
	B	148	559	475	553	7,072	3.5%
		<b>948</b>		<b>475</b>		<b>140,756</b>	<b>6.0%</b>
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%
		<b>826</b>		<b>477</b>		<b>132,738</b>	<b>-1.2%</b>
2000	S	480	\$2,389	0	\$ 0	72,538	0.2%
	W	207	2,180	1	336	49,514	1.7%
	D	2	2,151	0	0	5,603	4.1%
	R	0	0	0	0	1	0.0%
	B	146	481	488	500	6,660	3.8%
		<b>835</b>		<b>489</b>		<b>134,318</b>	<b>1.1%</b>
1999	S	444	\$2,379	0	\$ 0	72,386	0.3%
	W	207	2,167	0	0	48,681	12.5%
	D	1	1,109	0	0	5,384	4.0%
	R	0	0	0	0	1	0.0%
	B	142	427	496	475	6,414	4.5%
		<b>794</b>		<b>496</b>		<b>132,866</b>	<b>4.8%</b>
1998	S	433	\$2,365	0	\$ 0	72,206	0.5%
	W	163	2,063	0	0	43,284	4.9%
	D	0	0	0	0	5,178	2.7%
	R	0	0	0	0	1	0.0%
	B	146	392	487	426	6,139	2.7%
		<b>742</b>		<b>487</b>		<b>126,808</b>	<b>2.2%</b>
1997	S	392	\$2,125	0	\$ 0	71,852	0.7%
	W	149	1,979	0	0	41,245	12.1%
	D	0	0	0	0	5,044	4.1%
	R	0	0	0	0	1	0.0%
	B	153	329	495	419	5,978	4.7%
		<b>694</b>		<b>495</b>		<b>124,120</b>	<b>4.6%</b>
1996	S	356	\$2,046	0	\$ 0	71,356	0.2%
	W	102	1,851	0	0	36,811	6.2%
	D	0	0	0	0	4,844	3.7%
	R	0	0	0	0	1	-50.0%
	B	149	302	405	400	5,708	4.9%
		<b>607</b>		<b>405</b>		<b>118,720</b>	<b>2.4%</b>
1995	S	353	\$2,006	0	\$ 0	71,226	-1.2%
	W	78	1,754	0	0	34,655	4.1%
	D	0	0	0	0	4,670	3.7%
	R	0	0	0	0	2	0.0%
	B	146	250	464	375	5,444	4.7%
		<b>577</b>		<b>464</b>		<b>115,997</b>	<b>0.8%</b>
1994	S	356	\$1,959	0	\$ 0	72,079	0.7%
	W	70	1,661	0	0	33,279	2.1%
	D	0	0	0	0	4,502	4.6%
	R	0	0	0	0	2	0.0%
	B	152	221	452	351	5,199	4.5%
		<b>578</b>		<b>452</b>		<b>115,061</b>	<b>1.4%</b>

\*\* 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  
 Catasauqua  
 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  
 Lehigh Area  
 Lewisburg Area  
 Ligonier Valley  
 Line Mountain  
 Littlestown  
 Lower Dauphin  
 Lower Merion  
 Lower Moreland  
 Loyalsock Township

### M

Mahanoy Area  
 Manheim Central  
 Manheim Township  
 Marron 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  
 Norrislown Area  
 North Allegheny  
 North Clarion County  
 North East  
 North Hills  
 North Penn  
 North Pocono  
 North Schuylkill  
 North Star  
 Northampton Area  
 Northeast Bradford  
 Northeastern York County  
 Northern Bedford County  
 Northern Cambria  
 Northern Lebanon  
 Northern Lehigh  
 Northern Potter  
 Northern Tioga  
 Northern York County  
 Northgate  
 Northwest Area  
 Northwestern  
 Northwestern Lehigh  
 Norwin

### O

Octorara Area  
 Oil City Area  
 Old Forge  
 Oley Valley

**Schedule of Employers (Continued)**

Oswayo Valley  
 Otto Eldred  
 Owen J. Roberts  
 Oxford Area

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

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

**P**-----

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

**S**-----

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

**T**-----

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

**U**-----

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

**Q**-----

Quaker Valley  
 Quakertown Community

**R**-----

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

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

**Y**

York  
York Suburban  
Yough

**Area Vocational Technical Schools**

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

**Intermediate Units**

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

## Schedule of Employers (Continued)

### Colleges / Universities

Bloomsburg University	Lehigh Carbon Community College
Bucks County Community College	Lock Haven University
Butler County Community College	Luzerne County Community College
California University	Mansfield University
Cheyney University	Millersville University
Clarion University	Montgomery County Community College
Community College of Allegheny County	Northampton County Area Community College
Community College of Beaver County	Pennsylvania College of Technology
Community College of Delaware County	Pennsylvania State University
Community College of Philadelphia	Reading Area Community College
East Stroudsburg University	Shippensburg University
Edinboro University	Slippery Rock University
Harrisburg Area Community College	University of Pittsburgh
Indiana University	West Chester University
Kutztown University	Westmoreland County Community College

### Other

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

### Charter Schools (C.S.)

21st Century Cyber C.S.	Freire C.S.
Alliance for Progress C.S.	GECAC Community C.S.
Architecture & Design C.S.	Germantown Settlement C.S.
Avon Grove C.S.	Graystone Academy C.S.
Belmont C.S.	Green Woods C.S.
Bucks County Montessori C.S.	High Tech High Philadelphia C.S.
Career Connections C.S.	Hope C.S.
Center for Economics and Law C.S.	Imani Education Circle C.S.
Center for Student Learning C.S. at Pennsbury	IMHOTEP Institute C.S.
Central PA Digital Learning Foundation C.S.	Independence C.S.
Centre Learning Community C.S.	Infinity C.S.
Chester C.S.	Keystone Education Center C.S.
Chester County Family Academy C.S.	La Academia: The Partnership C.S.
Christopher Columbus C.S.	Laboratory C.S.
City Charter High School	Lehigh Valley Academy Regional C.S.
Collegium C.S.	Lehigh Valley C.S. for the Performing Arts
Commonwealth Connections Academy C.S.	Leadership Learning Partners C.S.
Crispus Attucks Youthbuild C.S.	Lincoln C.S.
Delaware Valley C.S.	Manchester Academic C.S.
Erin Dudley Forbes C.S.	Mariana Bracetti Academy C.S.
Eugenio Maria de Hostos Community Bilingual C.S.	MaST Community C.S.
Family C.S.	Math, Civics & Sciences C.S.
Fell C.S.	Multi-Cultural Academy
First Philadelphia C.S. for Literacy	New Foundations C.S.
Franklin Towne C.S.	Nittany Valley C.S.

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**Schedule of Employers (Continued)**

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 Electrical & Technology Charter High School  
Philadelphia Harambee Institute of Science and  
Technology C.S.  
Philadelphia Performing Arts C.S.  
Pocono School of Excellence C.S.  
Preparatory Charter of Mathematics, Science, Technology  
and Careers School  
Raising Horizons Quest C.S.  
Renaissance C.S.  
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.  
The Einstein Academy C.S. (TEACH)  
Tuscarora Blended Learning 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.  
West Philadelphia Achievement Charter Elementary School  
Western Pennsylvania Cyber C.S.  
Wissahickon C.S.  
Wonderland C.S.  
World Communications C.S.  
Young Scholars C.S.

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