Public School Employees' Retirement System

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2005

A Component Unit of the
Commonwealth of Pennsylvania

Public School Employees' Retirement System

(A Component Unit of the Commonwealth of Pennsylvania)

PO Box 125
Harrisburg, Pennsylvania 17108-0125

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Comprehensive Annual Financial Report

for the
Fiscal Year Ended June 30, 2005

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, 2004

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

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards

2005 Award

Presented to

Pennsylvania Public School Employees' Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Alan H. Winkle
Program Administrator

Chairman's Report

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
Telephone (717) 720-4749
Roger H. May, Chairman of the Board

December 1, 2005

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-sixth *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2005. The report provides an in-depth review of the financial, actuarial, and investment status of the Retirement Fund and the PSERS' postemployment healthcare programs.

As the System's report details, as of June 30:

1. The funded status of the pension plan as reported in the System's June 30, 2004 Actuarial Valuation was 91.2%.
2. The net assets held in trust for pension benefits were $51.9 billion at fair value.
3. Net assets held in trust for postemployment healthcare benefits were $175.0 million at fair value.
4. The active contributing membership of the System numbered approximately 255,000.
5. The number of annuitants totaled over 156,000 and received in excess of $3.8 billion in pension and postemployment healthcare benefits during the fiscal year.

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

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

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

Roger H. May

Roger H. May
Chairman
Board of Trustees

Public School Employees' Retirement System

Introductory Section

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 assets of the System*
- *Maintaining a financially sound System*
- *Providing timely and accurate payment of benefits*
- *Clearly communicating members' and employers' rights and responsibilities, and*
- *Effectively managing the resources of the System*

adopted 12/9/2005

Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA

PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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

December 1, 2005

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

We are pleased to present the eighty-sixth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 2005. 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, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year for any of the 734 reporting entities in Pennsylvania. As of June 30, 2005, the System had approximately 255,000 active members with an annual active payroll of $10.6 billion.

The annuitant membership at June 30, 2005 was comprised of over 156,000 retirees and beneficiaries who receive nearly $235 million each month. The average yearly benefit paid to annuitants is $18,464. 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 734 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 Commonwealth 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 continued strength during the fiscal year ended June 30, 2005 (FY 2005) enabling PSERS' investment portfolio to generate a rate of return of 12.87%. The total net assets of the System increased from $48.5 billion to $52.1 billion from July 1, 2004 to June 30, 2005. The increase is primarily attributable to net investment income and member and employer contributions combined that exceeded the payment of pension benefits and administrative expenses.

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 the required reserves are available for payment of current and prospective retirement benefits. PSERS has maintained its position among the top twenty-five largest pension systems in the nation.

Major Initiatives

New Pension Administration System (NPAS)

NPAS, PSERS' largest project ever, continued throughout FY 2005 with Release 1 being implemented on time and under budget in July 2004. This phase of NPAS brought about significant changes in the way the school employers report salary and service data for their employees. The remainder of the fiscal year was spent supporting this new functionality while working towards the finalization of the design, development, and testing of the second phase of NPAS, which will be fully implemented during the fiscal year ending June 30, 2006 (FY 2006).

The first part of the second phase of NPAS will include the production of member statements of account, the second part will include the production of PSERS annuitant payroll as well as daily benefit disbursements, and the third part will include all remaining functionality.

Independent Accounting Book of Record Project

The System continued its multi-year project to implement an independent accounting book of record for the System's investment transactions and holdings. In FY 2005, as planned, the domestic and international fixed income portfolios were converted to the System's internal accounting software provided by Financial Control Systems, Inc. In FY 2006, work will begin to convert the real estate and alternative investment portfolios from an Excel-based accounting system to the internal accounting software and various management reports will be written for the new software.

PSERS Health Options Program (HOP) — and Medicare Prescription Drug Benefits

In early 2005, PSERS' Board of Trustees designated a small working group to address the prescription drug component of the Medicare Modernization Act (MMA). Subsequently, PSERS entered into an Employer/Union Direct Medicare Prescription Drug Plan Contract with the Centers for Medicare and Medicaid Services (CMS). Effective January 1, 2006, HOP will provide prescription drug benefits to HOP participants who are eligible for Medicare and receivepayments from CMS to defray the cost of providing these benefits. In essence, HOP will offer moreprescription drug coverage choices at reduced monthly premium rates as a result of the changes to Medicare.

As a consequence of PSERS implementing MMA, PSERS conducted a limited open enrollment period from early October to November 16, 2005 for benefit coverage effective January 1, 2006. For the open enrollment period, HOP:

- Produced and distributed over 115,000 personalized statements that explained retirees' medical and prescription drug coverage Options for 2006.
- Conducted 75 meetings across the Commonwealth and in New Jersey, Delaware, North Carolina and Florida with 20,000 attendees.
- Handled over 68,000 telephone calls from members inquiring about the open enrollment and the new Medicare Prescription Drug Options.

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 $52.1 billion as of June 30, 2005. 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 and Management's Discussion and Analysis included 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 FY2005, the appropriation was $41.8 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, 2004) 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 91.2%. 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 76% of total revenues over the period from FY 1996 to FY 2005. During FY 2005 net investment income was $6.1 billion. The investment portfolio totaled $52.9 billion, at fair value, as of June 30, 2005. For FY 2005, the time-weighted rate of return on the System's investments was 12.87%.

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 policy benchmark (the policy benchmark is a custom index based on the Board-established asset allocation structure to generate a return that meets the actuarial rate of return assumption); (iv) achieve a real rate of return over CPI over time; and (v) 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 **Financial 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 in the *Pennsylvania Bulletin* (Vol. 31, No.14).

System Awards

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to PSERS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2004 (FY 2004). 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 22 consecutive years for FY 1983 to FY 2004. 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 2005 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*.

Public Pension Coordinating Council – Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2005. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

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

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

Respectfully submitted,

Jeffrey B. Clay
Executive Director

Arthur J. Granito
Chief Financial Officer

Administrative Organization
PSERS Board of Trustees





Secretary of Educaton
Gerald R. Zahorchak
Acting Secretary
(ex officio)

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

Treasurer of the
Commonwealth of
Pennsylvania
Honorable
Robert P. Casey, Jr.
(ex officio)

Two members appointed by the Governor
Arthur J. Rooney, II
Tina Byles-Williams





One member elected
by retired members
Sally J. Turley

Three members elected by active certified contributors
Gerald A. Katona
Roger H. May
Chair
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
Vice-Chair

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

Two members appointed by the President
Pro Tempore of the Pennsylavania Senate
Honorable
Vincent J. Fumo
Honorable
Joseph B. Scarnati, III

PSERS Board of Trustees

as of December, 2005

2005 Board Committees

as of October 2005

Appeals / Member Services

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

Health Care

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

Finance

Ms. Vogler, Chair

Committee is comprised of all Board members.

Elections

Rep. Evans, Chair
Ms. Clapper
Mr. Rooney
Dr. Zahorchak

Audit / Budget

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

Personnel

Mr. Gentzel, Chair
Ms. Byles-Williams
Mr. Casey
Ms. Clapper
Rep. Evans
Mr. May

Bylaws / Policy

Rep. Nickol, Chair
Ms. Byles-Williams
Mr. Casey
Rep. Evans
Mr. Katona
Mrs. Turley
Ms. Vogler

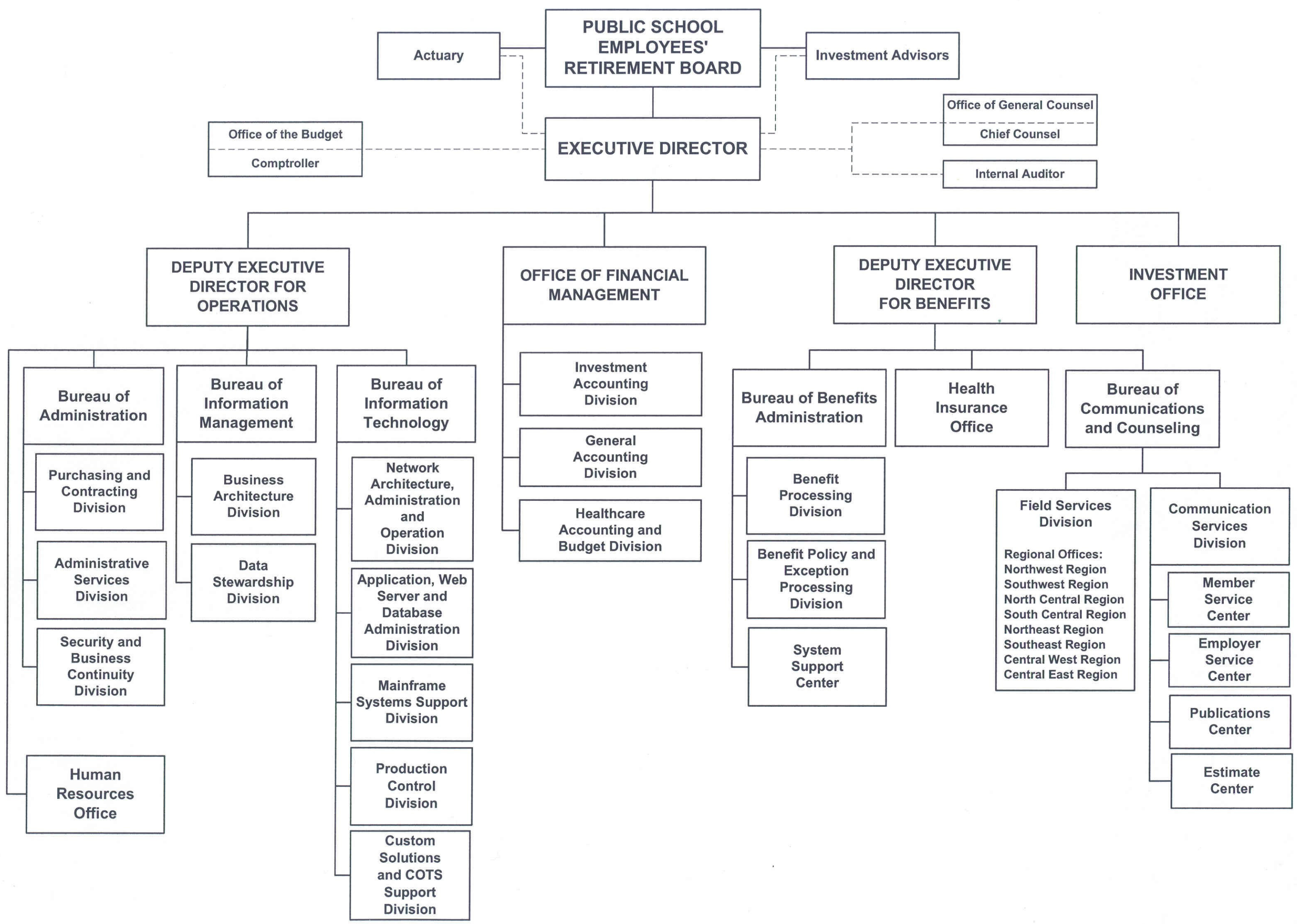
Technology Steering

Sen. Fumo, Chair
Ms. Byles-Williams
Mr. Katona
Mr. Rose
Sen. Scarnati
Ms. Vogler
Dr. Zahorchak

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

September 9, 2004



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 (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 for Operations, Deputy Executive Director for Benefits, Chief Investment Officer, Chief Financial Officer, Internal Auditor, Press Secretary, Board Liaison, and Legislative Liaison. 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 Executive Office monitors the operation of the investment portfolio and evaluates portfolio performance for consideration by the Board, certifies expenditures of the Fund, and measures performance of professional individuals or firms with whom the Board contracts for specialized services. The Executive Office also apprises the Board of any development that will in any way affect the System and its operation.

Investment Office

The Investment Office is responsible for the investment activities of the System. In accordance 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 78 to 83 for lists of professional investment advisors and Page 63 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.

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 three divisions: General Accounting, 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, maintains the annuitant payroll, 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.

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.

Deputy Executive Director, Operations

The Deputy Executive Director for Operations administers the facilities, technologies, data and records, policies and procedures, human resource, and procurement activities necessary to support, secure and optimize agency operations. Organizational units overseen by this position include the Bureau of Administration, Bureau of Information Management, Bureau of Information Technology, and the Human Resources Office.

Human Resources Office

The Human Resources Office is responsible for supporting management and staff to facilitate the accomplishment of the agency's mission. It administers all human resources programs and ensures compliance with labor law and Commonwealth regulations. Programs include position classification, labor relations, recruitment and placement, employee benefits, employee compensation and pay, training and staff development, time and attendance, performance management, organizational development and support, employee transactions, Equal Employment Opportunity and other miscellaneous programs.

Bureau of Administration

The Bureau of Administration provides facilities, purchasing and contracting, business continuity, automotive, mail, imaging, and other administrative services necessary to support agency functions.

Purchasing and Contracting Division

The Purchasing and Contracting Division procures materials, supplies, and services needed to support organizational goals and develops, monitors, processes and evaluates contract usage in the agency.

Administrative Services Division

The Administrative Services Division manages building and grounds for the agency both at headquarters and at the regional locations, provides mail, imaging, and work introduction services to the agency, asset management, automotive and other administrative services to the agency.

Security and Business Continuity Division

The Security and Business Continuity Division develops and implements those policies, programs and procedures necessary to ensure that PSERS' human, technology, and capital resources are secure and to ensure that PSERS is prepared to quickly recover and continue critical operations in the event of a disaster.

Bureau of Information Management

PSERS' organization, business processes, data, and information systems are inextricably intertwined with each other. To understand PSERS' business, as it exists, as well as the impact of change and potential for improvements, each of these components must be understood on their own, within the context of each other, and in context of PSERS' mission, vision, values and goals.

The goal of the Bureau of Information Management is to understand, analyze, document, and improve PSERS' organization, business rules, processes, information systems, and data and the relationships among these components so that PSERS is able to:

- conduct its business consistently and according to established rules
- understand each component, its relationship to each of the other components and to PSERS' mission, vision, values and goals
- fully, yet quickly analyze and understand the impact of potential change to one or more of these components on the others
- more effectively identify inefficient, duplicate, or suspect processes, data, or technologies
- account for its organization, business rules and processes, information systems and technologies, and data
- best manage its electronic data records, imaged records, paper and film/fiche records
- understand the meaning and know the location of its data
- ensure that PSERS' data, information systems, and business processes meet established quality goals
- manage PSERS' forms
- ensure that PSERS' data, forms, information systems, and business processes are in support of its business.

Division of Business Architecture

The Division of Business Architecture includes analysts who collect, analyze, and document PSERS' organization, business rules, processes, information systems, and data, and perform detailed impact analysis as and when change is proposed. Additionally, staff in this unit confirm that changes have been applied correctly. Staff in this unit also look for opportunities for improvement, lead the development of business requirements and serve as liaisons between PSERS' end-users and Information Technology staff.

This division serves as the repository for PSERS' business knowledge and makes that knowledge available and understandable to agency processing and technology staff.

This division also receives and responds to data queries from agency staff and investigates system, data, or process problems. Finally, this division maintains responsibility for PSERS' records and forms management programs.

Division of Data Stewardship

PSERS has realized that poor data quality and/or the lack of data can be a significant inhibitor to timely and efficient processing. Staff in the Division of Data Stewardship are the trustees and primary maintainers of PSERS' member and employer data, working to make this data most usable to agency processing staff. Specifically, this group maintains PSERS' member demographic information, affiliate information, and is responsible for correctly applying monetary and non-monetary adjustments to member accounts.

Bureau of Information Technology

The Bureau of Information Technology is responsible for planning, coordinating, administering, implementing, and supporting information technology resources within PSERS. The Bureau is organized into five Divisions: Network Architecture, Administration, and

Operation Division; Application, Web Server, and Database Administration Division; Mainframe Systems Support Division; Production Control Division; and Custom Solutions and COTS Support Division.

Network Architecture, Administration, and Operation Division

This division provides consultative and technical support in the planning, design, specification, implementation, deployment, operation, support, and troubleshooting of all PSERS' Network Servers, Desktop Systems, Operating Systems and associated Hardware Components.

Application, Web Server, and Database Administration Division

This division provides consultative and technical support in the planning, design, specification, implementation, deployment, operation, support, and troubleshooting of all PSERS' Database Management systems, Web Application servers and Web servers.

Mainframe Systems Support Division

The Mainframe Systems Division maintains the legacy COBOL and LINC mainframe business applications and for the development of data migration import and export programs and interface programs resident on the legacy mainframe platform.

Production Control Division

The Production Control Division develops job control programs, maintains mainframe system batch schedules, and controls the movement of legacy programs into the production environment. This division also manages the agency printing and post-processing operations.

Custom Solution and Commercial off the Shelf (COTS) Division

The Custom Solution and COTS Division supports PSERS' server-based COTS applications such as E-image and Workflow, Lawson General Ledger, Investment Accounting, etc. and for supporting the use of the Microsoft Office Suite in combination with data access tools such as Open/A. This division also designs, develops, tests and implements customized interfaces necessary to support the interaction between various COTS and custom business applications.

Deputy Executive Director, Benefits

The Deputy Executive Director for Benefits oversees the administration of the benefits programs for all active and retired members of the System and oversees the development and implementation of the communications and counseling programs. Organizational units under the management of the Deputy include the Bureau of Benefits Administration, the Bureau of Communications and Counseling and the Health Insurance Office.

Bureau of Benefits Administration

The Bureau of Benefits Administration provides professional and technical services to all Pennsylvania full-time and part-time public school employees in any of the System's 734 employers. They also provide services to retirees, their beneficiaries and their personal representatives.

Benefits Processing Division

The Benefits Processing Division handles the high volume of benefit calculations. The staff calculates estimated retirement benefits, creates payroll records, and originates the initial benefit payments and direct rollovers. As the employers report final salary and service data, staff conducts in-depth reviews of accounts and calculates finalized benefits.

This division has responsibility for determining eligibility and calculating the cost to the members and to the employers for the purchase of additional service credit. The division processes requests to refund contributions and interest from members terminating from the system who are not eligible for retirement benefits. The calculation and payment of death benefits for members who die subsequent to retirement is also performed within this division.

Benefits Policy and Exception Processing Division

The Benefit Policy and Exception Processing Division has responsibility for creating and writing all benefits policies, procedures, business rules and calculations and presenting policies to the Executive staff and the Board's Appeals/ Members Services Committee; for coordinating all requests for legal analyses and legal opinions; and for working with the System's actuaries regarding benefit calculations and audits. The staff also manages the first level of the member's administrative appeal process.

This division makes determinations relative to membership eligibility, retirement covered compensation and emergency employment where circumstances are suspect or atypical. To insure compliance with the Retirement Code, the division is also responsible for the review and approval of domestic relations orders.

The staff of this division also handles the benefits determinations that are more complex, more time-sensitive or have a significant impact on the agency or the members. This work includes divorce transactions, death benefits for in-service members, frozen annuity calculations, computations that must comply with special IRS regulations, multiple service eligibility and calculations, post finalized benefit adjustments, calculating cost of living increases and processing changes to annuitant or survivor gross benefits.

System Support Center

The System Support Center's primary responsibility is to work with technical staff in the Bureau of Information Technology to enhance automated business systems and the use of technology within the business areas. Enhancements are the result of changing technology as well as changes to legislation, court decisions and board policies. Work involves workflow analysis, requirements definition, testing and implementation. The Center is also responsible for reporting and providing assistance to resolve all problems with production, hardware and software.

Bureau of Communications & Counseling

The Bureau of Communications and Counseling is responsible for professionally communicating accurate and timely information. The goal is to promote the understanding of PSERS' benefits and processes to 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. The regional representatives conduct various meetings and workshops for members and employers and provide counseling services.

Communication Services Division

The Communication Services Division provides information to the members, employers, and the general public through the telephone, on-site visits, the worldwide web and various publications. There are four centers within this division:

Member Service Center

This center answers the PSERS' toll-free telephone number, responding to general inquiries about the benefits and processes of the System as well as specific inquiries related to members' accounts.

Employer Service Center

Staffing of the center includes customer service representatives to answer phone calls and emails, as well as field representatives to visit employers and conduct workshops, to provide assistance and training for proper reporting to the System.

Publications Center

This center is responsible for the development, production, and distribution of all printed and audiovisual materials for the System. Publications include newsletters, handbooks, pamphlets, annual reports, mass communications to the membership, and presentation material. Staff also responds to general correspondence and email inquiries.

Estimate Center

This center computes a large volume of estimates showing the potential monthly benefits members will receive at retirement through the normal, early, vested or disability benefit.

Health Insurance Office

This office is responsible for all aspects of the PSERS' Health Options Program and administering the annuitants' health insurance premium assistance benefits. HOP is a voluntary statewide plan that provides group health insurance coverage for school retirees, their spouses, and eligible dependents.

Administrative Staff

Jeffrey B. Clay
Executive Director

Gerald Gornish
Chief Counsel

Arthur J. Granito
Chief
Financial Officer

Terrill J. Savidge
Deputy Executive
Director, Operations

Veronica P. Thomas
Deputy Executive
Director, Benefits

Alan H. Van Noord
Chief
Investment Officer

Douglas A. Bonsall
Director of
Communications &
Counseling

Deborah L. Garraway
Director of Information
Management

Donald J. Halke, II
Internal Auditor

Helen D. Hosler
Director of Benefits
Administration

Maribel La Luz
Director of Human
Resources

James F. Noone
Director of
Administration

Mark F. Schafer
Director of Health
Insurance

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
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CENTRALWEST
636 Scalp Avenue
Johnstown, PA 15904-1640
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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 within the State Capitol complex. Regional field offices are also maintained in Fleetwood, Franklin, Johnstown, Lock Haven, Mechanicsburg, Pittsburgh, Warminster and Wilkes Barre.

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

Public School Employees' Retirement System

Financial Section

Clifton Gunderson LLP
Certified Public Accountants & Consultants
COUNT ON INSIGHT℠

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 years ended June 30, 2005 and 2004, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, PSERS' plan net assets as of June 30, 2005 and 2004, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The 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 23, 2005

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania Public School Employees' Retirement System's (PSERS) for the fiscal year ended June 30, 2005, provides a narrative summary of the financial position and performance, including highlights and comparative data. The MD&A is presented as required supplemental information to the financial statements and should be read in conjunction with the letter of transmittal, the financial statements, the notes to financial statements and the supplementary schedules.

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 Health Insurance 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, 2005, 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, 2004 to June 30, 2005, 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' total plan net assets increased by $3.6 billion from $48.5 billion at June 30, 2004 to $52.1 billion at June 30, 2005. The increase is primarily attributable to net investment income and member and employer contributions combined that exceeded the payment of pension benefits and administrative expenses.

Management's Discussion and Analysis (Continued)

- The pension plan's funded ratio as of the latest actuarial valuation dated June 30, 2004 decreased from 97.2% to 91.2%. The decrease is primarily due to the residual effect of an actuarial asset loss caused by the downturn in the financial markets from 2000 to 2002.
- The rate of return on investments was 12.87% for the fiscal year ended June 30, 2005 and 19.67% for the fiscal year ended June 30, 2004.
- Total member contributions increased slightly from $944 million in FY 2004 to $955 million in FY 2005. Total employer contributions increased from $407 million in FY 2004 to $458 million in FY 2005. The net increase is primarily attributable to an increase in the pension contribution rate from 2.98% in FY 2004 to 4.00% in FY 2005 partially offset by a reduction in the health insurance premium assistance contribution rate from 0.79% in FY 2004 to 0.23% in FY 2005.
- Total PSERS' benefit payouts increased by 10.9% from $3.5 billion in FY 2004 to $3.9 billion in FY 2005. The increase is primarily attributable to an increase in the number of retirees and beneficiaries currently receiving benefits.
- Total administrative expenses decreased by 13.3% from $49.2 million in FY 2004 to $42.6 million in FY 2005 primarily due to the planned reduction of expenditures for the third year of the New Pension Administration System (NPAS) project. Administrative expenses were within PSERS' budgeted amounts for both years.

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. The most recent actuarial valuation reports that PSERS is 91.2% funded as of June 30, 2004. The results of operations for FY 2005 will be reflected in the actuarial valuation for the year ended June 30, 2005. 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, 2006

Management's Discussion and Analysis (Continued)

Analysis of Plan Net Assets

(Dollar Amounts in Thousands)

Summary of Plan Net Assets:	FY 2005	Increase (Decrease)	FY 2004	Increase (Decrease)	FY 2003
Assets:					
Receivables	**$ 1,521,994**	$ 436,885	$ 1,085,109	$ (197,324)	$ 1,282,433
Investments	**52,938,052**	3,906,373	49,031,679	5,311,675	43,720,004
Securities lending collateral pool	**6,600,684**	2,095,256	4,505,428	1,117,738	3,387,690
Fixed assets	**873**	(641)	1,514	(914)	2,428
Total Assets	**61,061,603**	6,437,873	54,623,730	6,231,175	48,392,555
Liabilities:					
Payables and other liabilities	**2,349,493**	768,290	1,581,203	(935,744)	2,516,947
Obligations under securities lending	**6,600,684**	2,095,256	4,505,428	1,117,738	3,387,690
Total Liabilities	**8,950,177**	2,863,546	6,086,631	181,994	5,904,637
Plan Net Assets	**$ 52,111,426**	$ 3,574,327	$ 48,537,099	$ 6,049,181	$ 42,487,918

Summary of Changes in Plan Net Assets:	FY 2005	Increase (Decrease)	FY 2004	Increase (Decrease)	FY 2003
Additions:					
Contributions	**$ 1,413,317**	$ 62,173	$ 1,351,144	$ 337,381	$ 1,013,763
Net investment income	**6,081,497**	(2,163,107)	8,244,604	7,222,137	1,022,467
Total Additions	**7,494,814**	(2,100,934)	9,595,748	7,559,518	2,036,230
Deductions:					
Benefit payments	**3,877,842**	380,477	3,497,365	394,681	3,102,684
Administrative expenses	**42,645**	(6,557)	49,202	6,924	42,278
Total Deductions	**3,920,487**	373,920	3,546,567	401,605	3,144,962
Changes in Plan Net Assets	**$ 3,574,327**	$ (2,474,854)	$ 6,049,181	$ 7,157,913	$ (1,108,732)

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 market returns and establishes an asset allocation plan taking into account the risk associated with each asset class as well as the financial objectives of the Fund.

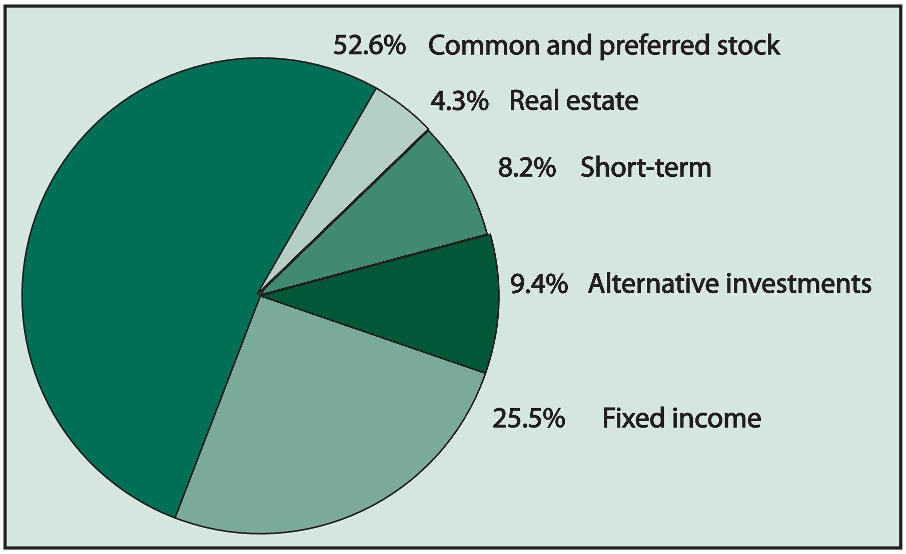
Management's Discussion and Analysis (Continued)

For FY 2005, PSERS' rate of return on investments was 12.87%. The FY 2005 investment return exceeded PSERS' total fund policy benchmark of 10.54% and placed PSERS' performance in the top quartile of the Public Fund Universe prepared by the System's investment evaluator, Wilshire Associates Inc. (Wilshire). The annualized rate of return over the past three and five-year periods ended June 30, 2005 was 11.54% and 4.02%, respectively. The annualized rate of return for the ten-year period ended June 30, 2005 was 9.69% on a gross of fees basis. PSERS' long-term actuarial investment return assumption is 8.50%.

The asset distribution of PSERS' investment portfolio at June 30, 2005 and June 30, 2004 at fair value, including postemployment healthcare assets, was:

	(Dollar Amounts in Thousands)			
Asset Class	**2005**	**%**	2004	%
Short-term	**$ 4,337,012**	**8.2**	$ 3,328,633	6.8
Fixed income	**13,470,565**	**25.5**	12,120,327	24.7
Common and preferred stock	**27,859,789**	**52.6**	26,688,099	54.4
Real estate	**2,285,617**	**4.3**	2,209,767	4.5
Alternative investments	**4,985,069**	**9.4**	4,684,853	9.6
Total	**$ 52,938,052**	**100.0**	$ 49,031,679	100.0

Asset Distribution
Fiscal Year Ended June 30, 2005



Management's Discussion and Analysis (Continued)

Short-term investments at the close of FY 2005 increased by $1.0 billion from $3.3 billion in FY 2004 to $4.3 billion in FY 2005 due primarily to an increase in the short-term investments required to support futures contracts for a new investment manager. Fixed income investments increased by $1.4 billion from $12.1 billion in FY 2004 to $13.5 billion in FY 2005 primarily as a result of positive returns in domestic and international fixed income markets. Common and preferred stock investments increased by $1.2 billion from $26.7 billion in FY 2004 to $27.9 billion in FY 2005. The increase was primarily due to positive returns in the domestic and international equity markets that were partially offset by reductions to the asset class during FY 2005 in accordance with PSERS' asset allocation plan. Real estate investments increased by $75.8 million from $2.2 billion in FY 2004 to $2.3 billion in FY 2005. Alternative investments increased by $300 million from $4.7 billion in FY 2004 to $5.0 billion in FY 2005 due to the addition of new investment partnerships, drawdowns of commitments to existing partnerships and market value appreciation. Real estate and alternative investments remained relatively consistent on a percentage basis over FY 2005.

Contributions and Investment Income

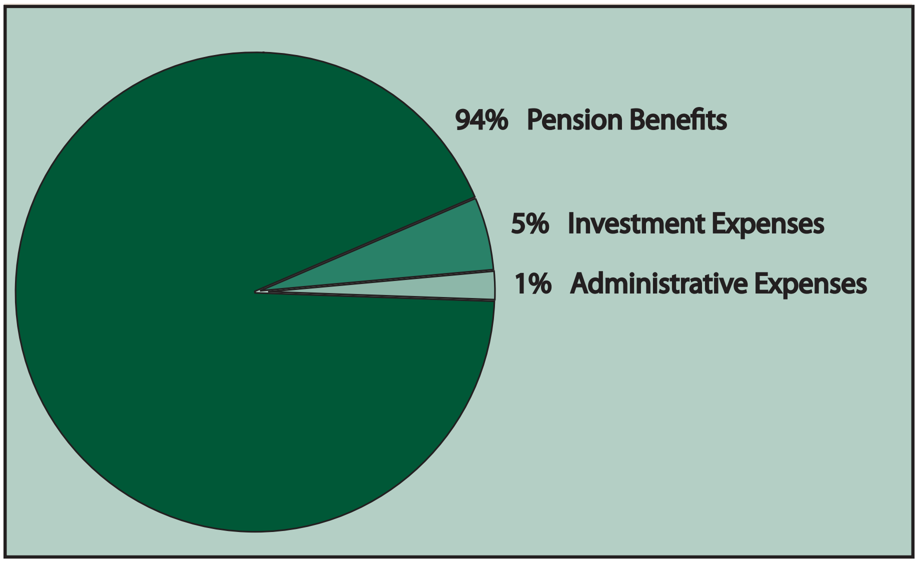
Employer pension contributions increased by $110.4 million from $321.1 million in FY 2004 to $431.5 million in FY 2005. The increase was attributable to the increase in the employer pension contribution rate from 2.98% in FY 2004 to 4.00% in FY 2005. Member pension contributions increased by $4.6 million from $783.7 million in FY 2004 to $788.3 million in FY 2005 as a result of the increase in the total participant salary base. The contributions for health insurance premium assistance decreased by $59.3 million from $85.6 million in FY 2004 to $26.3 million in FY 2005 due to the reduction in the health insurance premium assistance contribution rate from 0.79% in FY 2004 to 0.23% in FY 2005. Net investment income decreased by $2.1 billion from $8.2 billion in FY 2004 to $6.1 billion in FY 2005, which correlates to the decrease in the investment rate of return from 19.67% for FY 2004 to 12.87% for FY 2005. Although net investment income decreased from FY 2004 to FY 2005, the Fund's investment performance in FY 2005 was strong and its investment returns placed it in the top quartile of Wilshire's Public Fund Universe. Net investment income also includes investment expenses as a deduction. The "Total PSERS Benefits and Expenses" section that follows includes an analysis of investment expenses.

Management's Discussion and Analysis (Continued)

Total PSERS' Benefits and Expenses

The primary source of expense during FY 2005 was for the payment of benefits totaling $3.9 billion. This compares to benefit payments of $3.5 billion during FY 2004. Investment expenses remained consistent and only increased by $1.4 million from $191.3 million during FY 2004 to $192.7 million during FY 2005. Investment expenses are reported as a reduction in net investment income on the Statement of Changes in Plan Net Assets. Administrative expenses decreased by $6.6 million from $49.2 million during FY 2004 compared to $42.6 million during FY 2005. The decrease was primarily due to the planned third-year expenditure reductions for the NPAS project.

Total PSERS' Benefits and Expenses
Fiscal Year Ended June 30, 2005



Statements of Plan Net Assets

June 30, 2005 and 2004

(Dollar Amounts in Thousands)

	2005			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 214,857	$ 1,127	$ 38	$ 216,022
Employers	140,971	6,939	-	147,910
Investment income	176,712	678	168	177,558
Investment proceeds	974,114	-	-	974,114
Miscellaneous	6,100	281	9	6,390
Total Receivables	1,512,754	9,025	215	1,521,994
Investments, at fair value:				
Short-term	4,154,565	91,769	90,678	4,337,012
Fixed income	13,454,688	-	15,877	13,470,565
Common and preferred stock	27,859,789	-	-	27,859,789
Real estate	2,285,617	-	-	2,285,617
Alternative investments	4,985,069	-	-	4,985,069
Total Investments	52,739,728	91,769	106,555	52,938,052
Securities lending collateral pool	6,600,684	-	-	6,600,684
Capital assets (net of accumulated depreciation of $10,084)	873	-	-	873
Total Assets	60,854,039	100,794	106,770	61,061,603
Liabilities:				
Accounts payable and accrued expenses	41,262	299	2,000	43,561
Benefits payable	214,634	57	12,756	227,447
Participant premium advances	-	-	14,122	14,122
Investment purchases and other liabilities	2,061,062	3,301	-	2,064,363
Obligations under securities lending	6,600,684	-	-	6,600,684
Total Liabilities	8,917,642	3,657	28,878	8,950,177
Net assets held in trust for pension and postemployment healthcare benefits (A schedule of funding progress is presented on Required Supplemental Schedule 1)	$51,936,397	$ 97,137	$ 77,892	$52,111,426

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

Statements of Plan Net Assets

June 30, 2005 and 2004

(Dollar Amounts in Thousands)

	2004			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 214,599	$ 834	$ 20	$ 215,453
Employers	102,982	25,484	-	128,466
Investment income	169,050	621	163	169,834
Investment proceeds	568,987	-	-	568,987
Miscellaneous	2,157	203	9	2,369
Total Receivables	1,057,775	27,142	192	1,085,109
Investments, at fair value:				
Short-term	3,138,767	118,107	71,759	3,328,633
Fixed income	12,105,157	-	15,170	12,120,327
Common and preferred stock	26,688,099	-	-	26,688,099
Real estate	2,209,767	-	-	2,209,767
Alternative investments	4,684,853	-	-	4,684,853
Total Investments	48,826,643	118,107	86,929	49,031,679
Securities lending collateral pool	4,505,428	-	-	4,505,428
Capital assets (net of accumulated depreciation of $9,687)	1,514	-	-	1,514
Total Assets	54,391,360	145,249	87,121	54,623,730
Liabilities:				
Accounts payable and accrued expenses	33,192	281	8,212	41,685
Benefits payable	168,013	64	12,881	180,958
Participant premium advances	-	-	13,435	13,435
Investment purchases and other liabilities	1,345,078	47	-	1,345,125
Obligations under securities lending	4,505,428	-	-	4,505,428
Total Liabilities	6,051,711	392	34,528	6,086,631
Net assets held in trust for pension and postemployment healthcare benefits (A schedule of funding progress is presented on Required Supplemental Schedule 1)	$48,339,649	$ 144,857	$ 52,593	$48,537,099

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, 2005 and 2004

(Dollar Amounts in Thousands)

	2005			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 788,310	$ -	$ 167,199	$ 955,509
Employers	431,556	26,252	-	457,808
Total contributions	1,219,866	26,252	167,199	1,413,317
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	4,463,930	(2,218)	672	4,462,384
Short-term	65,772	4,635	1,389	71,796
Fixed income	594,224	-	585	594,809
Common and preferred stock	676,549	-	-	676,549
Real estate	187,178	-	-	187,178
Alternative investments	265,355	-	-	265,355
Total investment activity income	6,253,008	2,417	2,646	6,258,071
Investment expenses	(192,629)	(48)	-	(192,677)
Net income from investing activities	6,060,379	2,369	2,646	6,065,394
From securities lending activities:				
Securities lending income	125,882	-	-	125,882
Securities lending expense	(109,779)	-	-	(109,779)
Net income from securities lending activities	16,103	-	-	16,103
Total net investment income	6,076,482	2,369	2,646	6,081,497
Total Additions	7,296,348	28,621	169,845	7,494,814
Deductions:				
Benefits	3,639,838	74,465	136,447	3,850,750
Refunds of contributions	16,233	-	-	16,233
Net transfer to State Employees' Retirement System	10,859	-	-	10,859
Administrative expenses	32,670	1,876	8,099	42,645
Total Deductions	3,699,600	76,341	144,546	3,920,487
Net increase (decrease)	3,596,748	(47,720)	25,299	3,574,327
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	48,339,649	144,857	52,593	48,537,099
Balance, end of year	$ 51,936,397	$ 97,137	$ 77,892	$ 52,111,426

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, 2005 and 2004

(Dollar Amounts in Thousands)

	2004			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 783,691	$ -	$ 160,731	$ 944,422
Employers	321,091	85,631	-	406,722
Total contributions	1,104,782	85,631	160,731	1,351,144
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	6,874,420	(3,003)	-	6,871,417
Short-term	29,616	4,627	379	34,622
Fixed income	619,346	-	626	619,972
Common and preferred stock	556,984	-	-	556,984
Real estate	205,229	-	-	205,229
Alternative investments	132,984	-	-	132,984
Total investment activity income	8,418,579	1,624	1,005	8,421,208
Investment expenses	(191,267)	(33)	-	(191,300)
Net income from investing activities	8,227,312	1,591	1,005	8,229,908
From securities lending activities:				
Securities lending income	46,075	-	-	46,075
Securities lending expense	(31,379)	-	-	(31,379)
Net income from securities lending activities	14,696	-	-	14,696
Total net investment income	8,242,008	1,591	1,005	8,244,604
Total Additions	9,346,790	87,222	161,736	9,595,748
Deductions:				
Benefits	3,252,424	71,098	142,761	3,466,283
Refunds of contributions	14,767	-	-	14,767
Net transfer to State Employees' Retirement System	16,315	-	-	16,315
Administrative expenses	40,014	1,714	7,474	49,202
Total Deductions	3,323,520	72,812	150,235	3,546,567
Net increase	6,023,270	14,410	11,501	6,049,181
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	42,316,379	130,447	41,092	42,487,918
Balance, end of year	$ 48,339,649	$ 144,857	$ 52,593	$ 48,537,099

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

Notes To Financial Statements

June 30, 2005 and 2004

(1)
Organization and Description of the Public School Employees' Retirement 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, 2005, there were 734 participating employers, generally school districts. Membership as of June 30, 2004, the most recent year for which actual amounts are available, consisted of:

Currently employed members:		
Vested	168,000	
Nonvested	80,000	
Total currently employed members		**248,000**
Retirees and beneficiaries currently receiving benefits	152,000	
Inactive members and vestees entitled to but not receiving benefits	70,000	
Total retirees and other members		**222,000**
Total number of members		**470,000**

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

The System is established by state law as an independent administrative board of the Commonwealth, which is directed by the Public School Employees' Retirement Board (the 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. To receive premium assistance, eligible annuitants must obtain their health insurance through either their school employer or the PSERS' Health Options Program (HOP).

Notes to Financial Statements (Continued)

The HOP is a PSERS-sponsored voluntary health insurance program for the sole benefit of PSERS retirees, 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 Options 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, 2005, PSERS recorded $10,300,000 in IBNR which is included in benefits payable. The prescription drug benefits of the High Option became self-funded during the fiscal year ended June 30, 2004. 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 the appropriate amortization periods.

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.

Notes to Financial Statements (Continued)

The total contribution rate for the employers and the Commonwealth was 4.23% and 3.77% of qualified compensation for the years ended June 30, 2005 and 2004, respectively. According to requirements established in Act 29 of 1994, the Commonwealth reimburses school entity employers a portion of the employer contributions paid to the System. The Commonwealth remits employer contributions for employers other than school entities directly to the System. All contributions from employers and the Commonwealth are shown as employer contributions on the Statements of Changes in Plan Net Assets.

A portion of each employer and Commonwealth contribution to the System is set aside for the funding of the health insurance premium assistance program. The premium assistance contribution rate is set at a level necessary to establish reserves sufficient to provide premium assistance payments for all participating eligible members for the subsequent fiscal year. The portion of the total contribution rate for employers and the Commonwealth used to fund premium assistance was 0.23% and 0.79% for the years ended June 30, 2005 and 2004, 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.

(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.

Notes to Financial Statements (Continued)

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, 2005 and 2004, $132,000,000 in line of credit advances were netted against the related property valuation. The line of credit balance is due on March 17, 2006. The line is payable at an interest rate equivalent to the lender's commercial paper rate plus 30 basis points and is collateralized by certain fixed income investments of the System.

Effective April 30, 2004, the System entered into a contract to purchase a 25% share in one of its venture capital investments from another limited partner. The complete purchase price of $15,364,000 was not payable until December 15, 2004 and included no interest charges. On that same date, the System sold a 5% share in the investment to a third limited partner for $3,073,000. The payment terms, negotiated by the System with the other party, are common in the secondary alternative investment market and allowed the System to obtain the benefits of any increases in the valuations of the partnership's portfolio holdings from the effective date of the contract until the payment date at no additional cost. As of June 30, 2004, the net payable of $12,291,000 was netted against the market value of the related investment for purposes of financial reporting.

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 and software, are recorded at historical cost. The System depreciates capital assets using the straight-line method over an estimated useful life of seven years.

Notes to Financial Statements (Continued)

(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. It also includes the HOP $10,300,000 IBNR claims reserve and a $2,414,000 prescription drug benefit payable at June 30, 2005.

(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, 2005 and 2004, $2,727,000 and $3,032,000, respectively, was accrued for unused vacation and sick leave for the System's employees and included in "Accounts payable and accrued expenses" on the Statements of Plan Net Assets.

(f) Participant Premium Advances

Participant premium advances are for HOP premiums paid in advance in 2005 and 2004 related to health care coverage to be provided in 2006 and 2005, respectively.

(g) Federal Income Taxes

The Internal Revenue Service (IRS) issued a determination letter dated March 3, 1978 which stated that the plan and its underlying trust qualify under the provisions of Section 501(a) of the *Internal Revenue Code* (IRC) and therefore are exempt from federal income taxes. The plan has been amended since receiving that determination letter. Additionally, the IRS issued a 1982 ruling which concluded that the fund and the board are integral parts of the Commonwealth, and are therefore not subject to federal income tax. In the opinion of management, the System 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 provided for periodic increases in the annual compensation limits for qualified retirement plans. The annual compensation limits for 2004 and 2005 were $205,000 and $210,000, respectively. EGTRRA also provided for periodic increases in the annual benefit limits for qualified defined benefit plans. The maximum annual defined benefit limits at age 62 for 2004 and 2005 were $165,000 and $170,000, respectively.

Notes to Financial Statements (Continued)

(h) Risk Management

The System is exposed to various liabilities and risks of loss, including, without limitation, the ordinary risks of investment losses, risks related to theft or destruction of assets, liabilities resulting from injuries to employees, and liabilities resulting from court challenges to fiduciary decisions. As an administrative agency of the Commonwealth of Pennsylvania, the System is accorded sovereign immunity. For claims not shielded by sovereign immunity, the System participates in certain Commonwealth pooled insurance programs and requires asset managers to carry certain insurance coverage for the protection of the System. The System has implemented a self-insurance program for fiduciary and director and officer liability coverage. During the past three fiscal years, insurance settlements did not exceed insurance coverage.

(i) Reclassifications

Certain 2004 balances have been reclassified to conform with the 2005 presentation.

(j) Members Receivables

Member's receivables include an amount for members' obligations to the System for the purchase of service credit in the amount of $150,300,000. 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.
- Rollover funds from an eligible distribution.

Because members have control over the timing of their remittances to the System, many purchases of service receivables extend beyond one year. An estimated $126,485,000 of the $214,857,000 members pension receivables at June 30, 2005 are expected to be collected by the System subsequent to June 30, 2006.

(k) Adoption of New Accounting Standard

During the year ended June 30, 2005 the System adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3*) ("GASB 40"). The adoption of GASB 40 required the System to include a presentation of Deposit and Investment Risk Disclosures in the Notes to Financial Statements. The adoption of GASB 40 did not have an impact on the System's financial statements.

Notes to Financial Statements (Continued)

(3)
Description of Accounts

The Code requires the System to maintain the following accounts which represent reserves held for future and current benefit payments as follows:

(a) State Accumulation Account

The State Accumulation Account is credited with the contributions of the Commonwealth and the employers. Additionally, interest earnings of the System (after crediting the Members' Savings Account with 4% interest and the reserve for retirement with 5.50% statutory interest) are credited to this account. Each year, the necessary amounts, as determined by the actuary for the payment of retirement, disabilities, and death benefits, are transferred from the State Accumulation Account to the Reserve for Retirement Account increasing the reserve credit to the 8.5% valuation assumption rate determined by the actuary. All administrative expenses necessary for the operation of the System, except for premium assistance and HOP expenses, are paid from the State Accumulation Account.

(b) Members' Savings Account

The Members' Savings Account is credited with all contributions made by active members of the System. Interest is added to the member's individual account at an annual rate of 4%.

Upon death or retirement of a member, the accumulated contributions plus interest are transferred to the Reserve for Retirement Account for subsequent payment of benefits.

(c) Reserve for Retirement Account

The Reserve for Retirement Account represents the amounts transferred from the Members' Savings and State Accumulation Accounts, plus additional contributions made by the Commonwealth and employers for the payment of supplemental annuities and cost-of-living increases. All death, disability, and retirement benefits are paid from this account. Annual interest of 5.50% is credited to the Reserve for Retirement Account.

(d) Health Insurance Account

The Health Insurance Account is credited with contributions of the Commonwealth and the employers for the health insurance premium assistance program. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. The 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 and self-funded benefits) are paid from this account. The Health Insurance Program Account pays all administrative expenses necessary to operate the HOP.

Notes to Financial Statements (Continued)

(f) Pension and Postemployment Healthcare Net Assets

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

	(Dollar Amounts in Thousands)	
	2005	2004
Pension:		
State accumulation account	**$ 14,557,519**	$ 14,371,977
Members' savings account	**9,116,347**	8,755,109
Reserve for retirement account	**28,262,531**	25,212,563
	$ 51,936,397	$ 48,339,649
Postemployment healthcare:		
Health insurance account	**$ 97,137**	$ 144,857
Health insurance program account	**77,892**	52,593
	$ 175,029	$ 197,450

(4) Investments

(a) Summary of Investments

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. This policy, as well as applicable state law, establishes guidelines for permissible investments of the System.

A summary of the fair value of investments at June 30 follows:

Notes to Financial Statements (Continued)

	(Dollar Amounts in Thousands) 2005	2004
Pension investments:		
Short-term:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$ 1,949,355**	$ 2,608,896
Other domestic short-term	**901,088**	406,662
Collective trust funds	**1,070,616**	-
International short-term	**233,506**	123,209
	4,154,565	3,138,767
Fixed income:		
Domestic mortgage-backed securities	**4,898,249**	4,856,812
U.S. government and agency obligations	**2,943,165**	2,176,793
Domestic corporate and taxable municipal bonds	**3,178,674**	2,880,925
Miscellaneous domestic fixed income	**198,656**	407,476
Collective trust funds	**276,234**	303,563
International fixed income	**1,959,710**	1,479,588
	13,454,688	12,105,157
Common and preferred stock:		
Domestic common and preferred stock	**17,249,029**	18,143,777
Collective trust funds	**607,223**	335,911
International common stock	**10,003,537**	8,208,411
	27,859,789	26,688,099
Real estate:		
Equity real estate	**2,091,392**	1,810,972
Real estate owned	**194,225**	398,795
	2,285,617	2,209,767
Alternative investments:		
Private equity	**3,408,590**	3,004,550
Private debt	**1,143,928**	1,314,044
Venture capital	**432,551**	366,259
	4,985,069	4,684,853
Pension investments at fair value	**$ 52,739,728**	$ 48,826,643
Postemployment Healthcare investments:		
Premium Assistance:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$ 10,081**	$ 30,872
Other domestic short-term	**81,688**	87,235
	91,769	118,107
Health Options Program:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**44,245**	25,222
Other domestic short-term	**46,433**	46,537
U.S. government and agency obligations	**15,877**	15,170
	106,555	86,929
Postemployment Healthcare investments at fair value	**$ 198,324**	$ 205,036

Notes to Financial Statements (Continued)

(b) Deposit and Investment Risk Disclosures

i. Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System would not be able to recover the value of the deposits. The State Treasury Department is the custodian of the System's fund. State Treasury Department deposits must be held in insured depositories approved by the Commonwealth's Board of Finance and Revenue and must be fully collateralized.

The System, through its third party administrator, maintains certain bank deposits for the operation of its voluntary health insurance program. These deposits are not required to be collateralized by statute or policy. These deposits totaled $46,433,000 at June 30, 2005 and are under the custody of M&T Bank that has an A- Deposit/Debt rating by Standard and Poor's and an A3 rating by Moody's.

ii. Investment Risks

The System's investments may be subject to various risks. Among these risks are custodial credit risk, credit risk, interest rate risk, and foreign currency risk. Each one of these risks is discussed in more detail below.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. In accordance with a contractual relationship between the Commonwealth's Treasury Department and its custodial agent, substantially all investments, where securities are used as evidence of the investment, are held by the custodian in book-entry form in the System's name. Those investments are defined as insured or registered investments for which the securities are held by the System or its agent and, therefore, have very minimal level of custodial credit risk. The remaining investments, which do not have securities that are used as evidence of the investment, are primarily in collective trust funds and limited partnerships, which include real estate and alternative investments.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating organizations (NRSRO) such as Fitch Investor Services (Fitch), Moody's Investor Services (Moody's), and Standard and Poor's (S&P). Annually, the Board establishes an asset allocation plan. This plan manages the overall credit risk of the fixed income asset class through a clearly defined long-term asset allocation policy. This policy establishes a long-term target allocation of the fixed income asset class at 22% of the investment portfolio. The fixed income target allocation consists of:

Notes to Financial Statements (Continued)

- An allocation of 12.6% of the portfolio has been made to a domestic core plus segment of the fixed income asset class benchmarked to the Lehman Aggregate Bond Index and composed of primarily investment grade, relatively liquid, public domestic bonds with an overall weighted-average NRSRO credit rating of A or better;
- An allocation of 5% of the portfolio has been made to the Treasury Inflation-Protected Securities (TIPS) segment of the fixed income asset class benchmarked to the Lehmam U.S. TIPS Index and composed of primarily government issued TIPS with an overall weighted-average NRSRO credit rating of AA or better;
- An allocation of 3.3% of the portfolio has been made to the global core plus fixed income asset class benchmarked to the Lehman Global Aggregate Index composed of primarily investment grade, relatively liquid U.S. and non-U.S. public bonds with an overall weighted-average NRSRO credit rating of A or better; and,
- An allocation of 1.1% of the portfolio has been made to the high yield fixed income asset class benchmarked to the Credit Suisse First Boston High Yield Bond Index that focuses on less liquid public non-investment grade fixed income securities with an overall weighted-average NRSRO credit rating of BB+ or less.

The following table discloses aggregate market value by credit quality rating category. Many securities have ratings from more than one NRSRO and sometimes those ratings differ from one NRSRO to another. The data listed below uses the rating, available from Fitch, Moody's and/or S&P that indicates the greatest degree of risk at June 30, 2005.

Quality Rating	(Dollar Amounts in Thousands) Market Value
AAA	$ 5,998,491
AA	958,565
A	1,168,562
BBB	1,034,282
BB and below	1,179,419
NR*	4,028,098
Total Exposed to Credit Risk	14,367,417
U.S. Government Guaranteed**	3,440,160
Total Fixed Income and Short-Term Investments	$ 17,807,577

* Not Rated securities include $1,346,850 in collective trust funds and $2,003,681 in the Pennsylvania (PA) Treasury Domestic Short-Term Investment Fund (STIF), a pooled investment fund for which ratings were unavailable. The STIF pool is comprised of short-term, high credit quality securities which are mainly U.S. Treasuries, agencies or repurchase agreements.

** Composed of U.S. government and agency obligations explicitly guaranteed by the U.S. government that are not considered to have credit risk.

Notes to Financial Statements (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. The System manages its interest rate risk by diversifying the fixed income portfolio and maintaining the fixed income portfolio at an effective duration range between 65 and 135 percent of the benchmark index.

Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The higher the duration, the greater the changes in fair value when interest rates change. For example, a duration of 4.0 would mean that, given a 100-basis point change up/down in rates, a bond's price would move down/up approximately 4.0 percent. PSERS measures interest rate risk using option-adjusted duration, which recognizes the fact that yield changes may change the expected cash flows due to embedded options.

At June 30, 2005, the System's fixed income portfolio had the following option-adjusted durations by fixed income sector:

Investment Type	Option-Adjusted Duration	(Dollar Amounts in Thousands) Market Value
Domestic mortgage-backed securities	1.8	$ 4,898,249
U.S. government & agency obligations	6.3	2,959,042
Domestic corporate and taxable municipal bonds	3.3	3,178,674
Miscellaneous domestic fixed income	1.4	198,656
Fixed income collective trust funds	5.2	276,234
International fixed income	7.0	1,959,710
PA Treasury Domestic Short-Term Investment Fund	0.1	2,003,681
Total fixed income & PA Treasury Domestic Short-Term Investment Fund	3.4*	15,474,246
Total adjustment for futures contracts	1.2**	-
Total fixed income & PA Treasury Domestic Short-Term Investment Fund	4.6**	$ 15,474,246

* The option-adjusted duration of 3.4 for the total fixed income & PA Treasury Domestic Short-Term Investment Fund portfolio is calculated by weighting the option-adjusted duration of each investment type by market value.

** Fixed income investment managers enter into futures contracts to adjust the durations of their portfolios as a whole rather than any particular investment type within the portfolio. In total, the futures contracts have adjusted PSERS' total fixed income & PA Treasury Domestic Short-Term Investment Fund portfolio duration upward by 1.2.

Notes to Financial Statements (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As part of the System's program to manage risk and enhance returns, the System invests in non-U.S. markets. Investment managers in non-U.S. equity and global fixed income may hedge their non-U.S. foreign currency exposure back to U.S. dollars. At June 30, 2005, PSERS had the following non-U.S. currency exposure:

(Dollar Amounts in Thousands)

Currency	Equity	Fixed Income	Alternative Investments	Short-Term*	Total Market Value
Euro	$ 2,407,975	$ 874,542	$ 597,765	$ (166,373)	**$ 3,713,909**
British pound sterling	1,826,593	153,132	115,856	45,028	**2,140,609**
Japanese yen	1,704,872	73,125	-	328,334	**2,106,331**
Swiss franc	500,899	-	-	2,197	**503,096**
Canadian dollar	316,574	63,233	7,682	36,096	**423,585**
South Korean won	373,100	11,397	-	17,122	**401,619**
Hong Kong dollar	361,620	-	-	2,357	**363,977**
Australian dollar	299,085	75,856	-	(12,167)	**362,774**
Swedish krona	238,952	42,191	-	16,814	**297,957**
Other non-U.S. currencies	1,104,413	214,951	-	15,481	**1,334,845**
Total	$ 9,134,083	$ 1,508,427	$ 721,303	$ 284,889	**$11,648,702**

* Includes investment receivables and payables.

(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.

Notes to Financial Statements (Continued)

As of June 30, 2005 and 2004, 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, 2005 and 2004 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, 2005 and 2004.

Cash collateral is invested in the lending agent's short-term investment pool and is not subject to custodial credit risk. The System's income from securities lending represents its pro-rata share from participating in the program. The weighted-average maturity of the investments in the pool was 27 days and 35 days at June 30, 2005 and 2004, 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, 2005, the fair value of loaned securities was $6,861,398,000 which includes $473,692,000 of loaned securities which are collateralized by securities and irrevocable letters of credit that are not included in the Statements of Plan Net Assets. The fair value of the associated collateral was $7,110,014,000 of which $6,600,684,000 was cash. As of June 30, 2004, the fair value of loaned securities was $4,641,206,000 which includes $267,045,000 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 $4,781,103,000 of which $4,505,428,000 was cash.

(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. 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.

Notes to Financial Statements (Continued)

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, 2005 and 2004 (in thousands):

	2005	2004
Futures contracts – long	**$ 14,086,616**	$ 6,307,135
Futures contracts – short	**6,651,721**	2,316,670
Foreign exchange forward and spot contracts, gross	**5,141,012**	2,671,009
Options – calls purchased	**-**	58,171
Options – puts purchased	**15,651**	-
Options – calls sold	**70,751**	58,691
Options – puts sold	**47,946**	25,791

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, 2005 and 2004 represent a restriction on the amount of assets available as of year-end for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the 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 $5,141,012,000 of foreign currency contracts outstanding at June 30, 2005 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $3,359,106,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $1,781,906,000.

Notes to Financial Statements (Continued)

The $2,671,009,000 of foreign currency contracts outstanding at June 30, 2004 consist of "buy" contracts of $1,757,164,000 and "sell" contracts of $913,845,000. The unrealized loss on contracts of $(7,825,000) and $(144,000) at June 30, 2005 and 2004, 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, 2005 and 2004 is $2,357,739,000 and $1,903,901,000, 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 1.43% at June 30, 2005, 0.50% at June 30, 2004 and 0.18% at June 30, 2003. The System's contributions to SERS for the year ending June 30, 2005, 2004 and 2003 were $233,000, $84,000 and $10,000 respectively, which were equal to the required contributions each year.

Notes to Financial Statements (Continued)

(7)
Litigation and Contingencies

The System is subject to various threatened and pending lawsuits. 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. The System is exposed to various other liabilities and risks related to fiduciary responsibilities of directors and officers.

Required Supplemental Schedule 1
Schedule of Funding Progress*

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

Valuation as of June 30	(1) Actuarial accrued liabilities (AAL)	(2) Actuarial value of assets	(3) (Funded) Unfunded actuarial accrued liabilities (FAAL) or UAAL (1) – (2)	(4) Ratio of assets to AAL (2) / (1)	(5) Covered payroll	(6) (FAAL) or UAAL as a percentage of covered payroll (3) / (5)
2004	# $ 57,123.0	$ 52,094.5	$ 5,028.5	91.2%	$ 10,030.7	$ 50.1%
2003	# 54,443.8	52,900.5	1,543.3	97.2%	9,652.9	16.0%
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)%

* 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
2005	$ 431,556	100%
2004	321,091	100%
2003	20,831	100%
2002	539	100%
2001	158,193	100%
2000	390,504	100%

The Board adopted all contribution rates as recommended by the Actuary pursuant to the prevailing provisions of the Retirement Code for each year.

* 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, 2005 and 2004

(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 being 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, 2004, 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 and 30 years in accordance with Act 40 of 2003
- 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, 2005

(Dollar Amounts in Thousands)

	Administrative expenses (1)	Investment expenses (2)	Total
Personnel costs:			
Salaries and wages	$ 12,074	$ 3,032	$ 15,106
Social security contributions	938	226	1,164
Retirement contributions	181	52	233
Employees' insurance contributions	3,221	594	3,815
Other employee benefits	176	579	755
Total personnel costs	16,590	4,483	21,073
Operating costs:			
Investment managers' fees	-	183,566	183,566
Custodian fees	-	378	378
Specialized services	15,845	156	16,001
Rental of real estate, electricity	1,655	135	1,790
Consultant and legal fees	1,361	2,429	3,790
Treasury and other Commonwealth services	1,432	99	1,531
Postage	1,475	-	1,475
Contracted maintenance and repair services	406	19	425
Office supplies	356	3	359
Rental of equipment and software	1,001	57	1,058
Printing	624	-	624
Travel and training	230	39	269
Telecommunications	539	9	548
Equipment (not capitalized)	179	240	419
Miscellaneous expenses	350	1,064	1,414
Total operating expenses	25,453	188,194	213,647
Fixed charges:			
Furniture and fixtures	(76)	-	(76)
Depreciation	678	-	678
Total fixed charges	602	-	602
Total operating expenses	$ 42,645	$ 192,677	$ 235,322

(1) Includes administrative expenses of $1,876 related to Postemployment Healthcare Premium assistance and $8,099 related to Postemployment Healthcare Health Options Program for the fiscal year ended June 30, 2005.

(2) Does not include $23,728 in capitalized broker commissions for the fiscal year ended June 30, 2005.

Supplemental Schedule 2
Summary of Investment Expenses
Fiscal Year Ended June 30, 2005

(Dollar Amounts in Thousands)

	Assets under management*	Fees
External management		
Short-term **	$ -	$ 1,172
Domestic equity	7,271,000	21,803
International equity	10,133,000	30,179
Fixed income	9,126,000	14,457
Real estate	3,203,000	31,008
Private equity and debt	4,552,000	67,314
Venture capital	433,000	17,633
Total external management	34,718,000	183,566
Total internal management	17,307,000	5,024
Total investment management	$ 52,025,000	188,590
Custodian fees		378
Consultant and legal fees		2,429
Miscellaneous expenses		1,280
Total investment expenses		$ 192,677

* Net asset value at June 30, 2005.

** Short-term investments with a fair value of $2,004,000 are included in the other external and internal management assets under management amounts.

Supplemental Schedule 3
Schedule of Payments to Non-Investment Consultants
Fiscal Year Ended June 30, 2005

(Payment amounts greater than $50,000)

Consultant		Fees	Services Provided
CoreSource, Inc.	$	6,422,446	Postemployment healthcare benefits administration and claims adjudication
Tier Technologies, Inc.		2,311,975	NPAS project development
The Segal Company		968,850	HOP consulting
Benecard Services, Inc.		759,812	Postemployment healthcare benefits and administration
Buck Consultants LLC		440,590	Pension benefit actuarial services
Independent Pharmaceutical Consultants, Inc.		137,293	Postemployment healthcare benefits administration
Independent Fiduciary Services, Inc.		111,875	Auditing services
Clifton Gunderson LLP		84,910	Financial audit of pension system and postemployment healthcare programs
L.R. Wechsler Ltd.		78,526	Information technology consulting

Public School Employees' Retirement System

Investment Section

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ALAN H. VAN NOORD, CFA
Chief Investment Officer

Investment Overview

Authority

The 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 that 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.

Policies and Objectives

The Board is responsible for the formulation of investment policies 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 benchmark (the policy benchmark is a custom index created based on the Board established asset allocation structure to generate a return that meets the actuarial rate of return assumption); (iv) achieve a real rate of return over CPI over time; and, (v) 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 policies.

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 external investment advisors, internal investment managers, and Investment Accounting office staff, assist the Board in achieving investment objectives and monitoring compliance with investment policies. For the fiscal year ended June 30, 2005, 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 policies. 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 implement the investment decisions within the stated policies 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, 37 external investment management firms were managing $27.7 billion in assets of the System, $17.3 billion in assets were managed by the System's internal investment managers, and the remaining $7.9 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 its peers.

Asset Allocation

The Board reviews the long-term asset allocation targets of the System at least annually, usually in the first quarter of the calendar year. 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 as of June 30, 2005 included an equity target allocation of **60.0%** consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (40.0%) and international equity exposure (20.0%). Within the U.S. equity target, the portfolios are diversified between large and small capitalization investment managers and growth and value investment managers. The international equity exposure includes large and small capitalization and emerging markets portfolios.

The fixed income target allocation of **22.0%** consisted of U.S. core fixed income exposure (12.6%), Treasury Inflation-Protected Securities exposure (5.0%), specialty fixed income exposure (1.1%), and global fixed income exposure (3.3%). Within these categories, all sectors of the bond market are represented. Specialty fixed income is comprised of high yield portfolios.

The real estate target allocation of **7.0%** consisted primarily of opportunistic limited partnerships and publicly traded real estate investment trusts (REITs).

Alternative investments had a target of **11.0%**. 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 **0.0%** since cash historically represents the lowest returning asset class over time.

Investment Results

As of June 30, 2005, the fair value of the investment portfolio was $52.9 billion. The market value increased approximately $3.9 billion over last year's value. This increase came primarily from net investment income ($6.1 billion) and net changes in other investment assets and liabilities ($0.3 billion), which were partially offset by benefit payments in excess of member and employer contributions ($2.5 billion). The investment portfolio, as invested, was composed of 61.5% common and preferred stocks (equity), 22.0% fixed income investments, 7.0% real estate, and 9.5% alternative investments at June 30, 2005. The table on page 71 illustrates a more detailed description of the investment portfolio's asset classes in dollars and as a percentage of the total investment portfolio.

The past fiscal year saw positive returns across all major asset classes. Markets that enjoyed particularly strong returns included international equities, alternative investments and real estate. The Dow Jones (DJ) Wilshire 5000 Index, a domestic equity index, returned 8.21% for the fiscal year. Most of these gains occurred in the quarter ended December 31, 2004 due to falling oil prices and a quick outcome to the U.S. presidential election unlike four years prior. Major U.S. market indexes rallied over 10% from October 25, 2004 through the end of the calendar year. International equity markets also rallied on this news during the same calendar quarter. The Morgan Stanley Capital International (MSCI) All-Country World Index (ACWI) Ex. U.S., an international equity index, was up 16.95% during the fiscal year. Emerging market equities, a sub-sector of the MSCI ACWI ex. U.S., were up 34.88% during the fiscal year according to the MSCI Emerging Markets Index. The strength in these markets can be partially attributed to the strength in commodity prices during the past fiscal year, especially oil.

In addition, PSERS alternative investment portfolio had solid returns on both an absolute as well as a relative basis. PSERS alternative investments portfolio was up 25.45% during the fiscal year, primarily due to the strength of the private equity portion of the portfolio. The alternative investment portfolio outperformed the Venture Economics Median Return by 1,723 basis points during the past fiscal year.

Real estate investment trusts were up 34.32% during the fiscal year according to the DJ Wilshire Real Estate Securities Index. A low interest rate environment has led to significant demand for higher yielding REIT securities as the ten-year treasury yield ended the fiscal year at 3.92%, down from 4.59% at June 30, 2004.

The Lehman Aggregate Bond Index, a domestic bond index, and the Lehman Global Aggregate Bond Index, a global bond index, were up 6.81% and 7.51%, respectively. Returns in these indexes were surprisingly strong given that the Federal Reserve increased the Federal Funds rate eight times during the fiscal year from 1.25% to 3.25%. However, as noted earlier, the 10-year Treasury yield ended the year at 3.92%, 67 basis points lower than at the beginning of the year as the yield curve flattened with the long end falling and the short end rising.

As a result of the positive returns from all asset classes, the System was able to generate a total return of 12.87% for the one-year period ended June 30, 2005. This return exceeded the total fund policy benchmark return of 10.54% by 233 basis points. Annualized total returns for the three- and five-year periods ended June 30, 2005 were 11.54% and 4.02%, respectively. These returns exceeded the total fund policy benchmark returns for the three- and five-year periods ended June 30, 2005 by 165 and 152 basis points, respectively. As of June 30, 2005, the System had posted positive absolute returns in nine consecutive quarters.

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 CFA Institute.

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 indexes used by asset class and median performance by asset class:

	Annualized Total Returns (%) Net of Fees Ended June 30, 2005		
	1 Year	**3 Years**	**5 Years**
PSERS TOTAL PORTFOLIO	**12.87**	**11.54**	**4.02**
Total Fund Policy Benchmark	10.54	9.89	2.50
Median Public Defined Benefit Plan (DBP) Fund Universe (Wilshire Database)	9.72	9.90	3.27
PSERS DOMESTIC STOCK PORTFOLIOS	**8.13**	**9.65**	**1.55**
Dow Jones Wilshire 5000 Index	8.21	9.94	(1.28)
Median Public DBP Fund Universe - Domestic Equities (Wilshire Database)	7.89	9.54	(0.93)
PSERS INTERNATIONAL STOCK PORTFOLIOS	**16.95**	**13.75**	**1.43**
MSCI All-Country World Index Ex. U.S.	16.95	14.08	0.76
Median Public DBP Fund Universe - International Equities (Wilshire Database)	15.25	12.48	(0.24)
PSERS DOMESTIC FIXED INCOME PORTFOLIOS	**8.72**	**8.29**	**8.38**
Lehman Brothers Aggregate Index	6.81	5.76	7.41
Median Public DBP Fund Universe - Domestic Bonds (Wilshire Database)	7.42	7.26	7.63
PSERS GLOBAL FIXED INCOME PORTFOLIOS	**8.38**	**10.09**	**8.34**
Lehman Brothers Global Aggregate Index	7.51	9.26	7.65
Median Public DBP Fund Universe - Global Bonds (Wilshire Database)	8.37	10.85	7.81
PSERS REAL ESTATE*	**26.14**	**17.78**	**14.83**
Blended Real Estate Index**	19.30	12.87	12.21
Median Public DBP Fund Universe - Real Estate (Wilshire Database)	22.03	15.06	14.04
PSERS ALTERNATIVE INVESTMENTS*	**25.45**	**14.03**	**2.53**
Venture Economics Median Return, Vintage Year Weighted***	8.22	3.08	(0.05)

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

** Returns presented are a blend of the Wilshire Real Estate Securities Index (20%) and the NCREIF Index (80%). The NCREIF Index is reported on a one-quarter lag.

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

The System also is involved in a securities lending program administered by Mellon Bank N.A. This program provides incremental income to the System by lending securities in the System's portfolio to securities dealers in exchange for either cash collateral, which can be reinvested to generate income, or non-cash collateral plus a cash fee. This program generated approximately $16.1 million in additional income during the year.

Accomplishments

The System's returns during the fiscal year ended June 30, 2005 not only exceeded its total fund policy benchmark, but also placed the System in the top quartile of all public defined benefit pension funds in the country as measured by Wilshire. Strong returns such as these can be attributed to the combined efforts of the Board, the System's Investment Office and Investment Accounting staff, and its external consultants and investment advisors. Without their efforts, accomplishments such as this would not be possible.

The System continued its multi-year project to implement an independent accounting book of record for the System's investment transactions and holdings. In FY 2005, as planned, the domestic and international fixed income portfolios were converted to the System's internal accounting software provided by Financial Control Systems, Inc. In FY 2006, work will begin to convert the real estate and alternative investment portfolios from an Excel-based accounting system to the internal accounting software and various management reports will be written for the new software.

Summary

The System had a tremendous fiscal year ended June 30, 2005, as the returns generated by the System were in the top quartile of all public defined benefit pension plan returns. Strong returns generated in international equity markets, real estate, and alternative investments helped produce solid results for the System. For the fiscal year ended June 30, 2005, the System exceeded its targeted actuarial rate of return of 8.5%. In addition, we continue to believe that the System's asset allocation is structured to generate a long-term return that meets the actuarial rate of return assumption of the System for years to come.

Alan H. Van Noord, CFA
Chief Investment Officer

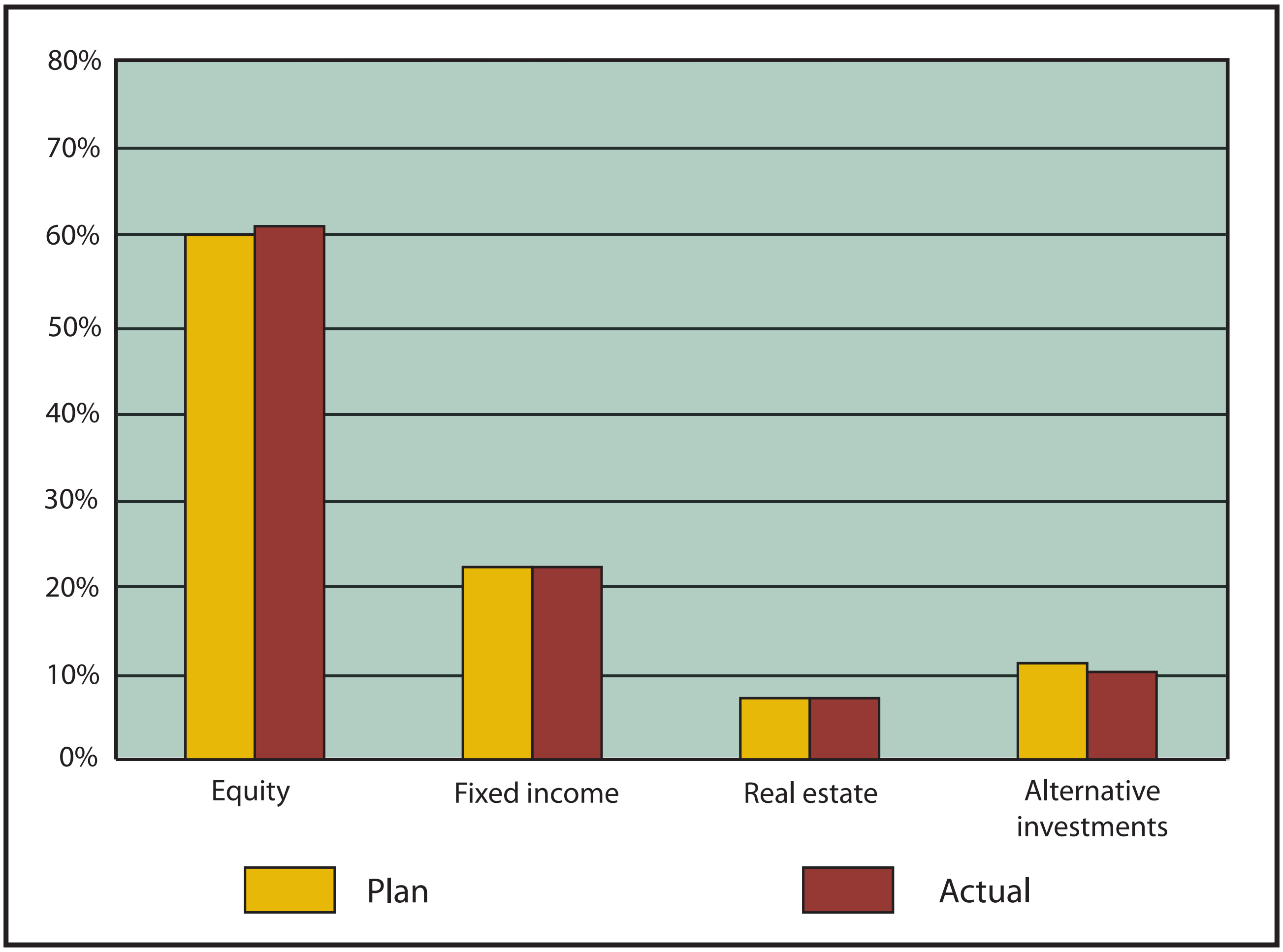
Portfolio Summary Statistics
Asset Allocation
As of June 30, 2005
(Dollar Amounts in Thousands)

Pension investments	Fair Value ($)	% Fair Value
Common and preferred stock (Equity):		
Domestic common and preferred stock	$ 17,249,029	32.6%
Collective trust funds	607,223	1.2%
International common stock	10,003,537	19.0%
Subtotal per Statement of Plan Net Assets	27,859,789	52.8%
Short-term *	1,711,460	3.2%
Enhanced S&P 500 Index *	4,245,995	8.1%
Publicly and privately traded REITs *	(1,351,934)	(2.6%)
Total Common and preferred stock - Asset Allocation Basis	**32,465,310**	**61.5%**
Fixed income:		
Domestic mortgage-backed securities	4,898,249	9.3%
U.S. government and agency obligations	2,943,165	5.6%
Domestic corporate and taxable municipal bonds	3,178,674	6.0%
Miscellaneous domestic fixed income	198,656	0.4%
Collective trust funds	276,234	0.5%
International fixed income	1,959,710	3.7%
Subtotal per Statement of Plan Net Assets	13,454,688	25.5%
Short-term *	2,443,105	4.6%
Enhanced S&P 500 Index *	(4,245,995)	(8.1)%
Total Fixed income - Asset Allocation Basis	**11,651,798**	**22.0%**
Real estate:		
Equity real estate	2,091,392	4.0%
Real estate owned	194,225	0.4%
Subtotal per Statement of Plan Net Assets	2,285,617	4.4%
Publicly and privately traded REITs *	1,351,934	2.6%
Total Real estate - Asset Allocation Basis	**3,637,551**	**7.0%**
Alternative investments:		
Private equity	3,408,590	6.5%
Private debt	1,143,928	2.2%
Venture capital	432,551	0.8%
Total Alternative investments - Asset Allocation Basis	**4,985,069**	**9.5%**
Pension investments - Asset Allocation Basis	**$ 52,739,728**	**100.0%**
Postemployment Healthcare investments	**$ 198,324**	**100.0%**

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

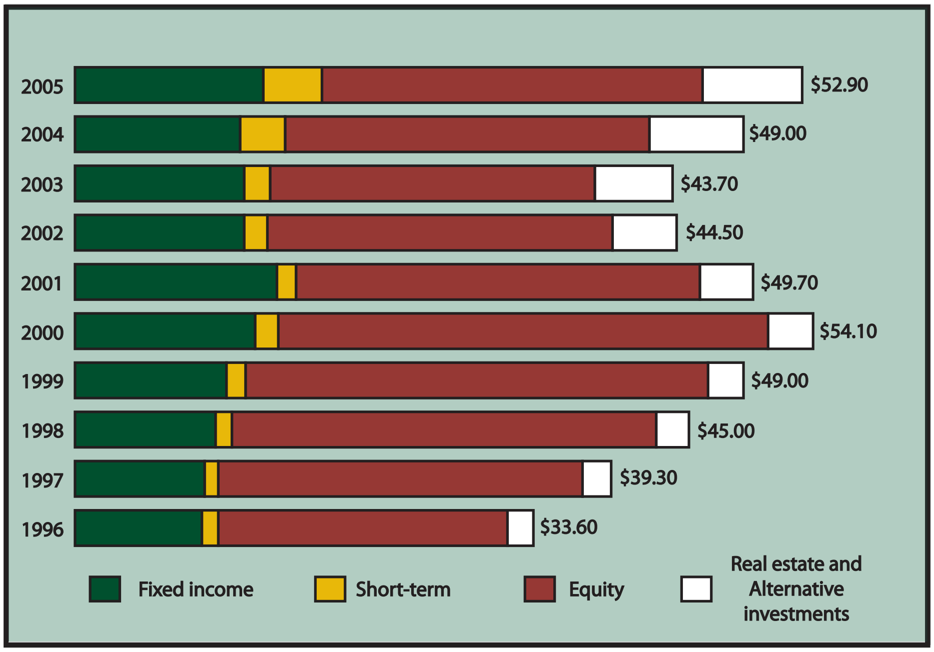
Comparison of Actual Portfolio Distribution to Asset Allocation Plan As of June 30, 2005

Asset Category	Plan	Actual
Common and preferred stock (Equity)	60%	61%
Fixed income	22%	22%
Real estate	7%	7%
Alternative investments	11%	10%
Total	100%	100%



Portfolio Distribution 10 Year Trend

(Fair Value - Dollar Amounts in Billions)



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. Box 125, Harrisburg, PA 17108.

Domestic Common and Preferred Stock

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2005

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
General Electric Company	10,701	370,791
Exxon Mobil Corporation	6,414	368,639
Security Capital Preferred Growth	9,674	366,048
Microsoft Corporation	10,152	252,178
Citigroup Inc.	5,266	243,440
Pfizer Inc.	7,577	208,975
Johnson & Johnson	3,038	197,483
Bank of America Corporation	4,081	186,122
Intel Corporation	6,297	163,849
Wal-Mart Stores, Inc.	3,370	162,417
Total of 10 Largest Holdings		**2,519,942**
Total System Holdings - Domestic Common and Preferred Stock		**17,249,029**

International Common Stock
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2005
(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Vodafone Group PLC	59,507	145,067
Royal Bank of Scotland	4,329	130,838
Glaxosmithkline PLC	4,722	114,354
BP PLC	9,900	103,104
UBS AG	1,123	87,691
Petroleo Brasileiro SA	1,672	87,182
Canon, Inc.	1,594	84,024
Takeda Pharmaceutical Company Ltd.	1,523	75,598
HSBC Holdings	4,495	71,778
ING Groep	2,447	69,239
Total of 10 Largest Holdings		**968,875**
Total System Holdings - International Common Stock		**10,003,537**

Domestic and International Fixed Income
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2005
(Dollar Amounts and Shares in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value($) or No. of Shares	Fair Value ($)
U.S. Treasury - Inflation Index	07/15/12	3.000	217,621	239,026
U.S. Treasury - Inflation Index	04/15/28	3.625	176,207	236,756
U.S. Treasury - Inflation Index	07/15/13	1.875	186,119	190,096
U.S. Treasury - Inflation Index	01/15/15	1.625	167,242	166,635
U.S. Treasury - Inflation Index	04/15/29	3.875	115,857	162,833
U.S. Treasury - Notes	05/15/15	4.125	150,580	152,780
U.S. Treasury - Notes	02/15/12	4.875	137,100	145,604
U.S. Treasury - Inflation Index	04/15/10	0.875	133,298	130,007
U.S. Treasury - Inflation Index	01/15/08	3.625	109,469	115,836
U.S. Treasury - Inflation Index	04/15/32	3.375	78,239	106,432
Total of 10 Largest Holdings				**1,646,005**
Total System Holdings - Domestic and International Fixed Income				**13,454,688**

Postemployment Healthcare Investments

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2005

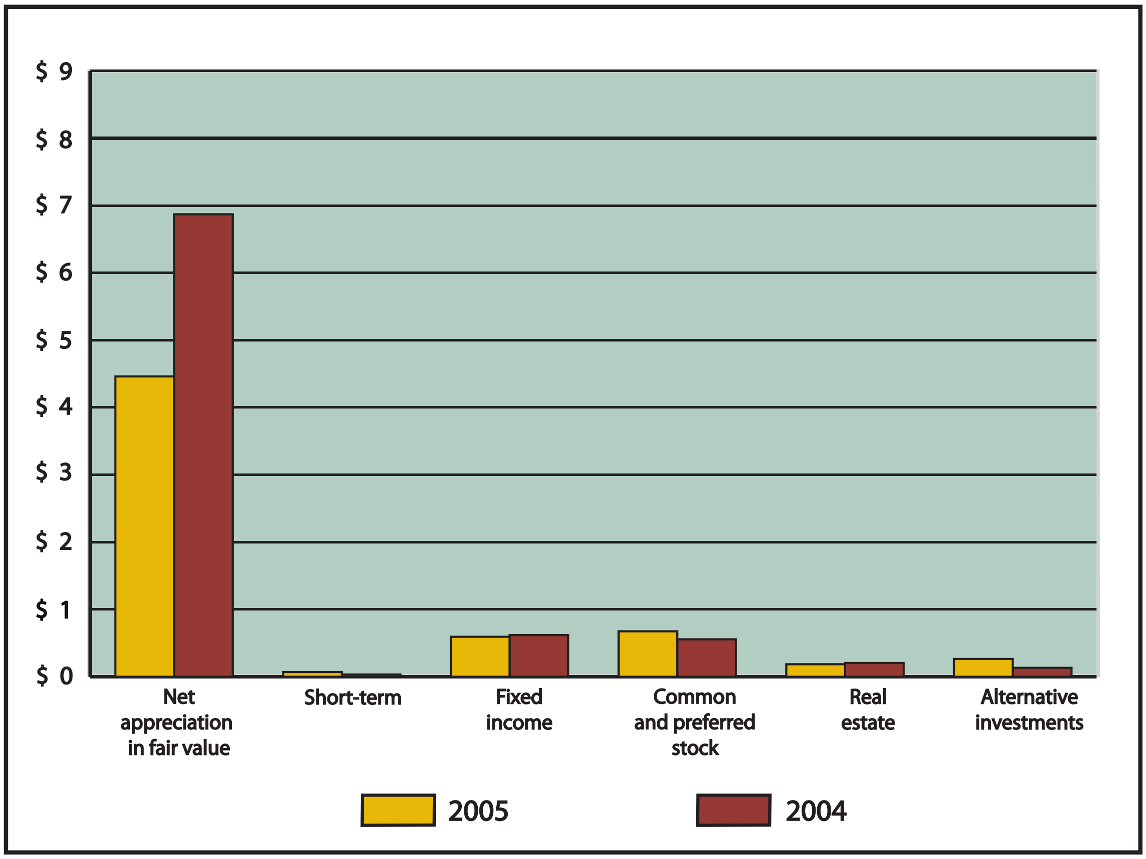
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
PA Treasury Short-Term Investment Fund	Various	Various	54,326	54,326
M & T Bank Repurchase Agreement	07/01/05	2.750	17,179	17,179
U.S. Treasury Notes	07/30/06	2.800	16,000	15,877
M & T Bank Repurchase Agreement	07/01/05	2.810	14,307	14,307
FHLMC Multiclass 2004-45 Class DA	05/25/21	5.000	5,242	5,259
FNMA Discount Note	07/27/05	2.828	4,983	4,983
FHLMC Discount Note	08/11/05	2.951	4,982	4,982
FNMA Discount Note	07/18/05	2.747	4,982	4,982
FNMA Guaranteed REMIC 2002-73 Class OB	08/25/12	5.000	3,647	3,658
FHLMC Multiclass 2583 Class PG	03/15/22	4.000	3,005	2,997
Total of 10 Largest Holdings				**128,550**
Total System Holdings - Postemployment Healthcare Investments				**198,324**

Comparison of Investment Activity Income
For Fiscal Years Ended June 30, 2005 and 2004
(Dollar Amounts in Thousands)

Investing Activities	2005	2004
Net appreciation in fair value of investments	**$ 4,462,384**	$ 6,871,417
Short-term	**71,796**	34,622
Fixed income	**594,809**	619,972
Common and preferred stock	**676,549**	556,984
Real estate	**187,178**	205,229
Alternative investments	**265,355**	132,984
Total investment activity income	**$ 6,258,071**	$ 8,421,208

(Dollar Amounts in Billions)



Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2005 were $23.7 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, 2005, the System earned $3.4 million 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, 2005

Broker Name	Fees Paid ($)	Broker Name	Fees Paid ($)
Citigroup/Salomon	2,104,018	Nomura Securities International	224,398
Merrill Lynch	1,681,573	Credit Lyonnais Securities	218,941
Morgan Stanley & Company	1,669,681	Liquidnet Inc.	212,313
UBS Warburg	1,499,577	ITG Securities LTD	204,882
J. P. Morgan, Inc.	1,353,820	Jefferies & Company Inc.	202,260
Credit Suisse First Boston	1,260,419	BNY Brokerage	185,604
Goldman Sachs & Company	1,105,511	HSBC Securities Inc.	181,129
Bear, Stearns & Company	1,032,675	Weeden & Company	180,437
Lehman Brothers	737,677	Sanford Bernstein & Company	179,944
Deutsche Bank	709,247	Macquaries Equities	177,781
Dresdner Kleinwort	464,364	Cathay Financial Corporation	142,930
Jones & Associates	460,076	Daiwa Securities	142,571
ABN AMRO Hoare Govett	450,942	DMG Securities	137,247
Instinet Corporation	360,466	DKW (Europe)	136,119
Knight Securities	358,791	SG Securities	110,645
Susquehanna Financial Group	302,215	Lynch Jones & Ryan	105,552
Tradition Asiel Securities Inc.	283,283	ING Barings	100,567
Cantor, Fitzgerald & Company	274,386		

Professional Consultants

External Investment Advisors
As of June 30, 2005

Short-Term Investment Pool Manager

- Evergreen Investment Management Co., LLC

Domestic Enhanced Equity Index Managers

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

Domestic Style-Oriented Small Cap Equity Managers

- The Boston Company Asset Management, LLC
- Emerald Advisers, Inc.
- First Pacific Advisers, Inc.
- Longwood Investment Advisors, Inc.
- Mellon Equity Associates
- NorthPointe Capital
- Wellington Management Company, LLP
- William Blair & Company, LLC

Enhanced Domestic Mid Cap Equity Manager

- Barclays Global Investors

Domestic Micro Cap Equity Managers

- NorthPointe Capital
- Oberweis Asset Management, Inc.
- Donald Smith & Company, Inc.
- Turner Investment Partners
- Thomson Horstmann & Bryant, Inc.

Publicly Traded REIT Advisors

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

Non-U.S. Emerging Market Equity Managers

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

Professional Consultants (Continued)

Non-U.S. Large Cap Equity Managers

- AllianceBernstein Institutional Investment Management
- Baillie Gifford Overseas Ltd.
- Barclays Global Investors
- The Boston Company Asset Management, LLC
- Marathon Asset Management Limited
- Martin Currie, Inc.
- Mercator Asset Management, LP

Non-U.S. Small Cap Equity Managers

- Acadian Asset Management
- AXA Rosenberg Investment Management
- The Boston Company Asset Management, LLC
- GlobeFlex Capital, LP

Domestic Fixed Income Managers

- BlackRock Financial Management, Inc.
- Delaware Investment Advisers
- Deutsche Asset Management, Inc.
- Pacific Investment Management Company
- Western Asset Management Company

High Yield Fixed Income Manager

- MacKay-Shields Financial Corporation

Treasury Inflation-Protected Securities Managers

- Bridgewater Associates, Inc.
- Brown Brothers Harriman & Co.

Global Fixed Income Managers

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

Real Estate Advisors

- Charter Oak Advisors, Inc.
- GF Management, Inc.
- L&B Realty Advisors
- Laureate Capital, LLC
- Legg Mason Real Estate Services

Professional Consultants (Continued)

Real Estate Partnerships

- ARCap Diversified Risk CMBS Fund I & II, LLC
- AvalonBay Value Added Fund, LP
- Berwind Investment Partnership IV, V, & VI
- BPG Co-Investment Partnership, LP
- Carlyle Realty Partners III, LP
- CSFB Strategic Partners II RE, LP
- DLJ Real Estate Capital Partners II & III, LP
- Fortress PSERS Investment, LP
- Hines U.S. Office Value Added Fund, LP
- LF Strategic Realty Investors I & II, LP
- Legg Mason Real Estate Capital, Inc.
- Lehman Brothers/PSERS Real Estate, LP
- Lubert-Adler Real Estate Fund II, III, & IV, LP
- Morgan Stanley Real Estate Fund II, LP
- Morgan Stanley Real Estate Fund IV Special Domestic, LP
- Morgan Stanley Real Estate Fund IV Special International, LP
- O'Connor North American Property Partners, LP
- Peabody Global Real Estate Partners, LP
- Stockbridge Real Estate Fund, LP
- Westbrook Real Estate Fund, LP
- Whitehall Street Real Estate, LP III, V, V-S, & VII
- William E. Simon & Sons Realty Partners, LP

Farmland Advisor

- Prudential Agricultural Group

Private Equity/Venture Capital Partnerships

- ABS Capital Partners II, LP
- Adams Capital Management, LP
- Allegheny New Mountain Partners, LP
- APA/Fostin Venture Fund I
- Bastion Capital Fund, LP
- Bear Stearns Merchant Banking Partners II, LP
- BG Media Investors, LP
- Blue Point Capital Partners (B), LP
- Bridgepoint Capital II Partnership, LP
- Bridgepoint Europe IA & IIA, LP
- Bruckmann, Rosser, Sherrill & Company, LP
- Catterton Partners V, LP
- Clarity Partners, LP
- Co-Investment 2000 Fund, LP (The)

Professional Consultants (Continued)

Private Equity/Venture Capital Partnerships (Continued)

- Commonwealth Venture Partners I & II
- Credit Suisse First Boston Equity Partners, LP
- Credit Suisse First Boston International Equity Partners, LP
- Cross Atlantic Technology Fund I & II, LP
- CSFB Strategic Partners II, LP
- Deutsche European Partners IV, LP
- DLJ Merchant Banking Partners III, LP
- DLJ Strategic Partners, LP
- Dubin Clark Fund II, LP
- Edgewater Private Equity Fund III, LP
- Edgewater Growth Capital Partners, LP
- Edison Venture Fund II & III
- Evergreen Pacific Partners, LP
- Franklin Capital Associates III, LP
- Furman Selz Investors II & III, LP
- Graham Partners Investments (B), LP
- Green Equity Investors II, LP
- Greenwich Street Capital Partners II, LP
- Grotech Partners IV
- GS Mezzanine Partners, LP
- Halifax Capital Partners, LP
- Heritage Fund I, LP
- Jefferson Partners Fund IV (PA), LP
- KBL Partnership, LP
- KRG Capital Fund I & II (PA), LP
- Landmark Equity Partners II, III, IV, & V
- Landmark Mezzanine Partners, LP
- Lehman Brothers Communications Investors, LP
- Lehman Brothers Merchant Banking Partners II, LP
- Lehman Brothers Venture Partners 2003-P, LP
- Lexington Capital Partners I, LP
- Lindsay, Goldberg & Bessemer, LP
- LLR Equity Partners I & II, LP
- Milestone Partners II, LP
- Morgan Stanley Dean Witter Capital Partners IV, LP
- NEPA Venture Fund II
- New Mountain Partners, LP
- New York Life Capital Partners I & II, LP
- P/A Fund (The)
- PAI Europe III & IV, LP
- Palladium Equity Partners II-A, LP
- Pennsylvania Early Stage Partners I & II, LP
- Perseus-Soros BioPharmaceutical Fund, LP
- Platinum Equity Capital Partners-A, LP
- PNC Equity Partners, LP
- Quadrangle Capital Partners, LP

Professional Consultants (Continued)

Private Equity/Venture Capital Partnerships (Continued)

- Quaker BioVentures, LP
- SCP Private Equity Partners I & II, LP
- Spectrum Equity Investors, LP
- StarVest Partners, LP
- Sterling Capital Partners, LP
- Sterling Venture Partners, LP
- Sunrise Capital Partners, LP
- TDH III, LP
- Technology Leaders, LP
- TL Ventures III, LP
- TPG Partners I & II, LP
- U.S. Equity Partners I & II, LP
- Wicks Communications & Media Partners, LP
- Willis Stein & Partners, LP

Private Debt Partnerships

- Avenue Special Situations Fund II & III, LP
- Avenue Asia Special Situations Fund II & III, LP
- Cerberus Institutional Partners, LP (Series Two and Three)
- Chrysalis Capital Partners, LP
- Gleacher Mezzanine Fund, LP
- GSC Recovery II, LP
- GSC Partners CDO Investors III & IV, LP
- Gold Hill Venture Lending 03-A, LP
- NYLIM Mezzanine Partners Parallel Fund, LP

Developmental Fund Managers

- Charter Financial Group, Inc.
- Conestoga Capital Advisors
- Connors Investor Services, Inc.
- EDMP, Inc.
- Global Capital Management, Inc.
- Hanseatic Management Services, Inc.
- John Hsu Capital Group, Inc.
- Opus Capital Management
- Piedmont Investment Advisors
- Piedra Capital, Inc.
- Profit Investment Management
- Roll & 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.

Alternative Investment Consultant

- Portfolio Advisors, LLC

Proxy Voting Agent

- Institutional Shareholder Services

Public School Employees' Retirement System

Actuarial Section

Mellon

Human Resources & Investor Solutions

January 28, 2005

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

Ladies and Gentlemen:

This report presents the results of the annual actuarial valuation of the Public School Employees' Retirement System of Pennsylvania as of June 30, 2004.

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 2005/2006 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.

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 2005/2006 is 4.69%. The funded status of the plan determined as of June 30, 2004 based on the accrued liability and the actuarial value of assets is 91.2%.

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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
Director, Retirement Consulting

Executive Summary

This report presents the actuarial valuation as of June 30, 2004 for the Public School Employees' Retirement System of Pennsylvania.

The principal valuation results include:

- The employer contribution rate for fiscal year 2005/2006 which is 4.69%.
- The funded status of the plan determined as of June 30, 2004 based on the accrued liability and the actuarial value of assets as of that date which is 91.2%.
- The determination of the actuarial gain or loss as of June 30, 2004 which is a loss of $2.9 billion.
- Annual disclosure as of June 30, 2004 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

There were no legislative or administrative changes since the prior valuation.

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, 2004 determine the employer contribution rate for fiscal year 2005/2006. The total contribution rate payable by the employer is 4.69% of payroll. This includes 4.00% of payroll for pension benefits plus 0.69% of payroll for the health insurance premium assistance program.

The average contribution rate payable by the members is 7.16%. 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 increased by 1.25%. The average member contribution rate of 7.16% 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 4.23% for fiscal year 2004/2005 to 4.69% for fiscal year 2005/2006. The increase of 0.46% is due to the following reasons:

• Increase due to change in normal rate	.13
• Increase due to payroll growth	.27
• Increase due to actuarial loss on assets	2.67
• Decrease due to actuarial gain on liabilities	(.12)
• Increase due to change in health insurance contribution rate	.46
• Impact of the 4% floor on employer contribution rate under Act 40	(2.95)
• Total	.46%

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, 2004. Comparable results from the June 30, 2003 valuation are also shown.

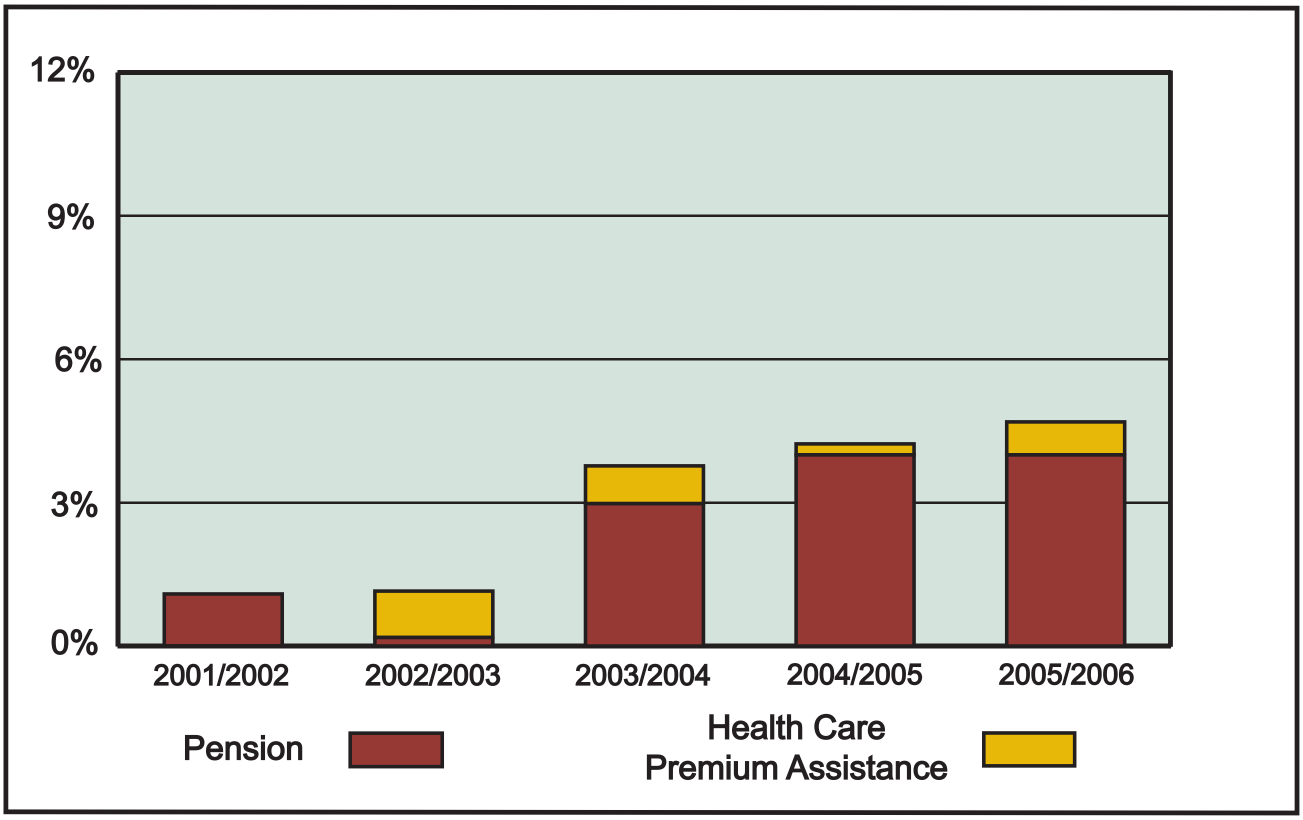
Item	June 30, 2004	June 30, 2003
Demographics		
Active Members		
• Number	247,901	246,700
• Average Annual Pay	$ 40,463	$ 39,128
Annuitants		
• Number	151,552	145,693
• Average Annual Benefit Payment	$ 18,464	$ 17,469
Contribution Rates (as a Percentage of Payroll)	(Fiscal Year 2005/2006)	(Fiscal Year 2004/2005)
Employer Contribution Rate:		
• Total Pension Contribution Rate	4.00%	4.00%
• Health Insurance Contribution Rate	0.69	0.23
• Total	4.69%	4.23%
Member Average Contribution Rate	7.16	7.12
• Total Rate	11.85%	10.35%
Actuarial Funded Status		
• Accrued Liability	$ 57,123.0 Mil	$ 54,443.8 Mil
• Actuarial Value of Assets	52,094.5	52,900.5
• Unfunded Accrued Liability	$ 5,028.5	$ 1,543.3
• Funded Ratio	91.2 %	97.2%

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
2005/2006	7.16%	7.61%	(4.28)%	.69%	4.69%
2004/2005	7.12	7.48	(7.10)	.23	4.23
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

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 or 30 years for each change in the unfunded accrued liability according to Act 40.

The total contribution rate of 4.69% 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 91.2% as of June 30, 2004. The funded ratio is based on an actuarial value of assets of $52.1 billion and an accrued liability of $57.1 billion.

Reasons for Change in the Funded Ratio

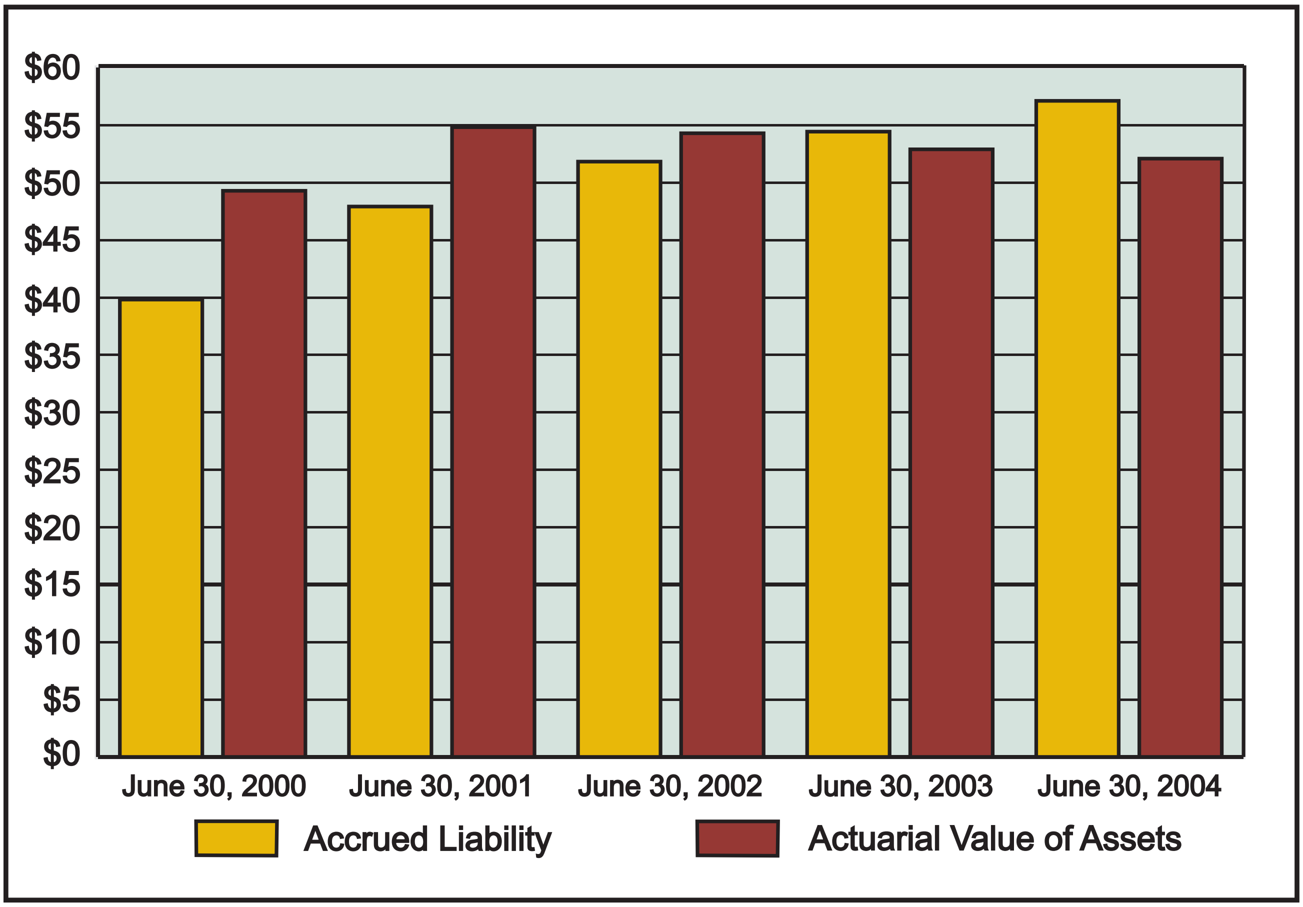
The funded ratio decreased from 97.2% as of June 30, 2003 to 91.2% as of June 30, 2004. The decrease is due to the net effect of the asset loss and liability gain.

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
2004	$ 57,123.0	$ 52,094.5	$ 5,028.5	91.2%
2003	54,443.8	52,900.5	1,543.3	97.2
2002	51,796.5	54,296.4	(2,499.9)	104.8
2001	47,917.3	54,830.3	(6,913.0)	114.4
2000	39,822.8	49,293.0	(9,470.2)	123.8

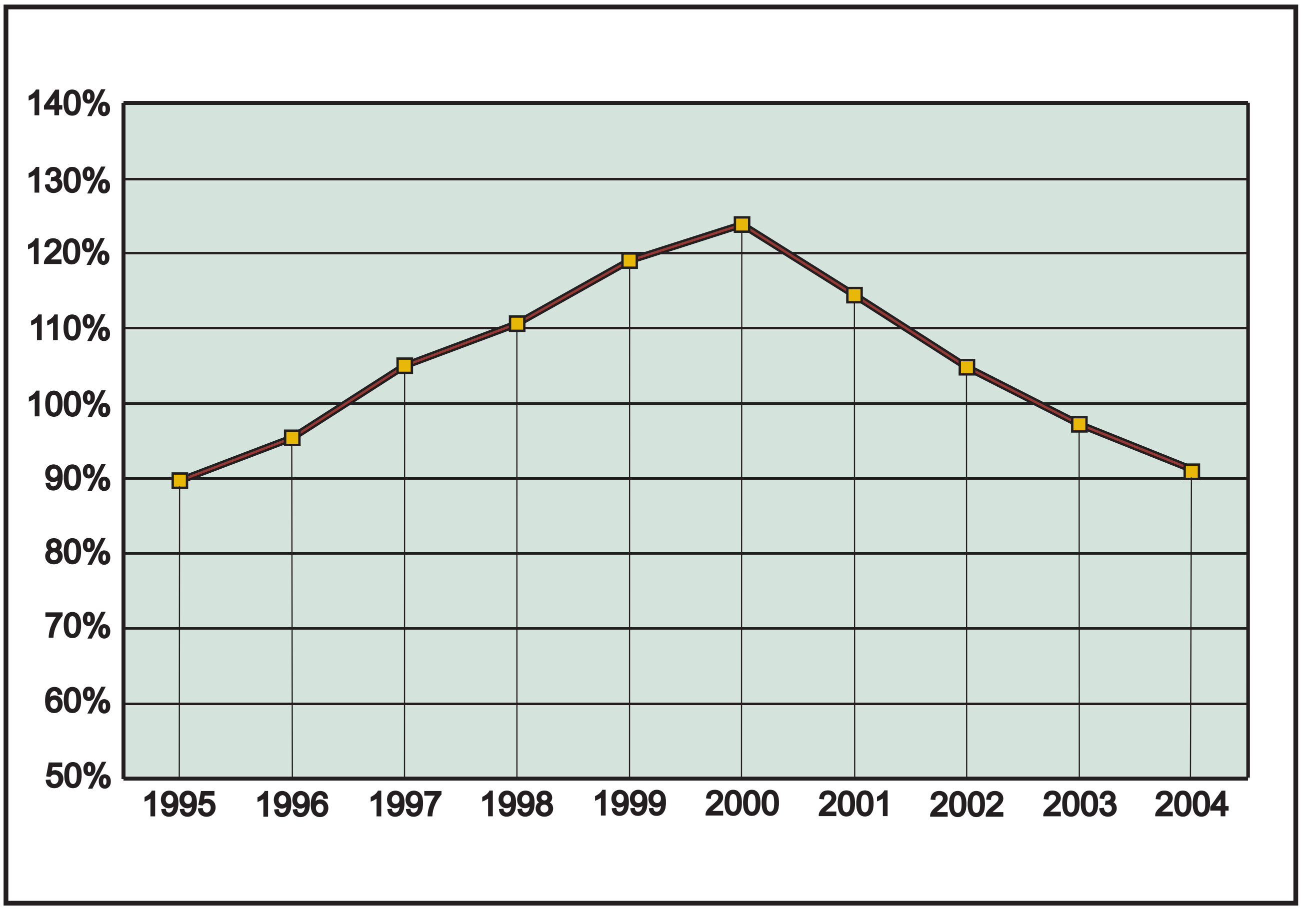
The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

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
(1995 - 2004)



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 91.2% as of June 30, 2004. The funded ratio is based on an actuarial value of assets of $52.1 billion and an accrued liability of $57.1 billion.

The "schedule of employer contributions" shows historical trend information about the annual required contributions (ARC) of the employer and the percentage of the ARC contributed to the System. The ARC is equal to the normal cost plus amortization of the unfunded actuarial accrued liability. The maximum period of amortizing the unfunded actuarial accrued liability permitted by GASB No. 25 is 40 years. The maximum amortization period decreases to 30 years in 2006. The employer contributions to the System are equal to the normal cost plus a payment towards each change in the unfunded accrued liability, which are amortized over 10 or 30-year periods. The employer contributions to the System for the six fiscal years ending June 30, 2004 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 1999/2000 through 2003/2004 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 spreads the difference between the actual and expected return (beginning with the 2000/2001 fiscal year) over a period of five 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
2003/2004*	19.7%	2.6%
2002/2003*	2.7	1.4
2001/2002*	(5.3)	2.7
2000/2001	(7.4)	14.3
1999/2000	11.9	13.6

* Market rate of return provided by Wilshire

Table 1
Summary of Results of Actuarial Valuation
As of June 30, 2004
(Dollar Amounts in Thousands)

Item	Amount
Member Data	
1. Number of Members	
a) Active Members	247,901
b) Inactive Members and Vestees	72,014
c) Annuitants, Beneficiaries and Survivor Annuitants	151,552
d) Total	471,467
2. Annualized Salaries	$ 10,030,705
3. Annual Annuities	$ 2,798,211
Valuation Results	
4. Present Value of Future Pension Benefits	
a) Active Members	$ 46,297,600
b) Inactive Members and Vestees	689,171
c) Annuitants, Beneficiaries and Survivor Annuitants	24,337,377
d) Total	$ 71,324,148
5. Present Value of Future Pension Normal Cost	
a) Active Members	$ 6,954,461
b) Employer	7,391,544
c) Total	$ 14,346,005
6. Pension Accrued Liability	
a) Active Members (4a) - (5c)	$ 31,951,595
b) Inactive Members and Vestees	689,171
c) Annuitants, Beneficiaries and Survivor Annuitants	24,337,377
d) Total	$ 56,978,143
7. Health Care Premium Assistance Payments	$ 144,857
8. Total Accrued Liability (6) + (7)	$ 57,123,000
9. Actuarial Value of Assets	$ 52,094,479
10. Unfunded Accrued Liability (8) - (9)	$ 5,028,521
11. Total Normal Cost Rate	14.77 %
12. Member Contribution Rate	7.16 %
13. Employer Normal Cost Rate (11) - (12)	7.61 %
Employer Annual Funding Requirement for Fiscal 2005/2006	
14. Employer Contribution Rate	
a) Normal	7.61 %
b) Unfunded Accrued Liability	(4.28)
c) Preliminary Pension Rate	3.33 %
d) Preliminary Pension Rate with 4% Floor	4.00
e) Health Insurance Premium Assistance	0.69
f) Total Rate	4.69 %

Table 2
Summary of Sources of Employer Contribution Rate
As of June 30, 2004
(Dollar Amounts in Thousands)

	Funding Period	Funding Period Beginning July 1	Initial Amount of Liability	Outstanding Balance as of July 1, 2004	Annual Payment Amount	Annual Payment Percent *
1. Amortization of:						
a) July 1, 2001 Fresh Start Unfunded Base	10 Years	2002	$ (9,137,130)	$ (8,520,452)	$ (1,510,937)	(13.13)%
b) Asset Method Change at July 1, 2001 due to Act 38	10 Years	2002	(4,638,306)	(4,325,260)	(767,001)	(6.67)%
c) 2001 Changes	30 Years	2002	7,570,507	7,059,563	668,111	5.81%
d) 2002 Changes	30 Years	2003	3,014,171	3,049,927	286,101	2.48 %
e) 2002 COLA	10 Years	2003	463,795	469,297	76,694	0.67 %
f) 2003 COLA	10 Years	2004	754,524	888,245	135,375	1.18 %
g) 2003 Changes	30 Years	2004	3,229,593	3,504,108	326,059	2.83 %
h) 2004 Changes	30 Years	2005	2,903,093	2,903,093	293,096	2.55 %
Total Amortization Payments				5,028,521	(492,502)	(4.28)%
2. Employer Normal Cost Rate						7.61 %
3. Preliminary Pension Rate (1) + (2)						3.33 %
4. Preliminary Pension Rate with 4% Floor -- Maximum of (3) and 4%						4.00 %
5. Health Insurance Premium Assistance Rate						0.69 %
6. Final Total Employer Contribution Rate (4) and (5)						4.69 %

Table 3
Determination of Health Insurance Contribution Rate For Fiscal Year 2005/2006
(Dollar Amounts in Thousands)

Item	Amount
1. Estimated Number of Eligible Annuitants in FiscalYear 2006/2007	106,800
2. Estimated Number of Eligible Annuitants Who Elect Coverage	69,420
3. Estimated Annual Health Insurance Premium Assistance Payments During Fiscal Year 2006/2007 (2) x $100 x 12	$ 83,304
4. Estimated Health Insurance Premium Assistance Administrative Expenses During Fiscal Year 2006/2007	1,927
5. Total Estimated Health Insurance Premium Assistance Account Disbursements During Fiscal Year 2006/2007 (3) + (4)	$ 85,231
6. Estimated Balance in Health Insurance Premium Assistance Account for Prior Fiscal Year 2005/2006	$ 6,043
7. Estimated Shortfall in Health Insurance Premium Assistance Account (5) - (6)	$ 79,188
8. Required Health Insurance Premium Assistance Contribution Rate	
(a) Estimated 2005/2006 Payroll	$ 11,505,093
(b) Required Health Insurance Premium Assistance Contribution Rate (7) / (8a) (rounded up)	0.69%

Table 4
Summary of Market Value of Plan Assets
As of June 30, 2004
(Dollar Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 2003	$ 42,446,826
2. Contributions During Fiscal Year 2003/2004	1,190,413
3. Disbursements During Fiscal Year 2003/2004	3,354,604
4. Investment Return During Fiscal Year 2003/2004	
a) Net Investment Return	$ 8,243,599
b) Administrative Expenses	41,728
c) Investment Return After Expenses (a) - (b)	$ 8,201,871
5. Market Value of Assets as of June 30, 2004	
(1) + (2) - (3) + (4c)	$ 48,484,506
6. Rate of Return (per Wilshire)	19.67 %
Asset Allocation by Account	
1. Members' Savings Account	$ 8,755,109
2. Annuity Reserve Account	24,337,377
3. State Accumulation Account	15,247,163
4. Health Care Account	144,857
5. Total (1) + (2) + (3) + (4)	$ 48,484,506

Table 5
Derivation of Actuarial Value of Assets
As of June 30, 2004
(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 2004					$ 48,484,506
2. Determination of Deferred Gain (Loss)					
	Return on Assets				
Year	Actual	Expected	Difference	% Deferred	Deferred Amount
2003/2004	$ 8,201,871	$ 4,404,561	$ 3,797,310	80%	$ 3,037,848
2002/2003	985,646	4,525,288	(3,539,642)	60%	(2,123,785)
2001/2002	(2,555,630)	4,575,102	(7,130,732)	40%	(2,852,293)
2000/2001	(3,877,769)	4,480,947	(8,358,716)	20%	(1,671,743)
					$ (3,609,973)
3. Actuarial Value of Assets (1) - (2)					$ 52,094,479
4. Actuarial Rate of Return *					2.62%

* The actuarial rate of return is the investment return on the increase in the actuarial value of the assets from the June 30, 2003 valuation to the June 30, 2004 valuation.

Table 6
Analysis of Change in Unfunded Accrued Liability
As of June 30, 2004
(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 2003	$ 1,543,310
2. Interest Credit at 8.50% to June 30, 2004	131,181
3. Contributions toward Unfunded Accrued Liability	(450,937)
4. Change due to amendments to the Pension Code	-
5. Change due to actuarial method changes	-
6. Expected Unfunded Accrued Liability at June 30, 2004 (1) + (2) - (3) + (4) + (5)	$ 2,125,428
7. Actual Unfunded Accrued Liability at June 30, 2004	$ 5,028,521
8. Increase (Decrease) from Expected (6) - (7)	$ 2,903,093
9. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Loss from Investment Return on Actuarial Value of Assets	$ 3,046,356
(ii) Gain from Salary Increases Less than Expected	(140,675)
(iii) Gain from Retirement and Other Separation Experience	(131,003)
(iv) Loss from Annuitants' Mortality Experience	128,415
Subtotal	$ 2,903,093
(b) Change in Assumptions	$ -
(c) Grand Total	$ 2,903,093

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
2004	$ 52,094,479	$ 57,123,100	$ (5,028,521)	91.2 %	$ 10,030,705	(50.1) %
2003	52,900,465	54,443,775	(1,543,310)	97.2	9,652,881	(16.0) %
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

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
2004	$ 321,091	100 %
2003	20,831	100 %
2002	539	100 %
2001	158,193	100 %
2000	390,504	100 %
1999	513,940	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, 2002 was contributed in the fiscal year ending June 30, 2004).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2004
Actuarial Cost Method:	Entry Age
Amortization Method:	Level percent closed
Remaining Amortization Period:	7 - 30 years
Asset Valuation Method:	5-year smoothed market
Actuarial Assumptions:	
- Investment Rate of Return *	8.50%
- Projected Salaried Increases *	6.25%
* Includes Inflation at:	3.50%

Table 9
Solvency Test
Comparative Summary of Accrued Liability and Actuarial Value of Assets
(Dollar Amounts in Thousands)

Valuation as of June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Member Employer Financed	Actuarial Value of Assets	Portion of Accrued Liability Covered by Valuation Assets		
					(1)	(2)	(3)
2004	$ 8,755,109	$ 24,482,234	$ 23,885,657	$ 52,094,479	100%	100%	79%
2003	8,282,753	22,094,109	24,066,913	52,900,465	100%	100%	94%
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%

Table 10
History of Contribution Rates

		Contribution Rates					
Fiscal Year	Employer Payroll	Member	Employer Normal Cost Rate	Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Insurance Rate	Total Employer Rate
1996/1997	$ 7,745,001	5.62 %	6.44 %	3.56 %	10.00 %	0.60 %	10.60 %
1997/1998	8,091,481	5.65	6.44	2.17	8.61	0.15	8.76
1998/1999	8,247,602	5.69	6.33	(0.44)	5.89	0.15	6.04
1999/2000	8,939,598	5.72	6.40	(2.04)	4.36	0.25	4.61
2000/2001	9,414,884	5.77	6.29	(4.65)	1.64	0.30	1.94
2001/2002	9,378,944	6.43	5.63	(6.05)	(0.42)	1.09	1.09
2002/2003	9,652,881	7.10	7.20	(10.03)	1.00	0.97	1.15
2003/2004	10,030,705	7.08	7.25	(4.27)	2.98	0.79	3.77
2004/2005	11,062,589	7.12	7.48	(7.10)	4.00	0.23	4.23
2005/2006	**11,505,093**	**7.16**	**7.61**	**(4.28)**	**4.00**	**0.69**	**4.69**

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
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			134,300	7,114	141,414	242,616
2003			138,383	7,310	145,693	246,700
2004			**143,997**	**7,555**	**151,552**	**247,901**
2005	11,665	4,293	151,369	8,056	159,425	247,901
2006	11,103	4,444	158,028	8,524	166,552	247,901
2007	11,507	4,609	164,926	8,945	173,871	247,901
2008	11,895	4,759	172,062	9,331	181,393	247,901
2009	12,189	4,927	179,324	9,689	189,013	247,901
2010	12,068	5,088	186,304	10,019	196,323	247,901
2011	11,902	5,250	192,956	10,331	203,287	247,901
2012	11,904	5,413	199,447	10,625	210,072	247,901
2013	11,790	5,566	205,671	10,907	216,578	247,901
2014	11,606	5,737	211,540	11,183	222,723	247,901

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

* Vested Withdrawal - At least 5 years service but not eligible for Early or Superannuation retirement.

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

Description of Actuarial Assumptions and Methods (Continued)

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

Salary Increase: Effective average of 6 1/4% per annum, compounded annually. The components are 3 1/2% for inflation, 1% for real wage growth and 1 3/4% for merit or seniority increases (adopted as of June 30, 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 unfunded accrued liability as of June 30, 2001 and the decrease in the unfunded accrued liability due to the actuarial asset method change provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, beginning July 1, 2002. The increases in the unfunded accrued liability due to the July 1, 2002 and July 1, 2004 cost-of-living adjustments provided by Act 38 continue to be

Description of Actuarial Assumptions and Methods (Continued)

amortized over a 10-year period, with level dollar funding, starting on July 1, 2003 and July 1, 2004, respectively. All other changes in the unfunded accrued liability at June 30, 2002, June 30, 2003, and June 30, 2004 – including the Act 9 benefit changes – are amortized over a 30-year period, with level dollar funding, starting on July 1, 2003, July 1, 2004, and July 1, 2005, respectively. Future benefit improvements for active members and retirees will be amortized over a 10-year period with level dollar funding. Future gains and losses will be amortized over a 30-year period with level dollar funding. Act 40 also provides a 4.00% floor on the employer pension rate.

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, 2004 and does not take into account future members. All census data was supplied by the System and was subject to reasonable consistency checks. The actuary adjusts the data to account for service and pay earned by members on or before the valuation that is not reported by the System until after the actuarial valuation is performed. 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. 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 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 $100 per month or the actual monthly premium. All administrative expenses necessary to operate the health insurance premium assistance program are to be funded by the Health Insurance Account. The Health Insurance Account is credited with contributions of the Commonwealth and the employers.

CONTRIBUTIONS

By Members	Members who 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, 2004
(Dollar Amounts in Thousands)

Active Members *

Item	Male	Female	Total
Number of Members	69,017	178,884	247,901
Annual Salaries **	$ 3,250,885	$ 6,779,820	$ 10,030,705
Average Age	45.1	45.1	45.1
Average Service	13.0	11.1	11.7

* Excludes 70,014 inactive members and vestees.

** These salaries shown in the table above represent a rate of pay for members who were in active service on June 30, 2004.

Annuitants and Beneficiaries

Item	Number	Annual Annuities	Average Annuities	Average Age
Annuitants (Normal, Early and Withdrawal)	137,301	$ 2,639,851	$ 19,227	70.0
Survivors and Beneficiaries	7,555	59,619	7,891	75.8
Disabled Annuitants	6,696	98,741	14,746	62.3
Total	151,552	$ 2,798,211	18,464	69.9

Exhibit I
Active Membership Data as of June 30, 2004
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	6,912	47								6,959
	$29,179	$25,476								$29,154
25 - 29	16,222	4,899	20							21,141
	$33,362	$41,276	$34,498							$35,197
30 - 34	9,773	12,156	2,637	58						24,624
	$30,110	$43,532	$49,848	$38,228						$38,869
35 - 39	9,188	6,762	6,561	2,080	54					24,645
	$23,210	$39,549	$51,792	$54,182	$37,052					$37,947
40 - 44	11,996	7,165	4,356	5,156	1,763	133				30,569
	$19,765	$31,288	$45,912	$56,586	$54,890	$35,862				$34,498
45 - 49	10,879	9,007	5,620	4,819	5,226	3,944	125			39,620
	$19,952	$29,440	$39,890	$51,871	$61,253	$62,186	$39,333			$38,533
50 - 54	7,154	6,769	6,477	5,974	4,143	10,383	8,872	44		49,816
	$21,798	$30,454	$39,523	$49,036	$58,159	$66,914	$68,601	$41,454		$49,325
55 - 59	4,362	3,582	3,816	4,512	3,549	3,675	7,708	1,647	9	32,860
	$20,560	$28,584	$35,848	$43,592	$51,331	$60,278	$70,411	$73,230	$40,929	$48,477
60 - 64	2,242	1,615	1,635	1,903	1,654	1,501	787	620	148	12,105
	$17,728	$23,195	$29,968	$36,014	$40,644	$46,557	$56,878	$72,418	$72,534	$35,708
Over 64	1,561	951	779	727	498	480	316	134	116	5,562
	$12,175	$17,340	$21,863	$25,854	$27,832	$33,051	$39,363	$45,610	$70,805	$22,979
Total	80,289	52,953	31,901	25,229	16,887	20,116	17,808	2,445	273	247,901
	$25,021	$34,971	$42,473	$48,896	$54,663	$62,242	$68,142	$70,938	$70,758	$40,463

Exhibit II

The Number and Average Annual Annuity
As of June 30, 2004

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	5	853	1,415	443	153	32	2			2,903
	$1,173	$727	$1,406	$3,594	$8,425	$14,952	$14,429			$2,068
50-54	10	162	1,564	599	368	411	338	9		3,461
	$3,576	$1,499	$1,351	$3,845	$8,899	$20,361	$30,884	$33,604		$7,824
55-59	16	159	2,501	1,245	729	1,357	8,076	2,918	2	17,003
	$26,523	$2,032	$1,622	$4,487	$9,448	$23,870	$38,386	$51,125	$53,341	$29,934
60-64	136	343	2,234	1,934	1,607	2,421	8,806	5,354	243	23,078
	$3,383	$2,860	$3,012	$6,888	$13,050	$23,496	$34,990	$46,833	$52,580	$29,075
65-69	456	714	2,634	2,607	2,887	3,270	4,947	4,417	887	22,819
	$1,551	$2,366	$3,548	$7,013	$11,781	$19,532	$28,733	$37,460	$45,809	$20,866
70-74	601	1,001	2,725	2,651	3,005	3,279	3,895	2,463	1,888	21,508
	$2,105	$1,950	$3,392	$6,148	$10,729	$16,851	$25,230	$33,641	$41,548	$17,474
75-79	682	1,186	2,766	2,917	3,050	2,924	2,614	2,025	1,041	19,205
	$1,851	$1,706	$3,308	$6,086	$10,705	$16,227	$21,998	$28,828	$39,080	$13,895
80-84	563	1,029	2,313	2,413	2,110	1,912	1,450	1,488	530	13,808
	$1,901	$1,588	$3,308	$5,952	$9,693	$14,161	$19,107	$23,619	$33,044	$11,052
85-89	392	697	1,592	1,290	1,135	1,017	774	874	405	8,176
	$3,147	$1,738	$3,554	$6,128	$9,462	$13,240	$18,140	$22,293	$27,204	$10,366
Over 89	250	441	663	722	593	662	541	765	703	5,340
	$7,622	$2,361	$4,391	$7,433	$11,056	$14,033	$17,920	$21,338	$24,948	$13,226
Total	3,111	6,585	20,407	16,821	15,637	17,285	31,443	20,313	5,699	137,301
	$2,691	$1,780	$2,884	$6,110	$10,812	$18,197	$31,103	$38,295	$38,377	$19,227

Exhibit III
The Number and Average Annual Annuity
As of June 30, 2004

Beneficiaries and Survivor Annuitants

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50	1	19	49	45	41	37	24	19	17	252
	$240	$1,851	$1,571	$2,717	$4,696	$7,240	$15,253	$13,102	$10,748	$5,924
50 - 54	1	7	16	21	31	29	34	15	9	163
	$217	$640	$2,055	$3,370	$6,077	$11,720	$13,244	$13,848	$6,824	$8,319
55 - 59	3	9	33	23	37	47	101	68	19	340
	$4,913	$1,695	$2,501	$2,866	$5,193	$10,331	$14,631	$14,411	$13,171	$10,483
60 - 64	4	16	46	56	43	58	129	120	31	503
	$1,966	$1,480	$3,085	$4,375	$5,678	$11,036	$16,650	$17,537	$13,933	$11,902
65 - 69	11	21	96	75	73	75	131	139	62	683
	$2,388	$1,608	$2,664	$4,081	$6,796	$9,844	$12,985	$18,015	$16,535	$10,375
70 - 74	10	36	109	131	113	109	197	159	100	964
	$992	$1,551	$2,709	$4,228	$5,969	$7,953	$12,526	$13,821	$19,278	$9,387
75 - 79	30	70	175	153	147	181	194	234	113	1,297
	$2,128	$1,378	$2,497	$3,601	$5,999	$8,511	$10,261	$11,646	$15,033	$7,699
80 - 84	29	102	194	182	171	189	204	303	124	1,498
	$3,580	$1,193	$2,308	$3,353	$5,584	$7,072	$9,261	$10,252	$12,339	$6,743
85 - 89	21	91	165	122	124	97	137	218	151	1,126
	$3,212	$1,075	$1,961	$3,698	$4,803	$6,725	$7,011	$9,149	$10,382	$5,960
Over 89	13	37	63	53	50	59	84	169	200	728
	$2,785	$1,086	$2,035	$2,884	$4,240	$5,369	$6,332	$7,179	$8,279	$5,889
Total	123	408	946	861	830	881	1,235	1,444	826	7,554
	$2,688	$1,285	$2,349	$3,634	$5,581	$8,155	$11,322	$11,968	$12,508	$7,892

Exhibit IV
The Number and Average Annual Annuity
As of June 30, 2004

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	1	202	188	92	69	20				572
	$13,658	$9,328	$11,922	$15,412	$19,917	$25,372				$13,005
50 - 54		163	198	137	163	234	36			931
		$8,140	$10,664	$15,045	$22,170	$35,344	$46,032			$20,452
55 - 59	1	220	249	225	278	355	165	2		1,495
	$4,215	$7,720	$9,663	$13,391	$20,466	$31,105	$43,741	$42,052		$20,839
60 - 64	2	202	298	253	268	200	30	1		1,254
	$18,061	$5,805	$7,978	$11,013	$17,451	$26,348	$37,063	$42,631		$13,934
65 - 69	3	158	229	182	157	111	19	2		861
	$10,929	$5,032	$7,121	$8,978	$14,003	$22,127	$28,675	$42,997		$10,892
70 - 74	3	123	170	146	119	58	11	1		631
	$9,715	$3,458	$6,155	$8,709	$12,878	$20,107	$27,072	$43,179		$9,211
75 - 79	5	98	132	81	97	55	9	1	1	479
	$9,631	$3,516	$5,949	$8,289	$12,870	$17,301	$23,701	$24,751	$54,601	$9,065
80 - 84	5	69	69	45	47	31	16	1		283
	$11,091	$3,541	$6,041	$7,386	$10,180	$15,429	$20,612	$29,135		$8,356
85 - 89	3	19	40	26	21	15	17			141
	$7,764	$2,593	$5,723	$8,383	$10,488	$16,164	$20,857			$9,480
Over 89	1	2	16	18	6	4	2			49
	$8,547	$4,158	$6,095	$7,871	$10,224	$12,971	$15,183			$8,156
Total	24	1,256	1,589	1,205	1,225	1,083	305	8	1	6,696
	$10,474	$6,329	$8,396	$11,243	$17,219	$28,104	$38,547	$38,724	$54,601	$14,746

Exhibit V
The Number and Average Annual Annuity
As of June 30, 2004

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
Total	1 $ 66									1 $ 66

Exhibit VI

Annuitant and Beneficiary Membership Data
As of June 30, 2004

Number and Average Annual Benefit
Excludes Partial Lump Sum Payments

Age Last Birthday	Number	Annual Benefit (Dollars in Thousands)	Average Annual Benefit (Dollars)
Annuitants			
(Normal, Early and Withdrawal)			
Under 60	23,367	$ 542,049	$ 23,197
60 - 64	23,078	670,992	29,075
65 - 69	22,819	476,143	20,866
70 - 74	21,508	375,825	17,474
75 - 79	19,205	266,849	13,895
Over 79	27,324	307,993	11,272
Total	137,301	$ 2,639,851	$ 19,227
Survivors and Beneficiaries			
Under 60	755	$ 6,413	$ 8,494
60 - 64	503	5,987	11,903
65 - 69	683	7,087	10,376
70 - 74	964	9,049	9,387
75 - 79	1,297	9,985	7,699
Over 79	3,353	21,098	6,292
Total	7,555	$ 59,619	$ 7,891
Disabled Annuitants			
Under 60	2,998	$ 57,635	$ 19,224
60 - 64	1,254	17,473	13,934
65 - 69	861	9,378	10,892
70 - 74	631	5,812	9,211
75 - 79	479	4,342	9,065
Over 79	473	4,101	8,670
Total	6,696	$ 98,741	$ 14,746
Grand Total Average Annual Benefit	151,552	$ 2,798,211	$ 18,464

Exhibit VII

10 Year History of Membership Data

Active Members

Valuation as of June 30	Number of Active Members	Percentage Change in Membership	Total Annual Payroll (Dollars in Thousands)	Percentage Change in Payroll
2004	247,901	0.49%	$ 10,030,705	3.91%
2003	246,700	1.68%	9,652,881	2.92%
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%

Annuitant and Survivor Annuitant Members

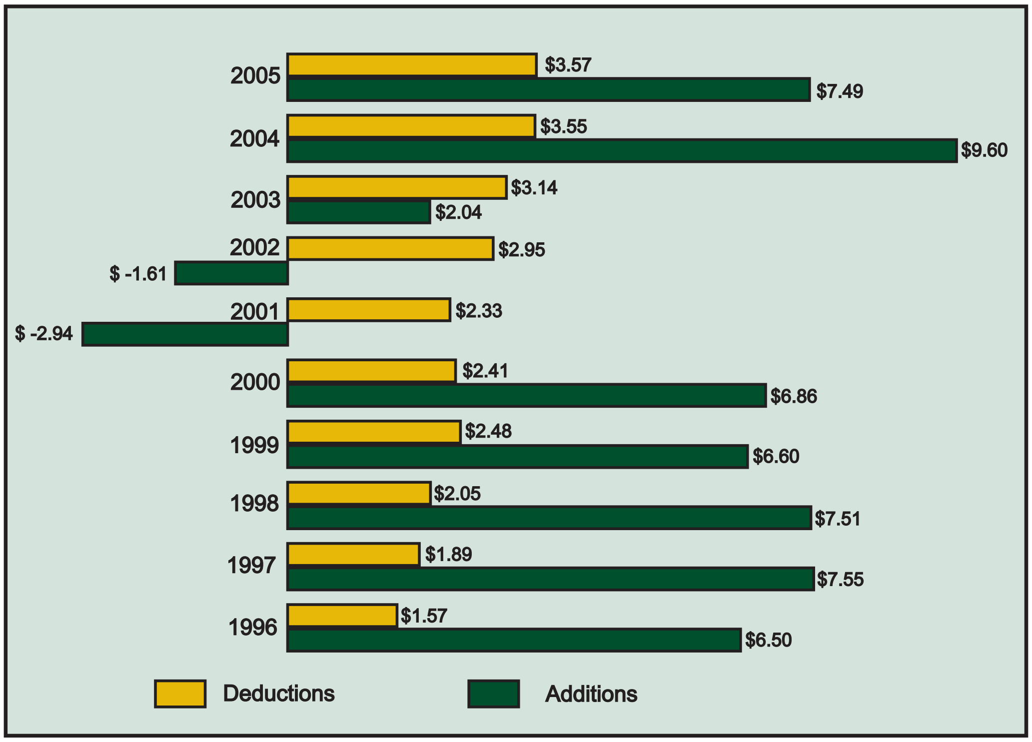
Year Ended June 30	Number on roll	Additions	Deletions	Percentage Change in Membership	Annual Annuities (Dollars in Millions)	Percentage Change in Annuities
2004	151,552	10,526	4,667	4.02%	$ 2,798.2	9.94%
2003	145,693	9,079	4,800	3.03%	2,545.1	13.20%
2002	141,414	13,003	4,305	6.55%	2,248.3	20.10%
2001	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%

Public School Employees' Retirement System

Statistical Section

Changes in Plan Net Assets - 2005
Additions vs. Deductions - 10 Year Trend

(Dollar Amounts in Billions)

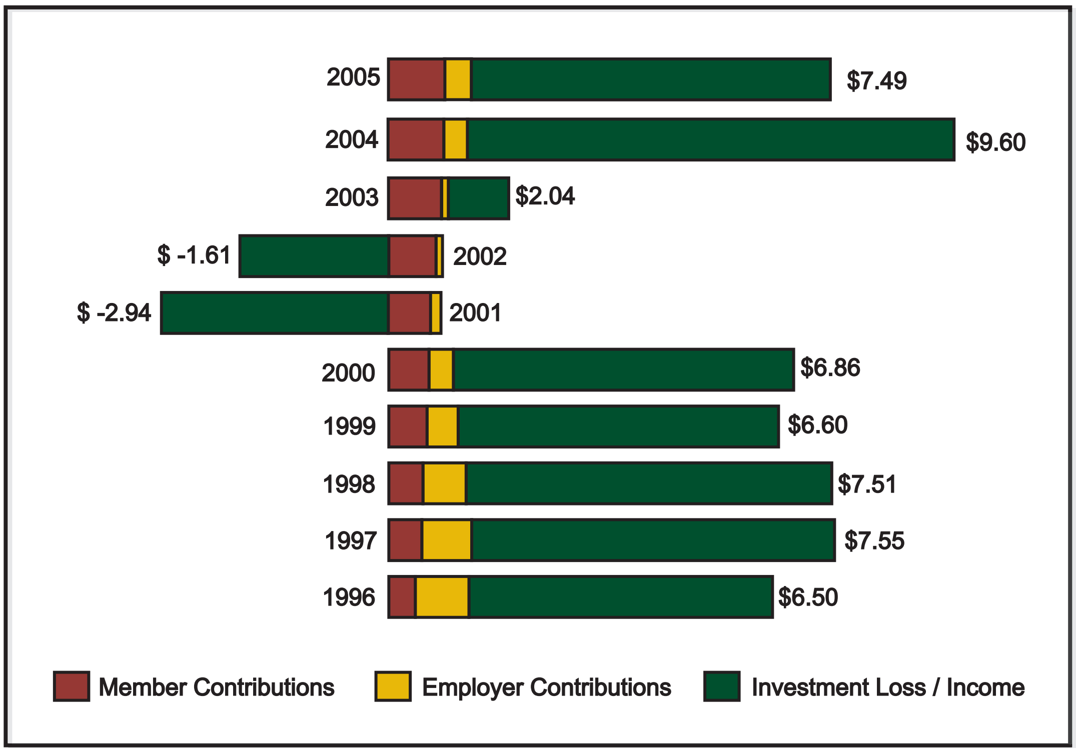


Additions to Plan Net Assets
10 Year Trend

(Dollar Amounts in Thousands)

Fiscal Year	Members Contributions	Employers and Commonwealth Contributions: Dollar Amount	Employers and Commonwealth Contributions: Percentage of Covered Payroll	Net Investment Income / (Loss)	Total Additions
2005	$ 955,509	$ 457,808	4.23 %	$ 6,081,497	$ 7,494,814
2004	944,422	406,722	3.77	8,244,604	9,595,748
2003	897,307	116,456	1.15	1,022,467	2,036,230
2002	805,567	109,450	1.09	(2,523,025)	(1,608,008)
2001	721,725	185,716	1.94	(3,843,713)	(2,936,272)
2000	680,040	412,783	4.61	5,765,133	6,857,956
1999	646,507	526,960	6.04	5,428,659	6,602,126
1998	578,322	731,131	8.76	6,195,893	7,505,346
1997	559,070	844,599	10.60	6,147,462	7,551,131
1996	447,855	909,031	11.72	5,143,223	6,500,109

(Dollar Amounts in Billions)

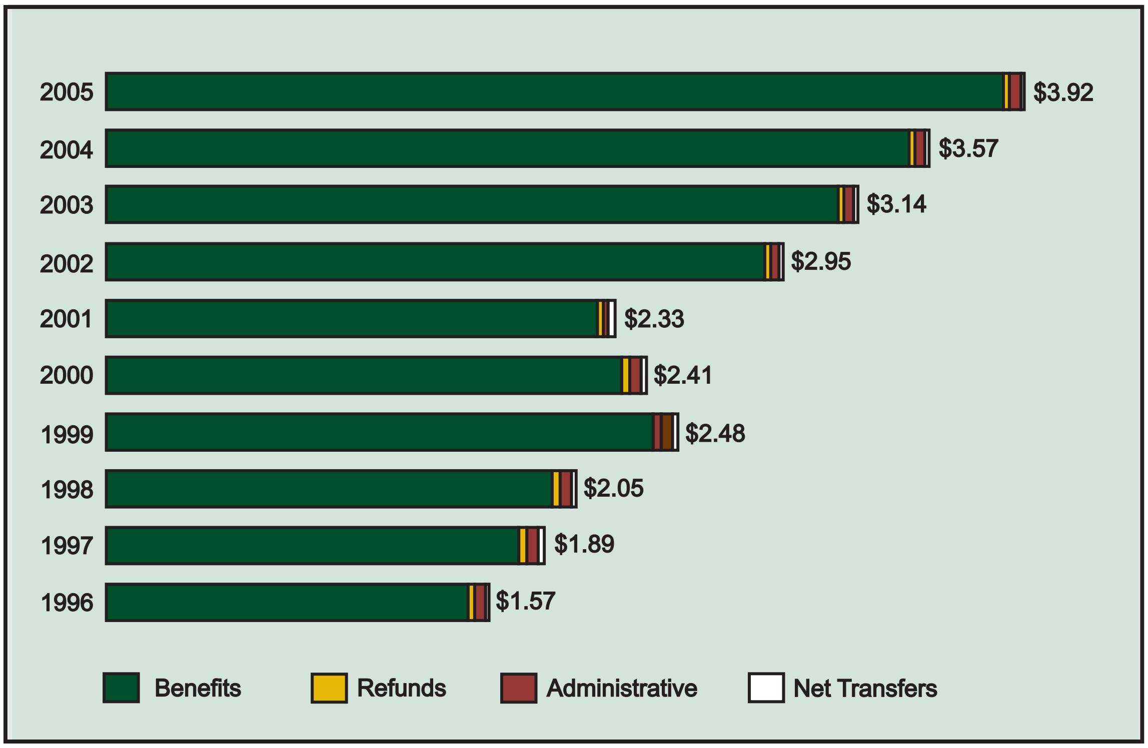


Deductions from Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

Fiscal Year	Benefits	Lump-Sum and Installment	Refunds	Administrative	Net Transfers*	Total Deductions
2005	$ 3,158,661	$ 692,089	$ 16,233	$ 42,645	$ 10,859	$ 3,920,487
2004	2,906,344	559,939	14,767	49,202	16,315	3,546,567
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

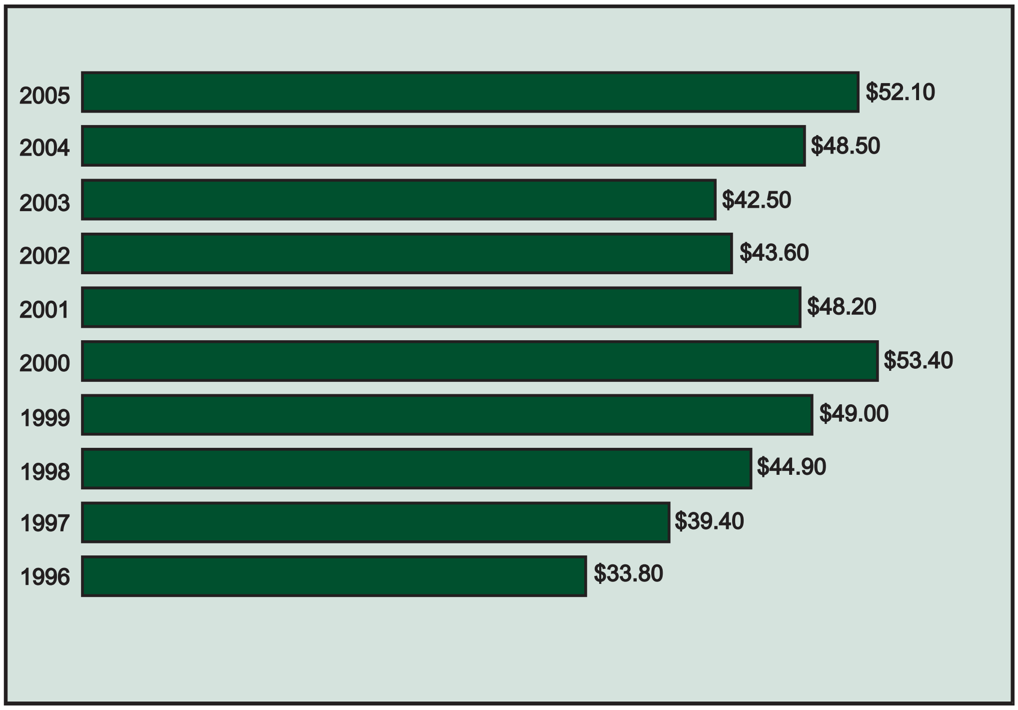
* Net transfers to the Commonwealth of Pennsylvania, State Employees' Retirement System.

(Dollar Amounts in Billions)



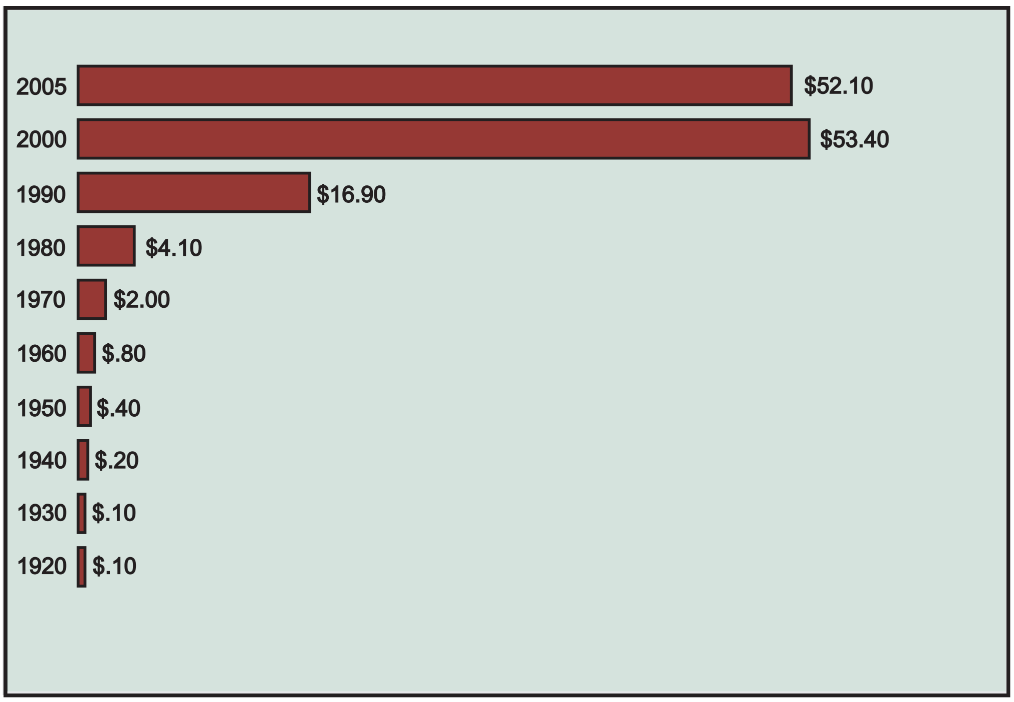
Total Net Assets 10 Year Trend

(Fair Value - Amounts in Billions)

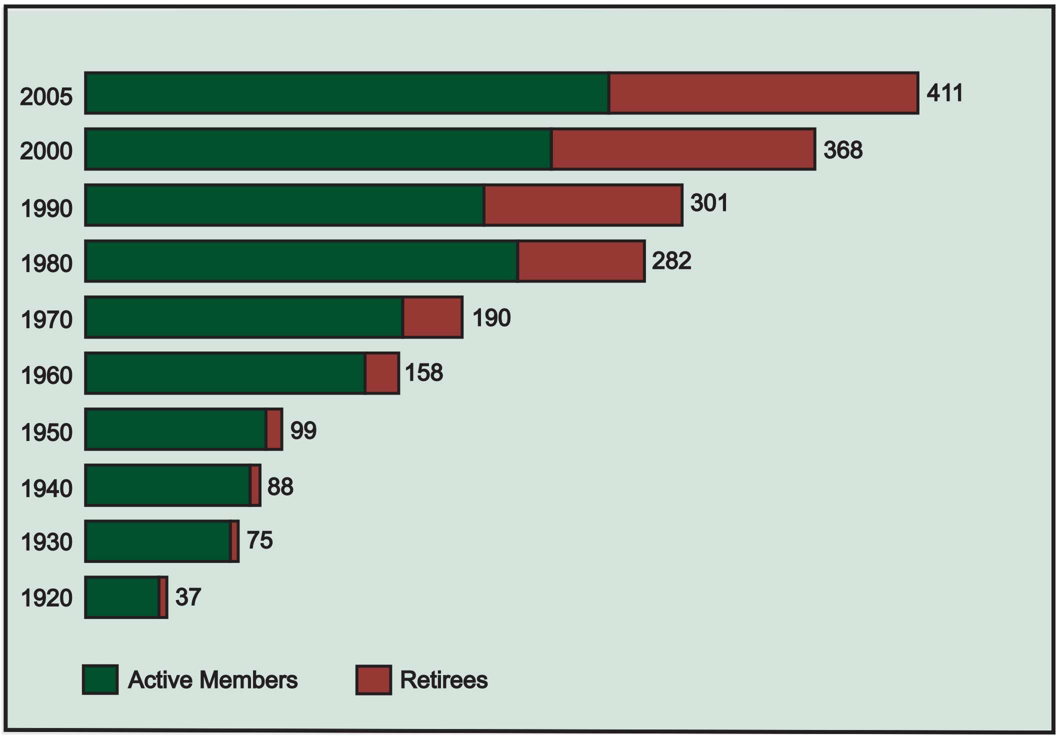


Total Net Assets - 1920 to June 30, 2005

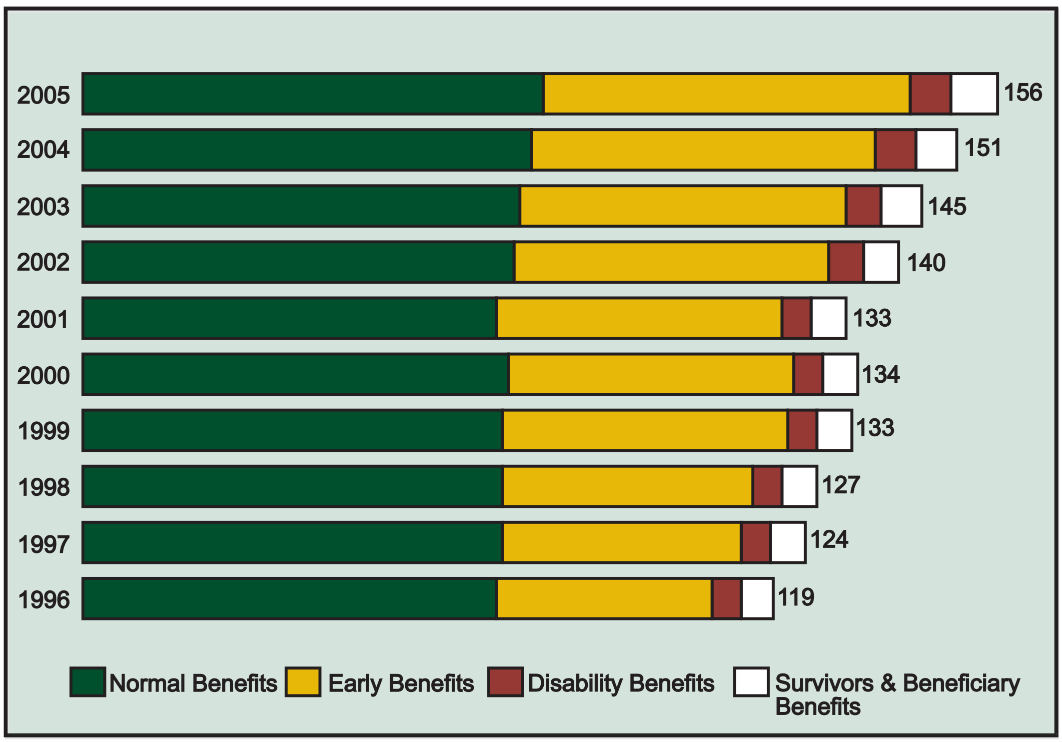
(Fair Value - Amounts in Billions)



Total Membership - Active & Retired
(In Thousands)



Retired Members - 10 Year Trend
(In Thousands)



Components of Total Contribution Rate

(In Percentages)

			Employer Contribution					
Employer Year	Employer Payroll	Member Contribution (Average)	Normal Requirement (A)	(Funded) / Unfunded Accrued Liability (B)	Preliminary Employer Pension Rate	Heath Insurance Premium Assistance Contribution (C)	Total Employer Rate	Grand Total Contribution Rate
2005-2006	11,505,093	7.16	7.61	(4.28)	4.00	.69	4.69	11.85
2004-2005	11,062,589	7.12	7.48	(7.10)	4.00	.23	4.23	11.35
2003-2004	10,030,705	7.08	7.25	(4.27)	2.98	.79	3.77	10.85
2002-2003	9,652,881	7.10	7.20	(10.03)	1.00	.97	1.15	8.25
2001-2002	9,378,944	6.43	5.63	(6.05)	(0.42)	1.09	1.09	6.89
2000-2001	9,414,884	5.77	6.29	(4.65)	1.64	.30	1.94	7.71
1999-2000	8,939,598	5.72	6.40	(2.04)	4.36	.25	4.61	10.33
1998-1999	8,247,602	5.69	6.33	(0.44)	5.89	.15	6.04	11.73
1997-1998	8,091,481	5.65	6.44	2.17	8.61	.15	8.76	14.41
1996-1997	7,745,001	5.62	6.44	3.56	10.00	.60	10.60	16.22
1995-1996	7,616,585	5.59	6.43	4.67	11.10	.62	11.72	17.31
1994-1995	7,378,342	5.55	6.43	4.18	10.61	.45	11.06	16.61
1993-1994	6,885,337	5.51	7.34	5.58	12.92	.25	13.17	18.68
1992-1993	6,348,565	5.48	7.90	5.84	13.74	.50	14.24	19.72
1991-1992	6,098,222	5.46	8.00	6.40	14.40	.50	14.90	20.36
1990-1991	5,744,798	5.69	8.28	10.90	19.18		19.18	24.87
1989-1990	5,363,535	5.53	8.44	11.24	19.68		19.68	25.21
1988-1989	5,055,793	5.37	8.63	10.64	19.27		19.27	24.64
1987-1988	4,586,367	5.34	8.72	10.82	19.54		19.54	24.88
1986-1987	4,415,102	5.29	9.13	10.77	19.90		19.90	25.19
1985-1986	4,066,471	5.27	9.16	10.88	20.04		20.04	25.31

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 acturial gains and losses.

(C) The postemployment healthcare insurance premium assistance portion is the percentage of compensation necessary to fund the postemployment health insurance premium assistance program established under the provisions of Act 23 - 1991.

Schedule of Retired Members by Type of Benefit

Year	Retirement Type**	Option M* Number of Retirees	Option M* Average Mo. Benefit	Option 1* Number of Retirees	Option 1* Average Mo. Benefit	Option 2, 3* Number of Retirees	Option 2, 3* Average Mo. Benefit
2005	S	49,508	$1,737	10,385	$1,420	18,206	$1,965
	W	42,096	1,611	9,754	1,187	10,492	1,778
	D	5,455	1,198	9	656	1,450	1,539
	R	1	5	0	1,772.0	0	0
	B	405	908	1	1,072	6,646	690
		97,465		**20,149**		**36,794**	
2004	S	49,424	$1,648	9,706	$1,312	17,321	$1,842
	W	40,944	1,556	8,582	1,073	9,551	1,669
	D	5,327	1,154	9	656	1,304	1,508
	R	1	5	0	0	0	0
	B	324	899	2	1,072	6,502	648
		96,020		**18,299**		**34,678**	
2003	S	49,231	$1,560	8,999	$1,186	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
		94,367		**16,560**		**32,608**	
2002	S	49,368	$1,431	8,422	$1,064	15,695	$1,572
	W	38,679	1,389	6,696	820	7,948	1,415
	D	5,049	1,017	11	700	1,015	1,305
	R	1	5	0	0	0	0
	B	232	814	11	557	6,206	586
		93,329		**15,140**		**30,864**	
2001	S	47,982	$1,241	7,681	$857	14,453	$1,334
	W	36,628	1,287	5,656	653	7,051	1,275
	D	4,864	909	13	567	895	1,167
	R	1	4	0	0	0	0
	B	175	790	7	426	6,029	562
		89,650		**13,357**		**28,428**	
2000	S	49,367	$1,225	7,923	$860	14,768	$1,326
	W	36,620	1,288	5,623	660	7,063	1,281
	D	4,740	886	14	545	847	1,141
	R	1	4	0	0	0	0
	B	144	762	3	435	5,879	544
		90,872		**13,563**		**28,557**	
1999	S	49,255	$1,183	8,046	$ 855	14,641	$1,309
	W	36,002	1,281	5,514	670	6,958	1,278
	D	4,587	854	14	545	782	1,105
	R	1	4	0	0	0	0
	B	120	754	1	1,160	5,655	519
		89,965		**13,575**		**28,036**	
1998	S	49,081	$1,151	8,134	$ 858	14,558	$1,293
	W	31,568	1,131	5,253	636	6,300	1,209
	D	4,439	828	15	541	724	1,074
	R	1	4	0	0	0	0
	B	84	792	1	1,160	5,421	493
		85,173		**13,403**		**27,003**	
1997	S	48,869	$1,011	8,185	$ 773	14,406	$1,162
	W	29,931	1,025	5,115	585	6,050	1,106
	D	4,334	733	16	439	694	974
	R	1	4	0	0	0	0
	B	54	766	1	1,160	5,275	475
		83,189		**13,317**		**26,425**	
1996	S	48,592	$977	8,210	$769	14,198	$1,135
	W	26,443	871	4,880	552	5,386	1,001
	D	4,198	702	18	465	628	907
	R	1	4	0	0	0	0
	B	34	812	0	0	5,040	455
		79,268		**13,108**		**25,252**	

*** OPTIONS:**

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

Schedule of Retired Members by Type of Benefit (Continued)

Year	Retirement Type**	Option SO* Number of Retirees	Option SO* Average Mo. Benefit	Option BO* Number of Retirees	Option BO* Average Mo. Benefit	Total Retirees	% Increase of Retirees
2005	S	740	$3,306	0	$ 0	78,839	2.2%
	W	355	2,710	0	0	62,697	5.6%
	D	8	1,513	0	0	6,922	4.1%
	R	0	0	0	0	1	0.0%
	B	157	804	526	657	7,735	3.3%
		1,260		**526**		**156,194**	**3.7%**
2004	S	675	$3,135	0	$ 0	77,126	2.5%
	W	313	2,622	0	0	59,390	5.7%
	D	7	1,482	0	0	6,647	4.9%
	R	0	0	0	0	1	0.0%
	B	144	694	514	622	7,486	3.2%
		1,139		**514**		**150,650**	**3.9%**
2003	S	613	$2,984	0	$ 0	75,261	1.6%
	W	266	2,494	1	336	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	517	7,252	2.6%
		1,028		**490**		**145,062**	**6.0%**
2002	S	562	$2,727	0	$ 0	74,047	4.9%
	W	235	2,312	0	0	53,558	8.1%
	D	3	2,099	0	0	6,078	5.3%
	R	0	0	0	0	1	0.0%
	B	148	559	475	553	7,072	3.5%
		948		**475**		**140,756**	**6.0%**
2001	S	473	$2,412	0	$ 0	70,589	-2.7%
	W	202	2,186	1	336	49,538	0.1%
	D	2	2,151	0	0	5,774	3.1%
	R	0	0	0	0	1	0.0%
	B	149	513	476	517	6,836	2.6%
		826		**477**		**132,738**	**-1.2%**
2000	S	480	$2,389	0	$ 0	72,538	0.2%
	W	207	2,180	1	336	49,514	1.7%
	D	2	2,151	0	0	5,603	4.1%
	R	0	0	0	0	1	0.0%
	B	146	481	488	500	6,660	3.8%
		835		**489**		**134,316**	**1.1%**
1999	S	444	$2,379	0	$ 0	72,386	0.3%
	W	207	2,167	0	0	48,681	12.5%
	D	1	1,109	0	0	5,384	4.0%
	R	0	0	0	0	1	0.0%
	B	142	427	496	475	6,414	4.5%
		794		**496**		**132,866**	**4.8%**
1998	S	433	$2,365	0	$ 0	72,206	0.5%
	W	163	2,063	0	0	43,284	4.9%
	D	0	0	0	0	5,178	2.7%
	R	0	0	0	0	1	0.0%
	B	146	392	487	426	6,139	2.7%
		742		**487**		**126,808**	**2.2%**
1997	S	392	$2,125	0	$ 0	71,852	0.7%
	W	149	1,979	0	0	41,245	12.1%
	D	0	0	0	0	5,044	4.1%
	R	0	0	0	0	1	0.0%
	B	153	329	495	419	5,978	4.7%
		694		**495**		**124,120**	**4.6%**
1996	S	356	$2,046	0	$ 0	71,356	0.2%
	W	102	1,851	0	0	36,811	6.2%
	D	0	0	0	0	4,844	3.7%
	R	0	0	0	0	1	-50.0%
	B	149	302	485	400	5,708	4.9%
		607		**485**		**118,720**	**2.4%**

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

Schedule of Employers
School Districts

A

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

B

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

C

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

D

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

E

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

F

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

Schedule of Employers (Continued)

G

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

H

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

I

Indiana Area
Interboro
Iroquois

J

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

K

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

L

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

M

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

N

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

O

Octorara Area
Oil City Area
Old Forge
Oley Valley

Schedule of Employers (Continued)

Oswayo Valley
Otto Eldred
Owen J. Roberts
Oxford Area

P

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

Q

Quaker Valley
Quakertown Community

R

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

S

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

T

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

U

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

V

Valley Grove
Valley View

W

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

Schedule of Employers (Continued)

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

Y

York
York Suburban
Yough

Area Vocational Technical Schools

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

Intermediate Units

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

Schedule of Employers (Continued)

Colleges / Universities

State System of Higher Education
- Bloomsburg University
- California University
- Cheyney University
- Clarion University
- East Stroudsburg University
- Education Resource
- Edinboro University
- Indiana University
- Kutztown University
- Lock Haven University
- Mansfield University
- Millersville University
- Shippensburg University
- Slippery Rock University
- West Chester University

Bucks County Community College
Butler County Community College
Community College of Allegheny County
Community College of Beaver County
Community College of Delaware County
Community College of Philadelphia
Harrisburg Area Community College
Lehigh Carbon Community College
Luzerne County Community College
Montgomery County Community College
Northampton County Area Community College
Pennsylvania College of Technology
Pennsylvania State University
Reading Area Community College
Westmoreland County Community College

Other

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

Charter Schools (C.S.)

21st Century Cyber C.S.
Achievement House C.S.
Ad Prima C.S.
Alliance for Progress C.S.
Architecture & Design C.S.
Avon Grove C.S.
Bear Creek Community C.S.
Belmont C.S.
Bucks County Montessori C.S.
Career Connections C.S.
Center for Student Learning C.S. at Pennsbury
Central PA Digital Learning Foundation C.S.
Centre Learning Community C.S.
Chester County Family Academy C.S.
Christopher Columbus C.S.
City Charter High School
Collegium C.S.
Commonwealth Connections Academy C.S.
Crispus Attucks Youthbuild C.S.
Delaware Valley C.S.
Discovery C. S.
Erin Dudley Forbes C.S.
Eugenio Maria de Hostos Community Bilingual C.S.
Family C.S.
Fell C.S.
First Philadelphia C.S. for Literacy
Franklin Towne C.S.
Freire C.S.
GECAC Community C.S.
Germantown Settlement C.S.
Graystone Academy C.S.
Green Woods C.S.
Hope C.S.
Imani Education Circle C.S.
IMHOTEP Institute C.S.
Independence C.S.
Infinity C.S.
Keystone Education Center C.S.
Khepera C.S.
KIPP Academy C.S.
La Academia: The Partnership C.S.
Laboratory C.S.
Lehigh Valley Academy Regional C.S.
Lehigh Valley C.S. for the Performing Arts
Leadership Learning Partners C.S.
Lincoln C.S.
Manchester Academic C.S.
Mariana Bracetti Academy C.S.
Maritime Academy C.S.
Mastery Charter High School

Schedule of Employers (Continued)

MaST Community C.S.
Math, Civics & Sciences C.S.
Montessori Regional C.S.
Multi-Cultural Academy
New Foundations C.S.
Nittany Valley C.S.
Northside Urban Pathways C.S.
Northwest PA Collegiate Academy C.S.
Nueva Esperanza Academy C.S.
PA Distance Learning C.S.
PA Learners Online Regional Cyber C.S.
Pennsylvania Global Academy C.S.
Pennsylvania Virtual C.S.
People for People C.S.
Perseus House C.S. of Excellence
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 Montessori C.S.
Philadelphia Performing Arts C.S.
Pocono Mountain C.S.
Preparatory Charter of Mathematics, Science, Technology and Careers School
Propel C.S. - Homestead
Raising Horizons Quest C.S.
RAPAH - Edison C.S.
Renaissance C.S.
Renaissance Advantage 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.
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.

PSERS
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