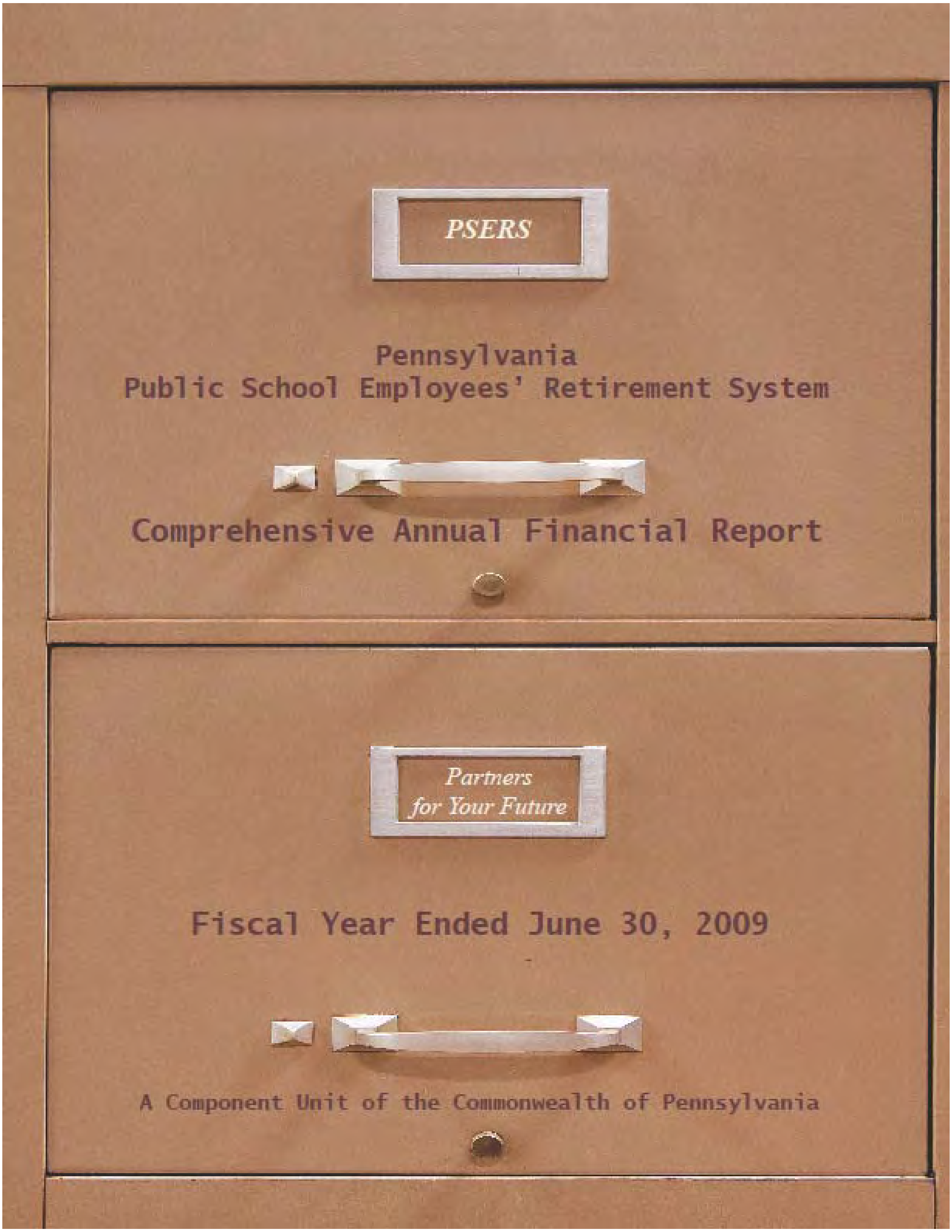
PSERS
Pennsylvania
Public School Employees' Retirement System
Comprehensive Annual Financial Report
Partners
for Your Future
Fiscal Year Ended June 30, 2009
A Component Unit of the Commonwealth of Pennsylvania

Pennsylvania
Public School Employees'
Retirement System

(A Component Unit of the Commonwealth of Pennsylvania)

PO Box 125
Harrisburg, Pennsylvania 17108-0125

Telephone:

Toll-Free 1-888-773-7748
1-888-PSERS4U

Local 717-787-8540

Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2009

Report prepared by the Public School Employees' Retirement System staff

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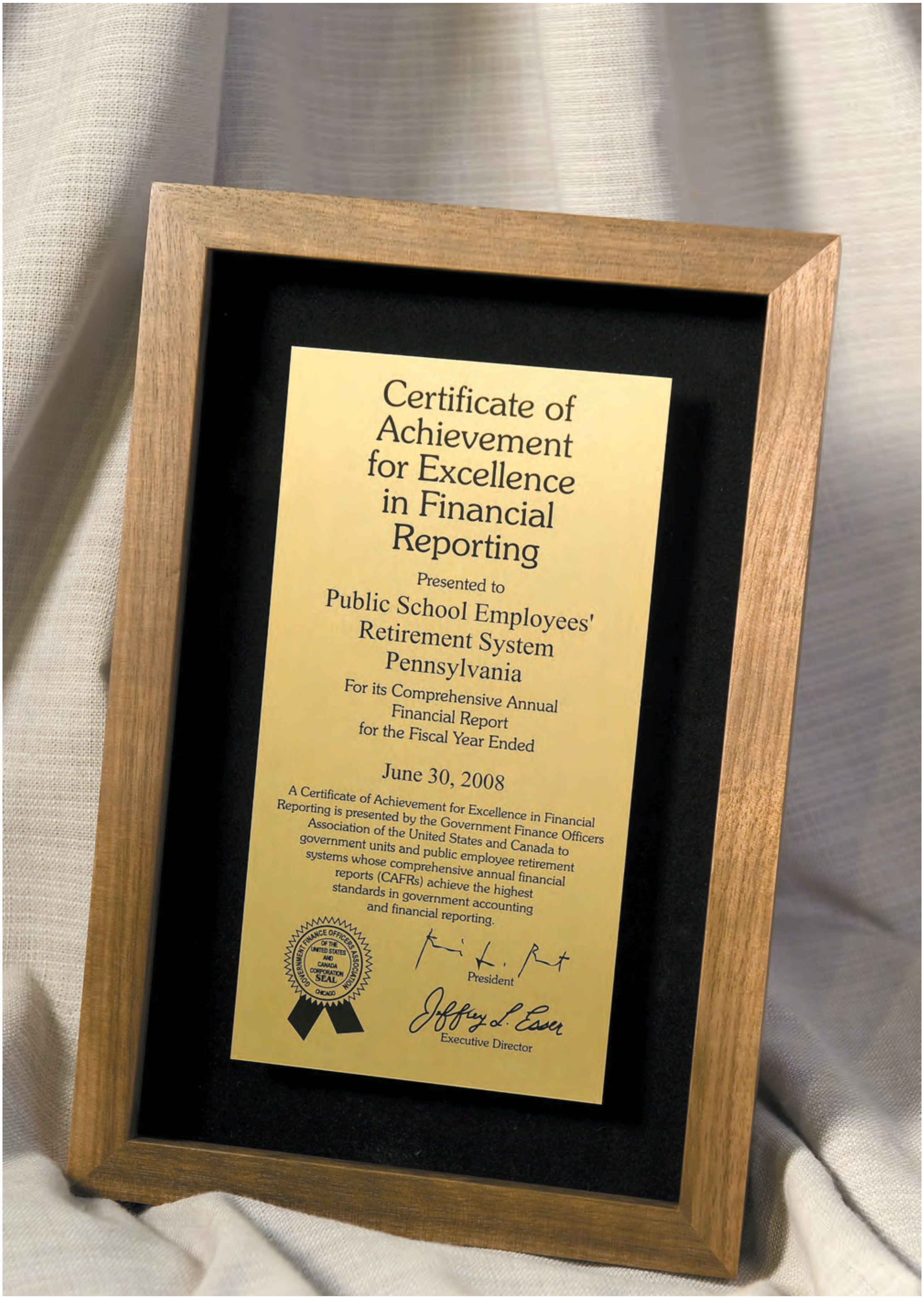

Certificate of Achievement for Excellence in Financial Reporting
Presented to
Public School Employees' Retirement System
Pennsylvania
For its Comprehensive Annual Financial Report for the Fiscal Year Ended
June 30, 2008
A Certificate of Achievement for Excellence in Financial Reporting is presented by 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

PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2008

Presented to

Pennsylvania Public School Employees
Retirement System

In recognition of meeting professional standards for
plan funding 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

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT BOARD

MELVA S. VOGLER
Chairman

SALLY J. TURLEY
Vice Chairman

November 6, 2009

The Honorable Edward G. Rendell
Governor of Pennsylvania

Members of the General Assembly
Members of the Retirement System
Members of the Boards of PSERS' Employers

Dear Governor Rendell, Legislators, Members, and Employer Board 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 ninetieth Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. The report provides an in-depth review of the financial, actuarial, and investment status of the Pension Fund and PSERS' post-employment healthcare programs. The CAFR also highlights many of the significant activities of PSERS for the fiscal year ended June 30, 2009, as well as programs to improve services to the active and retired members of the System. Finally, the Investment Section of the CAFR details the changes that were made to PSERS' asset allocations and investment strategies as a result of the extreme turmoil within the financial markets last year.

The financial integrity and actuarial soundness of the System are attested by the accompanying auditor and actuary reports. Moreover, for the 26th consecutive year, PSERS received the Government Finance Officer's Association's prestigious Certificate of Achievement for Excellence in Financial Reporting Award for its June 30, 2008 CAFR.

Notwithstanding the current soundness of the System, PSERS' Board of Trustees (Board) and staff are cognizant of the funding challenges facing PSERS in the near future, as further discussed in the Transmittal Letter and Financial Section. In keeping with its Mission Statement, the Board is keenly aware of its responsibilities with regard to this issue to the Commonwealth, its taxpayers, and the employers of the System; all stakeholders in the System. Therefore, significant efforts have been and will continue to be made by PSERS' Board and staff to work with its stakeholders to resolve the funding and employer contribution rate challenges confronting PSERS. In the interim, the Board will continue to administer the affairs of PSERS in the most competent and efficient manner possible, with the ultimate goal that the retirement and post-employment healthcare funds are managed prudently for the sole benefit of the System's members.

In conclusion, the Board appreciates the continuing cooperation extended by the Governor's Office, the General Assembly and PSERS' Employers, which enables and empowers PSERS to meet its challenges and make timely provisions for the members it serves.

Melva S. Vogler

Melva S. Vogler
Chairman, Board of Trustees

∗ 5 North 5th Street ∗ PO Box 125 ∗ Harrisburg, Pennsylvania 17108-0125 ∗

Introductory

- *Chairman's Report*
- *Transmittal Letter*
- *Board of Trustees*
- *Organizational Chart*

Mission Statement

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

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

adopted 6/20/2008

Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Mailing Address
PO Box 125
Harrisburg PA 17108-0125

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

Building Location
5 North 5th Street
Harrisburg PA

Web Address: www.psers.state.pa.us

November 6, 2009

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

We are pleased to present the ninetieth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS, Fund) for the year ended June 30, 2009. This report is intended to provide financial, investment, actuarial and statistical information in a single publication. The front cover of this year's CAFR is a filing cabinet and the first page of each of the five major sections of the CAFR represents a file folder. The CAFR acts as a filing cabinet of all of PSERS' important financial and operational results that occurred throughout the fiscal year. 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 entire report can be downloaded from PSERS' website at *www.psers.state.pa.us.*

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania. 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 742 reporting entities in Pennsylvania. As of June 30, 2009, the System had approximately 280,000 active members with an estimated annual active payroll of $12.5 billion.

The annuitant membership at June 30, 2009 was comprised of approximately 178,000 retirees and beneficiaries who receive over $300 million each month. The average yearly benefit paid to annuitants is $22,456. The average benefit payment for each benefit type, grouped by years of credited service, is detailed in the **Statistical Section** of this report.

The System is a governmental cost-sharing multi-employer defined benefit pension plan, to which all members and 742 reporting units contribute. PSERS is administered by a staff of 310. 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.

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 Governmental Accounting Standards Board (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. An unqualified opinion means that PSERS' financial statements fairly present its financial condition.

Economic Summary

The worst economic contraction since the Great Depression led to a large decrease in U.S. Gross Domestic Product, an increase in the U.S. unemployment rate, the failure of several large financial institutions and the federal government bailout of several large public companies. The extremely difficult economic conditions in this business cycle, which is commonly being referred to as the "Great Recession", led to negative returns for equity, real estate and commodities around the world. As a result, PSERS experienced a very challenging fiscal year ended June 30, 2009 (FY 2009) as PSERS' investment portfolio generated a rate of return of -26.54%. The total net assets of the System decreased from $62.7 billion to $43.2 billion from July 1, 2008 to June 30, 2009. The decrease is primarily attributable to the fact that the combined net investment loss and payment of benefits and administrative expenses far exceeded member and employer contributions.

Despite the difficult economic environment in FY 2009, 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 actuarial soundness of the Fund with respect to its funding status. The annualized rate of return for the twenty-five year period ended June 30, 2009 was 9.23% and exceeded the Fund's long-term investment rate of return assumption during that time period. Of utmost importance to the Board is the assurance that the required reserves are available for payment of retirement benefits. PSERS has maintained its position among the top twenty-five largest pension systems in the nation.

Major Initiatives

Budgetary and Financial Governance

PSERS submits its administrative budget request to the Governor's Office of the Budget each October where it is reviewed and evaluated. Any changes proposed by the Governor's Budget Office are made and a final amount is provided to the Legislature, which passes the final budget and submits it to the Governor for his signing it into law. The administrative budget is not funded from the Commonwealth's General Fund, rather from the earnings of the Fund itself. While the annual budget is always prepared as conservatively as possible, in response to the economic downturn, PSERS created an internal budgetary reserve that restricted FY 2009 spending wherever possible. Postponed purchases included computers, information technology equipment and office furniture. This was in addition to the Commonwealth initiatives that included banning most out-of-state travel, issuing a moratorium on new vehicle purchases, and imposing a freeze on management salaries and hiring. The projected lapse for FY 2009 is 6.9% of budget as reflected in the following chart.

Fiscal Year:	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Administrative Budget	$41,758,334	$39,539,000	$ 39,455,000	$40,811,000	$42,068,000
Expenditures*	39,376,793	36,935,084	38,230,663	38,009,568	39,183,000
Lapse (unspent funds)	2,381,541	2,603,916	1,224,337	2,801,432	2,885,000
Percentage Lapsed	5.7%	6.6%	3.1%	6.9%	6.9%

*Expenditures are those posted to the Commonwealth's accounting system and therefore do not include accruals.

As reflected in the five-year table, PSERS is committed to the prudent use of its funds and managing its annual budget. As a result, PSERS has annually, underspent its approved budget, thus keeping more funds available to invest for "PSERS' members". The System continually looks for ways to cut costs while maintaining excellent customer service and efficiency of operations.

Customer Service

With the successful implementation of the New Pension Administration System (NPAS), PSERS is intently focused on improving the levels of service provided to its members. With the new system as a key enabler, PSERS' dedicated staff has been working more efficiently and effectively resulting in the reduction of significant backlogs that have historically existed. For example, since December 2008, the purchase of service applications on file to be processed was reduced by nearly 10,000 or more than 30%.

Reducing backlogs is one result of the service improvements being realized. Paying complete and accurate retirement benefits in a much timelier manner is another. Traditionally, PSERS' retirement benefits have been paid to members in two steps; an initial benefit within about 10 weeks of retirement based on information on file with PSERS at that time, and then a final benefit with retroactive monies within about 18 months of the retirement date using final information. This not only meant staff had to work on each member's account twice, but since the initial benefit was calculated on incomplete data, that benefit would only be on average 87% of the final benefit. With new processes in place and improved employer reporting, PSERS expects to process at least 20% of all retirements in 2009 as one step, enabling staff to only work on a member's account once and providing the full benefit to the member with the initial payment.

Each year PSERS expects to increase the number of retirements processed as one step, eventually making one step retirements the norm and not the exception. Additionally, plans are being put in place to make the most of the new system and optimize and improve each and every benefit process. PSERS is very pleased with the progress being made and is fully committed to continuing improvements.

Pension Funding

A major focus of the System this past fiscal year has been to continue to provide education to all stakeholders on the funding challenges currently facing PSERS. The employer contribution rate is projected to significantly increase to nearly 30 percent in FY 2013. PSERS has worked closely with school employers and the legislature to educate them on the issue and potential options to minimize the increase as much as possible. During the past year PSERS Executive Director Jeffrey Clay has provided over 35 presentations on the funding issue to school employers, legislators and constituent groups.

In addition, PSERS continues to analyze combinations of various options to address the rate increase. Under all options, however, there will be a need for significant additional funding to the System. As such, the resolution of the current funding issues confronting PSERS is imperative for the System and represents the greatest challenge PSERS has faced in its history. PSERS remains committed to providing all available assistance to the Governor, General Assembly and school employers to resolve the rate spike and future funding issues as soon as possible.

Health Options Program (HOP) Initiatives

The Board added the physical fitness benefit, Silver Sneakers, to the HOP Medical Plan, its Medicare supplement plan covering 45,000 retirees and their dependents effective January 1, 2009. The benefit is a two-year pilot project to determine if a physical fitness program can be cost effective in a Medicare supplement environment. After evaluating the group's participation in the fitness classes and the impact on claims cost, the Board will decide whether to continue the benefit past the two-year period.

During the past year the Board also restated the Premium Assistance plan approval policy. The Premium Assistance benefit reimburses eligible retirees up to $100 per month for the premiums they pay to an approved health insurance plan. Those plans which are approved for Premium Assistance are the plans within the PSERS HOP as well as the plans of the Commonwealth public school systems. The policy is effective January 1, 2010, and restates the criteria the public schools must meet to maintain an approved plan that qualifies for the Premium Assistance benefit.

The Board is also expanding the capabilities of the HOP's *HOPbenefits.com* website. The current website provides general information about HOP and permits users to download plan documents. The expanded website will give HOP Medical Plan participants access to personal health information and provide them with the ability to inquire and receive updates on the status of their claims. The updated website came online in November 2009.

In addition, the Segal Company, PSERS' healthcare consultant, completed its 2008 claims audit of HOP's self-funded medical benefit plans administered by CoreSource, Inc., PSERS' third party administrator. The claims audit concluded that not only did CoreSource provide excellent service, but that the financial accuracy, payment accuracy, procedural accuracy, and timeliness were exceptional and considerably exceeded industry standards.

Financial Highlights

The fair value of the System's net assets totaled $43.2 billion as of June 30, 2009. The System is the 12th largest state-sponsored public defined benefit 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.

One of PSERS' mission critical objectives is the timely and accurate payment of benefits. In FY 2009 PSERS provided $4.9 billion in pension and healthcare benefits to its members.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly and funded by the investment income of the System. For FY 2009, the appropriation was $42.1 million.

Funding

Funding is the process of specifically setting aside money for current and future use. Proper funding for a defined benefit pension plan entails an actuarial examination of the fund balances and liabilities to ensure money will be available for future and current benefit payments. 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 results of PSERS' latest published actuarial valuation (as of June 30, 2008) 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 funded status as of the latest actuarial valuation was 86.0%. Additional comparative information on the funded status of PSERS can be found in the **Actuarial Section** and in the **Financial Section** of this report.

Investments

Income from the investment portfolio represents the major source of revenue to the System, accounting for nearly 68% of total revenues over the period from FY 1990 to FY 2009. During FY 2009 the net investment loss was $16.2 billion. The investment portfolio, which is one part of the System's net assets, totaled $43.3 billion, at fair value, as of June 30, 2009. For FY 2009, the time-weighted rate of return on the System's investments was -26.54%.

The investment portfolio is well diversified to emphasize a long-term investment approach. The overall objective of the System is to provide benefits to its members through a carefully planned and well-executed investment program. The return objectives are to (i) realize a return sufficient to achieve funding adequacy on an inflation-adjusted basis and that exceeds the Policy Index (the Policy Index is a custom benchmark based on the Board-established asset allocation structure to generate a return that meets the actuarial rate of return assumption); and (ii) invest the assets to maximize returns for the level of risk taken. The risk objectives are to (i) diversify the assets of the System to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity date, or geographic location; and (ii) invest the assets so that the probability of investment losses (as measured by the Policy Index) in excess of 12.0% in any one year is no greater than 2.5% (or two standard deviations below the expected return).

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.

It should be noted that the Internal Revenue Service (IRS) announced and initiated a renewed focus on the tax qualification of public pension funds in 2008. PSERS is working proactively in conjunction with the State Employees' Retirement System to address this IRS initiative.

Internal Controls and Reporting

PSERS' management is responsible for and has implemented internal controls designed to provide reasonable assurances for the safeguarding of assets and the reliability of financial records.

This report has been prepared in accordance with accounting principles generally accepted in the United States of America. 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.

We believe the internal accounting controls currently in place are adequate to meet the purpose for which they were intended. We also believe the financial statements, supporting schedules and statistical tables to be fairly presented in all material respects.

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). This information can be found at *www.pabulletin.com/secure/data/vol31/31-14/index.html.*

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, 2008 (FY 2008). *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 26 consecutive years from FY 1983 to FY 2008. A photograph of this award appears in the **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.*

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 2009 certificate.

Public Pension Coordinating Council – Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2008. 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**.

Acknowledgements

The preparation of this report reflects the combined efforts of PSERS staff under the direction of the PSERS Board. It is intended to provide complete and reliable information in conformance with accepted standards and to document responsible stewardship of the System's assets.

Respectfully submitted,

Jeffrey B. Clay
Executive Director

Brian S. Carl, CPA, CTP
Chief Financial Officer

Administrative Organization
PSERS Board of Trustees
As of July 31, 2009

Seated, front row: *Stacey Connors, designee for Honorable Patrick M. Browne; Sally J. Turley, Vice-Chairman; Melva S. Vogler, Board Chairman and Patricia A. Tozer*

Standing, second row: *Honorable Robert M. McCord; Honorable Glen R. Grell; Thomas J. Gentzel; Glen S. Galante; Richard N. Rose, Hal Moss; John Raymond, designee for Honorable Shirley M. Kitchen; James M. Sando and Jeffrey B. Clay, PSERS' Executive Director, Board Secretary*

Not pictured: *Dr. Gerald L. Zahorchak, Secretary of Education; Honorable Dwight Evans and Tina Byles-Williams*

PSERS Board of Trustees

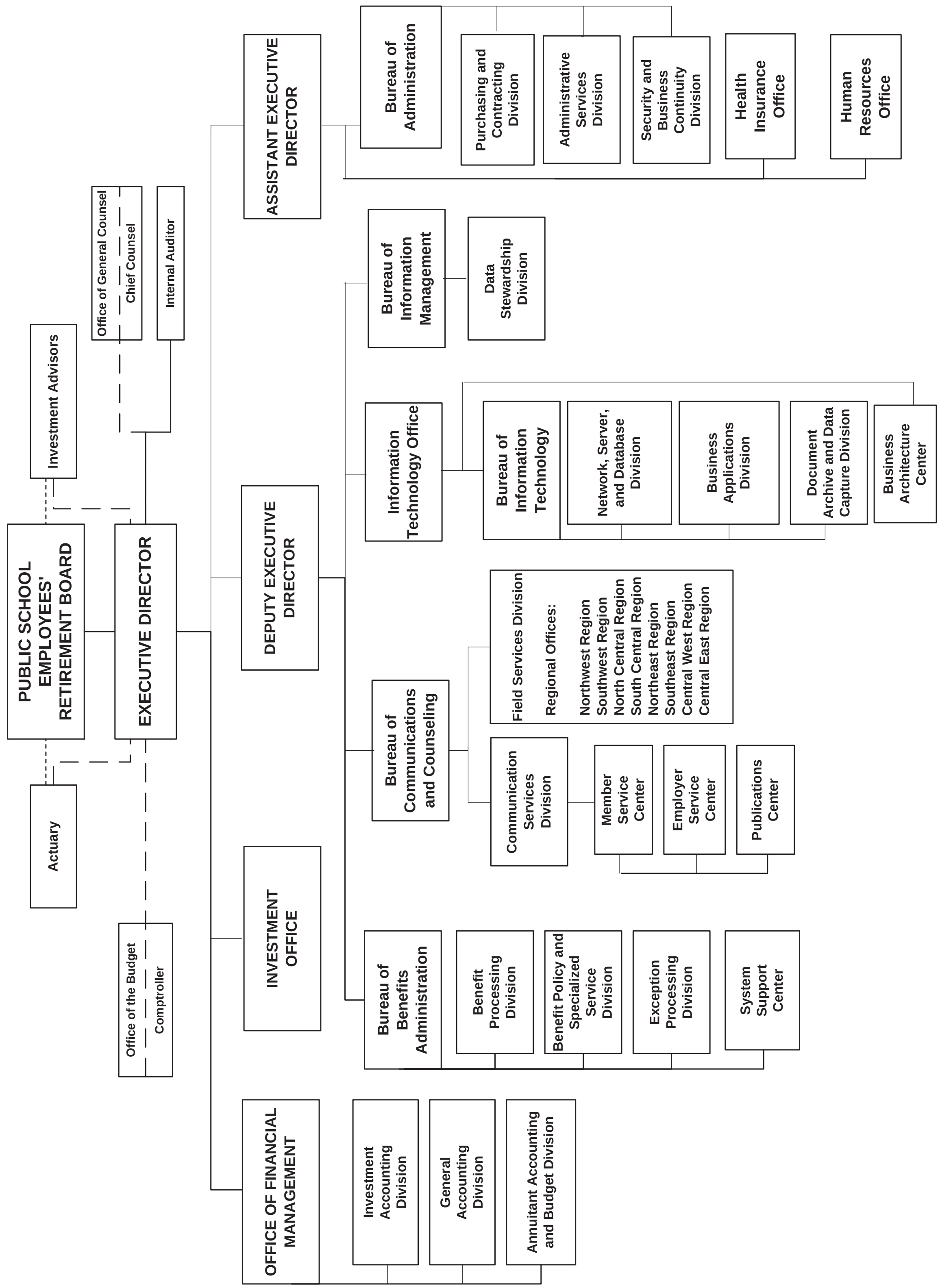
2009 Board Committees

As of July 31, 2009

Appeals / Member Services	Audit/Budget	Bylaws / Policy
Ms. Tozer, Chair Mr. Gentzel Senator Kitchen Mr. Moss Mr. Rose Mr. Sando Mrs. Turley	Mr. Galante, Chair Representative Evans Mr. Gentzel Representative Grell Treasurer McCord Mr. Rose	Senator Browne, Chair Representative Evans Representative Grell Mr. Moss Mr. Sando Mrs. Turley
Corporate Governance	**Elections**	**Finance**
Mr. Sando, Chair Senator Browne Ms. Byles-Williams Mr. Galante Treasurer McCord Mr. Rose	Dr. Zahorchak, Chair Representative Evans Ms. Byles-Williams Senator Kitchen Mr. Moss Ms. Tozer	Mr. Rose, Chair Committee is comprised of all Board Members
Health Care	**Personnel**	**Technology Steering**
Mrs. Turley, Chair Representative Evans Mr. Galante Mr. Gentzel Representative Grell Ms. Tozer	Mr. Gentzel, Chair Senator Browne Treasurer McCord Mr. Rose Mr. Sando Mrs. Turley	Mr. Moss, Chair Ms. Byles-Williams Mr. Galante Senator Kitchen Treasurer McCord 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



Organizational Structure of the Public School Employees' Retirement System

Executive Office

This office is responsible for the overall management of PSERS to achieve the primary objectives of the Fund as established by the Board. Reporting directly to the Executive Director are the Deputy Executive Director, Assistant Executive Director, Chief Investment Officer, Chief Financial Officer, Internal Auditor, Press Secretary, 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 professionals 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. A list of payments to non-investment consultants can be found in the **Financial Section** and a list of professional investment consultants is shown in the **Investment Section.**

Investment Office

This office is responsible for the investment activities of the System. In compliance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous outside professional investment advisors and internal investment professionals.

Chief Counsel's Office

This office provides legal services through a team of professional personnel under the Governor's Office of General Counsel. It is responsible for representing PSERS in all administrative hearings and other litigation matters; drafting and negotiating PSERS' investment and administrative services contracts; and providing counsel on a wide variety of matters, including the interpretation of the Retirement Code and the Right-to-Know Law.

Internal Auditor's Office

This 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 PSERS' internal control system.

Office of Financial Management

This office is directed by the Chief Financial Officer and 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 accounting 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, treasury operations, taxation, actuarial and budgetary matters. The office is organized into three divisions: General Accounting Division, Annuitant Accounting and Budget Division, and Investment Accounting Division.

General Accounting Division
This division has the responsibility of recording all financial transactions for the pension and health care operations of the System. It maintains PSERS' General Ledger 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.

Annuitant Accounting and Budget Division
This division is responsible for the mission-critical annuitant payroll and disbursement function. The division also has the responsibility of monitoring and recording post-employment 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 accounts payable operations and for developing and monitoring the System's annual budget.

Investment Accounting Division
This division serves as intermediary with the custodian bank, the State Treasury Department, brokers, investment managers, the investment evaluator, and investment consultants. The division processes, audits and approves investment expenses, prepares monthly investment financial reports and processes all investment funding allocations. Working with the assistance of a third-party application service provider, it has the responsibility for monitoring the overall internal control structure for investments thereby assuring adequate custody of all investment assets.

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

Deputy Executive Director
The Deputy Executive Director directly oversees the benefit programs for all active and retired members of the System, the development and implementation of the member and employer communications programs and the member counseling programs, and the maintenance of agency policies, procedures, and benefit related data. Additionally, this position supervises a Chief Technology Officer who oversees business and information technology strategic planning, policy development, and implementation. The organizational units directly reporting to this position include the Bureau of Benefits Administration, the Bureau of Communications and Counseling, and the Bureau of Information Management. The position oversees the Bureau of Information Technology through the Chief Technology Officer.

Information Technology Office

This office oversees the Bureau of Information Technology and the Business Architecture Center. It is responsible for strategic information technology planning and policy development, ensuring that information technology plans and policies are aligned with, in support of, and prioritized according to agency needs and requirements, as well as those Commonwealth needs and requirements that are consistent with agency needs, and for communicating such to the agency's information technology staff. Large information technology contracts and projects are managed by this office. This office is responsible for understanding, analyzing, documenting, and improving PSERS' organization, business rules, processes, information systems, 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, and/or technologies; and account for its organizational business rules and processes, information systems and technologies.

Business Architecture Center

This center serves as the repository for PSERS' business knowledge and makes that knowledge available and understandable to agency processing and technology staff. The center receives and responds to data queries from agency staff and investigates system, data, or process problems. This center includes analysts who collect, analyze, and document PSERS' organizational business rules, processes, and information systems. The center also performs detailed impact analysis as and when change is proposed. Additionally, staff in this unit confirm that changes have been applied correctly. They look for opportunities for improvement, lead the development of business requirements, and serve as liaisons between PSERS' end-users and information technology staff.

Bureau of Information Technology

This bureau is responsible for planning, coordinating, administering, and implementing information technology resources in accordance with the agency's strategic plans, goals, objectives, and priorities as communicated by PSERS' Chief Technology Officer, and for providing operational support for those technologies and initiatives. The bureau is organized into three divisions: The Network, Server, and Database Division, the Business Applications Division, and the Document Archive and Data Capture Division.

Network, Server, and Database Division

This division is responsible for administering those information technology resources that collectively provide the fundamental hardware, software, and network components and services required to support PSERS' various applications.

Business Applications Division

This division provides consultative, technical, and operational support in the planning, design, specification, configuration, development, implementation, operation, support, and troubleshooting of PSERS' business applications.

Document Archive and Data Capture Division

This division provides consultative, technical, and operational support in the planning, design, specification, configuration, development, implementation, operation, support, and troubleshooting of PSERS' enterprise archive application software, scanning software, and data capture software, as well as the interfaces of those applications with PSERS' various business applications.

Bureau of Information Management

This bureau is responsible for maintaining, documenting, and cleansing PSERS' member and employer data, managing PSERS' electronic data records, imaged records, paper and film/fiche records, understanding the meaning and knowing the location of its data. The bureau currently includes the Data Stewardship Division which houses PSERS' records management program, and the Data Integrity and Member Accounting sections.

Data Stewardship Division

Staff in this division 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. This division maintains responsibility for PSERS' records management programs.

Bureau of Benefits Administration

This bureau is responsible for administering a comprehensive pension benefits program for PSERS. The bureau provides professional and technical services to individuals who are employed full-time and part-time in one of Pennsylvania's 742 public schools or institutions. They also provide services to retirees, their beneficiaries and persons legally authorized to act on their behalf. The bureau is organized into three divisions: the Benefit Processing Division, Benefit Policy and Specialized Service Division, and Exception Processing Division.

Benefit Processing Division

This division is responsible for handling a high volume of benefit requests. It houses the Retirement Processing Center and Purchase of Service and Refund Center.

<u>Retirement Processing Center:</u> The Retirement Processing Center determines eligibility and calculates estimated retirement benefits, creates payroll records, and originates the initial benefit payments and direct rollovers. When employers report final salary and service data, staff conduct in-depth reviews of accounts and calculate finalized benefits.

<u>Purchase of Service and Refund Center:</u> The Purchase of Service and Refund Center determines eligibility and calculates the cost to the members and to the employers for the purchase of additional service credit. Staff also process requests to refund contributions and interest from members terminating from the system who at the time of termination are ineligible for a retirement benefit.

Benefit Policy and Specialized Service Division

This division is responsible for benefit policy administration, which includes the development of all benefit policies, procedures and business rules. In addition, the division processes the most complex and sensitive benefit requests. Last, the division has a quality assurance program responsible for the review and approval of all benefit payments. It houses the Benefit Policy Center and Specialized Service and Quality Assurance Center.

Benefit Policy Center: The Benefit Policy Center is responsible for benefit policy administration, which includes the development of all benefit policies, procedures and business rules. Policy writing involves extensive research into existing laws, regulations and policy as well as impact analysis. Staff coordinate all requests for legal analysis and legal opinions. When unique and/or new calculations are needed, this area works with the agency's consulting actuary. This area also manages the first level of the administrative appeal process which involves presenting recommendations, supporting legal analyses, and relevant documents to the Executive Staff Review Committee. In addition, the center reviews unusual and suspicious salary contracts to ensure only retirement-covered compensation is reported by employers. Last, staff reviews atypical requests for membership eligibility.

Specialized Service and Quality Assurance Center: The Specialized Service and Quality Assurance Center is responsible for both processing the most complex benefit requests and for quality assurance. Much of the work is generated by the review and implementation of portions of Domestic Relations Orders that address the distribution of pension benefits when divorce occurs. This area calculates benefits for members affected by Section 415(b) of the IRS code and is responsible for the calculation of a workers' compensation offset. Last, a team of auditors review and approve all retirement and death benefit calculations, all requests for payment, and all purchase of service calculations.

Exception Processing Division

This division is responsible for a variety of benefit requests which involve manual or special processing. It houses the Manual Processing and Multiple Service Membership Center and the Disability and Death Benefit Center.

Manual Processing and Multiple Service Membership Center: The Manual Processing and Multiple Service Membership Center is responsible for a variety of benefit requests such as frozen annuity calculations, intent to change recalculations, cost of living increases and the calculation of retirement benefits for Multiple Service (MS) members who are retiring from SERS or PSERS. The MS Membership Section processes requests for MS membership eligibility and the calculation of purchase of service requests.

Disability and Death Benefit Center: The Disability and Death Benefit Center handles all requests for disability benefits. Medical examiners work with staff to obtain sufficient and current medical information. Staff are responsible for the review of annual earnings affidavit and for the calculation of both initial and final disability retirement benefits. Staff are also responsible for the payment of death benefits when members die prior to retirement. These payments frequently exceed $1 million and involve extensive communication with beneficiaries, survivors and estate representatives. Last, this area also processes survivor and death benefits when members die subsequent to retirement. Because approximately 5,000 retired members die each year, the center responds to high volumes of requests. The process includes the return of checks issued after death, collection of premium assistance, and the calculation and payment of death benefits.

System Support Center

The System Support Center reports directly to the bureau director and is comprised of a team of management analysts who serve as the bureau's link to information technology (IT). The analysts work closely with IT consultants, the Bureau of Information Technology, the Bureau of Information Management, bureau managers and supervisors to ensure the effectiveness of business processes and the integration of those processes with application systems and other technology resources. They are responsible for project management, training, system design, workflow analysis and user acceptance testing. They participate in implementation of new business processes, new systems and system enhancements. They utilize end-user software to extract routine data and to provide statistical information.

Bureau of Communications and Counseling

This bureau 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. It is organized into two divisions: Field Services Division and Communications Services Division.

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 provide counseling services.

Communications Services Division

This division provides information to the members, employers, and the general public through the telephone, on-site visits, the worldwide web, and various publications. This division houses the Member Service Center, Employer Service Center and Publications Center.

<u>Member Service Center:</u> This center answers the PSERS' telephone system, responding to general inquiries about the benefits and processes of PSERS as well as specific inquiries related to members' accounts.

<u>Employer Service Center:</u> 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.

<u>Publications Center:</u> This center is responsible for the development, production and distribution of all printed and audiovisual materials for the System. Publications include newsletters, handbooks, pamphlets, mass communications to the membership, and presentation material. It also responds to general correspondence and email inquiries.

Assistant Executive Director

This position reports to the Executive Director and provides assistance to the Executive Director on agency-wide projects. The position administers the Health Options and Premium Assistance Programs in addition to the facilities, human resources, and procurement activities necessary to support, secure and optimize agency operations. Organizational units overseen by the Assistant Executive Director include the Bureau of Administration, the Human Resources Office, and the Health Insurance Office.

Bureau of Administration

This bureau is responsible for facilities, purchasing and contracting, documenting administrative policies and procedures, business continuity, automotive, mail, imaging, printing and other administrative services necessary to support agency functions. The bureau is organized into three divisions: the Purchasing and Contracting Division, the Administrative Services Division and the Security and Business Continuity Division.

Purchasing and Contracting Division

This 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

This division manages building and grounds for the agency both at headquarters and at the regional locations. The division provides mail, imaging, and printing services to the agency, in addition to asset management, automotive and other administrative services.

Security and Business Continuity Division

This 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.

Human Resources Office

This 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 Opportunities and other miscellaneous programs.

Health Insurance Office

This office is responsible for all aspects of the PSERS' HOP and administering PSERS' health insurance premium assistance benefits. The HOP is a voluntary program that provides group health insurance coverage for 65,000 school retirees, their spouses, and eligible dependents.

Administrative Staff

Jeffrey B. Clay
Executive Director

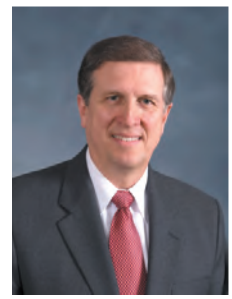
Alan H. Van Noord
Chief Investment Officer

Terrill J. Savidge
Deputy Executive Director

Gerald Gornish
Chief Counsel

Brian S. Carl
Chief Financial Officer

Joseph E. Wasiak
Assistant Executive Director



Richard R. Spinks
Chief Technology Officer

James F. Noone
Director of Administration

Ginger L. Bucher
Director of Benefits Administration

Eugene W. Robison
Director of Communications and Counseling

Deborah L. Garraway
Director of Information Management

Mary E. Geesey
Director of Information Technology

Maribel La Luz
Director of Human Resources

Donald J. Halke, II
Internal Auditor

Mark F. Schafer
Director of Health Insurance

Frank Ryder
Director of Government Relations

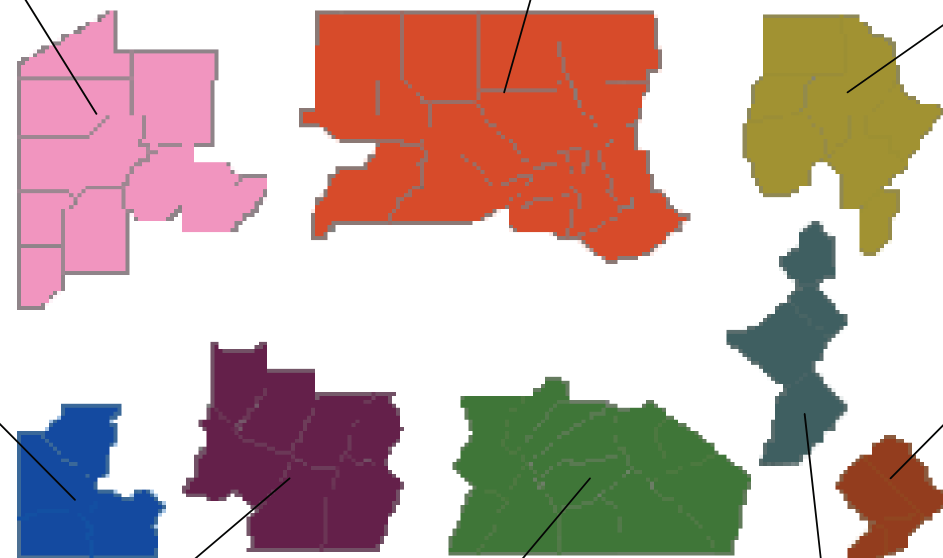
Evelyn M. Tatkovski
Press Secretary

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



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

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

CENTRALWEST
219 West High Street
Ebensburg, PA 15931-1540
Local (814) 419-1180
FAX (814) 419-1189
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 103
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 Capital complex. Regional field offices are also maintained in Ebensburg, Fleetwood, Franklin, Lock Haven, Mechanicsburg, Pittsburgh, Warminister 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.

Est. 1919

PSERS

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Financial

- Auditor's Report
- Management's Discussion & Analysis
- Financial Statements & Footnotes
- Reg. Supplemental Schedules

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

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

We have audited the accompanying 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, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of 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, 2009 and 2008, 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 financial statements, but is supplemental 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 supplemental 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 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.

The Chairman's Report, Introductory Section, Investment Section, Actuarial Section and Statistical Section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Chairman's Report and the Introductory, Investment, Actuarial and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Gunderson LLP

Baltimore, Maryland
September 25, 2009

Offices in 17 states and Washington, DC

Member of HLB International

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS) for the fiscal year ended June 30, 2009, provides a narrative summary of PSERS' 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 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, 2009, 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, 2008 to June 30, 2009, 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 such as accounting policies, along with plan membership and benefits, and summary disclosures of selected financial data.

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. These schedules emphasize the long-term nature of the pension and premium assistance plans and show the progress of PSERS in accumulating assets sufficient to pay benefits when due.

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

- The rate of return on investments was -26.54% for the fiscal year ended June 30, 2009 (FY 2009), -2.82% for the fiscal year ended June 30, 2008 (FY 2008) and 22.93% for the fiscal year ended June 30, 2007 (FY 2007).

Management's Discussion and Analysis (Continued)

- PSERS' total plan net assets decreased by $19.5 billion from $62.7 billion at June 30, 2008 to $43.2 billion at June 30, 2009. PSERS total plan net assets decreased by $4.8 billion from $67.5 billion at June 30, 2007 to $62.7 billion at June 30, 2008. The decrease for both periods is primarily attributable to net investment loss and payment of pension benefits and administrative expenses combined that exceeded member and employer contributions.

- PSERS' funded ratio as of the latest actuarial valuation dated June 30, 2008 increased from 85.8% at June 30, 2007 to 86.0% at June 30, 2008. The increase is primarily due to experience gains on investment assets that were partially offset by liability losses, assumption changes, and by contributions that were less than the normal cost plus interest on the unfunded liability. The funded ratio at June 30, 2006 was 81.2%.

- Total member contributions increased from $1.04 billion in FY 2008 to $1.09 billion in FY 2009. Total member contributions also increased from FY 2007 to FY 2008. The increases for both periods were due to a slight increase in the average member contribution rate and an increase in the active member payroll.

- Total employer contributions decreased from $834.9 million in FY 2008 to $608.4 million in FY 2009. The net decrease is primarily attributable to a decrease in the total employer contribution rate from 7.13% in FY 2008 to 4.76% in FY 2009. Total employer contributions increased from FY 2007 to FY 2008 and were primarily attributable to an increase in the total employer contribution rate from 6.46% in FY 2007 to 7.13% in FY 2008.

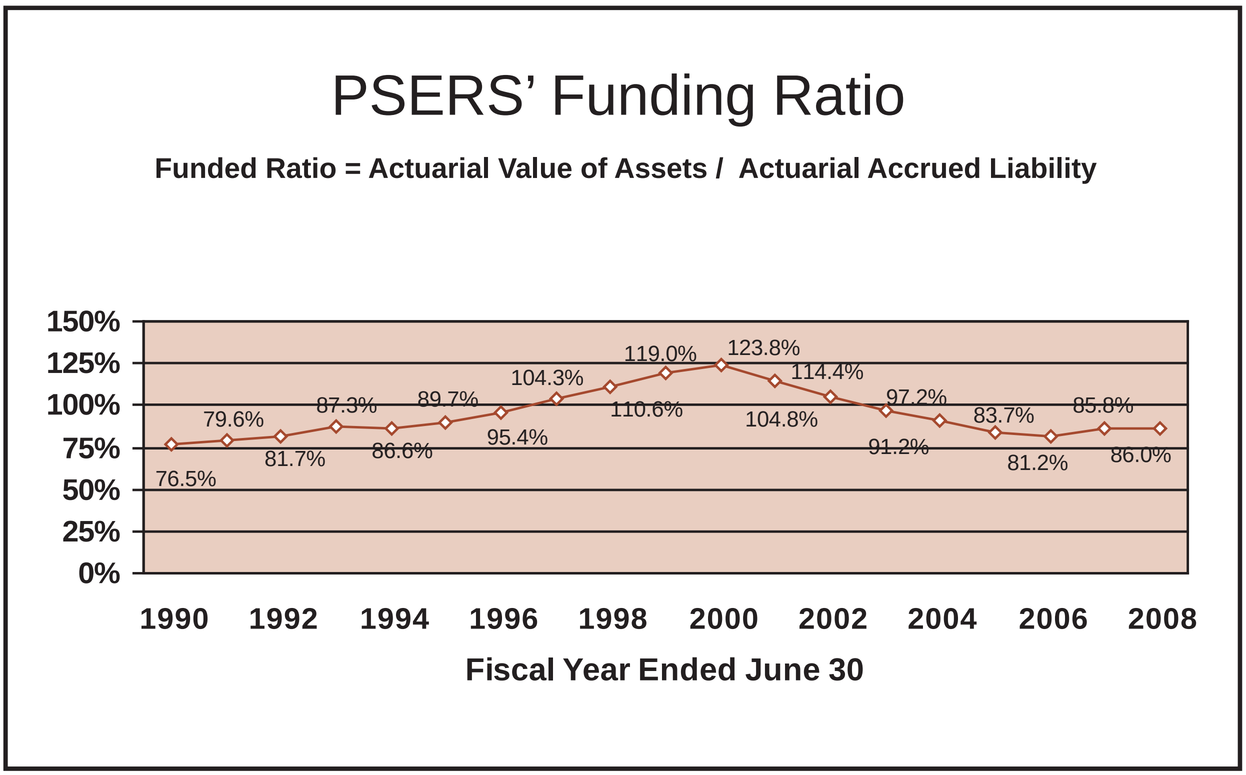
- Total PSERS' benefit expense remained consistent at $4.9 billion in FY 2009 and FY 2008 as higher monthly benefits from an increase in the overall number of retirees and beneficiaries receiving benefits were offset by lower lump sum payments due to a decrease in the number of new retirees in FY 2009. The lower number of new retirees in FY 2009 is consistent with national trends as people delayed retirement due to the significant decline in world financial markets and the global economic recession. Benefit expense increased by $600 million from $4.3 billion in FY 2007 to $4.9 billion in FY 2008. The increase was primarily attributable to an increase in the number of retirees and beneficiaries receiving benefits and an increase in the average benefit paid per annuitant.

- Total administrative expenses increased by $2.0 million from $49.3 million in FY 2008 to $51.3 million in FY 2009. The increase is attributable to greater costs and increasing membership within the member funded Health Options Program. Administrative expenses decreased by $1.2 million from $50.5 million in FY 2007 to $49.3 million in FY 2008 primarily due to lower administrative expenses for Premium Assistance and HOP. Administrative expenses were within PSERS' budgeted amounts for each of the fiscal years.

Management's Discussion and Analysis (Continued)

Funded Status

PSERS uses an actuarial reserve type of funding that is financed by member contributions, employer contributions and earnings from invested assets. An independent actuarial valuation of PSERS' actuarial assets and liabilities is performed annually. As part of this valuation, the progress toward funding pension obligations of PSERS is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or funded status. The most recent actuarial valuation reports that PSERS is 86.0% funded as of June 30, 2008. The results of operations for FY 2009 will be reflected in the actuarial valuation for the year ended June 30, 2009. Due to the normal lag time for completion of the actuarial valuation, the resulting funded status will be available at the end of the 2009 calendar year and will be reported in the financial statements for the fiscal year ended June 30, 2010 (FY 2010). Based on the investment losses in FY 2009, the funded ratio at June 30, 2009 is expected to decline. In addition, as a result of the impact of FY 2009 investment losses, PSERS' State Accumulation Account had a negative balance at June 30, 2009 (See Note 3). Employer contributions and investment earnings will be used to reduce the deficit in this Account in the future. A twenty-year history of PSERS' funded status follows:



Management's Discussion and Analysis (Continued)

Analysis of Plan Net Assets

(Dollar Amounts in Thousands)

Summary of Plan Net Assets:	**FY 2009**	Increase (Decrease)	FY 2008	Increase (Decrease)	FY 2007
Assets:					
Receivables	**$ 1,355,001**	$ (902,691)	$ 2,257,692	$ 490,786	$ 1,766,906
Investments	**43,343,935**	(20,548,285)	63,892,220	(4,634,313)	68,526,533
Securities lending collateral pool	**1,591,720**	(3,255,279)	4,846,999	(3,959,980)	8,806,979
Capital assets	**530**	(135)	665	(205)	870
Total Assets	**46,291,186**	(24,706,390)	70,997,576	(8,103,712)	79,101,288
Liabilities:					
Payables and other liabilities	**1,492,426**	(1,999,527)	3,491,953	720,348	2,771,605
Obligations under securities lending	**1,591,720**	(3,255,279)	4,846,999	(3,959,980)	8,806,979
Total Liabilities	**3,084,146**	(5,254,806)	8,338,952	(3,239,632)	11,578,584
Plan Net Assets	**$ 43,207,040**	$(19,451,584)	$ 62,658,624	$ (4,864,080)	$ 67,522,704
Summary of Changes in Plan Net Assets:					
Additions:					
Contributions	**$ 1,729,857**	$ (172,579)	$ 1,902,436	$ 128,832	$ 1,773,604
Net investment income (loss)	**(16,198,312)**	(14,422,727)	(1,775,585)	(14,478,306)	12,702,721
Total Additions	**(14,468,455)**	(14,595,306)	126,851	(14,349,474)	14,476,325
Deductions:					
Benefit expense	**4,931,854**	(9,827)	4,941,681	621,241	4,320,440
Administrative expenses	**51,275**	2,025	49,250	(1,232)	50,482
Total Deductions	**4,983,129**	(7,802)	4,990,931	620,009	4,370,922
Changes in Plan Net Assets	**$(19,451,584)**	$(14,587,504)	$ (4,864,080)	$(14,969,483)	$ 10,105,403

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)

PSERS had a very challenging fiscal year ended June 30, 2009, as the System generated negative absolute returns. The worst economic contraction since the Great Depression led to a large decrease in U.S. Gross Domestic Product, an increase in the U.S. unemployment rate and the failure of several large financial institutions including the federal government takeover of Fannie Mae and Freddie Mac, the Lehman Brothers and Washington Mutual bankruptcies, and the federal government bailout of AIG and Citigroup. These extremely difficult economic conditions led to negative returns for equity, real estate and commodities around the world. For FY 2009, PSERS' rate of return on investments was -26.54%. The FY 2009 investment return trailed PSERS' total fund policy index of -20.67%. The annualized rate of return over the past three and five-year periods ended June 30, 2009 was -4.26% and 2.68%, respectively. The return for the three-year period trailed the total fund policy index returns by 151 basis points while the return for the five-year period exceeded the total fund policy index returns by 17 basis points. The annualized rate of return for the ten and twenty-five-year periods ended June 30, 2009 was 3.28% and 9.23%, respectively. PSERS' long-term actuarial investment rate of return assumption was 8.00% at June 30, 2009.

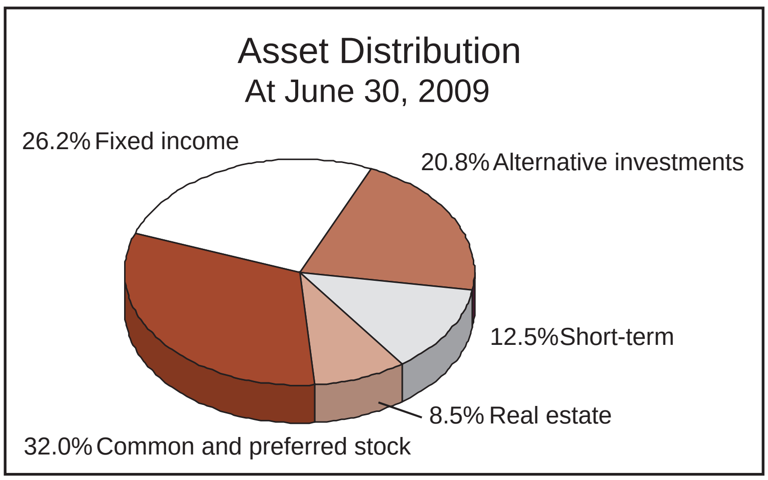
PSERS' Board of Trustees (Board) decreased the actuarial investment rate of return assumption from 8.50% to 8.25% effective for the June 30, 2008 actuarial valuation. The Board also decreased the rate of return assumption further from 8.25% to 8.00% for the June 30, 2009 actuarial valuation. The changes made by the Board lowered PSERS' rate of return assumption to the median investment rate of return assumption used by most public pension funds and provided a more realistic outlook on the future earnings potential of the Fund. The 0.5% decrease in the rate of return assumption allowed PSERS to modify its asset allocation plan during FY 2009 to achieve its new return target with lower overall risk. Some of the asset allocation changes are already reflected in the table and chart which follow as the Fund has reduced its overall exposure to equities and increased its combined allocation to short-term and fixed income investments at June 30, 2009.

Management's Discussion and Analysis (Continued)

The asset distribution of PSERS' investment portfolio at June 30, 2009, June 30, 2008 and June 30, 2007, at fair value, including postemployment healthcare assets, was:

(Dollar Amounts in Thousands)

Asset Class	2009	%	2008	%	2007	%
Short-term	**$ 5,398,729**	**12.5**	$ 4,215,171	6.6	$ 4,164,010	6.1
Fixed income	**11,333,549**	**26.2**	17,984,233	28.2	15,919,998	23.2
Common and preferred stock	**13,883,372**	**32.0**	27,875,324	43.6	38,715,473	56.5
Real estate	**3,699,353**	**8.5**	4,951,840	7.8	3,887,986	5.7
Alternative investments	**9,028,932**	**20.8**	8,865,652	13.8	5,839,066	8.5
Total	**$ 43,343,935**	**100.0**	$ 63,892,220	100.0	$ 68,526,533	100.0



Short-term investments (cash and cash equivalents) increased by $1.2 billion from $4.2 billion in FY 2008 to $5.4 billion in FY 2009. Due to the uncertainties in the equity and fixed income markets, PSERS built up its short-term investment fund during FY 2009. During FY 2009, PSERS brought the management of its short-term investment fund in-house. This fund had been previously managed by the Pennsylvania Treasury Department. Fixed income investments fell by $6.7 billion from $18.0 billion in FY 2008 to $11.3 billion in FY 2009 because of allocation reductions as well as market value depreciation. Similarly, common and preferred stock investments dropped by $14.0 billion from $27.9 billion in FY 2008 to $13.9 billion in FY 2009. The decrease was primarily the result of significant deterioration in the domestic and international equity markets in addition to funds being transferred out of the asset class. Real estate investments declined by $1.3 billion from $5.0 billion in FY 2008 to $3.7 billion in FY 2009 due to substantial market value depreciation which was offset in part by net allocation increases to new and existing real estate partnerships. Alternative investments rose by $100 million from $8.9 billion in FY 2008 to $9.0 billion in FY 2009 as a result of contributions to new and existing partnerships which were almost entirely negated by the downturn in value of partnership portfolio holdings.

Management's Discussion and Analysis (Continued)

Short-term investments remained stable at $4.2 billion from FY 2007 to FY 2008. Fixed income investments increased by $2.1 billion from $15.9 billion in FY 2007 to $18.0 billion in FY 2008 mostly due to a few key investment managers shifting a large portion of their direct common and preferred stock holdings to fixed income while gaining equity exposure through the use of futures and total return swaps. Common and preferred stock investments decreased by $10.8 billion from $38.7 billion in FY 2007 to $27.9 billion in FY 2008. This decline was primarily the result of negative returns in the domestic and international equity markets, allocation reductions to the asset class and certain investment managers shifting a substantial portion of their common and preferred stock investments to fixed income as described above. Real estate investments increased by $1.1 billion from $3.9 billion in FY 2007 to $5.0 billion in FY 2008 due to net allocation increases to new and existing real estate partnerships which were offset in part by market value depreciation. Alternative investments increased by $3.1 billion from $5.8 billion in FY 2007 to $8.9 billion in FY 2008 due almost entirely to the addition of new investment partnerships and drawdowns of commitments to existing partnerships which were partially offset by distributions.

Securities Lending

Securities lending collateral pool and obligations under securities lending decreased from $4.8 billion in FY 2008 to $1.6 billion in FY 2009 due to a significant decline in both the number of securities on loan and the market value of those securities for which cash collateral was provided. Non-cash collateral is not reflected in the Statement of Plan Net Assets.

The System experienced a net loss of $26.8 million from securities lending activities in FY 2009 as a result of the decline in valuation of certain securities purchased with cash collateral by the lending agent. Because of the heightened risk associated with the sudden downturn in the market in FY 2009, restrictions were placed on the lending of particular securities in PSERS' portfolio and the risk profile of the investments permitted in the collateral pool was reduced.

Contributions

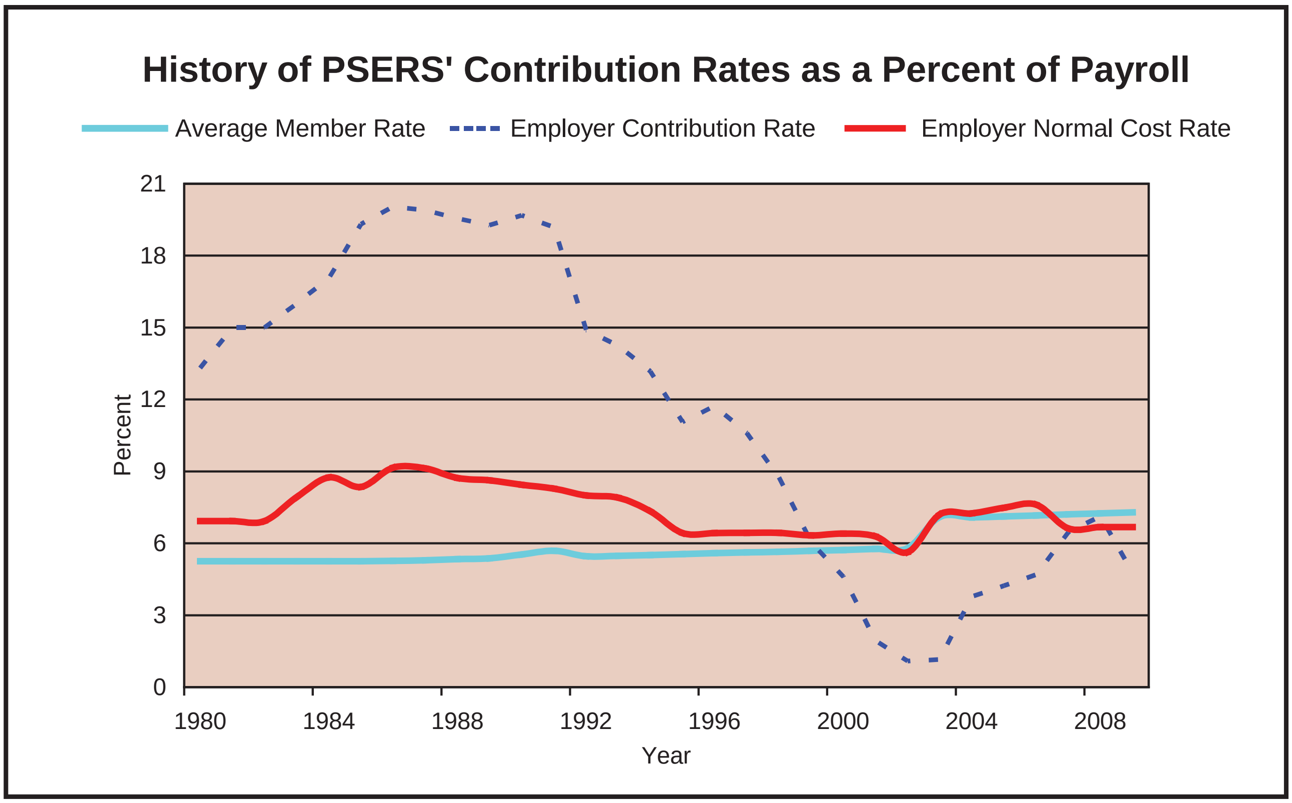
Employer pension contributions decreased by $237.6 million from $753.5 million in FY 2008 to $515.9 million in FY 2009 due to a decrease in the employer pension contribution rate from 6.44% in FY 2008 to 4.00% in FY 2009. Employer pension contributions increased by $94.0 million from $659.5 million in FY 2007 to $753.5 million in FY 2008 due to the increase in the employer pension contribution rate from 5.72% in FY 2007 to 6.44% in FY 2008.

Member pension contributions increased by $31.5 million from $879.6 million in FY 2008 to $911.1 million in FY 2009 as a result of the increase in total active member payroll and an increase in the average member contribution rate from 7.25% in FY 2008 to 7.29% in FY 2009. Member pension contributions increased by $24.3 million from $855.3 million in FY 2007 to $879.6 million in FY 2008 as a result of the increase in the total active member payroll and an increase in the average member contribution rate from 7.21% in FY 2007 to 7.25% in FY 2008.

Management's Discussion and Analysis (Continued)

The employer contributions for health insurance premium assistance increased by $11.2 million from $81.3 million in FY 2008 to $92.5 million in FY 2009 due to an increase in the employer health insurance premium assistance contribution rate from 0.69% in FY 2008 to 0.76% in FY 2009. The employer contributions for health insurance premium assistance decreased by $5.5 million from $86.8 million in FY 2007 to $81.3 million in FY 2008 due to the decrease in the employer health insurance premium assistance contribution rate from 0.74% in FY 2007 to 0.69% in FY 2008. Contributions from the Centers (Ctrs) for Medicare and Medicaid Services (Svcs) to PSERS HOP increased from $28.4 million in FY 2008 to $31.6 million in FY 2009.

A thirty-year history of PSERS' Contribution Rates follows:



Management's Discussion and Analysis (Continued)

Projected Fiscal Year 2012-2013 (FY 2013) Employer Contribution Rate Increase

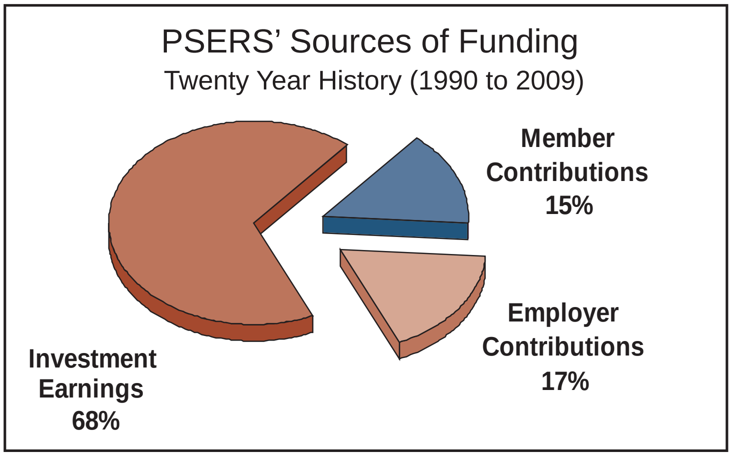
One of the most widely publicized issues at PSERS over the past several years has been the employer contribution rate increase that is projected to occur in FY 2013 fiscal year. The rate increase was first reflected in the June 30, 2003 actuarial valuation. This valuation took into consideration the actuarial impact of the pension benefit enhancement enacted in 2001 (Act 9 of 2001), a major downturn in the investment markets between 2001 and 2003 and a series of legislative actions (Act 38 of 2002 and Act 40 of 2003) that changed the basic funding methodologies for PSERS and suppressed the employer contribution rate below the employer normal cost rate and average member contribution rate for a period of ten years as displayed in the previous chart on the History of PSERS' Contribution Rates. The employer normal cost is the expected contribution from employers to fund on-going liabilities if all other actuarial assumptions are met and the unfunded liability is zero.

Previously, PSERS' investment returns for the four years ended June 30, 2007 had reduced the projected FY 2013 employer contribution rate by more than 50%, from a high of 27.73% to the projected rate of 11.23% as of June 30, 2007 valuation. Over the past year, however, the sharp downturn in the economy that contributed to the -26.54% return for FY 2009 combined with PSERS' -2.82% investment return for FY 2008 has essentially eliminated any past progress made in reducing the FY 2013 projected rate increase. The June 30, 2009 actuarial valuation will not be completed until December 2009, but based upon PSERS' performance through June 30, 2009, the projected rate increase in FY 2013 is now expected to exceed the original projection of 27.73%. The majority of the projected FY 2013 rate increase is devoted to the payment of unfunded liabilities that have accumulated since 2001.

Investment Income

Net investment income (loss) changed by $14.4 billion from $(1.8) billion in FY 2008 to $(16.2) billion in FY 2009, which correlates to the decrease in the investment rate of return from -2.82% for FY 2008 to -26.54% for FY 2009. Net investment income (loss) decreased by $14.5 billion from $12.7 billion in FY 2007 to $(1.8) billion in FY 2008, which is consistent with the decrease in the investment rate of return from 22.93% for FY 2007 to -2.82% for FY 2008. Despite the recent negative performance, as depicted in the following chart, investment earnings provided 68% of PSERS' funding over the past twenty years. Employer contributions and member contributions provided 17% and 15%, respectively, of PSERS' funding over the past twenty years. Net investment income (loss) 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)



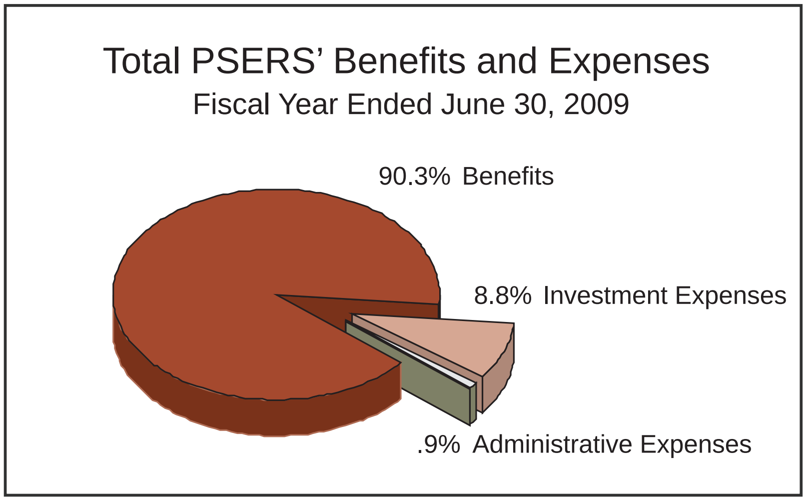
Total PSERS' Benefits and Expenses

The primary source of expense during FY 2009 was for the payment of benefits totaling $4.9 billion. As the following chart on PSERS' Benefits and Expenses reflects, benefit expenses comprised over 90% of the total expenses of the Fund in FY 2009. Total PSERS' benefit expense remained consistent at $4.9 billion in FY 2009 and FY 2008 as higher monthly benefits from an increase in the overall number of retirees and beneficiaries receiving benefits were offset by lower lump sum payments due to a decrease in the number of new retirees in FY 2009. The lower number of new retirees in FY 2009 is consistent with national trends as people delayed retirement due to the significant decline in world financial markets and the global economic recession. Benefit expense increased by $600 million from $4.3 billion in FY 2007 to $4.9 billion in FY 2008. The increase is primarily attributable to an increase in the number of retirees and beneficiaries currently receiving benefits and an increase in the average benefit paid per annuitant.

Investment expenses increased by $78.5 million from $399.1 million in FY 2008 to $477.6 million in FY 2009 mainly due to a rise in management fees in the private market asset classes. The higher fees were essentially the result of new investments made in alternative investment and real estate partnerships during FY 2009 and 2008. Investment expenses increased by $85.3 million from $313.8 million in FY 2007 to $399.1 million in FY 2008 due primarily to an increase in management fees in private markets. The higher fees were almost entirely a result of new investments made in alternative investment and real estate partnerships during FY 2008. Investment expenses are reported as a reduction in net investment income (loss) on the Statements of Changes in Plan Net Assets.

Management's Discussion and Analysis (Continued)

Administrative expenses increased by $2 million from $49.3 million during FY 2008 compared to $51.3 million during FY 2009. The increase was attributable to greater costs and increasing membership within the member funded Health Options Program. Administrative expenses for FY 2007 totaled $50.5 million.



Statements of Plan Net Assets

June 30, 2009 and 2008

(Dollar Amounts in Thousands)

	2009			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	**$ 244,327**	**$ 6,353**	**$ 30**	**$ 250,710**
Employers	**172,099**	**31,289**	**-**	**203,388**
Investment income	**362,058**	**201**	**57**	**362,316**
Investment proceeds	**522,405**	**-**	**-**	**522,405**
Ctrs for Medicare & Medicaid Svcs	**-**	**-**	**3,339**	**3,339**
Miscellaneous	**6,211**	**484**	**6,148**	**12,843**
Total Receivables	**1,307,100**	**38,327**	**9,574**	**1,355,001**
Investments, at fair value:				
Short-term	**5,204,418**	**67,268**	**127,043**	**5,398,729**
Fixed income	**11,333,549**	**-**	**-**	**11,333,549**
Common and preferred stock	**13,883,372**	**-**	**-**	**13,883,372**
Real estate	**3,699,353**	**-**	**-**	**3,699,353**
Alternative investments	**9,028,932**	**-**	**-**	**9,028,932**
Total Investments	**43,149,624**	**67,268**	**127,043**	**43,343,935**
Securities lending collateral pool	**1,591,720**	**-**	**-**	**1,591,720**
Capital assets (net of accumulated depreciation of $10,933)	**530**	**-**	**-**	**530**
Total Assets	**46,048,974**	**105,595**	**136,617**	**46,291,186**
Liabilities:				
Accounts payable and accrued expenses	**81,483**	**338**	**1,575**	**83,396**
Benefits payable	**345,669**	**143**	**13,182**	**358,994**
Premium advances	**-**	**-**	**15,414**	**15,414**
Investment purchases and other liabilities	**1,034,622**	**-**	**-**	**1,034,622**
Obligations under securities lending	**1,591,720**	**-**	**-**	**1,591,720**
Total Liabilities	**3,053,494**	**481**	**30,171**	**3,084,146**
Net assets held in trust for pension and postemployment healthcare benefits (Schedules of funding progress are presented on Required Supplemental Schedule 1)	**$42,995,480**	**$ 105,114**	**$ 106,446**	**$43,207,040**

The accompanying notes are an integral part of the financial statements.

Statements of Plan Net Assets

June 30, 2009 and 2008

(Dollar Amounts in Thousands)

	2008			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 253,356	$ 1,076	$ 55	$ 254,487
Employers	269,581	26,878	-	296,459
Investment income	238,484	199	176	238,859
Investment proceeds	1,464,272	-	-	1,464,272
Ctrs for Medicare & Medicaid Svcs	-	-	45	45
Miscellaneous	2,518	1,052	5,694	9,264
Total Receivables	2,228,211	29,205	5,970	2,263,386
Investments, at fair value:				
Short-term	4,033,430	67,400	114,341	4,215,171
Fixed income	17,984,233	-	-	17,984,233
Common and preferred stock	27,875,324	-	-	27,875,324
Real estate	4,951,840	-	-	4,951,840
Alternative investments	8,865,652	-	-	8,865,652
Total Investments	63,710,479	67,400	114,341	63,892,220
Securities lending collateral pool	4,846,999	-	-	4,846,999
Capital assets (net of accumulated depreciation of $10,789)	665	-	-	665
Total Assets	70,786,354	96,605	120,311	71,003,270
Liabilities:				
Accounts payable and accrued expenses	84,108	332	2,929	87,369
Benefits payable	490,692	488	13,884	505,064
Premium advances	-	-	14,085	14,085
Investment purchases and other liabilities	2,891,129	-	-	2,891,129
Obligations under securities lending	4,846,999	-	-	4,846,999
Total Liabilities	8,312,928	820	30,898	8,344,646
Net assets held in trust for pension and postemployment healthcare benefits (Schedules of funding progress are presented on Required Supplemental Schedule 1)	$62,473,426	$ 95,785	$ 89,413	$62,658,624

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 2009 and 2008

(Dollar Amounts in Thousands)

	2009			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 911,118	$ -	$ 178,801	$ 1,089,919
Employers	515,889	92,493	-	608,382
Ctrs for Medicare & Medicaid Svcs	-	-	31,556	31,556
Total contributions	1,427,007	92,493	210,357	1,729,857
Investment income:				
From investing activities:				
Net depreciation in fair value of investments	(17,007,821)	(363)	-	(17,008,184)
Short-term	55,161	2,269	1,528	58,958
Fixed income	587,007	-	-	587,007
Common and preferred stock	500,001	-	-	500,001
Real estate	92,515	-	-	92,515
Alternative investments	75,776	-	-	75,776
Total investment activity income (loss)	(15,697,361)	1,906	1,528	(15,693,927)
Investment expenses	(477,520)	(45)	-	(477,565)
Net income (loss) from investing activities	(16,174,881)	1,861	1,528	(16,171,492)
From securities lending activities:				
Securities lending income	55,574	-	-	55,574
Securities lending expense	(82,394)	-	-	(82,394)
Net loss from securities lending activities	(26,820)	-	-	(26,820)
Total net investment income (loss)	(16,201,701)	1,861	1,528	(16,198,312)
Total Additions	(14,774,694)	94,354	211,885	(14,468,455)
Deductions:				
Benefits	4,639,297	83,206	181,035	4,903,538
Refunds of contributions	20,369	-	-	20,369
Net transfer to State Employees' Retirement System	7,947	-	-	7,947
Administrative expenses	35,639	1,819	13,817	51,275
Total Deductions	4,703,252	85,025	194,852	4,983,129
Net increase (decrease)	(19,477,946)	9,329	17,033	(19,451,584)
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	62,473,426	95,785	89,413	62,658,624
Balance, end of year	$ 42,995,480	$ 105,114	$ 106,446	$ 43,207,040

The accompanying notes are an integral part of the financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 2009 and 2008

(Dollar Amounts in Thousands)

	2008			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 879,598	$ -	$ 159,563	$ 1,039,161
Employers	753,532	81,317	-	834,849
Ctrs for Medicare & Medicaid Svcs	-	-	28,426	28,426
Total contributions	1,633,130	81,317	187,989	1,902,436
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	(3,763,649)	268	-	(3,763,381)
Short-term	142,381	2,525	4,288	149,194
Fixed income	820,338	-	-	820,338
Common and preferred stock	763,615	-	-	763,615
Real estate	437,880	-	-	437,880
Alternative investments	167,052	-	-	167,052
Total investment activity income (loss)	(1,432,383)	2,793	4,288	(1,425,302)
Investment expenses	(399,098)	(38)	-	(399,136)
Net income (loss) from investing activities	(1,831,481)	2,755	4,288	(1,824,438)
From securities lending activities:				
Securities lending income	319,107	-	-	319,107
Securities lending expense	(270,254)	-	-	(270,254)
Net income from securities lending activities	48,853	-	-	48,853
Total net investment income (loss)	(1,782,628)	2,755	4,288	(1,775,585)
Total Additions	(149,498)	84,072	192,277	126,851
Deductions:				
Benefits	4,636,340	84,335	175,136	4,895,811
Refunds of contributions	28,713	-	-	28,713
Net transfer to State Employees' Retirement System	17,157	-	-	17,157
Administrative expenses	35,863	1,244	12,143	49,250
Total Deductions	4,718,073	85,579	187,279	4,990,931
Net increase (decrease)	(4,867,571)	(1,507)	4,998	(4,864,080)
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	67,340,997	97,292	84,415	67,522,704
Balance, end of year	$ 62,473,426	$ 95,785	$ 89,413	$ 62,658,624

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

Years Ended June 30, 2009 and 2008

1. Organization and Description of the System

(A) Organization

The System was established on July 18, 1917, under the provisions of Pamphlet Law 1043, No. 343 as a governmental cost-sharing multiple-employer plan that provides retirement allowances and other benefits to its members. Membership in the System is mandatory for nearly all qualifying public school employees in the Commonwealth of Pennsylvania (Commonwealth). At June 30, 2009, there were 742 participating employers, generally school districts. Membership as of June 30, 2008, the most recent year for which actual amounts are available, consisted of:

Currently employed members:		
Vested	181,000	
Nonvested	92,000	
Total currently employed members		**273,000**
Retirees and beneficiaries currently receiving benefits	173,000	
Inactive members and vestees entitled to but not receiving benefits	101,000	
Total retirees and other members		**274,000**
Total number of members		**547,000**

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 noncertified members, one from among the System's annuitants, and one from among school board members in Pennsylvania), two members from the Senate, and two members from the House of Representatives.

The State Treasurer is the custodian of the System's fund. The retirement plan of the System is a contributory defined benefit plan for which the benefit payments to members and contribution provisions by employers and employees are specified in the Pennsylvania Public School Employees' Retirement Code (the Code). Changes in benefit and contribution provisions for the 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 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 Plan

i. Pension Benefits

Under the provisions of the 1975 revision of 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.

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.

Notes to Financial Statements (Continued)

ii. 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 is determined using the entry age normal actuarial funding method. This method determines the amount of contributions necessary to (1) fully fund all current costs, (also known as normal cost), 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.

The total contribution rate for the employers and the Commonwealth was 4.76% and 7.13% of qualified compensation for the years ended June 30, 2009 and 2008, 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 0.76% and 0.69% for the years ended June 30, 2009 and 2008, respectively.

Notes to Financial Statements (Continued)

iii. Funding Status and Annual Required Contributions (ARC)

As of June 30, 2008, the most recent actuarial valuation, the plan was 86.0% funded. The actuarial accrued liability for benefits was $70.9 billion, and the actuarial value of assets was $61.0 billion, resulting in an unfunded accrued liability of $9.9 billion. The covered payroll of active members was $11.9 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 83.2%.

For fiscal year ended June 30, 2009, the ARC was $1.76 billion. The actual employer contributions for fiscal year ended June 30, 2009, net of purchase of service contributions, were $503.2 million resulting in a 29% contributed rate.

The Schedule of Funding Progress and Schedule of Employer Contributions included as Required Supplemental Information following the notes to the financial statements provide multiyear presentations of funding status and ARC to illustrate their trends over time.

iv. Actuarial Assumptions and Methods

(a) Funding Method

For purposes of determining pension contributions under the PSERS Code, the entry-age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. 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, 2003 cost-of-living adjustments provided by Act 38 were both recognized at June 30, 2002 and continue to be 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, 2001 and June 30, 2002, including the Act 9 benefit changes, are amortized over a 30-year period, with level dollar funding starting on July 1, 2002, and July 1, 2003, respectively. Post June 30, 2002 gains and losses, and changes in the unfunded accrued liability resulting from changes in actuarial assumptions and methods, are amortized over a 30-year period with level dollar funding. In addition Act 40 also provided a 4.00% floor on the employer pension rate.

For purposes of determining the annual required contributions under GASB 25, the same funding method is used as for pension funding, except that (i) the 4% pension floor is not taken into account and (ii) in fiscal years in which the amortization requirements of the PSERS Code result in an equivalent single amortization period that is longer than the maximum allowable 30 year period specified by GASB 25. The GASB 25 amortization payment will be set equal to the level dollar amount that will amortize the unfunded accrued liability over a period equal to the maximum allowable period specified by GASB 25. For the fiscal year ended June 30, 2008, a 30 year level dollar open amortization method was used.

Notes to Financial Statements (Continued)

(b) Asset Valuation Method

For actuarial purposes, assets are valued using a five-year moving market average value that will recognize the 8.25% 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.

(c) Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2008, the date of the most recent actuarial valuation include:

- Investment return – 8.25%, includes inflation at 3.25%
- Salary increases – 6.00%, which reflects an allowance for inflation of 3.25%, national productivity of 1%, and merit or seniority increases of 1.75%
- Amortization method – level dollar funding
- 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.

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 actuarial assets are subtracted from this present value to arrive at the funded or unfunded actuarial accrued liability.

Notes to Financial Statements (Continued)

(C) Postemployment Healthcare Plans

i. Health Insurance Premium Assistance Program

(a) Health Insurance Premium Assistance Benefits

The System provides a Health Insurance Premium Assistance Program (premium assistance) for all eligible annuitants who qualify and 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 for each succeeding year. 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 actual 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).

(b) Funding Status and Annual Required Contributions (ARC)

As of June 30, 2008, the most recent actuarial valuation, the plan was 8.5% funded. The actuarial accrued liability for benefits was $1.1 billion, and the actuarial value of assets was $95.8 million, resulting in an unfunded accrued liability of $1.0 billion. The covered payroll of active members was $11.9 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.7%.

For fiscal year ended June 30, 2009, the ARC was $107.1 million. The actual employer contributions for fiscal year ended June 30, 2009 were $92.5 million resulting in an 86% contributed rate.

The Schedule of Funding Progress and Schedule of Employer Contributions included as Required Supplemental Information following the notes to the financial statements provide multi-year presentations of funding status and ARC to illustrate their trends over time.

The health insurance liability and funding provisions of the PSERS Code differ from the GASB disclosure requirements. As a result, there are different determinations of actuarial liability and contribution requirements for GASB accounting purposes and for Commonwealth funding purposes. For purposes of funding, the actuarial liability equals the assets in the health insurance account, and the contribution required is the amount necessary to establish reserves sufficient to provide premium assistance payments to all participating eligible annuitants during the fiscal year that immediately follows the year the employer contribution is made. For GASB accounting purposes, the actuarial liability has been determined under the entry age actuarial cost method, and the ARC is equal to the entry age normal cost for health insurance plus an amount that will amortize the entry age unfunded actuarial liability for health insurance over a period of 30 years. The entry age actuarial cost method was selected for this calculation because it meets the GASB parameters for determining actuarial liability and normal cost, and is the cost method specified by the PSERS Code for the PSERS pension plan.

Notes to Financial Statements (Continued)

ii. Health Insurance Program (HOP)

The HOP is a PSERS-sponsored voluntary health insurance program for the sole benefit of annuitants of PSERS, spouses of annuitants, survivor annuitants and their dependents. Benefits are provided by managed care providers or by PSERS self-funded fee-for-service plans. All retirees are eligible to participate in the Enhanced or Basic Options (indemnity plans) regardless of their residence. The 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 Enhanced and Basic Options are self-funded. 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. The HOP maintains a reserve for claims that are incurred but not reported (IBNR). At June 30, 2009 and 2008 PSERS recorded $10,423,000 and $11,143,000, respectively, in IBNR which is included in benefits payable.

Effective January 1, 2006, PSERS made significant changes to the HOP, in response to the Medicare Modernization Act. PSERS entered into an Employer/Union Entity contract with the Centers for Medicare and Medicaid Services (CMS) to operate a voluntary Medicare Prescription Drug Plan (PDP). Monthly contributions are received from CMS covering the 40,500 participants in the PDP in addition to the monthly prescription drug premiums paid by the participants. The PSERS pension fund assets are not available to fund or satisfy obligations of the HOP.

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.

Notes to Financial Statements (Continued)

(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 published market prices or quotations from national security exchanges or 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.

Directly-owned real estate investments are primarily valued based on appraisals performed by independent appraisers and for properties not appraised, the present value of the projected future net income stream is used. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2009 and 2008, $132,000,000 in line of credit advances were netted against the related property valuation. The line of credit balance is due on March 9, 2012. The line is payable at an interest rate equivalent to the lender's commercial paper rate plus 100 basis points and is collateralized by certain fixed income investments of the System.

For alternative investments, which include private equity, private debt, venture capital and equity real estate investments where no readily ascertainable market value exists, management, in consultation with the general partner and investment advisors, has determined the fair values for the individual investments based upon the partnership's most recent available financial information. 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, at the end of the fiscal year. It includes the estimated retirement and death benefits payable, and the HOP IBNR (incurred but not reported) claims for PSERS' members or members' beneficiaries.

(E) Compensated Absences

The System uses the accrual basis of accounting for measuring liabilities related to vacation leave, sick leave, and other compensated absences. 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, 2009 and 2008, $3,222,000 and $3,013,000, 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) Premium Advances

Premium advances in the fiscal year ended June 30, 2009 and 2008 are for HOP premiums related to health care coverage provided in calendar year 2009 and 2008, 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 rollover 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 2008 and 2009 were $230,000 and $245,000, 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 2008 and 2009 were $185,000 and $195,000, 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. The System has had no insurance claims during the past three fiscal years.

(I) Reclassifications

Certain 2008 amounts have been reclassified in conformity with the 2009 presentation.

(J) Members' Receivables

Members' receivables include an amount for members' obligations to the System for the purchase of service credit of $164,892,000 and $166,951,874 at June 30, 2009 and 2008, respectively. 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 members' employer establishes a payroll deduction process. The members' employer then forwards monthly 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 purchase of service receivables extend beyond one year. An estimated $144,278,000 of the $244,327,000 members' pension receivables at June 30, 2009 are expected to be collected by the System subsequent to June 30, 2010. At June 30, 2008, an estimated $152,000,000 of the $253,356,000 members' pension receivables was expected to be collected by the System subsequent to June 30, 2009.

(K) Adoption of New Accounting Standards

In June 2004 the Governmental Accounting Standards Board issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* ("GASB 45"). GASB 45 changed how Other Postemployment benefits (OPEB) costs are reported by employer governments, charging employer OPEB costs during the periods when employees render services. The System adopted this Statement during the year ended June 30, 2008.

Notes to Financial Statements (Continued)

During the year ended June 30, 2008 the System adopted Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*, an amendment of GASB statements 25 and 27 ("GASB 50"). GASB 50 was issued by the Governmental Accounting Standards Board to amend financial statement note disclosures and required supplementary information for pension plans to be consistent with applicable standards under GASB 43 and GASB 45.

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 8.25% 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.

Notes to Financial Statements (Continued)

(E) Health Insurance Program Account

The Health Insurance Program Account is credited with contributions from members of the HOP and from CMS. 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.

(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)	
	2009	2008
Pension:		
State accumulation account	**$ (5,608,486)**	$ 16,392,728
Members' savings account	**11,087,345**	10,532,683
Reserve for retirement account	**37,516,621**	35,548,015
	$ 42,995,480	$ 62,473,426
Postemployment healthcare:		
Health insurance account	**$ 105,114**	$ 95,785
Health insurance program account	**106,446**	89,413
	$ 211,560	$ 185,198

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 Investor Standard, as articulated in the Code, which means "the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the fund, considering the probable income to be derived therefrom as well as the probable safety of their capital." 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.

Notes to Financial Statements (Continued)

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

	(Dollar Amounts in Thousands)	
	2009	2008
Pension investments:		
Short-term:		
Pennsylvania Treasury Short-Term Investment Fund	**$ -**	$ 2,405,509
PSERS Short-Term Investment Fund	**4,253,396**	-
Other domestic short-term	**696,019**	1,249,875
International short-term	**255,003**	378,046
	5,204,418	4,033,430
Fixed income:		
Domestic mortgage-backed securities	**3,740,617**	6,612,701
U.S. government and agency obligations	**1,416,505**	1,980,626
Domestic corporate and taxable municipal bonds	**2,271,173**	4,240,211
Miscellaneous domestic fixed income	**456,144**	604,069
Collective trust funds	**2,529,667**	2,294,869
International fixed income	**919,443**	2,251,757
	11,333,549	17,984,233
Common and preferred stock:		
Domestic common and preferred stock	**3,073,854**	8,995,463
Collective trust funds	**3,929,724**	4,808,851
International common and preferred stock	**6,879,794**	14,071,010
	13,883,372	27,875,324
Real estate:		
Equity real estate	**3,493,360**	4,673,806
Directly-owned real estate	**205,993**	278,034
	3,699,353	4,951,840
Alternative investments:		
Private equity	**5,047,201**	5,752,298
Private debt	**3,283,060**	2,371,506
Venture capital	**698,671**	741,848
	9,028,932	8,865,652
Pension investments at fair value	**$ 43,149,624**	$ 63,710,479
Postemployment healthcare investments:		
Premium Assistance:		
Pennsylvania Treasury Short-Term Investment Fund	**$ -**	$ 19,627
PSERS Short-Term Investment Fund	**27,063**	-
Other domestic short-term	**40,205**	47,773
	67,268	67,400
Health Options Program:		
Pennsylvania Treasury Short-Term Investment Fund	**-**	60,962
PSERS Short-Term Investment Fund	**84,683**	-
Other domestic short-term	**42,360**	53,379
	127,043	114,341
Postemployment healthcare investments at fair value	**$ 194,311**	$ 181,741

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 $42,360,000 and $53,379,000 at June 30, 2009 and 2008, respectively, and are under the custody of M&T Bank which has an A- rating by Standard and Poor's (S&P) and an A3 rating by Moody's Investor Services (Moody's).

ii. Investment Risks

The System's investments may be subject to various risks. Among these risks are concentration of credit risk, custodial credit risk, credit risk, interest rate risk, and foreign currency risk. The policies addressing each one of these risks, discussed in more detail below, are contained within the Investment Policy Statement, Objectives, and Guidelines reviewed and approved annually by the Board. Due to the level of risk associated with certain investments, it is possible that changes in the values of investments may occur in the near term and that such changes could materially affect the amounts reported in the Statements of Plan Net Assets.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. As of June 30, 2009 and 2008 the System had no single issuer that exceeded 5% of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments were excluded.

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 a 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.

Notes to Financial Statements (Continued)

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, and 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 29.5% of the investment portfolio. The fixed income target allocation consists of:

- An allocation of 16.5% of the portfolio has been made to the domestic core plus and high yield segments of the fixed income asset class benchmarked to the Barclays Capital U.S. Universal Index. The domestic core plus allocation is composed of primarily investment grade, relatively liquid, public domestic bonds with an overall weighted-average NRSRO credit rating of A or better while the high yield allocation focuses on less liquid public non-investment grade fixed income securities with an overall weighted-average NRSRO credit rating of BB+ or less.

- 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 Barclays Capital 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 3.0% of the portfolio has been made to the global core plus fixed income asset class benchmarked to the Barclays Capital Multiverse 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 BB- or better.

- An allocation of 5% of the portfolio has been made to cash benchmarked to the Merrill Lynch U.S.Treasury Bill 0-3 Months 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.

Notes to Financial Statements (Continued)

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 (expressed as S&P equivalent) available from Fitch, Moody's and/or S&P that indicates the lowest credit quality at June 30, 2009 and 2008.

	(Dollar Amounts in Thousands)	
Quality Rating	**2009 Fair Value**	2008 Fair Value
AAA	**$ 4,434,124**	$ 8,436,260
AA	**672,450**	1,435,628
A	**888,204**	1,824,267
BBB	**812,151**	1,593,709
BB and below	**895,804**	904,053
NR*	**7,433,485**	5,748,497
Total Exposed to Credit Risk	**15,136,218**	19,942,414
U.S. Government Guaranteed**	**1,596,060**	2,256,990
Total Fixed Income and Short-Term Investments	**$ 16,732,278**	$ 22,199,404

* Not Rated securities include $2,529,667 and $2,294,869 in collective trust funds at June 30, 2009 and 2008, respectively. Also included are $4,365,142 in the PSERS Short-Term Investment Fund at June 30, 2009 and $2,486,098 in the Pennsylvania (PA) Treasury Short-Term Investment Fund at June 30, 2008, pooled investment funds for which ratings were unavailable. The pools are comprised of short-term, high credit quality securities which include money market funds, commercial paper, U.S. Treasuries, agencies or repurchase agreements.

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

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.

Notes to Financial Statements (Continued)

At June 30, 2009 and 2008, the System's fixed income portfolio had the following option-adjusted durations by fixed income sector:

	(Dollar Amounts in Thousands)			
	2009		2008	
Investment Type	**Option-Adjusted Duration**	**Fair Value**	Option-Adjusted Duration	Fair Value
Domestic mortgage-backed securities	1.7	$ 3,740,617	2.8	$ 6,612,701
U.S. government and agency obligations	3.6	1,416,505	7.1	1,980,626
Domestic corporate and taxable municipal bonds	3.0	2,271,173	2.7	4,240,211
Miscellaneous domestic fixed income	0.4	456,144	0.5	604,069
Fixed income collective trust funds	4.3	2,529,667	3.3	2,294,869
International fixed income	3.8	919,443	5.3	2,251,757
PA Treasury Short-Term Investment Fund	-	-	0.2	2,486,098
PSERS Short-Term Investment Fund	0.1	4,365,142	-	-
Total fixed income & Short-Term Investment Funds	**2.1***	**15,698,691**	3.1*	20,470,331
Total adjustments for futures contracts	**0.1****	**-**	0.1**	-
Total fixed income & Short-Term Investment Funds	**2.2****	**$ 15,698,691**	3.2**	$ 20,470,331

* The option-adjusted duration of 2.1 and 3.1 at June 30, 2009 and 2008, respectively, for the total fixed income and Short-Term Investment Funds 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 and Short-Term Investment Funds duration upward by 0.1 at June 30, 2009 and 2008.

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. For the year ended June 30, 2008, the System also reduced the exposure to currency risk by hedging to a target of 30% of MSCI EAFE Index country currencies to the U.S. dollar. The currency hedge program was discontinued during FY 2009. At June 30, 2009 and 2008 PSERS had the following non-U.S. currency exposure:

Notes to Financial Statements (Continued)

2009
(Dollar Amounts in Thousands)

Currency	**Equity**	**Fixed Income**	**Alternative Investments & Real Estate**	**Short-Term***	**Total Fair Value**
Euro	$ 1,047,301	$ 269,565	$ 1,247,221	$ 92,495	**$ 2,656,582**
Japanese yen	1,254,289	55,862	-	182,435	**1,492,586**
British pound sterling	1,078,529	31,998	6,776	86,898	**1,204,201**
Hong Kong dollar	566,206	-	-	2,429	**568,635**
Australian dollar	347,456	1,879	-	44,524	**393,859**
Swiss franc	378,039	-	-	(3,390)	**374,649**
Canadian dollar	407,085	2,761	4,304	(41,540)	**372,610**
South African rand	167,544	-	-	51,311	**218,855**
Brazil real	124,471	17,867	-	25,069	**167,407**
Indian rupee	109,516	314	-	44,161	**153,991**
Other non-U.S. currencies	886,940	89,209	-	(63,368)	**912,781**
Total	$ 6,367,376	$ 469,455	$ 1,258,301	$ 421,024	**$ 8,516,156**

2008
(Dollar Amounts in Thousands)

Currency	**Equity**	**Fixed Income**	**Alternative Investments & Real Estate**	**Short-Term***	**Currency Hedge****	**Total Fair Value**
Euro	$ 2,911,313	$ 872,140	$ 1,245,999	$ 561,554	$ (2,281,603)	**$ 3,309,403**
British pound sterling	2,682,672	231,969	6,745	(60,345)	(1,256,994)	**1,604,047**
Japanese yen	2,425,174	179,157	-	(3,819)	(1,177,085)	**1,423,427**
Canadian dollar	943,768	131,162	18,768	(119,393)	-	**974,305**
Australian dollar	594,116	7,352	-	241,340	(248,944)	**593,864**
Hong Kong dollar	704,625	-	-	3,799	(116,211)	**592,213**
Swedish krona	157,499	112,328	-	142,750	-	**412,577**
South Korean won	266,245	-	-	26,443	-	**292,688**
Singapore dollar	271,740	18,010	-	(20,947)	-	**268,803**
Brazil real	151,327	3,127	-	80,306	-	**234,760**
Other non-U.S. currencies	1,967,199	27,047	-	(6,613)	(416,793)	**1,570,840**
Total	$ 13,075,678	$ 1,582,292	$ 1,271,512	$ 845,075	$ (5,497,630)	**$ 11,276,927**

* Includes investment receivables and payables.
** The currency hedge program was discontinued during FY 2009.

Notes to Financial Statements (Continued)

(C) Securities Lending

In accordance with a contract between the Commonwealth and its custodial agent, the System participates in a securities lending program. Under this program, the custodian, acting as the lending agent, loans securities (equities, fixed income issues and money market instruments) to independent brokers and dealers in exchange for collateral in an amount not less than 102% of the fair value of any securities loaned except for non-U.S. corporations for which 105% of the fair value is required. For Euro fixed income debt issues, for which the Commonwealth receives Euros as collateral and international fixed income debt issues denominated in U.S. dollars, the collateral required to be exchanged is in an amount not less than 102% of the fair value of any securities loaned. Collateral is marked-to-market daily. If the fair value of the collateral held falls below the minimum guidelines for securities loaned, additional collateral is obtained. In lieu of certain approved securities or cash, the borrower may deliver to the lending agent irrevocable bank letters of credit as collateral. If the collateral obtained consists in whole or in part of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the System.

As of June 30, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008.

For the year ended June 30, 2009, cash collateral is invested in one of two short-term collateral investment pools, the first of which is denominated in U.S. dollars and the second in Euros. Each collateral investment pool is managed by the lending agent, is segregated from all other clients of the lending agent, and is not subject to custodial credit risk. For the year ended June 30, 2008, cash collateral was invested in the lending agent's short-term investment pool which was not segregated from other clients and was 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 15 days and 25 days at June 30, 2009 and 2008, respectively. During the fiscal year ended June 30, 2009, the mismatch between the maturities of the investments made with cash collateral and the maturities of the securities loans may have posed some interest rate risk to the System. During the fiscal year ended June 30, 2008, the relationship between the maturities of the investment pool and the System's loans was affected by the maturities of the securities loans made by other entities that used the lending agent's pool, which the System could not 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.

Notes to Financial Statements (Continued)

During the fiscal year ended June 30, 2009, certain securities purchased with cash collateral by the lending agent declined significantly in value, resulting in a net loss to the System from the securities lending program. The System acquired new securities for the collateral pool during the fiscal year ended June 30, 2009 to replace the value lost on the securities that had been purchased by the lending agent.

As of June 30, 2009, the fair value of loaned securities was $2,109,420,000, which includes $584,108,000 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 $2,232,432,000 of which $1,591,720,000 was cash. As of June 30, 2008, the fair value of loaned securities was $7,465,573,000, which includes $2,939,093,000 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 $8,053,669,000 of which $4,846,999,000 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; swap agreements to gain exposure to certain sectors of the equity and fixed income markets; 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. The System generally enters into transactions only with high quality institutions. Legal risk is mitigated through selection of executing brokers and review of all documentation. The System is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions.

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types and uses of derivative financial instruments and do not measure the System's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts for the System's derivative financial instruments at June 30, 2009 and 2008 (in thousands):

	2009	2008
Futures contracts – long	**$ 3,310,264**	$ 11,962,986
Futures contracts – short	**1,806,480**	5,046,611
Foreign exchange forward and spot contracts, gross	**6,266,360**	20,668,439
Options – calls purchased	**1,198,018**	154,767
Options – puts purchased	**766,916**	322,841
Options – calls sold	**972,583**	159,300
Options – puts sold	**827,220**	501,896
Swaps – total return type	**3,658,970**	2,570,616
Swaps – interest rate	**1,382,764**	826,124

Notes to Financial Statements (Continued)

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 and by cash held by various brokers. 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, 2009 and 2008 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 $1,500,000,000.

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 $6,266,360,000 of foreign currency contracts outstanding at June 30, 2009 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $3,609,991,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $2,656,369,000. The $20,668,439,000 of foreign currency contracts outstanding at June 30, 2008 consist of "buy" contracts of $8,391,990,000 and "sell" contracts of $12,276,449,000. The unrealized loss on contracts of $(10,398,000) and $(94,298,000) at June 30, 2009 and 2008, respectively, is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The System has authorized an investment manager to manage a currency hedge portfolio consisting of foreign exchange spot and forward contracts, currency futures, and currency options to hedge up to a notional amount of $3,800,000,000 of the MSCI EAFE Index currencies to U.S. dollars. The currency hedge program was discontinued during FY 2009.

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying securities, indexes or interest rates. During the year ended June 30, 2009 and 2008, the System entered into total return type swaps and interest rate swaps. Under the total return type swap arrangements, the System receives the net return of certain equity securities or indexes in exchange for a short-term rate minus a spread or a predetermined fixed charge. The receivable (payable) on the total return type swap contracts of $32,464,000 and $(184,438,000) at June 30, 2009 and 2008, respectively, is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates ranging from July 15, 2009 to May 28, 2010. Interest rate swap agreements involve the exchange by the System with another party of their respective commitments to pay or receive interest, e.g. an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. The System uses interest rate swaps as the most cost-effective way to gain exposure to certain sectors of the fixed income market. The receivable on the interest rate swap contracts of $10,314,000 and $8,238,000 at June 30, 2009 and 2008, respectively, is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates ranging from October 31, 2009 to April 1, 2010.

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, 2009 and 2008 is $2,295,709,000 and $2,574,096,000, 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.

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 or on its website: *www.sers.state.pa.us.*

Notes to Financial Statements (Continued)

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 3.29% at June 30, 2009, 3.28% at June 30, 2008 and 3.23% at June 30, 2007. The System's contributions to SERS for the years ended June 30, 2009, 2008 and 2007 were $625,000, $602,000 and $534,000, respectively, which were equal to the required contributions each year.

7. Postemployment Healthcare Plan for Employees of the System

The System participates in the Commonwealth's Retired Employees Health Program (REHP). The REHP is a single-employer plan and provides certain healthcare benefits to qualifying individuals meeting specified age and/or service requirements. The Commonwealth's Office of Administration (OA), in its sole discretion, determines available REHP benefits on an ongoing basis. REHP funding is arranged among OA, the Governor's Budget Office and the Pennsylvania Employees' Benefit Trust Fund (PEBTF). The PEBTF is a third-party administrator for the REHP under the provisions of an Administrative Agreement between OA and PEBTF.

A portion of OPEB costs for retiree healthcare benefits are charged as a component of payroll expenditures on a 'pay-as-you-go' basis. The 2008-2009 costs were charged at the rate of $240/employee/bi-weekly pay period. Plan members who retired after June 30, 2005 contribute to the plan based on a percentage of their final annual gross base salary at the time of retirement. Plan member contribution rates vary based on retirement date.

In May 2008 the Commonwealth released an Actuarial Valuation of its Post-Retirement Medical Plan as of February 2008 covering the fiscal year ended June 30, 2009. The Valuation indicated overall Annual Required Contributions of $603,186,000, with the System's allocated portion at $2,486,000. The actuarial valuation is available at the Office of the Budget's website: *www.budget.state.pa.us.*

8. Litigation and Contingencies

The System is subject to various threatened and pending lawsuits. These lawsuits include issues related to benefit calculations and eligibility. It is the opinion of management that the ultimate liability arising from such threatened and pending litigation will not have a material effect on the financial position of the System. The System is exposed to various other liabilities and risks related to fiduciary responsibilities of directors and officers.

Required Supplemental Schedule 1
Schedules of Funding Progress*
(Unaudited - See Accompanying Auditor's Report)
(Dollar Amounts in Millions)

Pension

	(1)	(2)	(3)	(4)	(5)	(6)
Valuation as of June 30	Actuarial accrued liabilities (AAL)	Actuarial value of assets	(Funded) Unfunded actuarial accrued liabilities (FAAL) or UAAL (1) - (2)	Ratio of assets to AAL (2) / (1)	Covered payroll	(FAAL) or UAAL as a percentage of covered payroll (3) / (5)
2008	$ 70,845.6	$ 60,922.1	$ 9,923.5	86.0%	$ 11,921.5	83.2%
2007	66,495.8	57,057.8	9,438.0	85.8%	11,410.3	82.7%
2006	64,627.3	52,464.7	12,162.6	81.2%	11,419.0	106.5%
2005	61,129.4	51,122.1	10,007.3	83.6%	10,527.7	95.1%
2004	56,978.1	51,949.6	5,028.5	91.2%	10,030.7	50.1%
2003	54,313.3	52,770.0	1,543.3	97.2%	9,652.9	16.0%

Premium Assistance

	(1)	(2)	(3)	(4)	(5)	(6)
Valuation as of June 30	Actuarial accrued liabilities (AAL)	Actuarial value of assets	(Funded) Unfunded actuarial accrued liabilities (FAAL) or UAAL (1) - (2)	Ratio of assets to AAL (2) / (1)	Covered payroll	(FAAL) or UAAL as a percentage of covered payroll (3) / (5)
2008	$ 1,133.0	$ 95.8	$ 1,037.2	8.5%	$ 11,921.5	8.7%
2007	1,058.1	97.3	960.8	9.2%	11,410.3	8.4%
2006	1,056.2	92.8	963.4	8.8%	11,419.0	8.4%

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

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.

Required Supplemental Schedule 2
Schedules of Employer Contributions
(Unaudited - See Accompanying Auditor's Report)
(Dollar Amounts in Thousands)

Pension

Year ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
2009	$ 1,761,295	$ 503,227	29%
2008	1,852,238	753,532	41%
2007	1,708,821	659,545	39%
2006	1,328,373	456,878	34%
2005	945,107	431,556	46%
2004	321,091	321,091	100%

Premium Assistance

Year ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
2009	$ 107,097	$ 92,493	86%
2008	101,352	81,317	80%
2007	94,970	86,763	91%

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

Supplemental Schedule 1
Schedule of Operating Expenses
Year Ended June 30, 2009
(Dollar Amounts in Thousands)

	Administrative Expenses (1)	Investment Expenses (2)	Total
Personnel costs:			
Salaries and wages	$ 14,710	$ 3,387	**$ 18,097**
Social security contributions	1,146	251	**1,397**
Retirement contributions	486	139	**625**
Employees' insurance contributions	4,363	543	**4,906**
Other employee benefits	783	723	**1,506**
Total personnel costs	21,488	5,043	**26,531**
Operating costs:			
Investment managers' fees	-	464,641	**464,641**
Custodian fees	-	569	**569**
Specialized services	19,444	1,418	**20,862**
Rental of real estate, electricity	1,414	182	**1,596**
Consultant fees	1,135	3,357	**4,492**
Treasury and other Commonwealth services	1,635	162	**1,797**
Postage	1,326	-	**1,326**
Contracted maintenance and repair services	560	17	**577**
Office supplies	394	81	**475**
Rental of equipment and software	1,248	248	**1,496**
Printing	482	-	**482**
Travel and training	189	10	**199**
Telecommunications	581	14	**595**
Equipment (not capitalized)	240	4	**244**
Miscellaneous expenses	995	1,819	**2,814**
Total operating expenses	29,643	472,522	**502,165**
Fixed charges:			
Depreciation	144	-	**144**
Total operating expenses	$ 51,275	$ 477,565	**$ 528,840**

(1) Includes administrative expenses of $1,819 related to Postemployment Healthcare Premium Assistance and $13,817 related to Postemployment Healthcare Health Options Program for the fiscal year ended June 30, 2009.

(2) Includes investment expenses of $45 related to Postemployment Healthcare Premium Assistance for fiscal year ended June 30, 2009 and does not include $23,636 in capitalized broker commissions for the fiscal year ended June 30, 2009.

Supplemental Schedule 2
Summary of Investment Expenses
Year Ended June 30, 2009
(Dollar Amounts in Thousands)

	Assets under management*	Fees
External management		
Domestic equity	$ 752,000	$ 7,272
International equity	4,799,000	38,786
Fixed income	7,438,000	57,424
Real estate	4,327,000	98,735
Alternative investments	7,509,000	185,432
Absolute return	3,231,000	64,416
Commodities	1,833,000	12,576
Total external management	29,889,000	464,641
Total internal management	13,305,000	8,998
Total investment management	$ 43,194,000	$ 473,639
Custodian fees		569
Consultant fees		3,357
Total investment expenses		$ 477,565

* Net asset value of investments at June 30, 2009; investments are classified on an asset allocation basis.

Supplemental Schedule 3
Schedule of Payments to Non-Investment Consultants

Year Ended June 30, 2009

(Payment Amounts Greater than $50,000)

Consultant	Fees	Services Provided
CoreSource, Inc.	$ 9,984,091	Postemployment healthcare benefits administration and claims adjudication
Vitech Systems Group, Inc.	3,704,440	NPAS project development
The Segal Company	2,233,306	Actuarial services and consulting for HOP and prescription drug plan
Rx Solutions, Inc.	1,611,620	Administration of postemployment health-care benefits and prescription drug plan
Buck Consultants LLC	557,001	Pension benefit actuarial services
Independent Pharmaceutical Consultants, Inc.	425,362	Administration of postemployment health-care benefits and prescription drug plan
Clifton Gunderson LLP	135,820	Financial audit of pension system and postemployment healthcare programs
Gunther International LTD	111,650	Communication and mailing services

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PSERS

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Investment

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COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ALAN H. VAN NOORD, CFA
Chief Investment Officer

Investment Overview

Authority and Fiduciary Standard

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. As fiduciaries, the members of the Board and Staff must act solely in the interests of the members of the System and for the exclusive benefit of the System's members. In performance of their duties, the members of the Board and Staff delegated with investment authority shall be held to the Prudent Investor Standard.

The Prudent Investor Standard, as articulated in the Code, means "the exercise of that degree of judgment, skill and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation, but in regard to the permanent disposition of the fund, considering the probable income to be derived therefrom as well as the probable safety of their capital."

The Prudent Investor Standard requires a trustee to act prudently and with caution, discretion, loyalty, and care but does not restrict the assets in which the Board can invest. Under the Prudent Investor Standard, which recognizes modern portfolio theory, the Board's investment and management decisions with respect to individual assets shall be considered in the context of the portfolio as a whole and as part of an overall investment strategy, and not in isolation. No specific investment or course of action, taken alone, shall be considered inherently prudent or imprudent. This Standard recognizes the trade-off between risk and return.

Policies and Objectives

The Board is responsible for the formulation of investment policies for the System. The overall investment objectives of the System are as follows:

- **Return Objectives** – the overall return objective is to realize a return sufficient to achieve funding adequacy on an inflation-adjusted basis. Funding adequacy is achieved when the actuarial market value of assets is at least equal to the System's projected benefit obligations. The System has a return objective of meeting or exceeding the targeted actuarial rate of return (currently 8.0%) over the long-term. In addition, the Board has the following broad objectives:

    1. The assets of the System shall be invested to maximize the returns for the level of risk taken; and,
    2. The System shall strive to achieve a return that exceeds the Policy Index (the Policy Index, which is based on the Board-established asset allocation structure, is a custom benchmark designed to generate a return that meets the actuarial rate of return assumption).

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Risk Objectives

1. The assets of the System shall be diversified to minimize the risk of losses within any one asset class, investment type, industry or sector distribution, maturity date, or geographic location. Failure to do so could impair the System's ability to achieve its funding and long-term investment goals and objectives; and,
2. The System's assets shall be invested so that the probability of investment losses (as measured by the Policy Index) in excess of 12% in any one year is no greater than 2.5% (or two standard deviations below the expected return).

To achieve these objectives, the Board meets at least once per year to review the overall asset allocation plan and investment policies for the System. Implementation of investment policies is accomplished through the use of 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 seven meetings per year and may meet more frequently as needed. Investment Office staff, as well as external investment advisors and Investment Accounting staff, assist the Board in achieving investment objectives and monitoring compliance with investment policies. For the fiscal year ended June 30, 2009, Wilshire Associates Incorporated (Wilshire) served as the general 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 Courtland Partners, Ltd. 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 Investment Policy Statement, Objectives and Guidelines regarding asset allocation, security selection, and 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 fiscal year end, 54 external public market investment management firms were managing $16.8 billion in assets of the System, $13.3 billion in assets were managed by the System's internal investment managers, and the remaining $13.2 billion in assets were managed by numerous emerging, alternative investment, and real estate managers. The performance of each external investment management firm and each internal manager is monitored quarterly against a pre-established benchmark as well as the performance of its peer group.

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. The Board will consult with its actuary, consultants, Investment Office staff, and other sources of information it deems appropriate in formulating the asset allocation plan. The Board believes that the level of risk assumed by the System is largely determined by the Board's strategic asset allocation plan. The Board, in determining its long-term asset allocation, shall take the following factors into consideration:

- The System’s investment time horizon;
- The demographics of the plan participants and beneficiaries;
- The cash flow requirements of the System;
- The actuarial assumptions approved by the Board;
- The funded status of the System;
- The Board’s willingness and ability to take risk; and,
- The employers’ (Commonwealth and school districts) financial strength.

In establishing the asset allocation for the System, the Board considers capital market expectations for expected return, volatility, and asset class correlations as prepared by its general investment consultant. The current long-term, top-down asset allocation targets of the Board are discussed in the following paragraphs.

The long-term target allocation as of June 30, 2009 included an equity target allocation of **31.0%** consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (13.2%) and international equity exposure (17.8%). Within the U.S. equity target, the portfolios are diversified between large, small, and micro capitalization investment managers, and growth and value investment managers. The international equity exposure includes both developed and emerging markets portfolios as well as large and small capitalization investment managers.

The fixed income target allocation of **29.5%** consisted of U.S. core fixed income exposure (7.5%), leveraged Treasury Inflation-Protected Securities exposure (5.0%), high yield and opportunistic fixed income exposure (9.0%), global fixed income exposure (3.0%) and cash (5.0%). Historically, PSERS had an allocation of 0.0% to cash, however, given the known and potential cash flow requirements of the System, the Board, Staff, and Wilshire deemed it prudent to have an allocation to this asset class. Within these categories, all sectors of the bond market are represented.

The real estate target allocation of **11.0%** consisted primarily of opportunistic limited partnerships and publicly traded real estate securities.

Alternative investments had a target of **17.0%**. 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.

The absolute return target allocation of **7.5%** consisted primarily of investment managers retained by the System to generate positive returns over time independent of how the equity, fixed income, and commodity markets perform. Strategies implemented to achieve this goal include, but are not limited to, global macro, currency, and relative value strategies such as equity long/short. The absolute return program is included in the allocation to generate returns equal to or greater than the targeted actuarial rate of return of 8.0% and to diversify the System’s total portfolio risk.

The commodities target allocation of **4.0%** consisted primarily of commodity futures and commodity and commodity-related publicly traded stocks. Commodities are included in the allocation to diversify the System’s total portfolio risk.

Investment Results

As of June 30, 2009, the fair value of the investment portfolio was $43.3 billion, a decrease of $20.6 billion from last year's value. This decrease came primarily from net investment losses ($16.2 billion) and benefit payments in excess of member and employer contributions ($3.3 billion) which was partially offset by net changes in other investment assets and liabilities ($1.1 billion). The investment portfolio, as invested, was composed of 32.4% common and preferred stocks (equity), 28.6% fixed income investments, 17.4% alternative investments, 9.9% real estate, 7.5% absolute return portfolios, and 4.2% commodities at June 30, 2009. The table immediately following the Investment Overview 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 the worst economic contraction in the United States since the Great Depression. The U.S. Gross Domestic Product (GDP) dropped by 2.7%, 5.4%, 6.4%, and 0.7% in the third quarter 2008, fourth quarter 2008, first quarter 2009, and second quarter 2009, respectively. The U.S. unemployment rate hit a cyclical low of 4.4% in March 2007, increased to 9.8% in September 2009, and is projected by some to eventually reach or exceed 10%. Coming into the fiscal year, the recent credit crises that started with the popping of the housing bubble and subprime meltdown reached a crescendo in September 2008 with numerous failures of large financial institutions. These included the federal government taking over Fannie Mae and Freddie Mac, the Lehman Brothers Holdings, Inc. bankruptcy, the AIG bailout by the federal government, and the Washington Mutual bankruptcy. These events and other financial stresses were driven by an extreme contraction in liquidity. In response, the U.S. Federal Reserve (the Fed) lowered the target Federal Funds rate to a 0.00% - 0.25% floor in the fourth quarter of 2008 and instituted numerous other quantitative easing programs to supply liquidity to the market. The Fed embarked on quantitative easing programs since they could not cut interest rates below 0.00%. The U.S. government started programs to help fill the void created by reduced economic activity in the private sector, such as the $787 billion fiscal stimulus package in February 2009. The size of the government purchases and guarantees was estimated by one of the System's managers to be over $29 trillion, or 200% of GDP.

A logical question arises as to how we have arrived here. While no one knows for certain, it appears that the credit/financial crisis can be traced back to lax underwriting standards for home loans during this decade which spawned a housing and credit bubble. This bubble allowed consumers to borrow against their homes, which significantly reduced homeowners' equity value (defined as fair market value of the house minus the outstanding mortgage balance). This borrowing helped to push the U.S. total debt as a percentage of GDP to 350%, much higher than the levels reached during the Great Depression (250%) and allowed the consumer to spend beyond his/her means as the savings rate in the United States went negative. Housing prices peaked in July 2006 and fell 31.3% by June 2009 according to the S&P/Case-Shiller Composite-20 Home Price Index which measures home prices in 20 metropolitan markets. This drop in home prices has led to a large number of consumers having zero or negative equity in their homes. As the ability of consumers to borrow against the equity in their homes ended, consumption slowed and the unemployment rate increased leading to a significant contraction in economic activity in the United States which spilled over to the world markets. The slowdown in spending was exacerbated by an estimated $14 trillion decline in consumer net worth. This contraction in consumer net worth led to an increased savings rate, which further decreased monies that can be used for consumption.

In this environment, equity, real estate, and commodity markets around the world had sharply negative returns during the fiscal year. The Morgan Stanley Capital International (MSCI) U.S. Broad Market Index, a U.S. equity index, returned -26.22% during the fiscal year. The past fiscal year saw the worst quarterly loss since the fourth quarter of 1987 (-22.76% in the quarter ended December 31, 2008) and the worst monthly loss since the crash of October 1987 (-17.65% in October 2008). Foreign markets in local currency terms fared equally as badly as the MSCI All-Country World (ACW) ex. U.S. Investable Market Index, an international equity index, which returned -24.12% when hedged back to the U.S. dollar. However, the unhedged MSCI ACWI ex. U.S. index returned -30.50%, much worse than the hedged index due to the strength of the U.S. dollar. The Venture Economics median return, a benchmark for alternative investments that represents the median performance of the venture capital/private equity industry listed in the Investment Benchmark Reports on Venture Capital and Buy-outs produced by Venture Economics, returned -13.36% during the fiscal year as these investments were written down to prices comparable to losses in the public equity markets. According to the FTSE EPRA/NAREIT Global Real Estate Index, a free-float index designed to track the performance of listed real estate companies and real estate investment trusts worldwide, global publicly traded real estate securities (PTRES) returned -35.22% during the past fiscal year. PTRES performance suffered due to the deterioration of credit markets, uncertain asset values, and the weakened outlook for the global economy. The Dow Jones – UBS Commodity Index, an index of 19 highly liquid and diversified commodities, returned -47.08% during the fiscal year as the severe economic contraction led to a decrease in economic growth projections and a resulting slowdown in demand for fuel and raw materials.

Fixed income markets performed better in this environment as interest rates fell and investors looked to reduce risk. The Barclays U.S. Universal Index, a U.S. fixed income index, was up 4.93% and the Barclays Multiverse Index, a global fixed income index, was up 2.54%. Returns in both of these indexes were driven by the Fed reducing the Fed Funds rate as well as falling inflation expectations due to the economic contraction. The Barclays U.S. TIPS Index, an index of U.S. treasury inflation protection securities, returned -1.11% driven by falling inflation expectations and slightly higher real yields.

As a result of the negative returns from domestic and international stock portfolios, alternative investments, real estate, and commodities, the System generated a total return of -26.54% for the one-year period ended June 30, 2009. This return fell short of the total fund Policy Index return of -20.67% by 587 basis points. Annualized total returns for the three-, five-, and ten-year periods ended June 30, 2009 were -4.26%, 2.68%, and 3.28%, respectively. The three-year returns ending June 30, 2009 fell short of the total fund Policy Index returns by 151 basis points while the five- and ten-year returns ending June 30, 2009 exceeded the total fund Policy Index returns by 17 and 82 basis points, respectively.

Wilshire calculates the total investment return of the System as well as the performance of each external investment management firm and each internal investment manager employed by the Board to invest the System's assets. Performance is calculated using a time-weighted return methodology.

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, 2009			
	1 Year	3 Years	5 Years	10 Years
PSERS Total Portfolio	**-26.54**	**-4.26**	**2.68**	**3.28**
Total Fund Policy Index	-20.67	-2.75	2.51	2.46
Median Public Defined Benefit Plan (DBP) Fund Universe (Wilshire Database)	-19.47	-3.61	2.39	2.71
PSERS Domestic Stock Portfolios	**-29.37**	**-9.90**	**-2.81**	**-0.49**
Domestic Equity Policy Index (1)	-26.30	-8.09	-1.58	-1.31
Median Public DBP Fund Universe - Domestic Equities (Wilshire Database)	-27.17	-8.95	-2.03	-0.94
PSERS International Stock Portfolios	**-25.66**	**-4.15**	**6.14**	**4.40**
International Equity Policy Index (2)	-27.01	-4.98	5.20	3.06
Median Public DBP Fund Universe - International Equities (Wilshire Database)	-31.11	-6.81	3.45	2.78
PSERS Domestic Fixed Income Portfolios	**-1.00**	**4.13**	**4.21**	**5.84**
Domestic Fixed Income Policy Index (3)	4.75	6.54	5.17	6.06
Median Public DBP Fund Universe - Domestic Bonds (Wilshire Database)	0.67	4.62	4.32	5.57
PSERS Global Fixed Income Portfolios	**0.98**	**5.17**	**4.98**	**5.80**
Global Fixed Income Policy Index (4)	2.54	6.46	5.40	6.03
Median Public DBP Fund Universe - Global Bonds (Wilshire Database)	1.38	5.17	4.98	5.88
PSERS Commodity Portfolios	**-45.09**	**N/A**	**N/A**	**N/A**
Dow Jones-UBS Commodity Index	-47.08	N/A	N/A	N/A
PSERS Real Estate (5)	**-42.68**	**-10.95**	**4.26**	**7.55**
Blended Real Estate Index (6)	-16.35	1.46	8.52	9.33
Median Public DBP Fund Universe - Real Estate (Wilshire Database)	-31.42	-5.41	5.44	7.92
PSERS Alternative Investments (5)	**-27.23**	**5.67**	**12.52**	**8.89**
Venture Economics Median Return, Vintage Year Weighted	-13.36	0.59	3.21	1.13
Median Public DBP Fund Universe - Private Equity (Wilshire Database)	-25.76	2.97	10.25	6.16

(1) MSCI U.S. Broad Market Index effective April 1, 2009; previously was the Dow Jones Wilshire 5000 Index.
(2) MSCI All Country World ex. U.S. Investable Market Index effective July 1, 2008; previously was the MSCI ACW ex. U.S. Index. The benchmark was 30% hedged to the U.S. dollar from July 1, 2006 to March 31, 2009; otherwise, the benchmark is unhedged.
(3) Returns presented are a blend of the Barclays Capital U.S. Universal Index (34.9%), Barclays Capital U.S. TIPS Index (Series-L) (23.2%), and Barclays U.S. High Yield Index (41.9%) effective April 1, 2009. The weights to these indexes have varied in previous quarters. Prior to April 1, 2007, the Barclays Capital Aggregate Bond Index was used in place of the Barclays Capital U.S. Universal Index.
(4) Barclays Multiverse Index effective April 1, 2007; previously was the Barclays Global Aggregate Bond Index.
(5) Returns reported on a one-quarter lag, except for publicly traded real estate security investments.
(6) Returns presented are a blend of the FTSE EPRA/NAREIT Global Real Estate Index (13.6%) and the NCREIF Index (86.4%). The NCREIF Index is reported on a one-quarter lag. Prior to October 1, 2007, the Dow Jones Wilshire Real Estate Securities Index was used in place of the FTSE EPRA/NAREIT Global Real Estate Index.

The System also is involved in a securities lending program administered by The Bank of New York Mellon Corporation. This program is designed to provide 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 $26.8 million in net losses during the year due to losses in the collateral reinvestment pool, primarily from investments in Sigma Finance, Inc., a structured investment vehicle that went bankrupt.

Accomplishments

The System decreased the actuarial investment rate of return assumption from 8.50% to 8.25% effective for the June 30, 2008 actuarial valuation. The Board also decreased the rate of return assumption further from 8.25% to 8.00% for the June 30, 2009 actuarial valuation. This was in expectation that the prospective returns from investment markets will be lower due to anticipated slower growth and a deleveraging of the U.S. economy. This 0.50% decrease has allowed the System to modify its asset allocation plan during FY 2009 to achieve this new return target with lower overall risk.

The System added and fully funded an allocation to cash during the fourth quarter of FY 2009 to provide for current and future liquidity needs. Given the current commitments the System has to alternative investments and real estate, as well as monthly benefit payments in excess of employer and member contributions, the System felt it prudent to allocate to cash. This allocation allows the System to fund these needs without selling assets at inopportune times.

The System continued its efforts to diversify its market exposures during the fourth quarter of FY 2009 as the target allocation to absolute return mandates, an asset class used as a risk diversifier added during the current fiscal year, was fully funded.

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 2009, the System continued the process of migrating its real estate and alternative investment portfolios to its internal accounting software provided by Financial Control Systems, Inc. and continued to develop various management reports using the internal accounting software.

Market Update

Subsequent to the close of FY 2009, the equity markets continued a broad rally that started in the middle of March 2009 as the domestic and international economies appeared to be bottoming and a number of "green shoots", or positive economic statistics, were starting to be priced by the market. For the quarter ended September 30, 2009, the MSCI U.S. Broad Market Index was up 16.47% while the MSCI ACW ex. U.S. Investable Market Index was up 20.05%. Fixed income markets also performed well as credit spreads continued to narrow and interest rates remained low. The Barclays U.S. Universal Index was up 4.48% during the quarter while the Barclays Multiverse Index was up 6.48%. Commodities also had a positive return for the quarter as the Dow Jones – UBS Commodity index was up 4.25%. The System's assets have increased by over $2 billion during the quarter ended September 30, 2009 as a result of positive investment performance offset partially by benefit payments in excess of member and employer contributions. The estimated return for the quarter was approximately 8.50%.

Summary

The System had a very challenging fiscal year ended June 30, 2009. The worst economic contraction since the Great Depression, deflating housing bubble, rising unemployment rate, and the credit crisis led to negative returns for most risk assets, including global equity markets, alternative investments, real estate, and commodities. For the fiscal year ended June 30, 2009, the System was unable to meet or exceed its long-term actuarial investment rate of return assumption of 8.0% on a three-, five-, or ten-year basis. While we believe that we are in the midst of a challenging period for asset returns, we continue to believe that the System's asset allocation is structured to generate a long-term return that meets or exceeds the targeted actuarial rate of return assumption of the System for years to come.

Alan H. Van Noord, CFA
Chief Investment Officer

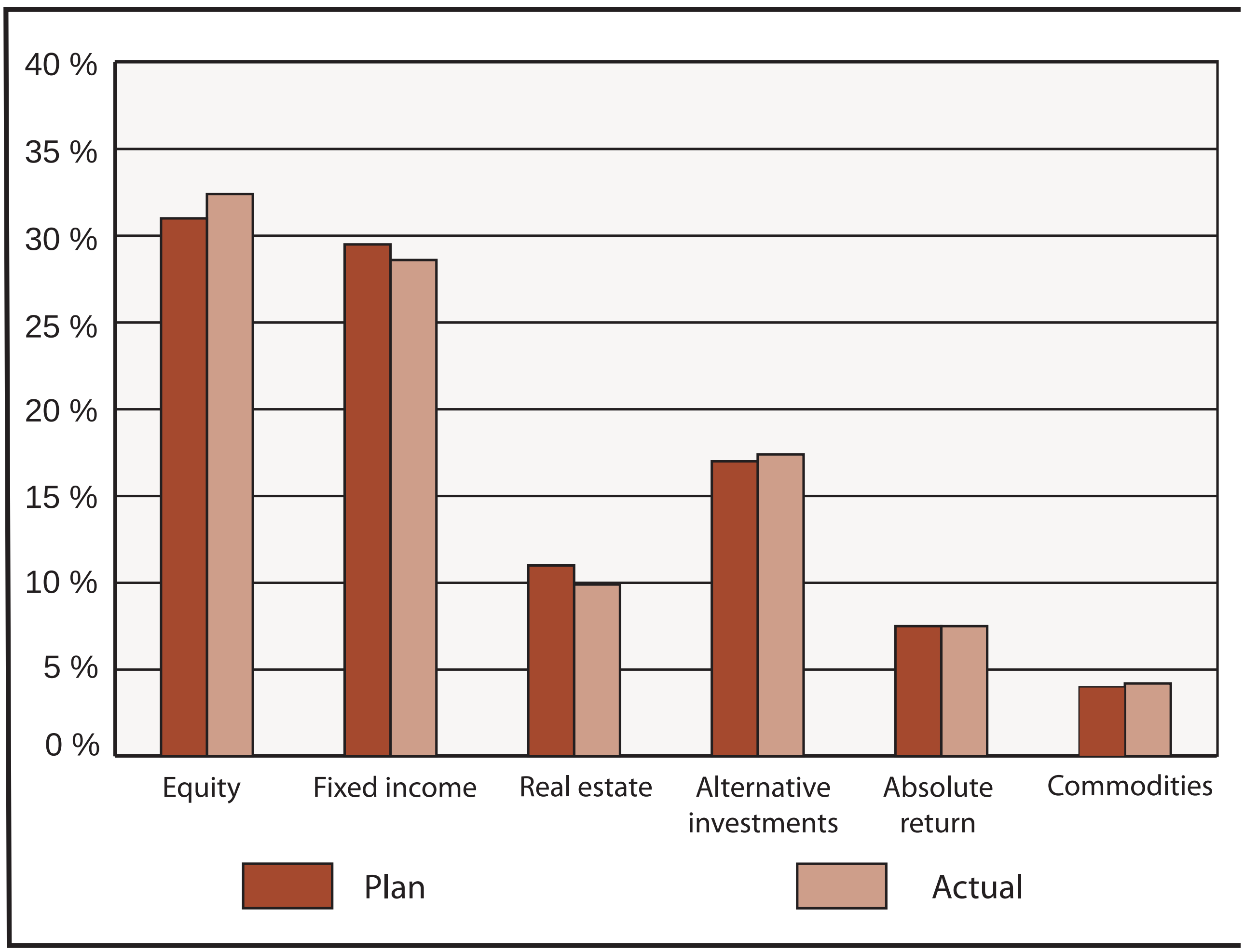
Portfolio Summary Statistics
Asset Allocation
As of June 30, 2009
(Dollar Amounts in Thousands)

Pension investments		Fair Value ($)	% Fair Value
Common and preferred stock (Equity):			
Domestic common and preferred stock	$	3,073,854	7.1%
Collective trust funds		3,929,724	9.1%
International common and preferred stock		6,879,794	16.0%
Subtotal per Statement of Plan Net Assets		13,883,372	32.2%
Net Asset Allocation Adjustment*		100,719	0.2%
Total Common and preferred stock - Asset Allocation Basis		**13,984,091**	**32.4%**
Fixed income:			
Domestic mortgage-backed securities		3,740,617	8.9%
U.S. government and agency obligations		1,416,505	3.3%
Domestic corporate and taxable municipal bonds		2,271,173	5.3%
Miscellaneous domestic fixed income		456,144	1.1%
Collective trust funds		2,529,667	5.9%
International fixed income		919,443	2.1%
Subtotal per Statement of Plan Net Assets		11,333,549	26.6%
Net Asset Allocation Adjustment*		870,053	2.0%
Total Fixed income - Asset Allocation Basis		**12,203,602**	**28.6%**
Real estate:			
Equity real estate		3,493,360	8.1%
Directly-owned real estate		205,993	0.5%
Subtotal per Statement of Plan Net Assets		3,699,353	8.6%
Net Asset Allocation Adjustment*		545,657	1.3%
Total Real estate - Asset Allocation Basis		**4,245,010**	**9.9%**
Alternative investments:			
Private equity		5,047,201	11.7%
Private debt		3,283,060	7.6%
Venture capital		698,671	1.6%
Subtotal per Statement of Plan Net Assets		9,028,932	20.9%
Net Asset Allocation Adjustment*		-1,520,666	-3.5%
Total Alternative investments - Asset Allocation Basis		**7,508,266**	**17.4%**
Absolute return:			
Net Asset Allocation Adjustment*		3,237,921	7.5%
Total Absolute return - Asset Allocation Basis		**3,237,921**	**7.5%**
Commodities:			
Net Asset Allocation Adjustment*		1,820,575	4.2%
Total Commodities - Asset Allocation Basis		**1,820,575**	**4.2%**
Pension investments - Asset Allocation Basis	$	**42,999,465**	**100.0%**
Net pension investment payable		150,159	
Pension investments per Statement of Plan Net Assets	$	**43,149,624**	
Postemployment Healthcare investments	$	**194,311**	**100.0%**

* Includes Short-term investments which are allocated to the asset class of the investment manager which holds them, reclassifications of certain investments between asset classes and investment receivables\payables to adjust the Statement of Plan Net Assets' classification to the basis used to measure Asset Allocation. See the table and graph which follow.

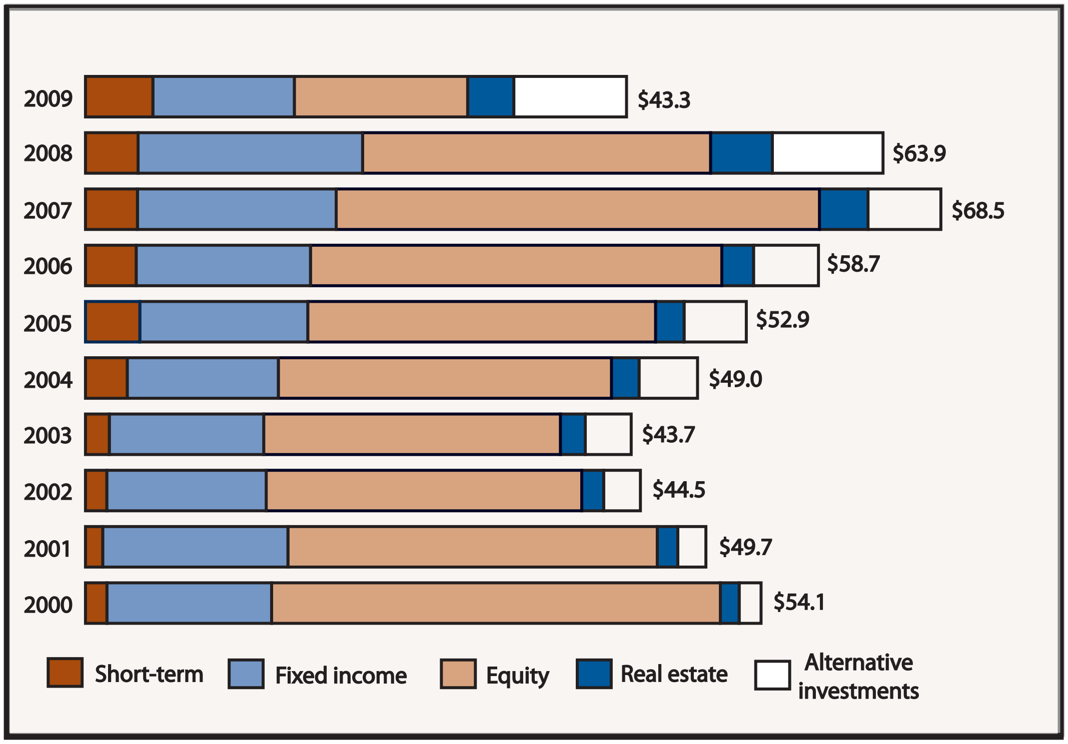
Comparison of Actual Portfolio Distribution
to Asset Allocation Plan
As of June 30, 2009

Asset Category	Plan	Actual
Common and preferred stock (Equity)	31.0%	32.4%
Fixed income	29.5%	28.6%
Real estate	11.0%	9.9%
Alternative investments	17.0%	17.4%
Absolute return	7.5%	7.5%
Commodities	4.0%	4.2%
Total	100.0%	100.0%



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, Press Secretary, 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, 2009

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Security Capital Preferred Growth	16,299	137,374
Exxon Mobil Corporation	1,342	93,786
Wyeth	1,678	76,159
Chevron Corporation	633	41,961
Microsoft Corporation	1,667	39,619
Johnson & Johnson	592	33,620
Procter & Gamble Company	624	31,866
AT&T Inc.	1,229	30,534
IBM	285	29,714
JP Morgan Chase & Company	834	28,454
Total of 10 Largest Holdings		**543,087**
Total System Holdings - Domestic Common and Preferred Stock		**3,073,854**

Collective Trust Funds - Common and Preferred Stock
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2009
(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Bridgewater Pure Alpha Fund II Ltd.	675	846,817
Barclays Global Ascent Ltd.	500	630,226
AQR Offshore Multi-Strategy Fund Ltd.	8	588,229
First Quadrant Global Macro Fund Ltd.	5,505	511,680
Wellington Trust Company Commodities II Portfolio	29,542	224,224
Barclays Global Investors Capital Structure Investments Fund Ltd.	198	203,025
Boston Company US Micro Cap Hedge Fund	149	181,712
Barclays Global Investors 32 Capital Fund Ltd.	158	141,939
Barclays Global Investors Emerging Markets Alpha Advantage Fund Ltd.	85	126,265
Barclays Global Investors Emerging Markets Strategic Insights Fund	4,014	125,359
Total of 10 Largest Holdings		**3,579,476**
Total System Holdings - Collective Trust Funds- Common and Preferred Stock		**3,929,724**

International Common and Preferred Stock
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2009
(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Nestle SA	2,228	83,822
BP PLC	9,804	77,145
Royal Dutch Shell Class A	2,503	64,618
HSBC Holdings PLC	6,643	57,641
Toyota Motor Corporation	1,297	49,326
Roche Holding AG	357	48,536
Vodafone Group PLC	25,015	48,281
BHP Billiton Limited	1,628	45,695
Novartis AG	1,111	44,998
Petroleo Brasileiro SA	1,164	38,830
Total of 10 Largest Holdings		**558,892**
Total System Holdings - International Common and Preferred Stock		**6,879,794**

Fixed Income

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2009

(Dollar Amounts and Shares in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value($) or No. of Shares	Fair Value ($)
Brigade Leveraged Capital Fund	N/A	N/A	754	804,389
Barclays US Extended Core Global Alpha Fund	N/A	N/A	589	636,746
Bridgewater Int'l Inflation-Linked Bond Fund	N/A	N/A	332	354,044
Bridgewater U.S. Inflation-Linked Bond Fund	N/A	N/A	243	239,873
PIMCO Abs. Return Strategy V Offshore Fund	N/A	N/A	156	173,898
U.S. Treasury - Inflation Index	01/15/15	1.625	173,084	172,488
U.S. Treasury - Inflation Index	01/15/25	2.375	165,411	170,011
PIMCO Global Credit Opport.Offshore Fund	N/A	N/A	143	145,556
U.S. Treasury - Inflation Index	01/15/11	3.500	122,498	127,972
U.S. Treasury - Inflation Index	01/15/26	2.000	108,168	105,903
Total of 10 Largest Holdings				**2,930,880**
Total System Holdings - Fixed Income				**11,333,549**

Postemployment Healthcare Investments

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2009

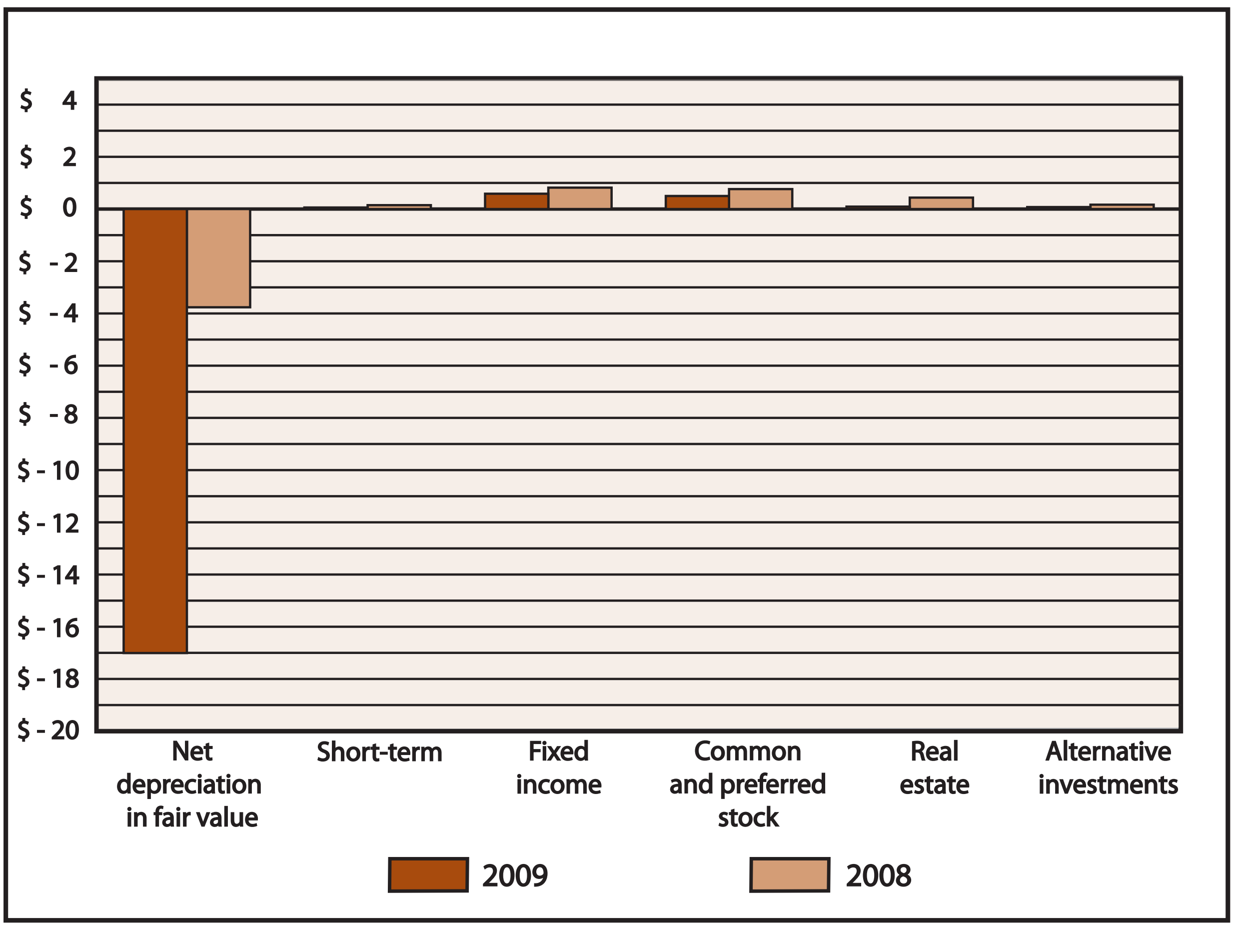
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
PSERS Short-Term Investment Fund	Various	Various	111,746	111,746
M & T Bank Repurchase Agreement	07/01/09	0.009	21,433	21,433
M & T Bank Repurchase Agreement	07/01/09	0.009	13,055	13,055
FHLMC Multiclass 2090 Class PK	10/15/13	5.490	3,785	3,968
FHLMC Multiclass 2759 Class GB	04/15/25	5.000	3,000	3,074
FHLMC Multiclass 1609 Class FA	02/15/22	6.500	2,633	2,664
FHLMC Multiclass 2608 Class FJ	03/15/17	0.688	2,334	2,321
FHLMC Multiclass 2638 Class FA	11/15/16	0.688	2,287	2,266
FHLMC Multiclass 2960 Class BG	06/15/21	5.000	2,158	2,217
FHLMC Multiclass 2611 Class UB	06/15/16	4.000	1,977	2,023
Total of 10 Largest Holdings				**164,767**
Total System Holdings - Postemployment Healthcare Investments				**194,311**

Comparison of Investment Activity Income
For Fiscal Years Ended June 30, 2009 and 2008
(Dollar Amounts in Thousands)

Investing Activities	**2009**	2008
Net depreciation in fair value of investments	**$ (17,008,184)**	$ (3,763,381)
Short-term	**58,958**	149,194
Fixed income	**587,007**	820,338
Common and preferred stock	**500,001**	763,615
Real estate	**92,515**	437,880
Alternative investments	**75,776**	167,052
Total investment activity income (loss)	**$ (15,693,927)**	$ (1,425,302)

(Dollar Amounts in Billions)



Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2009 were $23.6 million. The System has commission recapture contracts with several brokers. These contracts generally stipulate that the brokers rebate a percentage of commissions earned on investment transactions directly to the System. During the fiscal year ended June 30, 2009, the System earned $1 million from the 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, 2009

Broker Name	Fees Paid ($)	Broker Name	Fees Paid ($)
JP Morgan	1,644,416	Exane Securities	296,654
Merrill Lynch	1,506,658	Jefferies & Company Incorporated	278,979
UBS Securities	1,375,643	ITG Securities	268,182
Credit Suisse	1,230,582	Chevreux International	265,170
Instinet Corporation	1,033,706	CLSA Limited	260,275
Goldman Sachs & Company	1,024,964	Weeden & Company	231,887
Deutsche Bank	917,903	HSBC Securities	222,411
Citigroup/Salomon	827,124	ABN AMRO	213,019
Jones & Associates	788,512	Daiwa Securities	183,845
SG Securities	714,231	G-Trade Services	140,696
Credit Lyonnais Securities	594,003	Sanford Bernstein & Company	139,772
Macquaries Equities	592,636	Raymond James & Associates	133,294
Knight Securities	581,215	Samsung Securities	122,881
Morgan Stanley & Company	599,173	B-Trade Services, LLC	112,992
Nomura Securities International	511,803	Lehman Brothers	108,970
Liquidnet Incorporated	493,430	Mitsubishi Bank	102,472
Cazenove Incorporated	385,100	Stifel Nicolaus & Company	101,345
BNY Convergex	357,162	Goldman Redi	100,121
Cantor, Fitzgerald & Company	338,626		

Professional Consultants
External Investment Advisors
As of June 30, 2009

Absolute Return Managers

- Acorn Derivatives Management Corporation
- AQR Capital Management, LLC
- Barclays Global Investors, N.A.
- Boston Company Asset Management, LLC (The)
- Bridgewater Associates, Inc.
- First Quadrant
- FX Concepts, Inc.
- Pacific Investment Management Company

U.S. Style-Oriented Small Cap Equity Managers

- Emerald Advisers, Inc.
- First Pacific Advisors, Inc.

U.S. Micro Cap Equity Managers

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

Publicly-Traded Real Estate Securities Managers

- Cohen & Steers Capital Management, Inc.
- European Investors, Inc.
- LaSalle Investment Management
- Morgan Stanley Investment Management, Inc.
- Security Capital Research & Management, Inc.

Non-U.S. Large Cap Equity Managers

- Baillie Gifford Overseas, Ltd.
- Barclays Global Investors, NA
- Marathon Asset Management Ltd.
- Martin Currie, Inc.
- Mercator Asset Management, LP

Non-U.S. Small Cap Equity Managers

- Acadian Asset Management
- AXA Rosenberg Investment Management, LLC
- Batterymarch Financial Management, Inc.

Professional Consultants (Continued)

Non-U.S. Small Cap Equity Managers (Continued)

- GlobeFlex Capital, LP
- Munder Capital Management
- Oberweis Asset Management, Inc.
- Pyramis Global Advisors
- Victory Capital Management
- Wasatch Advisors, Inc.

Non-U.S. Emerging Markets Equity Managers

- Batterymarch Financial Management, Inc.
- Boston Company Asset Management, LLC (The)
- Templeton Investment Counsel, Inc.
- Wasatch Advisors, Inc.
- Wellington Management Company, LLP
- William Blair & Company, LLC

Enhanced Commodity Index Managers

- Credit Suisse Asset Management, LLC
- Neuberger Berman Alternative Fund Management, LLC

Full Discretion Commodity Managers

- Deutsche Asset Management
- Schroders Investment Management North America
- Wellington Management Company, LLP

U.S. Core Plus Fixed Income Managers

- Aberdeen Asset Management, Inc.
- Barclays Global Investors, NA
- BlackRock Financial Management, Inc.
- Pacific Investment Management Company
- Western Asset Management Company

U.S. High Yield Fixed Income Manager

- MacKay-Shields Financial Corporation

Global Core Plus Fixed Income Managers

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

Professional Consultants (Continued)

Emerging Markets Debt Manager

- Franklin Templeton Investments

Global Treasury Inflation - Protected Securities Manager

- Bridgewater Associates, Inc

Active Currency Hedging Overlay Program Manager

- Pareto Investment Management, Ltd.

LIBOR-Plus Short-Term Investment Manager

- BlackRock Financial Management, Inc.

Credit Opportunities Managers

- BlackRock Mortgage (Offshore) Investors, LP
- Brigade Leveraged Capital Structures Offshore, Ltd.
- Hyperion Brookfield Asset Management, Inc.
- LBC Credit Partners II, LP
- Oaktree Loan Fund 2x, LP
- Sankaty Credit Opportunities IV, LP
- Sankaty Managed Account (PSERS), LP
- TCW Asset Management Company
- TCW Credit Opportunities Fund, LP

Real Estate Advisors

- Charter Oak Advisors, Inc.
- GF Management, Inc.
- Grandbridge Real Estate Capital, LLC
- Grosvenor Investment Management U.S., Inc.
- L&B Realty Advisors, LLP

Real Estate Partnerships

- Apollo European Real Estate Fund III, LP
- Apollo Real Estate Finance Corporation
- AREFIN Co-Invest Corporation
- AvalonBay Value Added Fund I & II, LP
- Avenue Real Estate Fund Parallel, LP
- Beacon Capital Strategic Partners V, LP
- Berwind Investment Partnership IV, V & VI, LP
- Blackstone Real Estate Partners V & VI.TE.1, LP
- BPG Co-Investment Partnership, LP
- Broadway Partners Real Estate Fund III, LP
- Cabot Industrial Value Fund III, LP

Professional Consultants (Continued)

Real Estate Partnerships (Continued)

- Carlyle Europe Real Estate Partners III-A, LP
- Carlyle Realty Partners III, IV & V, LP
- Centerline Diversified Risk CMBS Fund I & II, LLC
- Centerline High Yield CMBS Fund III, LLC
- Centerline Real Estate Special Situations Mortgage Fund, LLC
- Cornerstone Patriot Fund, LP
- CS Strategic Partners IV RE, LP
- CSFB Strategic Partners II & III RE, LP
- DLJ Real Estate Capital Partners II, III & IV, LP
- DRA Growth and Income Fund VI, LLC
- Fillmore West Fund, LP
- Five Arrows Realty Securities V, LP
- Fortress Investment Fund I, IV & V, LP
- Hines U.S. Office Value Added Fund, LP
- JPMCB Strategic Property Fund
- Legg Mason Real Estate Capital I & II, Inc.
- Lehman Brothers Real Estate I, II & III, LP
- LEM Real Estate Mezzanine Fund II, LP
- LF Strategic Realty Investors I & II, LLC
- Lubert-Adler Real Estate Fund II, III, IV, V & VI, LP
- Madison Marquette Retail Enhancement Fund, LP
- MGPA Asia Fund III, LP
- MGPA Europe Fund III, LP
- Morgan Stanley Real Estate Fund II, LP
- Morgan Stanley Real Estate Fund IV Special Domestic, LP
- Morgan Stanley Real Estate Fund IV, V, & VI Special International, LP
- Morgan Stanley Real Estate Fund V Special U.S., LP
- Morgan Stanley Real Estate Fund VII Global, LP
- O'Connor North American Property Partners I & II, LP
- Paladin Realty Latin America Investors III, LP
- Peabody Global Real Estate Partners, LP
- Prime Property Fund, LLC
- PRISA
- ProLogis North American Industrial Fund, LP
- RCG Longview Debt Fund IV, LP
- RCG Longview Equity Fund, LP
- RREEF America REIT II, Inc.
- Stockbridge Real Estate Fund I, II & III, LP
- Strategic Partners Value Enhancement Fund, LP
- UBS (US) Trumbull Property Fund, LP
- Westbrook Real Estate Fund I, LP
- Whitehall Street Real Estate V, VI, VII, & VIII , LP
- William E. Simon & Sons Realty Partners, LP

Farmland Advisor

- Prudential Agricultural Group

Professional Consultants (Continued)

Private Equity/Venture Capital Partnerships

- ABS Capital Partners II, LP
- Actis Emerging Markets 3, LP
- Adams Capital Management, LP
- Aisling Capital Partners II & III, LP
- Allegheny New Mountain Partners, LP
- Apax Europe VII, LP
- Baring Asia Private Equity Fund III & IV, LP
- BG Media Investors, LP
- Blue Point Capital Partners (B) I & II, LP
- Bridgepoint Capital II Partnership, LP
- Bridgepoint Europe IA, IIA, IIIA and IV , LP
- Bruckmann, Rosser, Sherrill & Company, LP
- Capital International Private Equity Fund V, LP
- Catterton Growth Partners, LP
- Catterton Partners V & VI, LP
- Cinven Fund (Fourth), LP (The)
- Clarity Partners I & II, LP
- Co-Investment 2000 Fund, LP (The)
- Co-Investment Fund II, LP (The)
- Credit Suisse First Boston Equity Partners, LP
- Credit Suisse First Boston International Equity Partners, LP
- Crestview Capital Partners I, LP
- Cross Atlantic Technology Fund I & II, LP
- CSFB Strategic Partners II, III-B, & III-VC, LP
- CS Strategic Partners Fund IV & IV-VC, LP
- CVC Capital Partners Asia Pacific III, LP
- CVC European Equity Partners V, LP
- Deutsche European Partners IV, LP
- DLJ Merchant Banking Partners III, LP
- DLJ Strategic Partners, LP
- Dubin Clark Fund II, LP
- Edgewater Growth Capital Partners, LP
- Edgewater Private Equity Fund III, LP
- Edison Venture Fund III, LP
- Evergreen Pacific Partners I & II, LP
- First Reserve Fund XI & XII, LP
- Franklin Capital Associates III, LP
- Furman Selz Investors II & III, LP
- Graham Partners Investments (B), LP
- Green Equity Investors II, LP
- Greenpark International Investors III, LP
- Greenwich Street Capital Partners II, LP
- Halifax Capital Partners, LP
- Heritage Fund I, LP
- HSBC Private Equity Fund 6, LP
- Irving Place Capital Partners II & III, LP
- Jefferies Capital Partners IV, LP
- Jefferson Partners Fund IV (PA), LP

Professional Consultants (Continued)

Private Equity/Ventue Capital Partnerships (continued)

- KBL Healthcare Ventures, LP
- KKR 2006 Fund, LP
- KRG Capital Fund I, II, III & IV, LP
- Landmark Equity Partners II, III, IV, V, XIII & XIV, LP
- Landmark Mezzanine Partners, LP
- Lehman Brothers Communications Investors, LP
- Lehman Brothers Merchant Banking Partners II, LP
- Lexington Capital Partners I, LP
- Lindsay, Goldberg & Bessemer, LP
- LLR Equity Partners I, II & III, LP
- Milestone Partners II & III, LP
- Morgan Stanley Dean Witter Capital Partners IV, LP
- Navis Asia Fund V, LP
- NEPA Venture Fund II, LP
- New Mountain Partners I & III, LP
- New York Life Capital Partners, I, II, III & IV, LP
- Nordic Capital VII Beta, LP
- Novitas Capital I & II, LP
- P/A Fund (The)
- PAI Europe III, IV & V, LP
- Palladium Equity Partners II-A, LP
- Partners Group Secondary 2008, LP
- Permira IV, LP
- Perseus-Soros BioPharmaceutical Fund, LP
- Platinum Equity Capital Partners-A I & II, LP
- PNC Equity Partners I & II, LP
- Providence Equity Partners VI, LP
- Psilos Group Partners III, LP
- Quadrangle Capital Partners I & II, LP
- Quaker BioVentures I & II, LP
- SCP Private Equity Partners I & II, LP
- StarVest Partners I & II, LP
- Sterling Capital Partners, LP
- Sterling Venture Partners, LP
- TDH III, LP
- Tenaya Capital IV-P & V, LP
- TL Venture III, LP
- TPG Partners II, V & VI, LP
- Trilantic Capital Partners IV, LP
- U.S. Equity Partners II, LP
- Wicks Communications & Media Partners, LP
- Willis Stein & Partners, LP

Private Debt Partnerships

- Avenue Asia Special Situations Fund II, III & IV, LP
- Avenue Europe Special Situations Fund, LP

Professional Consultants (Continued)

Private Debt Partnerships (continued)

- Avenue Special Situations Fund II, III, IV& V, LP
- Cerberus Institutional Partners, LP (Series Two, Three and Four)
- Gleacher Mezzanine Fund I & II, LP
- Gold Hill Venture Lending 03-A, LP
- GSC Partners CDO Investors III & IV, LP
- GSC Recovery II & III, LP
- NYLIM Mezzanine Partners Parallel Fund I & II, LP
- OCM Opportunities Fund VII & VII-B, LP
- Versa Capital Fund I & II, LP
- Windjammer Senior Equity Fund III, LP

Public Market Emerging Investment Program Managers

- AH Lisanti Capital Growth, LLC
- Ativo Capital Management, LLC
- Biondo Group, LLC (The)
- Conestoga Capital Advisors
- Denali Advisors, LLC
- Great Companies, Inc.
- Hanseatic Management Services, Inc.
- Harvest Fund Advisors, LLC
- John Hsu Capital Group, Inc.
- Opus Capital Management
- Piedmont Investment Advisors
- Pugh Capital Management, Inc.
- Shah Capital Management, Inc.
- Stillwater Capital Partners, Inc.
- Zacks Investment Management, Inc.

Alternative Investment Consultant

- Portfolio Advisors, LLC

Custodian and Securities Lending Agent

- The Bank of New York Mellon Corporation

Investment Accounting Application Service Provider

- Financial Control Systems, Inc.

Investment Evaluator and General Investment Consultant

- Wilshire Associates, Inc.

Professional Consultants (Continued)

Proxy Voting Agent

- Glass, Lewis & Co., LLC

Real Estate Investment Consultant

- Courtland Partners, Ltd.

Actuarial

- *Actuary's Letter*
- *Valuation Results*
- *History of Rates*
- *Membership Details*
- *Assumptions and Methods*

buckconsultants
an ACS company

February 6, 2009

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 (Retirement System or PSERS) as of June 30, 2008.

The valuation takes into account all of the promised benefits to which members are entitled as of June 30, 2008, including pension and survivor benefits, and as required by the Public School Employees' Retirement Code, 24 Pa. C.S. §8101 et. seq. (Retirement Code) is the basis for the contribution rate for fiscal year 2009/2010.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees. As adopted by the Board of Trustees at their January 2009 meeting, the valuation interest rate was changed to 8.25% for the June 30, 2008 valuation and to 8.00% for all future valuation years.

The actuarial assumptions and methods for financial reporting meet the parameters set forth in Governmental Accounting Standards Board (GASB) Statements No. 25, 43, and 50, and are unchanged from the prior valuation. The actuarial assumptions and methods for GASB 25 disclosure are the same as for pension funding, except that in fiscal years in which the amortization requirements of the Retirement Code result in an equivalent single amortization period that is longer than 30 years, the GASB 25 amortization payment will be determined based on 30-year level-dollar funding. The Health Insurance funding provisions of the Retirement Code differ from the GASB 43 disclosure retirements. For funding purposes the actuarial liability equals the assets in the health insurance account, and a contribution is determined that will assure the solvency of the account through the third fiscal year following the valuation date. For purposes of GASB 43 disclosure the Health Insurance actuarial liability and normal cost requirements have been determined under the entry age actuarial cost method, with 30-year level dollar funding. (The entry age actuarial cost method meets the GASB 43 parameters for determining actuarial liability and normal cost, and is the cost method specified by the Retirement Code for the PSERS pension plan.)

500 Plaza Drive • Secaucus, NJ 07096-1533
201.902.2300 • 201.902.2450 (fax)

The Retirement Board
Public School Employees'
Retirement System of Pennsylvania
February 6, 2009
Page 2

Assets and Membership Data

The Retirement System reported the individual data for members of the Retirement 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 2009/2010 is 4.78%. As of June 30, 2008, the total funded ratio of the plan (for Pensions and Health Insurance combined) is 86.0%, based on the accrued liability and actuarial value of assets calculated under the funding requirements of Section 8328 of the Retirement Code.

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 the PSERS Comprehensive Annual Financial Report (CAFR), and also prepared the trend data schedules included in the Financial Section of the CAFR.

The report does not take into account broad declines in U.S. equity and bond prices, and increases in bond yields, that have occurred after the valuation date. Taking these into account may significantly reduce the market and actuarial value of assets shown. The effect of these events on any funded ratios shown, and on Retirement System calculations, is not known. Retirement System funding and financial accounting rules generally prohibit reflection of changes in assets and underlying economic conditions that occur after the valuation date.

Qualified actuaries completed the valuation 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,

Janet Cranna, FSA, MAAA, EA	Dana Spangher, FSA, MAAA, EA	Edward Quinn, MAAA, EA
Principal, Consulting Actuary	Director, Consulting Actuary	Director, Retirement Actuary

Executive Summary

This report presents the actuarial valuation as of June 30, 2008 for the Public School Employees' Retirement System of Pennsylvania.

The principal valuation results include:

- The employer contribution rate for fiscal year 2009/2010, which is 4.78%.
- The total funded ratio of the plan determined as of June 30, 2008 under the funding requirements of Section 8328 of the Retirement Code, which is 86.0% based on the accrued liability and the actuarial value of assets for Pensions and Health Insurance as of that date.
- The determination of the actuarial gain or loss as of June 30, 2008, which is a gain of $1.9 billion.
- Annual disclosures as of June 30, 2008 as required by Statements No. 25, 43, and 50 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 the PSERS Comprehensive Annual Financial Report (CAFR), and also prepared the trend data schedules included in the Financial Section of the CAFR.

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

As adopted by the Board of Trustees at their January 2009 meeting, the valuation interest rate was changed to 8.25% for the June 30, 2008 valuation.

The actuarial assumptions and methods are outlined in Table 12.

Contribution Rates

The results of the valuation as of June 30, 2008 determine the employer contribution rate for fiscal year 2009/2010. The calculated employer contribution rate for the 2009/2010 fiscal year is 4.78%, and the Board of Trustees certified this rate at their December 2008 meeting.

The average contribution rate payable by the members is 7.32%. Effective January 1, 2002, the employee contribution rate for members who elected to have prior school service and intervening military service converted to Class T-D service increased by 1.25%. However, anyone who enrolls (or re-enrolls) in PSERS on or after July 1, 2001 is *automatically* a member of Class T-D with regard to all subsequent school service and subsequent intervening military service, with a member rate equal to 7.5%. The average member contribution rate of 7.32% is a pay-weighted average of member rates that vary based on date of hire and based on Class T-D membership.

Reasons for Change in the Rate Calculated by the Actuary

The employer contribution rate calculated by the actuary increased from 4.76% for fiscal year 2008/2009 to 4.78% for fiscal year 2009/2010. The reconciliation of the employer contribution rates by source is as follows:

• FY2008/2009 rate after adjustment for pension floor	4.76%
• Adjustment due to effect of 4% floor on FY 2009 pension contribution	(0.69)
• FY 2008 /2009 rate prior to adjustment for pension floor	4.07%
• Decrease due to change in normal rate	(0.02)
• Increase due to payroll growth	0.11
• Decrease due to actuarial gain on assets	(1.71)
• Increase due to actuarial loss on liabilities	0.22
• Increase due to change in interest rate from 8.50% to 8.25%	1.72
• Increase due to change in health insurance contribution rate	0.02
• FY 2009/2010 rate prior to adjustment for pension floor	4.41%
• Adjustment due to effect of 4% floor on FY 2010 pension contribution	0.37
• FY2009/2010 rate after adjustment for pension floor	4.78%

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, 2008. Comparable results from the June 30, 2007 valuation are also shown.

Item	June 30, 2008	June 30, 2007
Demographics		
Active Members		
• Number	272,690	264,023
• Average Annual Pay	$ 43,718	$ 43,217
Annuitants		
• Number	173,540	168,026
• Average Annual Benefit Payment	$ 21,963	$ 20,970
Contribution Rates (as a Percentage of Payroll)	(Fiscal Year 2009/2010)	(Fiscal Year 2008/2009)
Employer Contribution Rate:		
• Total Pension Contribution Rate	4.00%	4.00%
• Health Insurance Contribution Rate	0.78	0.76
• Total Contribution Rate Calculated by Actuary	4.78%	4.76%
• Total Contribution Rate Certified by Board	4.78%	4.76%
Member Average Contribution Rate	7.32	7.29
• Total Rate	12.10%	12.05%
Actuarial Funded Status*		
• Accrued Liability	$ 70,941.4 Mil	$ 66,593.1 Mil
• Actuarial Value of Assets	61,017.9	57,155.1
• Unfunded Accrued Liability	$ 9,923.5	$ 9,438.0
• Funded Ratio	86.0%	85.8%
*Pensions and Health Insurance combined		

Five-Year History of Principal Financial Results

Five-Year History of Contribution Rates

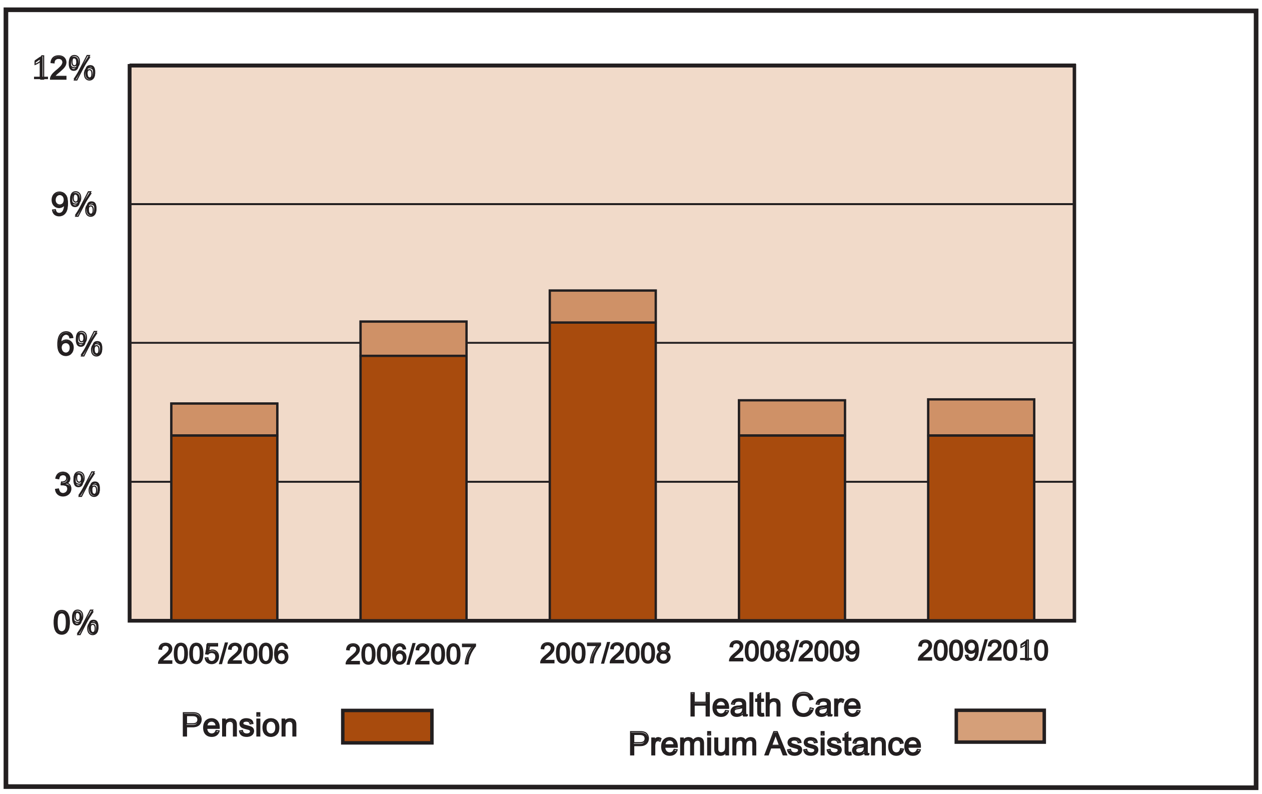
(As a % of Payroll)

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Insurance	Total*
2009/2010	7.32%	7.35%	(3.72)%	0.78%	4.78%
2008/2009	7.29	6.68	(3.37)	0.76	4.76
2007/2008	7.25	6.68	(0.24)	0.69	7.13
2006/2007	7.21	6.62	(0.95)	0.74	6.46
2005/2006	7.16	7.61	(4.28)	0.69	4.69

* Certified by the Board.

The following chart shows a five-year history of employer contribution rates:

Five-Year History of Employer Contribution Rates



Funded Ratio

The financing objective of the Retirement 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 4.78% of payroll payable by employers, when taken together with the contributions payable by the members, current assets, and expected future asset returns, is sufficient to achieve the financing objective.

The Retirement System's total funded ratio on this 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 for Pensions is the present value of benefits accumulated to date under the Retirement System's funding method and reflects future pay increases for active employees. The accrued liability for Health Insurance equals the assets in the Health Insurance account.

On this basis, the Retirement System's total funded ratio (for Pensions and Health Insurance combined) is 86.0% as of June 30, 2008. This funded ratio is based on an actuarial value of assets of $61.0 billion and an accrued liability of $70.9 billion. The funded ratio for Pensions alone is also 86.0% as of June 30, 2008, based on an actuarial value of assets of $60.9 billion, and an accrued liability of $70.8 billion.

Reasons for Change in the Total Funded Ratio

The total funded ratio increased from 85.8% as of June 30, 2007 to 86.0% as of June 30, 2008. This increase is primarily due to asset gains that occurred during the year. These gains were partially offset by liability losses and assumption changes, and by contributions that were less than the normal cost plus one year's interest on the June 30, 2007 unfunded accrued liability.

Five-Year History of Total Funded Ratio*

(Dollar Amounts in Millions)

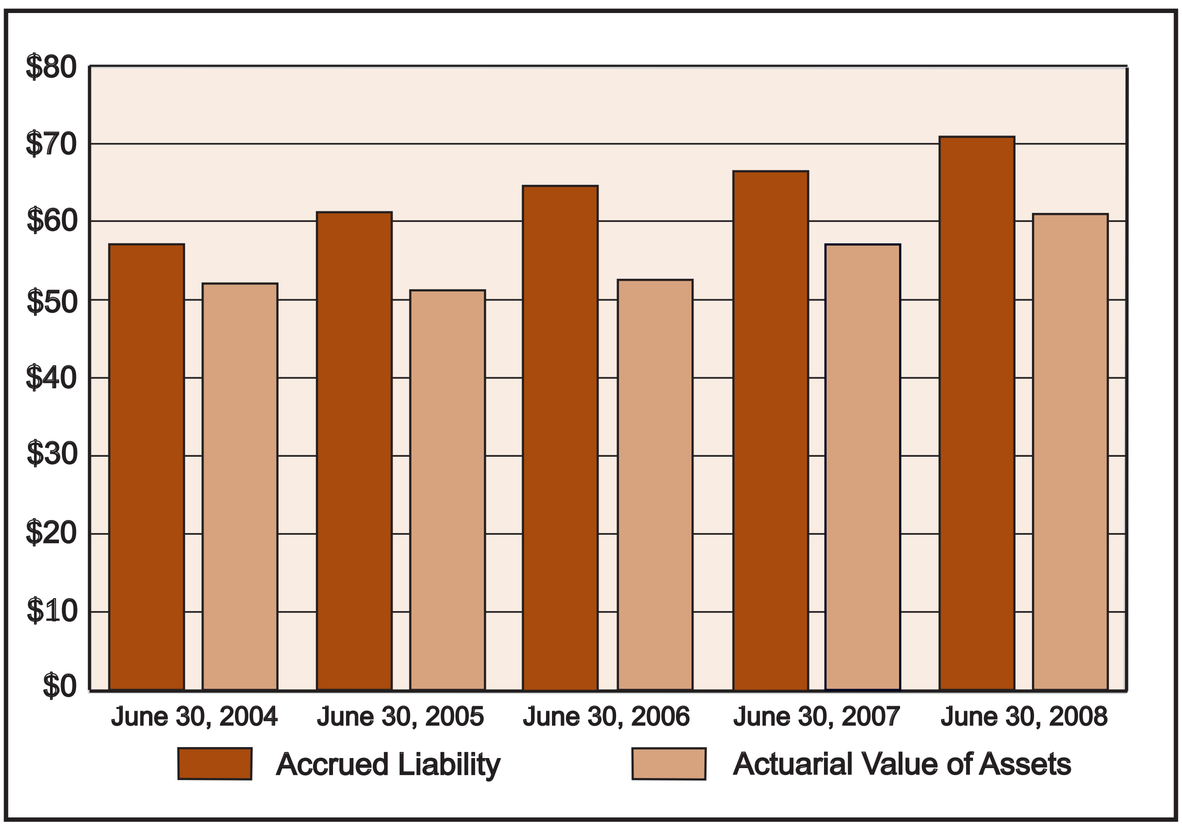
Valuation as of June 30	Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio
2008	$ 70,941.4	$ 61,017.9	$ 9,923.5	86.0%
2007	66,593.1	57,155.1	9,438.0	85.8
2006	64,720.1	52,557.5	12,162.6	81.2
2005	61,226.6	51,219.3	10,007.3	83.7
2004	57,123.0	52,094.5	5,028.5	91.2

* For Pensions and Health Insurance (under the funding provisions of the Retirement Code)

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

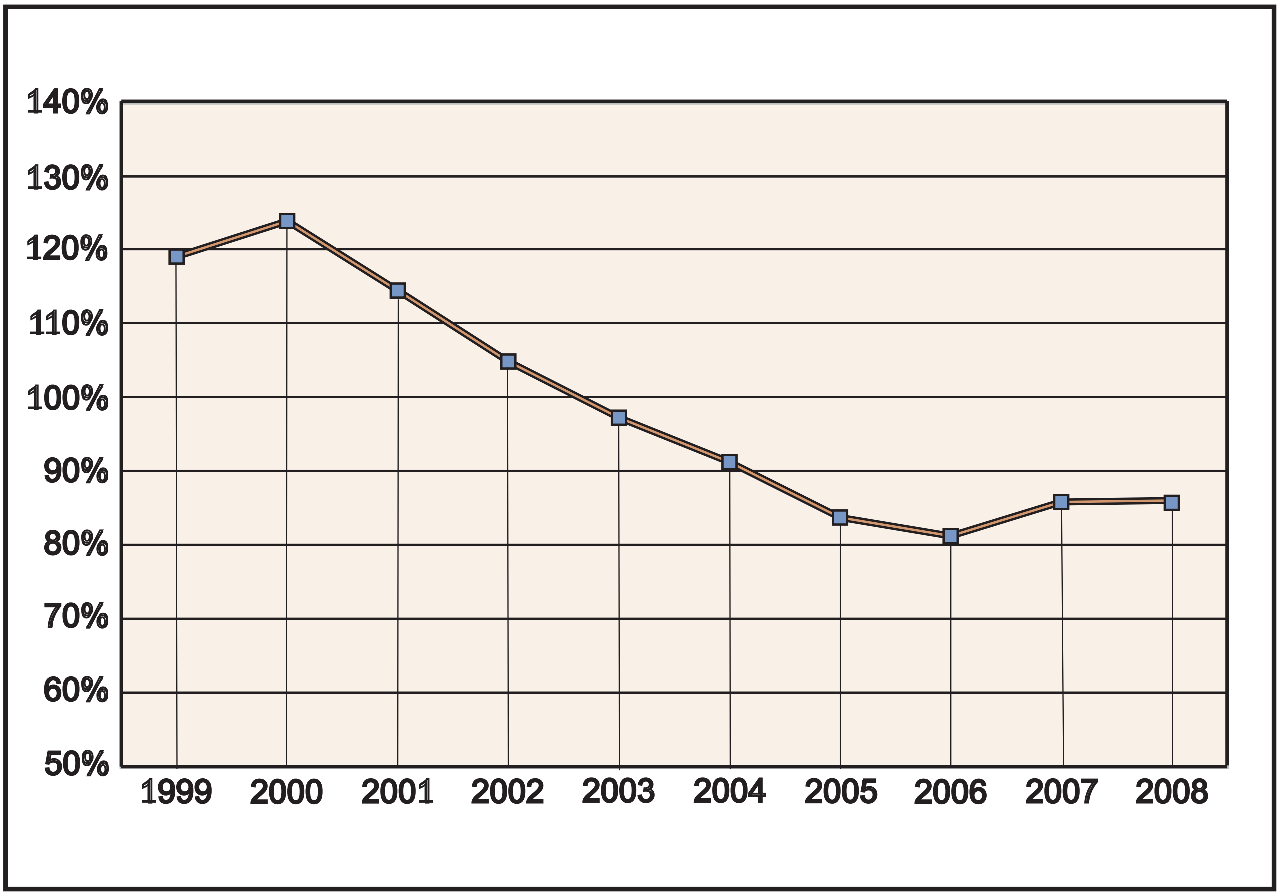
(Dollar Amounts in Billions)



The following chart shows a ten-year history of the total funded ratio for Pensions and Health Insurance:

Ten-Year History of Total Funded Ratio

(1999 - 2008)



GASB No. 25 Disclosure

Statement No. 25 of the Governmental Accounting Standards Board (GASB) established reporting standards for the annual financial reports of defined benefit pension plans. The Retirement 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 Retirement System's financial statements.

The "schedule of funding progress" shows historical trend information about the Retirement System's actuarial value of pension assets, the actuarial accrued liability for pensions and the unfunded actuarial accrued liability for pensions. The actuarial funded ratio for pensions is measured by comparing the actuarial value of pension assets (based on a 5-year moving average market value) with the accrued liability for pensions. The accrued liability is the present value of pension benefits accumulated to date under the Retirement System's funding method and reflects future pay increases for active employees. On this basis, the Retirement System's funded ratio for pensions is 86.0% as of June 30, 2008. This funded ratio is based on an actuarial value of pension assets of $60.9 billion and an accrued liability for pensions of $70.8 billion. See Table 7 for more detail.

The schedule of employer contributions shows historical trend information about the GASB Annual Required Contribution (ARC) for pensions, and the percentage of the ARC contributed to the Retirement System. The pension contribution requirements of the Retirement Code differ from the GASB disclosure requirements. As a result, there may be different determinations of contribution requirements for GASB accounting purposes and for State funding purposes. For GASB accounting purposes, the ARC equals the employer normal cost for pensions plus an amount that will amortize the unfunded actuarial accrued liability for pensions over a period no longer than 30 years. (For years ending on or before June 30, 2006, the maximum amortization period for the GASB ARC was 40 years.) Although the employer normal cost for GASB accounting equals the PSERS normal cost for funding, section 8328 of the Retirement Code specifies different amortization periods for different portions of the unfunded accrued liability – each change in the unfunded accrued liability is amortized over either a 10 or 30-year period – as well as a 4% floor on the employer pension rate. Therefore, the resulting equivalent single amortization period may be any number of years. Table 8a presents the GASB 25 schedule of employer contributions.

GASB No. 43 Disclosure

GASB Statement No. 43 established reporting standards for the annual financial reports of postemployment benefit plans other than pension plans, and these reporting requirements apply to the PSERS health insurance premium assistance plan. The Retirement System complied with Statement No. 43 beginning with the June 30, 2006 valuation. The statement requires disclosure of the "schedule of funding progress" and the "schedule of employer contributions" in the Retirement System's financial statements.

The health insurance liability and funding provisions of the Retirement Code differ from the GASB disclosure requirements. As a result, there are different determinations of actuarial liability and contribution requirements for GASB accounting purposes and for State funding purposes. For purposes of funding, the actuarial liability equals the assets in the health insurance account, and the contribution required is the amount necessary to establish reserves sufficient to provide premium assistance payments to all participating eligible annuitants during the fiscal year that immediately follows the year the employer contribution is made. For GASB accounting purposes, the actuarial liability has been determined under the entry age actuarial cost method, and the Annual Required Contribution (ARC) is equal to the entry age normal cost for health insurance plus an amount that will amortize the entry age unfunded actuarial liability for health insurance over a period of 30 years. (The entry age actuarial cost method was selected for this calculation because it meets the GASB parameters for determining actuarial liability and normal cost, and is the cost method specified by the Retirement Code for the PSERS pension plan.)

The GASB 43 schedule of funding progress, presented in Table 7, shows that as of June 30, 2008, the health insurance assets were $95,785,000, measured on a market value basis, while the GASB 43 health insurance liabilities were $1,133,011,000, resulting in a funded ratio of 8.5%.

The GASB 43 schedule of employer contributions first applies to fiscal year 2006/2007, and is presented in Table 8b.

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 2003/2004 through 2007/2008 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 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.

	Rate of Return Based on	
Fiscal Year	**Market Value***	**Actuarial Value**
2007/2008	-2.8%	12.4%
2006/2007	22.9	13.9
2005/2006	15.3	7.9
2004/2005	12.9	3.2
2003/2004	19.7	2.6

* Market Value Rate of return provided by Wilshire Associates Incorporated, PSERS investment consultant.

Table 1

Summary of Results of Actuarial Valuation As of June 30, 2008

(Dollar Amounts in Thousands)

Item	June 30, 2008	June 30, 2007
Member Data		
1. Number of Members		
a) Active Members	272,690	264,023
b) Inactive Members and Vestees	100,803	109,186
c) Annuitants, Beneficiaries and Survivor Annuitants	173,540	168,026
d) Total	547,033	541,235
2. Annualized Salaries	$ 11,921,469	$ 11,410,257
3. Annual Annuities	$ 3,811,499	$ 3,523,429
Valuation Results		
4. Present Value of Future Pension Benefits		
a) Active Members	$ 53,857,049	$ 49,167,907
b) Inactive Members and Vestees	941,679	1,589,329
c) Annuitants, Beneficiaries and Survivor Annuitants	34,617,953	31,603,788
d) Total	$ 89,416,681	$ 82,361,024
5. Present Value of Future Pension Normal Cost		
a) Active Members	$ 9,090,223	$ 8,430,801
b) Employer	9,480,821	7,434,353
c) Total	$ 18,571,044	$ 15,865,154
6. Pension Accrued Liability		
a) Active Members (4a) - (5c)	$ 35,286,005	$ 33,302,753
b) Inactive Members and Vestees	941,679	1,589,329
c) Annuitants, Beneficiaries and Survivor Annuitants	34,617,953	31,603,788
d) Total	$ 70,845,637	$ 66,495,870
7. Health Insurance Assets for Premium Assistance	$ 95,785	$ 97,292
8. Total Accrued Liability for Funding (6) + (7)	$ 70,941,422	$ 66,593,162
9. Actuarial Value of Assets	$ 61,017,942	$ 57,155,130
10. Funded Status (9) / (8)	86.0 %	85.8 %
11. Unfunded Accrued Liability (8) - (9)	$ 9,923,480	$ 9,438,032
12. Total Normal Cost Rate	14.67 %	13.97 %
13. Member Contribution Rate	7.32 %	7.29 %
14. Employer Normal Cost Rate (12) - (13)	7.35 %	6.68 %
Employer Annual Funding Requirement	**Fiscal 2009/2010**	**Fiscal 2008/2009**
15. Employer Contribution Rate Calculated by Actuary		
a) Normal	7.35 %	6.68 %
b) Unfunded Accrued Liability	(3.72)	(3.37)
c) Preliminary Pension Rate	3.63 %	3.31 %
d) Preliminary Pension Rate with 4% Floor	4.00	4.00
e) Health Insurance	0.78	0.76
f) Total Rate	4.78 %	4.76 %

Table 2

Summary of Sources of Employer Contribution Rate
As of June 30, 2008

(Dollar Amounts in Thousands)

	Funding Period (Years)	Beginning July 1	Initial Liability	7/1/2008 Outstanding Balance	Annual Payment Amount	Annual Payment Percent *
1. Amortization of:						
a) 2001 Fresh Start Unfunded Base	10	2002	$ (9,137,130)	$ (4,949,221)	$ (1,504,168)	(11.66)%
b) 2001 Asset Method Change (Act 38)	10	2002	(4,638,306)	(2,512,387)	(763,565)	(5.92)%
c) Other 2001 Changes	30	2002	7,570,507	6,750,658	654,914	5.08 %
d) 2002 Changes	30	2003	3,014,171	2,928,010	280,308	2.17 %
e) 2002 COLA	10	2003	463,795	302,225	76,271	0.59 %
f) 2003 COLA	10	2004	754,524	616,444	134,491	1.04 %
g) 2003 Changes	30	2004	3,229,593	3,376,048	319,304	2.48 %
h) 2004 Changes	30	2005	2,903,093	3,067,132	286,891	2.22 %
i) 2005 Changes	30	2006	3,765,745	4,017,250	371,977	2.88 %
j) 2006 Changes	30	2007	812,226	874,170	80,197	0.62 %
k) 2007 Changes	30	2008	(3,870,741)	(4,199,754)	(382,034)	(2.96)%
l) 2008 Changes	30	2009	(347,095)	(347,095)	(34,165)	(0.26)%
Total Amortization Payments				$ 9,923,480	$ (479,579)	(3.72)%
2. Employer Normal Cost Rate						7.35 %
3. Preliminary Pension Rate (1) + (2)						3.63 %
4. Preliminary Pension Rate with 4% Floor -- Maximum of (3) and 4%						4.00 %
5. Health Insurance Rate						0.78 %
6. Final Total Employer Contribution Rate Calculated by Actuary (4) + (5)						4.78 %

* Based on Estimated Employer Payroll for Fiscal Year Ending 2010 of $12,899,000.

Table 3

Determination of Health Insurance Contribution Rate For Fiscal Year 2009/2010

(Dollar Amounts in Thousands)

Item					
1.	June 30, 2008 Balance in Health Insurance Account				$ 95,785
2.	Estimated Fiscal 2008/2009 Contribution				
	(a) Contribution Rate Certified in 2007 Valuation				0.76%
	(b) Estimated Fiscal 2008/2009 payroll				$ 12,402,782
	(c) Estimated Contribution = (a) x (b)				$ 94,261
3.	Estimated Number of Annuitants who:			Are Eligible	Elect Coverage
	(a) Fiscal 2008/2009			116,900	77,154
	(b) Fiscal 2009/2010			119,600	78,936
	(c) Fiscal 2010/2011			122,300	80,718
4.	Estimated Disbursements:	Administration	Assistance		Total
	(a) Fiscal 2008/2009	$ 1,963	$ 92,585		$ 94,548
	(b) Fiscal 2009/2010	2,120	94,723		96,843
	(c) Fiscal 2010/2011	2,205	96,862		99,067
	(d) Total	$ 6,288	$ 284,170		$ 290,458
5.	Required Fiscal 2009/2010 Contribution (4d) - (1) -(2c)				$ 100,412
6.	Required Health Insurance Contribution Rate				
	(a) Estimated 2009/2010 Payroll				$ 12,899,000
	(b) Required Health Insurance Contribution Rate (5) / (6a) (rounded up)				0.78%

Notes:

1. Current estimates of fiscal 2008/2009 membership payroll and administrative expenses, and of fiscal 2009/2010 administrative expenses, were provided by PSERS staff.

2. 66% of eligible annuitants are assumed to elect coverage.

3. Premium Assistance payments equal $100 per month per eligible annuitant.

Table 4

Summary of Market Value of Plan Assets
As of June 30, 2008
(Dollar Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 2007	$ 67,438,289
2. Contributions During Fiscal 2007/2008	1,714,447
3. Disbursements During Fiscal 2007/2008	4,766,545
4. Investment Return During Fiscal 2007/2008	
a) Investment Return (Net of Investment Expenses)	$ (1,779,873)
b) Administrative Expenses	37,107
c) Investment Return After Expenses (a) - (b)	$ (1,816,980)
5. Market Value of Assets as of June 30, 2008 (1) + (2) - (3) + (4c)	$ 62,569,211
6. Rate of Return (per Wilshire)	(2.82) %
Asset Allocation by Account	
1. Members' Savings Account	$ 10,532,683
2. Annuity Reserve Account	34,617,953
3. State Accumulation Account	17,322,790
4. Health Insurance Account	95,785
5. Total (1) + (2) + (3) + (4)	$ 62,569,211

Table 5

Derivation of Actuarial Value of Assets
As of June 30, 2008

(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 2008 — $ 62,569,211

2. Determination of Deferred Gain (Loss)

Fiscal Year	Return on Assets: Actual	Return on Assets: Expected	Return on Assets: Difference	Return on Assets: % Deferred	Deferred Amount
2007/2008	$ (1,816,980)	$ 4,728,472	$ (6,545,452)	80%	$ (5,236,362)
2006/2007	12,658,871	4,359,054	8,299,817	60	4,979,890
2005/2006	7,901,068	4,242,878	3,658,190	40	1,463,276
2004/2005	6,044,305	4,321,981	1,722,324	20	344,465
					$ 1,551,269

3. Actuarial Value of Assets (1) - (2) — $ 61,017,942

4. Actuarial Rate of Return * — 12.43%

* The actuarial rate of return is the investment return based on the change in the actuarial value of assets from the June 30, 2007 valuation to the June 30, 2008 valuation.

Table 6

Analysis of Change in Unfunded Accrued Liability
As of June 30, 2008

(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 2007	$ 9,438,032
2. Interest Credit at 8.25% to June 30, 2008	802,232
3. Contributions Toward Unfunded Accrued Liability	(30,311)
4. Change due to Effect of 4% Floor on FY 2008 Pension Contribution	-
5. Expected Unfunded Accrued Liability at June 30, 2008 (1) + (2) - (3) + (4)	$ 10,270,575
6. Actual Unfunded Accrued Liability at June 30, 2008	$ 9,923,480
7. Increase (Decrease) from Expected (6) - (5)	$ (347,095)
8. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Gain from Investment Return on Actuarial Value of Assets	$ (2,186,438)
(ii) Loss from New Entrants and Pickups	419,868
(iii) Loss from Salary Increases Greater than Expected	56,062
(iv) Loss from Mortality Experience	76,098
(v) Gain from Vested Termination Experience (Retirement/Disability/Termination)	(79,875)
(vi) Gain from Non-vested Termination Experience	(189,177)
(vii) Loss from Data/Miscellaneous	8,852
Subtotal	$ (1,894,610)
(b) Change in Assumption	$ 1,547,515
(c) Grand Total	$ (347,095)

Table 7

Schedule of Funding Progress for Pensions*
GASB Statement No. 25 Disclosure

(Dollar Amounts in Thousands)

Valuation as of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as a Percentage of Covered Payroll
2008	$ 60,922,157	$ 70,845,637	$ 9,923,480	86.0 %	$ 11,921,469	83.2 %
2007	57,057,838	66,495,870	9,438,032	85.8	11,410,257	82.7
2006	52,464,726	64,627,361	12,162,635	81.2	11,419,049	106.5
2005	51,122,156	61,129,444	10,007,288	83.6	10,527,668	95.1
2004	51,949,622	56,978,143	5,028,521	91.2	10,030,705	50.1
2003	52,770,018	54,313,328	1,543,310	97.2	9,652,881	16.0

* The amounts reported above include assets and liabilities for Pensions.

Schedule of Funding Progress for Postemployment Benefits Other Than Pensions*
GASB Statement No. 43 Disclosure

(Dollar Amounts in Thousands)

Valuation as of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as a Percentage of Covered Payroll
2008	$ 95,785	$ 1,133,011	$ 1,037,226	8.5 %	$ 11,921,469	8.7 %
2007	97,292	1,058,092	960,800	9.2	11,410,257	8.4
2006	92,777	1,056,154	963,377	8.8	11,419,049	8.4

* The amounts reported above include assets and liabilities for Health Insurance Premium Assistance. The health insurance liabilities for GASB 43 disclosure have been calculated under the entry age normal cost method, which provides liabilities that differ from those determined under the funding requirements of the Retirement Code.

Table 8a

Schedule of Employer Contributions for Pensions
GASB Statement No. 25 Disclosure

(Dollar Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
2008	$ 1,852,238	$ 753,532	41 %
2007	1,708,821	659,545	39
2006	1,328,373	456,878	34
2005	945,107	431,556	46
2004	321,091	321,091	100
2003	20,831	20,831	100

The Annual Required Contribution (ARC) presented above was determined as part of the actuarial valuation as of two years prior to the dates indicated (i.e., the ARC for the fiscal year ended June 30, 2008 was determined by the valuation completed as of June 30, 2006 which was based on an 8.50% interest rate).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2008
Actuarial Cost Method:	Entry Age
Amortization Method:	Level dollar open
Remaining Amortization Period:	30 Years
Asset Valuation Method:	5-year smoothed market
Actuarial Assumptions:	
- Investment Rate of Return *	8.25%
- Projected Salaried Increases *	6.00%

* Includes Inflation at: 3.25%

Table 8b

Schedule of Employer Contributions for Postemployment Benefits Other Than Pensions GASB Statement No. 43 Disclosure

(Dollar Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
2008	$ 101,352	$ 81,317	80 %
2007	94,970	86,763	91

The Annual Required Contribution (ARC) presented above was determined as part of the actuarial valuation as of one year prior to the dates indicated (i.e., the ARC for the fiscal year ended June 30, 2008 was determined by the valuation completed as of June 30, 2007 which was based on an 8.50% interest rate).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2008
Actuarial Cost Method:	Entry Age
Amortization Method:	Level dollar open
Remaining Amortization Period:	30 Years
Asset Valuation Method:	Market
Actuarial Assumptions:	
- Investment Rate of Return *	8.25%
- Projected Salaried Increases *	6.00%

* Includes Inflation at: 3.25%

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)
2008	$ 10,532,683	$ 34,713,738	$ 25,695,001	$ 61,017,942	100 %	100 %	61 %
2007	10,183,433	31,701,080	24,708,649	57,155,130	100	100	62
2006	9,571,668	29,209,941	25,938,529	52,557,503	100	100	53
2005	9,116,347	27,051,245	25,058,989	51,219,293	100	100	60
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

* The amounts reported include assets and liabilities for both Pensions and Health Insurance.

Table 10

History and Projection of Contribution Rates and Funded Ratios[1]

Fiscal Year Ending June	Appropriation Payroll (thousands)	Contribution Rates[2]							Funded Ratio
		Employee	Employer Normal Cost	Employer Unfunded Liability	Preliminary Employer Pension	Final Employer Pension	Employer Health Insurance	Total Employer	
2000	$ 8,939,598	5.72 %	6.40 %	(2.04) %	4.36 %	4.36 %	0.25 %	4.61 %	123.8 %
2001	9,414,884	5.77	6.29	(4.65)	1.64	1.64	0.30	1.94	114.4
2002 [3]	9,378,944	6.43	5.63	(6.05)	(0.42)	0.00	1.09	1.09	104.8
2003 [4]	9,652,881	7.10	7.20	(10.03)	1.00	0.18	0.97	1.15	97.2
2004	10,030,705	7.08	7.25	(4.27)	2.98	2.98	0.79	3.77	91.2
2005 [5]	11,062,589	7.12	7.48	(7.10)	0.38	4.00	0.23	4.23	83.7
2006	11,505,093	7.16	7.61	(4.28)	3.33	4.00	0.69	4.69	81.2
2007 [6]	11,821,951	7.21	6.62	(0.95)	5.67	5.72	0.74	6.46	85.8
2008	12,881,244	7.25	6.68	(0.24)	6.44	6.44	0.69	7.13	**86.0**
2009	12,402,782	7.29	6.68	(3.37)	3.31	4.00	0.76	4.76	85.0
2010 [7]	**12,899,000**	**7.32**	**7.35**	**(3.72)**	**3.63**	**4.00**	**0.78**	**4.78**	85.2
2011 [7]	13,297,917	7.34	8.03	(3.73)	4.30	4.30	0.76	5.06	84.4
2012	13,703,700	7.36	8.00	(4.43)	3.57	4.00	0.75	4.75	81.5
2013	14,132,543	7.38	7.97	11.45	19.42	19.42	0.74	20.16	82.6
2014	14,586,335	7.40	7.94	11.39	19.33	19.33	0.73	20.06	83.6
2015	15,066,759	7.41	7.93	10.15	18.08	18.08	0.72	18.80	84.5
2016	15,573,822	7.43	7.90	9.84	17.74	17.74	0.70	18.44	85.4
2017	16,119,772	7.44	7.88	9.53	17.41	17.41	0.69	18.10	86.3
2018	16,711,215	7.45	7.86	9.20	17.06	17.06	0.66	17.72	87.2
2019	17,349,067	7.46	7.85	8.87	16.72	16.72	0.65	17.37	88.1
2020	18,031,134	7.46	7.84	8.54	16.38	16.38	0.63	17.01	89.0

1. The projection of contribution rates is based on the assumption that there are no changes in demographic assumptions, no changes in benefit provisions, and no actuarial gains or losses other than gains or losses on the actuarial value of assets that result from recognizing currently deferred gains or losses on the market value of assets.
2. In general, the Preliminary Employer Pension Rate equals the sum of the rates for the Employer Normal Cost and the Unfunded Liability; and the Final Employer Pension Rate is the greater of the Preliminary Pension Rate and any Pension Rate Floor stated in the Retirement Code. The Total Employer Rate is the sum of the Final Employer Pension Rate and the Employer Health Insurance Rate.
3. For fiscal years ending on or before June 30, 2002, there was no floor specified in the Retirement Code, but the Final Employer Pension Rate could not be less than 0%, since money can only be removed from the trust for purposes allowed by the Retirement Code.
4. Act 2002-38 amended the Retirement Code to place a permanent 1% floor on the Employer Pension Rate, but also provided that the Total Employer Rate for the year ending June 30, 2003 could not exceed 1.15%, resulting in a 0.18% Final Employer Pension Rate (the Total Employer Rate of 1.15% minus the 0.97% Employer Health Insurance Rate).
5. Act 2003-40 amended the Retirement Code to increase the Employer Pension Rate Floor from 1% to 4%.
6. Revised actuarial assumptions based on a five-year experience review ending June 30, 2005 were used to determine the contributions for the fiscal year ending June 30, 2007. Since the benefit changes under Act 2001-9 had not been in effect throughout the entire period covered by the study the Board decided, at its December 2005 meeting, to delay making any changes to the retirement rate assumptions until further data became available. The 5.72% Final Employer Pension Rate equals the 6.46% Total Employer Rate certified by the Board at that meeting, minus the 0.74% Employer Health Insurance Rate. The 5.67% Preliminary Employer Pension Rate equals the sum of the Employer Normal Cost and Unfunded Liability rates. The Normal Cost and Unfunded Liability rates were calculated by the actuary in January 2006, based on the package of assumptions adopted at the December 2005 meeting.
7. The Board at its January 2009 meeting adopted to reduce the interest rate from 8.50% to 8.25% for the June 30, 2008 valuation and to 8.00% thereafter.

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
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			148,727	7,792	156,519	255,465
2006			153,757	8,056	161,813	263,350
2007			159,760	8,266	168,026	264,023
2008			**165,091**	**8,449**	**173,540**	**272,690**
2009	14,693	4,471	175,313	8,947	184,260	272,690
2010	12,404	4,643	183,074	9,409	192,483	272,690
2011	12,476	4,846	190,704	9,830	200,534	272,690
2012	12,545	5,048	198,201	10,225	208,426	272,690
2013	12,421	5,239	205,383	10,593	215,976	272,690
2014	11,996	5,425	211,954	10,943	222,897	272,690
2015	11,871	5,627	218,198	11,285	229,483	272,690
2016	11,686	5,822	224,062	11,621	235,683	272,690
2017	11,597	6,003	229,656	11,952	241,608	272,690
2018	11,370	6,199	234,827	12,287	247,114	272,690

* The number for the first year of the projection reflects the assumption that all Active members age 74 and above, and that all vested inactive members who have reached superannuation age retire immediately.

Table 12

Description of Actuarial Assumptions and Methods

ASSUMPTIONS

Interest Rate: 8.25% per annum, compounded annually (adopted as of June 30, 2008). The components are 3.25% for inflation and 5.00% 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 shown in the following table. (Rates of non-vested withdrawal, of death, and of disability were adopted as of June 30, 2005; other rates were adopted as of June 30, 2000):

	Annual Rate of:						
		Vested Withdrawal*					
Age	Non-Vested Withdrawal	Less Than 10 Years of Service	10 or More Years of Service	Death	Disability	Early Retirement**	Superannuation Retirement
MALES							
25	12.40%	5.50%	1.40%	.042%	.024%		
30	10.00	3.00	1.40	.057	.024		
35	11.00	3.00	1.10	.062	.100		
40	11.00	3.00	.80	.072	.180		
45	11.00	3.00	.50	.100	.180		
50	11.00	3.00	1.78	.152	.280		24.00%
55	10.50	3.00	3.50	.252	.430	10.00	24.00
60	10.00	2.40	4.50	.467	.580	10.00	28.00
65				.870	.100		20.00
69				1.335	.100		20.00
FEMALES							
25	14.10%	9.50%	4.00%	.019%	.040%		
30	14.10	7.50	4.00	.023	.040		
35	14.10	5.50	2.00	.031	.080		
40	10.90	3.50	1.00	.043	.130		
45	10.90	3.00	.55	.061	.180		
50	10.90	3.00	1.50	.085	.250		10.00%
55	10.90	3.00	3.00	.146	.480	10.00	10.00
60	10.90	3.50	5.90	.284	.480	15.00	25.00
65				.561	.160		28.00
69				.866	.160		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.

Death after Retirement: The Uninsured Pensioners 1994 Mortality Table (UP94) with mortality improvements projected 10 years, and with age set back one year for males and females, adopted in 2005, are used to project mortality for healthy annuitants and for dependent beneficiaries. Special mortality table 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.)

Table 12

Description of Actuarial Assumptions and Methods
(Continued)

Salary Increase: Effective average of 6% per annum, compounded annually (adopted as of June 30, 2005). The components are 3.25% for inflation, 1% for real wage growth and 1.75% for merit or seniority increases. Representative values are as follows:

Age	Annual Rate of Salary Increase
20	12.00%
30	9.00
40	7.00
50	4.75
55	4.50
60	4.25
65	4.25
70	4.25

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.

Health Insurance
Elections: 66% of eligible retirees are assumed to elect premium assistance.
Administrative Expenses: Assumed equal to 2% of contributions made during the year.

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.

Asset Valuation Method: A five-year moving market average value of assets that recognizes the 8.25% (8.50% prior to June 30, 2008) actuarial expected investment return immediately and spreads the difference between the actual return on the market value of assets and the expected return on the actuarial value of assets over a period of five years (adopted as of June 30, 2001).

Table 12

Description of Actuarial Assumptions and Methods
(Continued)

Actuarial Cost Method for Pension Funding: Entry Age Normal Cost Method (modified slightly as of June 30, 2005 to use a pay-weighted average normal contribution rate). The results of each June 30 valuation normally determine the employer contribution rate for the second succeeding fiscal year. 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, 2003 cost-of-living adjustments provided by Act 38 were both recognized at June 30, 2002 and continue to be 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, 2001 and June 30, 2002 – including the Act 9 benefit changes – are amortized over a 30-year period, with level dollar funding starting on July 1, 2002, and July 1, 2003, respectively. Post June 30, 2002 benefit changes for active members and retirees are amortized over a 10-year period with level dollar funding. Post June 30, 2002 gains and losses, and changes in the unfunded accrued liability resulting from changes in actuarial assumptions and methods, are amortized over a 30-year period with level dollar funding. Act 40 also provided a 4.00% floor on the employer pension rate.

Actuarial Cost Method for GASB 25 Accounting for Pensions: Same as for pension funding, except that in fiscal years in which the amortization requirements of the Retirement Code result in an equivalent single amortization period that is longer than the maximum allowable period specified by GASB 25 (40 years for fiscal years ending on or before June 30, 2006; and 30 years for subsequent fiscal years), the GASB 25 amortization payment will be set equal to the level dollar amount that will amortize the unfunded accrued liability over a period equal to the maximum allowable period specified by GASB 25.

Actuarial Cost Method for Health Insurance Funding: The actuarial liability equals the assets in the health insurance account, and the results of the June 30 valuation determine the contribution rate for the second succeeding fiscal year. The rate so determined is the rate necessary to establish reserves sufficient to cover administrative expenses and provide premium assistance payments for all participating eligible annuitants during the third fiscal year that follows the valuation date.

Actuarial Cost Method for GASB 43 Accounting for Health Insurance: The actuarial liability is determined under the entry age actuarial cost method, and the Annual Required Contribution (ARC) for the fiscal year that follows the valuation date is equal to the entry age normal cost for health insurance plus an amount that will amortize the entry age unfunded actuarial liability for health insurance over a period of 30 years.

DATA

Census and Assets: The valuation was based on members of the Retirement System as of June 30, 2008 and does not take into account future members. All census data was supplied by the Retirement 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 Retirement System until after the actuarial valuation is performed. Asset data was supplied by the Retirement 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). As of June 30, 2008, the adjusted limit is $225,000. 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.

Table 13

Summary of Benefit and Contribution Provisions

(Continued)

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.

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 that would have been effective if the member retired on the day before death. Option 1 (see next page) assumed payable if no other option elected.

Table 13

Summary of Benefit and Contribution Provisions

(Continued)

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.

Health Care 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.

Table 13

Summary of Benefit and Contribution Provisions

(Continued)

Contributions

By Members	Members who elected coverage under Class T-D and who were most recently enrolled prior to July 22, 1983 contribute at a rate of 6½% of compensation, while members who elected coverage under Class T-D and who were most recently enrolled on or after July 22, 1983 contribute at a rate of 7½% of compensation. Members who did not elect coverage under Class T-D and who were most recently enrolled prior to July 22, 1983 contribute at a rate of 5¼% of compensation, while members who did not elect coverage under Class T-D and who were most recently enrolled on or after July 22, 1983 and prior to July 1, 2001 contribute at a rate of 6¼% of compensation. Anyone who enrolls or re-enrolls on or after July 1, 2001 automatically has coverage under class T-D for subsequent school service and subsequent intervening military service, and must contribute at a rate of 7½% of compensation. Reduction in rate for a joint coverage member: 40% of Social Security tax, exclusive of disability and medical coverage portion.
By Commonwealth and School Districts	Balance of required contribution determined as normal contribution, accrued liability contribution, supplemental annuity contribution, experience adjustment factor and premium assistance contribution, is funded by the Commonwealth and the School Districts.

Table 14

Summary of Membership Data
As of June 30, 2008
(Dollar Amounts in Thousands)

Active Members*

Item	Male	Female	Total
Number of Members	74,159	198,531	272,690
Annual Salaries **	$ 3,694,443	$ 8,227,026	$ 11,921,469
Average Age***	44.5	44.7	44.6
Average Service***	11.4	10.4	10.7

* Excludes 100,803 inactive members and vestees.
** The salaries shown in the table above represent an annual rate of pay for the year ended June 30, 2008 for members who were in active service on June 30, 2008.
*** Average completed years of age and service.

Annuitants and Beneficiaries

Item	Number	Annual Annuities*	Average Annuities	Average Age
Annuitants (Normal, Early and Withdrawal)	157,656	$ 3,586,326	$ 22,748	69.7
Survivors and Beneficiaries	8,449	82,839	9,805	75.6
Disabled Annuitants	7,435	142,334	19,144	63.0
Total	173,540	$ 3,811,499	$ 21,963	69.7

* The annuities shown in the table above represent the annual amount payable as of July 1, 2008 for participants who were in payment on June 30, 2008.

Exhibit I

Active Membership Data as of June 30, 2008
Number and Average Annual Salary

	Years of Service									
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30-34**	**35-39**	**40+**	**Total**
Under 25	9,367	55								9,422
	$30,000	$29,488								$29,997
25-29	21,668	6,315	44							28,027
	$37,424	$47,116	$36,586							$39,607
30-34	10,047	13,473	3,318	37						26,875
	$34,922	$50,036	$57,052	$42,518						$45,241
35-39	9,915	8,751	10,089	2,496	63					31,314
	$27,218	$47,109	$60,395	$65,491	$42,924					$46,548
40-44	11,328	7,411	5,385	5,892	2,063	82				32,161
	$22,953	$37,323	$53,529	$65,813	$65,562	$45,303				$42,026
45-49	11,058	9,304	5,768	4,172	4,851	1,935	118			37,206
	$21,998	$32,253	$43,757	$57,788	$67,712	$63,701	$44,360			$40,149
50-54	8,048	8,504	7,033	5,521	4,486	6,049	4,325	59		44,025
	$22,489	$32,329	$40,609	$51,667	$61,744	$71,239	$72,055	$46,703		$46,543
55-59	5,474	5,092	5,057	5,477	4,955	3,621	7,387	2,194	29	39,286
	$23,760	$33,366	$40,907	$49,613	$58,054	$67,199	$76,205	$79,007	$47,795	$52,110
60-64	3,109	2,519	2,171	2,507	2,477	1,806	1,076	999	235	16,899
	$19,689	$30,219	$36,373	$43,594	$49,465	$56,031	$64,115	$77,960	$78,927	$42,294
Over 64	2,264	1,426	976	817	689	522	387	199	195	7,475
	$13,574	$21,264	$26,724	$32,436	$37,457	$37,426	$40,256	$51,431	$72,453	$26,612
Total	92,278	62,850	39,841	26,919	19,584	14,015	13,293	3,451	459	272,690
	$28,381	$39,992	$48,653	$55,228	$60,223	$65,783	$72,547	$76,562	$74,210	$43,718

Exhibit II

The Number and Average Annual Annuity As of June 30, 2008

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		2,343 $804	1,235 $1,839	370 $4,369	123 $8,524	26 $14,342				4,097 $1,756
50-54		632 $1,421	1,014 $1,751	511 $4,463	271 $9,815	189 $20,503	127 $30,184	13 $32,660		2,757 $5,712
55-59		553 $2,574	2,041 $2,103	1,123 $6,275	775 $12,720	1,329 $27,231	6,489 $44,546	3,281 $55,316	3 $28,558	15,594 $33,952
60-64	191 $5,759	718 $3,862	3,092 $3,103	2,195 $8,545	1,862 $16,650	2,985 $28,306	11,662 $39,614	8,965 $53,938	245 $60,434	31,915 $34,719
65-69	640 $2,676	1,136 $3,136	2,975 $4,255	3,090 $8,744	2,950 $15,134	3,656 $23,497	8,347 $33,877	5,897 $44,193	726 $58,443	29,417 $25,880
70-74	690 $1,233	1,008 $2,420	2,756 $3,753	2,625 $7,084	3,115 $11,820	3,435 $19,376	4,914 $28,981	3,457 $37,278	1,007 $45,506	23,007 $19,677
75-79	758 $4,748	1,031 $1,922	2,580 $3,442	2,625 $6,195	2,889 $11,042	3,184 $17,207	3,428 $25,303	2,482 $34,872	1,052 $41,619	20,029 $16,700
80-84	843 $6,108	990 $1,747	2,353 $3,361	2,450 $6,255	2,602 $10,739	2,364 $16,318	1,927 $21,880	1,596 $28,176	742 $38,831	15,867 $13,397
85-89	691 $6,044	665 $1,727	1,536 $3,318	1,572 $6,050	1,355 $9,763	1,272 $14,002	865 $18,798	948 $23,327	304 $31,324	9,208 $10,737
Over 89	241 $2,857	465 $2,150	957 $3,856	889 $6,586	806 $10,366	726 $13,649	572 $18,305	679 $21,905	430 $25,768	5,765 $11,435
Total	4,054 $4,261	9,541 $1,975	20,539 $3,238	17,450 $7,006	16,748 $12,387	19,166 $20,791	38,331 $34,846	27,318 $44,786	4,509 $43,545	157,656 $22,748

Exhibit III

The Number and Average Annual Annuity
As of June 30, 2008

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	36 $23,595	19 $1,734	44 $1,886	39 $3,474	42 $5,439	34 $7,486	33 $12,991	19 $15,176	14 $11,202	280 $8,777
50-54	34 $31,274	11 $1,272	23 $2,562	27 $3,463	32 $6,242	22 $9,515	19 $19,406	19 $11,743	9 $15,070	196 $12,073
55-59	67 $16,979	9 $1,483	33 $3,651	32 $3,792	44 $6,670	58 $12,589	85 $14,781	70 $18,171	14 $11,105	412 $12,379
60-64	77 $19,251	17 $2,670	46 $2,863	37 $4,555	51 $6,483	69 $12,348	168 $16,660	157 $20,366	28 $12,958	650 $14,415
65-69	102 $15,165	20 $1,576	81 $3,285	79 $5,757	69 $7,702	75 $12,767	183 $17,527	165 $20,812	48 $16,616	822 $13,658
70-74	96 $12,259	37 $1,603	120 $2,995	106 $4,701	105 $7,094	102 $10,489	203 $13,507	184 $18,660	87 $21,405	1,040 $11,487
75-79	118 $10,509	47 $1,679	136 $3,041	149 $4,286	154 $6,758	134 $8,670	218 $12,719	200 $14,096	128 $19,339	1,284 $9,845
80-84	144 $8,383	91 $1,445	200 $2,634	176 $4,062	173 $6,718	209 $8,763	214 $10,425	267 $11,853	111 $16,372	1,585 $8,067
85-89	87 $7,979	86 $1,221	168 $2,311	139 $3,486	132 $5,208	139 $7,515	151 $9,257	264 $11,039	114 $12,886	1,280 $7,176
Over 89	28 $9,580	65 $1,096	113 $2,008	90 $3,621	77 $5,210	75 $6,760	107 $6,975	177 $8,969	168 $9,669	900 $6,398
Total	789 $13,518	402 $1,451	964 $2,671	874 $4,160	879 $6,394	917 $9,398	1,381 $12,998	1,522 $14,674	721 $15,058	8,449 $9,805

Exhibit IV

The Number and Average Annual Annuity As of June 30, 2008

Retired on Account of Disability

Age	Years of Service 0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total
Under 50		226 $18,054	150 $20,055	97 $32,167	38 $61,045	14 $78,991				525 $25,970
50-54		195 $16,202	172 $19,116	144 $20,864	133 $32,297	114 $51,742	20 $76,709	1 $32,568		779 $27,230
55-59		277 $13,337	282 $14,973	238 $17,972	258 $27,896	364 $37,573	184 $53,479	2 $41,372		1,605 $26,785
60-64		239 $8,141	309 $10,555	286 $13,303	309 $21,994	332 $30,179	170 $40,174	5 $55,638		1,650 $19,961
65-69		187 $5,492	275 $7,939	237 $10,334	222 $16,656	163 $25,208	43 $30,939			1,127 $13,129
70-74		130 $5,470	192 $6,906	159 $8,684	123 $14,358	81 $19,957	15 $29,416	3 $43,058		703 $10,485
75-79		99 $3,864	133 $5,763	113 $8,600	106 $12,984	43 $20,278	7 $26,313		1 $54,601	502 $9,179
80-84		67 $3,868	92 $6,036	48 $7,992	58 $11,727	40 $16,379	7 $24,413	1 $24,751		313 $8,719
85-89		37 $3,619	38 $6,077	24 $7,587	27 $10,608	20 $15,478	11 $20,993	2 $35,460		159 $9,086
Over 89		11 $3,307	21 $4,725	18 $7,955	6 $10,451	7 $14,764	9 $18,692			72 $8,515
Total		1,468 $10,511	1,664 $11,383	1,364 $14,455	1,280 $22,248	1,178 $32,569	466 $44,484	14 $44,168	1 $54,601	7,435 $19,144

Exhibit V

Annutant and Beneficiary Membership Data
As of June 30, 2008

Number and Average Annual Benefit
Excludes Partial Lump Sum Payments

Age Last Birthday	Number	Annual Benefit (Thousands)	Average Annual Benefit
Annuitants (Normal, Early and Withdrawal)			
Under 60	22,448	$ 552,390	$ 24,608
60 - 64	31,915	1,108,060	34,719
65 - 69	29,417	761,314	25,880
70 - 74	23,007	452,713	19,677
75 - 79	20,029	334,483	16,700
Over 79	30,840	377,366	12,236
Total	157,656	$ 3,586,326	$ 22,748
Survivors and Beneficiaries			
Under 60	888	$ 9,924	$ 11,176
60 - 64	650	9,370	14,415
65 - 69	822	11,227	13,658
70 - 74	1,040	11,946	11,487
75 - 79	1,284	12,641	9,845
Over 79	3,765	27,731	7,365
Total	8,449	$ 82,839	$ 9,805
Disabled Annuitants			
Under 60	2,909	$ 77,837	$ 26,757
60 - 64	1,650	32,935	19,961
65 - 69	1,127	14,797	13,130
70 - 74	703	7,371	10,485
75 - 79	502	4,608	9,179
Over 79	544	4,786	8,798
Total	7,435	$ 142,334	$ 19,144
Grand Total Average Annual Benefit	173,540	$ 3,811,499	$ 21,963

Exhibit VI

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
2008	272,690	3.28%	$ 11,921,469	4.48%
2007	264,023	0.26%	11,410,257	(0.08%)
2006	263,350	3.09%	11,419,049	8.47%
2005	255,465	3.05%	10,527,668	4.95%
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%

Exhibit VI
(Continued)

10 Year History of Membership Data

The Number and Annual Annuities of Annuitant and Survivor Annuitant Members

Year Ended June 30	Number on roll	Annual Annuities (Dollars in Millions)	Average Annual Annuities	Additions *	Annual Annuities * (Dollars in Millions)	Deletions *	Annual Annuities * (Dollars in Millions)	Percentage Change in Membership	Percentage Change in Annuities
2008	173,540	$ 3,811.5	$ 21,963	10,911	$ 345.3	5,397	$ 73.9	3.28%	8.18%
2007	168,026	3,523.4	20,970	10,612	307.5	4,399	56.0	3.84%	7.60%
2006	161,813	3,274.5	20,236	10,637		5,343		3.38%	8.16%
2005	156,519	3,027.6	19,343	10,050		5,083		3.28%	8.20%
2004	151,552	2,798.2	18,464	10,526		4,667		4.02%	9.94%
2003	145,693	2,545.1	17,469	9,079		4,800		3.03%	13.20%
2002	141,414	2,248.3	15,899	13,003		4,305		6.55%	20.10%
2001	132,716	1,872.0	14,105	3,140		4,482		(1.00)%	0.00%
2000	134,058	1,880.6	14,028	5,923		4,734		0.89%	2.73%
1999	132,869	1,830.6	13,777	10,609		4,554		4.88%	26.51%

* The annual annuities added and deleted are for the annuitants and survivor annuitants who were added and deleted. Changes in annuities for continuing payees may also occur due to finalization of benefit calculations and due to the commencement of supplemental annuity payments.

Statistical

- Trend Data
- Historical Plan Net Assets
- Historical Changes Plan Net Assets
- Membership Trends
- Employers

Statistical Section
Narrative

To assist readers in the assessment of the System's economic condition, the Statistical Section of this Comprehensive Annual Financial Report presents information to add historical perspective, context, and detail to the financial statements, notes to financial statements, and required supplementary information presented in the preceding sections. To provide historical perspective and a sense of trend, the exhibits in this Section are presented in multiple-year formats. The information is categorized into four topical groups: *Financial Trends, Revenue Capacity, Demographic and Economic Information, and Operating Information.*

Financial Trends

The ***Schedule of Trend Data*** provides key financial, actuarial, and demographic information for a ten-year period ended June 30, 2009.

The ***Schedules of Total Changes in Pension Plan Net Assets*** and ***Total Changes in Postemployment Healthcare Plans Net Assets*** show the historical combined effects of the additions and deductions of the plans' net assets over the ten-year period ended June 30, 2009.

The graphs of ***Additions to Pension Plan Net Assets*** and ***Additions to Postemployment Healthcare Plans Net Assets*** provide visual details of the additions to the plans' net assets over the ten-year period ended June 30, 2009.

The graphs of ***Deductions from Pension Plan Net Assets*** and ***Deductions from Postemployment Healthcare Plans Net Assets*** provide visual details of the deductions from the plans' net assets over the ten-year period ended June 30, 2009.

Revenue Capacity

The ***Schedules of Pension Investment Income, Premium Assistance Investment Income***, and ***Health Options Program Investment Income*** provide a ten-year perspective on the System's largest source of revenue, Net Investment Income, over the ten-year period ended June 30, 2009.

Demographic and Economic Information

The ***Schedule of Summary Membership Data*** provides general populations and statistics relating to the System's active membership over the ten-year period ended June 30, 2008.

The ***Schedule of Summary Annuity Data*** provides general populations and statistics relating to the System's annuitants over the ten-year period ended June 30, 2008.

The ***Components of Total Contribution Rate Schedule*** provides a long-term historical perspective of the actuarially required contribution rates to the System's members and employers.

The ***Schedule of Pension Benefit and Refund Deductions from Plan Net Assets*** provides summary statistics by payment type relating to retirement and refunds over the ten-year period ended June 30, 2009.

The ***Schedule of Average Monthly Pension Benefit Payments*** provides summary statistics of monthly average pension benefits and counts of recipients, by payment type, grouped in five-year increments of member credited service over the ten-year period ended June 30, 2008.

Operating Information

The list of ***Ten Largest Employers*** shows the System's ten largest employers in terms of reported annual salaries during FY 2009 and the ***Schedule of Employers*** provides the full list of PSERS' employers.

Schedule of Trend Data*

For years ending June 30,	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Contribution Rates:										
Total Pension %	4.00	6.44	5.72	4.00	4.00	2.98	.18	0.00	1.64	4.36
Health Care Insurance Premium Assistance %	.76	.69	.74	.69	.23	.79	.97	1.09	.30	.25
Total Employer %	4.76	7.13	6.46	4.69	4.23	3.77	1.15	1.09	1.94	4.61
Average Member %	7.29	7.25	7.21	7.16	7.12	7.08	7.10	6.43	5.77	5.72
Contributions:										
Member - Pension $	911,118	879,598	855,322	827,647	788,310	783,691	752,110	662,561	579,850	552,502
Member - HOP $	178,801	159,563	144,185	155,199	167,199	160,731	145,197	143,006	141,875	127,538
Employer - Pension $	515,889	753,532	659,545	456,878	431,556	321,091	20,831	539	158,193	390,504
Employer - Health Care Insurance Premium Assistance $	92,483	81,317	86,763	74,065	26,252	85,631	95,625	108,911	27,523	22,279
CMS $	31,556	28,426	27,789	13,941	-	-	-	-	-	-
Average Annual Member Compensation $	44,779	43,718	43,217	43,361	41,210	40,463	39,128	38,658	38,695	38,169
Market Value of Assets $	43,101,000	62,569,000	67,438,000	57,328,000	52,033,534	48,484,506	42,446,826	43,576,553	48,143,327	53,412,950
Actuarial Value of Assets $	#	61,018,000	57,155,000	52,558,000	51,219,300	52,094,500	52,900,500	54,296,400	54,830,300	49,293,047
Accrued Actuarial Liability $	#	70,941,000	66,593,000	64,720,000	61,129,444	56,978,143	54,313,328	51,693,207	47,870,922	39,771,604
Funded Ratio %	#	86.0	85.8	81.2	83.7	91.2	97.2	104.8	114.4	123.8
Total Benefits & Refunds $	4,931,854	4,941,681	4,320,440	4,115,865	3,877,842	3,497,365	3,102,684	2,913,163	2,297,332	2,382,277
Average Pension $	22,456	21,963	20,970	20,236	19,343	18,464	17,469	15,899	14,105	14,029
Annuitants & Beneficiaries	177,963	173,540	168,026	161,813	156,519	151,552	145,693	141,414	132,716	134,058
Active Members	279,701	272,690	264,023	263,350	255,465	247,901	246,700	242,616	243,311	234,210

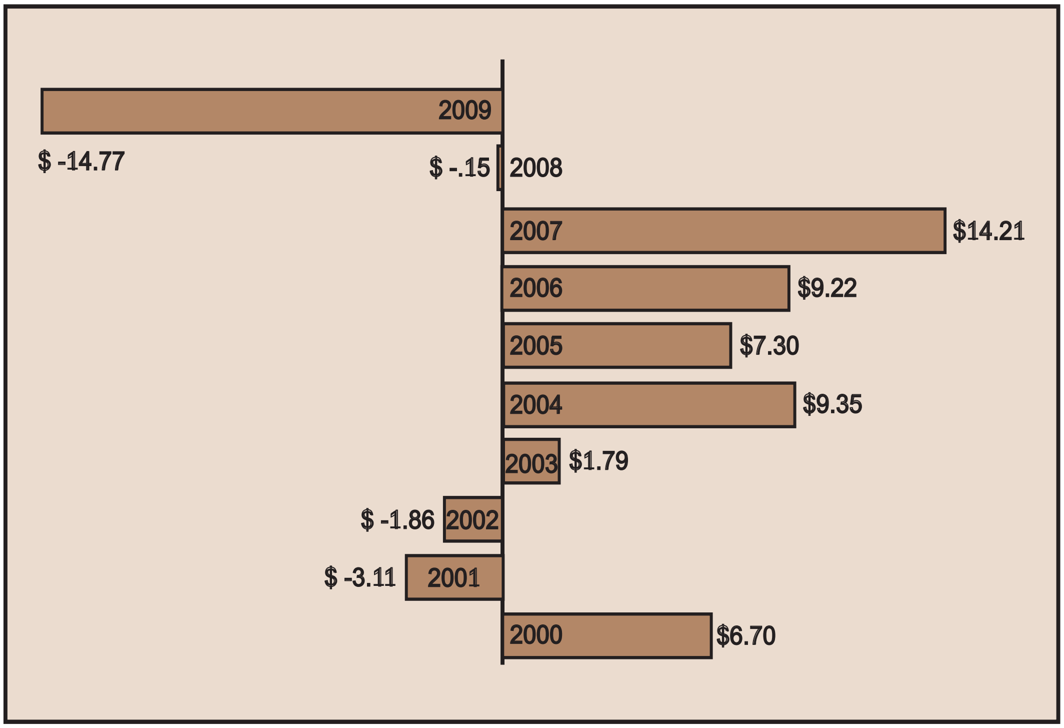
* All dollar amounts are in thousands, except Average Annual Member Compensation and Average Pension.
# Data for these categories relate to the actuarial valuation for fiscal year ended June 30, 2009. Results for this valuation were not available at publication date.

Schedule of Total Changes in Pension Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

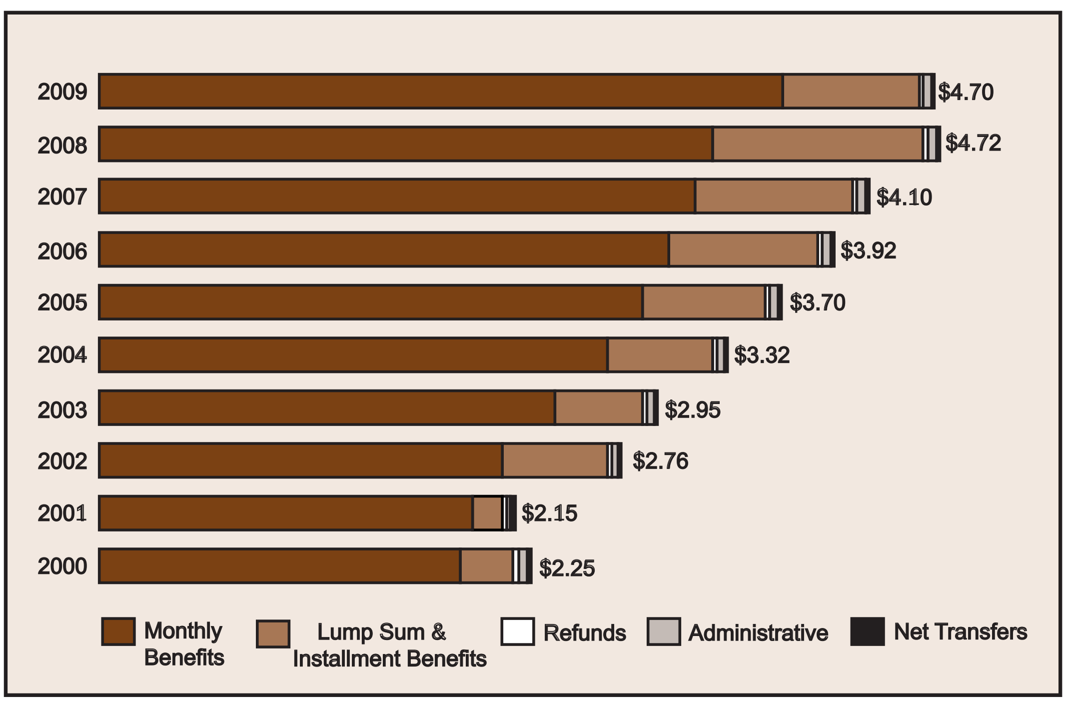
	Additions to Plan Net Assets				Deductions from Plan Net Assets						
Year Ending June 30	Member Contributions	Employer Contributions	Net Investment Income	Total Additions	Monthly Benefits	Lump-Sum and Installment	Refunds of Contributions	Administrative	Net Transfers *	Total Deductions	Net Increase / (Decrease)
2009	$ 911,118	$ 515,889	$ (16,201,701)	$ (14,774,694)	$ 3,885,286	$ 754,011	$ 20,369	$ 35,639	$ 7,947	$ 4,703,252	$ (19,477,946)
2008	879,598	753,532	(1,782,628)	(149,498)	3,623,652	1,012,688	28,713	35,863	17,157	4,718,073	(4,867,571)
2007	855,322	659,545	12,694,327	14,209,194	3,189,004	855,431	18,180	35,239	6,010	4,103,864	10,105,330
2006	827,647	456,878	7,935,586	9,220,111	3,030,297	830,361	16,330	35,391	8,462	3,920,841	5,299,270
2005	788,310	431,556	6,076,482	7,296,348	2,947,749	692,089	16,233	32,670	10,859	3,699,600	3,596,748
2004	783,691	321,091	8,242,008	9,346,790	2,692,485	559,939	14,767	40,014	16,315	3,323,520	6,023,270
2003	752,110	20,831	1,020,733	1,793,674	2,404,697	485,495	13,943	34,293	12,116	2,950,544	(1,156,870)
2002	662,561	539	(2,525,633)	(1,862,533)	2,111,941	595,184	14,858	29,756	9,434	2,761,173	(4,623,706)
2001	579,850	158,193	(3,847,949)	(3,109,906)	1,914,062	176,228	22,369	31,335	10,867	2,154,861	(5,264,767)
2000	552,502	390,504	5,761,024	6,704,030	1,894,418	306,329	22,446	25,837	4,710	2,253,740	4,450,290

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

Additions to Pension Plan Net Assets
10 Year Trend
(Dollar Amounts in Billions)



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



Schedule of Total Changes in Postemployment Healthcare Plans Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

Premium Assistance

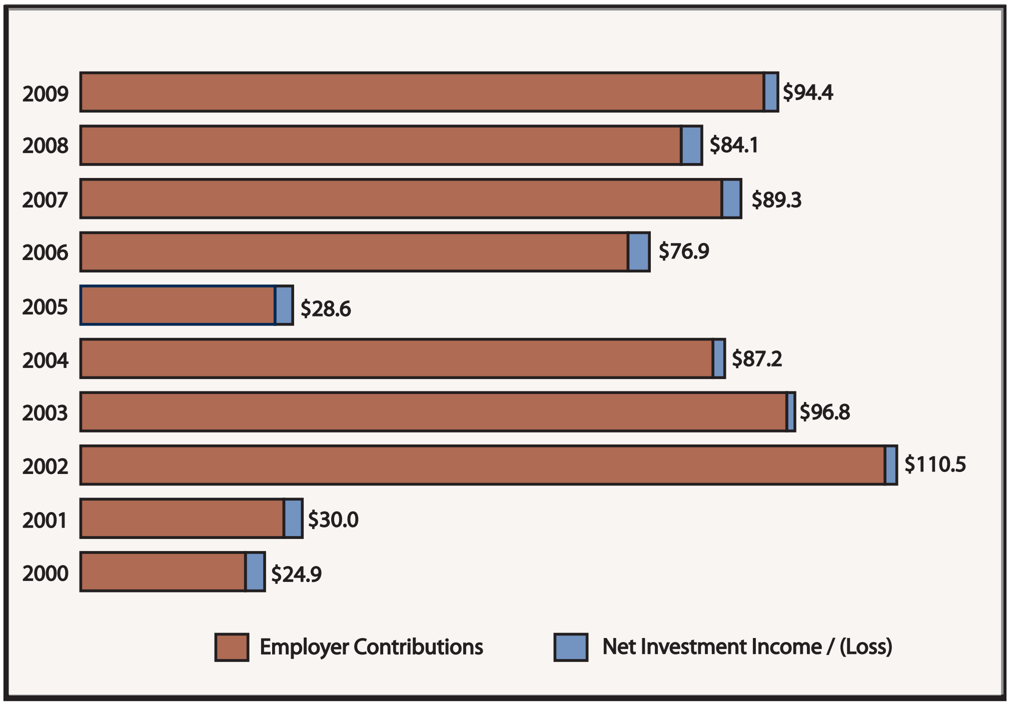
	Additions to Plan Net Assets			Deductions from Plan Net Assets			
Year Ending June 30	Employer Contributions	Net Investment Income	Total Additions	Benefits	Administrative	Total Deductions	Net Increase / Decrease
2009	$ 92,493	$ 1,861	$ 94,354	$ 83,206	$ 1,819	$ 85,025	$ 9,329
2008	81,317	2,755	84,072	84,335	1,244	85,579	(1,507)
2007	86,763	2,573	89,336	82,031	2,790	84,821	4,515
2006	74,065	2,850	76,915	79,298	1,977	81,275	(4,360)
2005	26,252	2,369	28,621	74,465	1,876	76,341	(47,720)
2004	85,631	1,591	87,222	71,098	1,714	72,812	14,410
2003	95,625	1,138	96,763	67,688	1,932	69,620	27,143
2002	108,911	1,573	110,484	51,738	1,814	53,552	56,932
2001	27,523	2,512	30,035	33,894	997	34,891	(4,856)
2000	22,279	2,603	24,882	32,949	1,024	33,973	(9,091)

Health Options Program

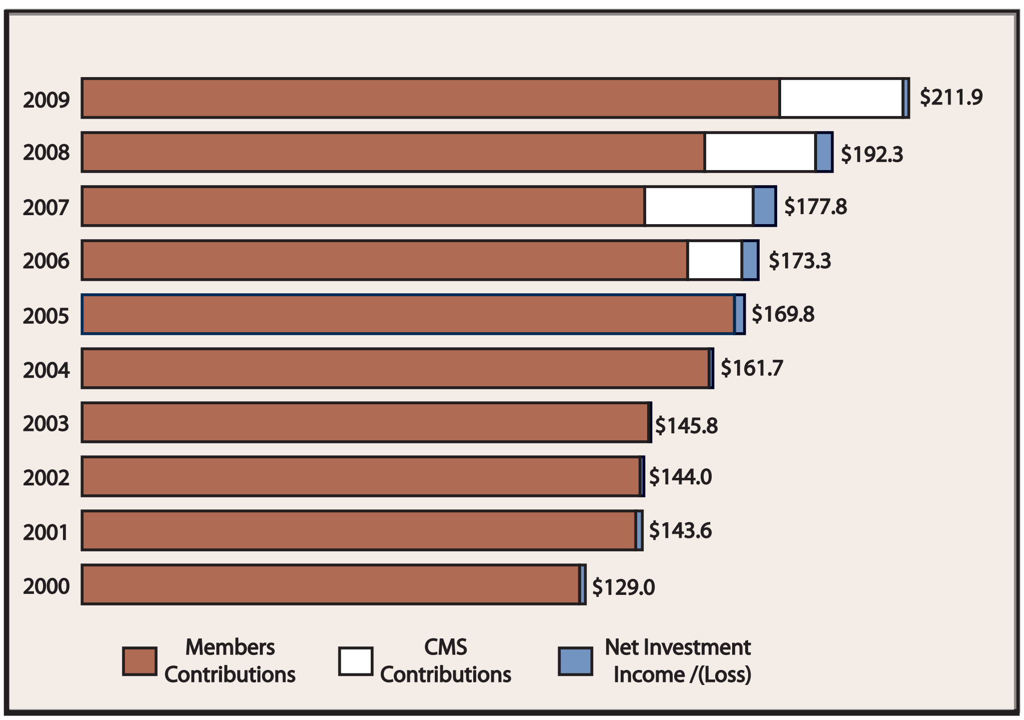
	Additions to Plan Net Assets				Deductions from Plan Net Assets			
Year Ending June 30	Member Contributions	CMS Contributions	Net Investment Income	Total Additions	Benefits	Administrative	Total Deductions	Net Increase / (Decrease)
2009	$ 178,801	$ 31,556	$ 1,528	$ 211,885	$ 181,035	$ 13,817	$ 194,852	$ 17,033
2008	159,563	28,426	4,288	192,277	175,136	12,143	187,279	4,998
2007	144,185	27,789	5,821	177,795	169,784	12,453	182,237	(4,442)
2006	155,199	13,941	4,203	173,343	151,117	11,261	162,378	10,965
2005	167,199	-	2,646	169,845	136,447	8,099	144,546	25,299
2004	160,731	-	1,005	161,736	142,761	7,474	150,235	11,501
2003	145,197	-	596	145,793	118,745	6,053	124,798	20,995
2002	143,006	-	1,035	144,041	130,008	3,803	133,811	10,230
2001	141,875	-	1,724	143,599	139,912	2,522	142,434	1,165
2000	127,538	-	1,506	129,044	121,425	2,472	123,897	5,147

Additions to Postemployment Healthcare Plans Net Assets
10 Year Trend
(Dollar Amounts in Millions)

Premium Assistance

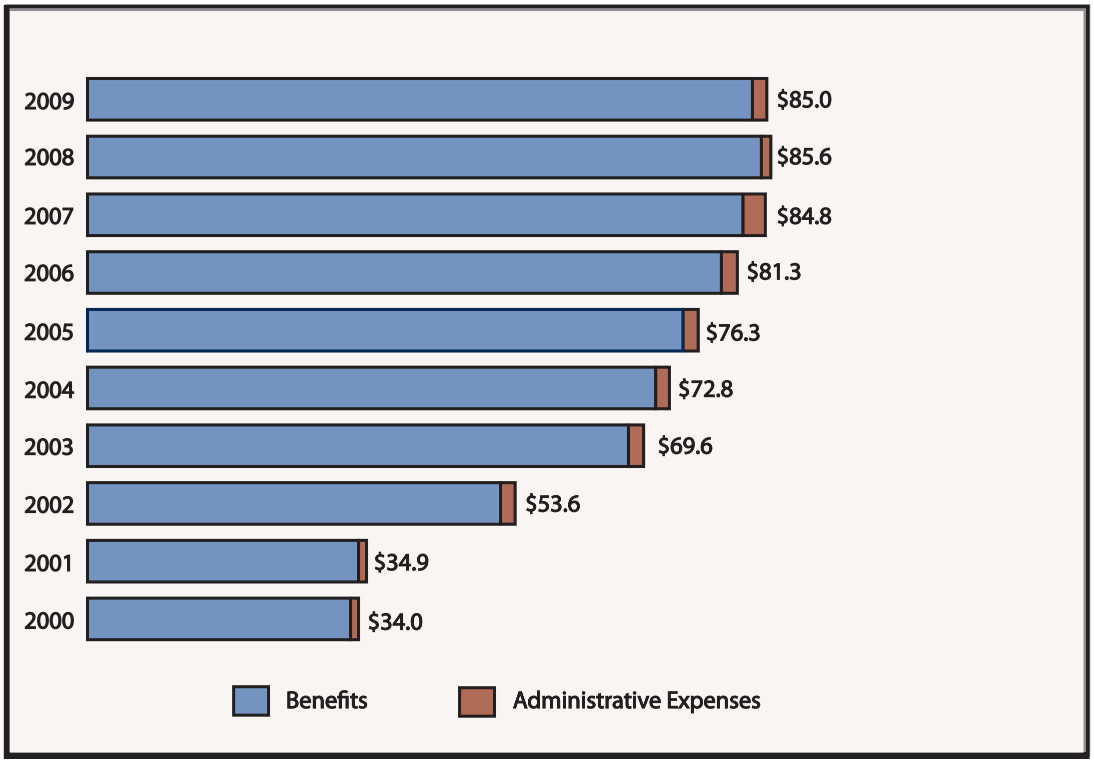


Health Options Program

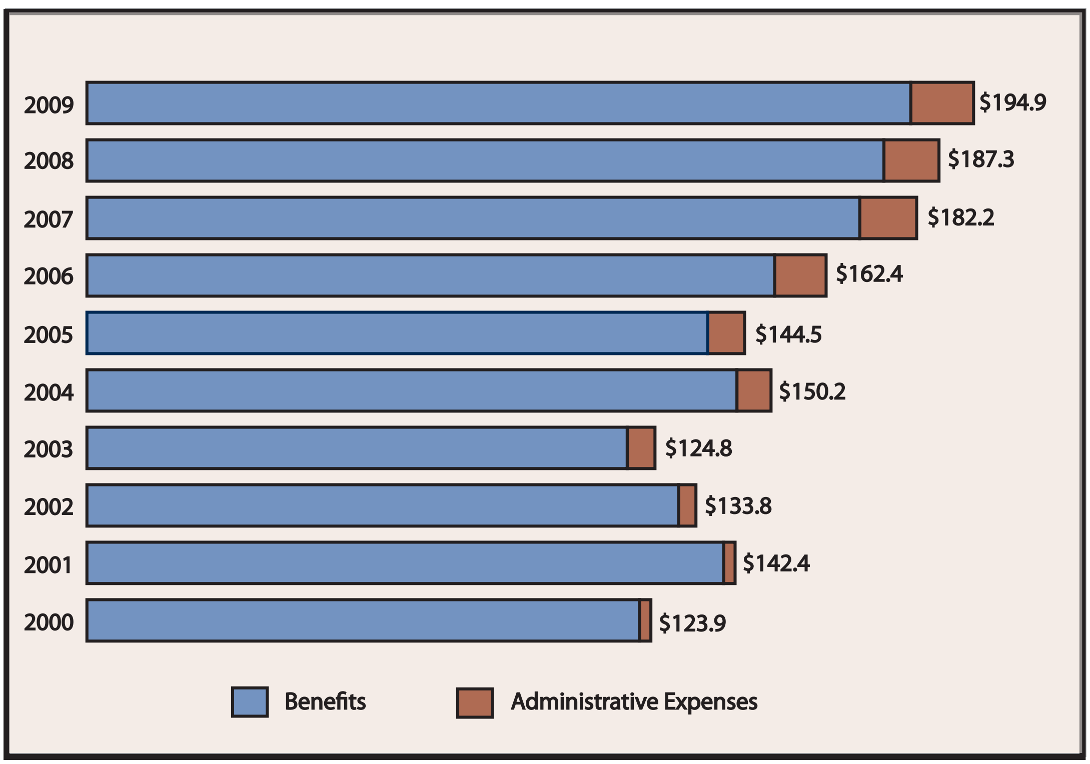


Deductions from Postemployment Healthcare Plans Net Assets
10 Year Trend
(Dollar Amounts in Millions)

Premium Assistance



Health Options Program



Schedule of Pension Investment Income
10 Year Trend
(Dollar Amounts in Thousands)

For years ending June 30,	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Investment Income:										
From investing activities:										
Net appreciation (depreciation) in fair value of investments	$ (17,007,821)	$ (3,763,649)	$ 10,457,473	$ 5,969,223	$ 4,463,930	$ 6,874,420	$ (170,101)	$ (3,776,589)	$ (5,137,879)	$ 4,129,291
Investment Income	1,310,460	2,331,266	2,524,655	2,154,654	1,789,078	1,544,159	1,354,835	1,397,457	1,409,966	1,734,863
Total investment activity income (loss)	(15,697,361)	(1,432,383)	12,982,128	8,123,877	6,253,008	8,418,579	1,184,734	(2,379,132)	(3,727,913)	5,864,154
Investment expenses	(477,520)	(399,098)	(313,726)	(211,247)	(192,629)	(191,267)	(179,033)	(162,755)	(143,663)	(124,554)
Net income (loss) from investing activities	(16,174,881)	(1,831,481)	12,668,402	7,912,630	6,060,379	8,227,312	1,005,701	(2,541,887)	(3,871,576)	5,739,600
From securities lending activities:										
Securities lending income	55,574	319,107	419,762	270,447	125,882	46,075	43,870	57,391	147,852	161,416
Securities lending expenses	(82,394)	(270,254)	(393,837)	(247,491)	(109,779)	(31,379)	(28,838)	(41,137)	(124,225)	(139,992)
Net income (loss) from securities lending activities	(26,820)	48,853	25,925	22,956	16,103	14,696	15,032	16,254	23,627	21,424
Total net investment income (loss)	(16,201,701)	(1,782,628)	12,694,327	7,935,586	6,076,482	8,242,008	1,020,733	(2,525,633)	(3,847,949)	5,761,024

Schedule of Premium Assistance Investment Income
10 Year Trend
(Dollar Amounts in Thousands)

For years ending June 30,	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Investment Income:										
From investing activities:										
Net appreciation (depreciation) in fair value of investments	$ (363)	$ 268	$ 88	$ (480)	$ (2,218)	$ (3,003)	$ (2,405)	$ (564)	$ 260	$ (55)
Investment Income	2,269	2,525	2,517	3,362	4,635	4,627	3,566	2,159	2,274	2,680
Total investment activity income (loss)	1,906	2,793	2,605	2,882	2,417	1,624	1,161	1,595	2,534	2,625
Investment expenses	(45)	(38)	(32)	(32)	(48)	(33)	(23)	(22)	(22)	(22)
Total net investment income (loss)	1,861	2,755	2,573	2,850	2,369	1,591	1,138	1,573	2,512	2,603

Schedule of Health Options Program Investment Income
10 Year Trend
(Dollar Amounts in Thousands)

For years ending June 30,	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Investment Income:										
From investing activities:										
Net appreciation (depreciation) in fair value of investments	$ -	$ -	$ -	$ 123	$ 672	$ -	$ -	$ -	$ -	$ -
Investment Income	1,528	4,288	5,821	4,080	1,974	1,005	596	1,035	1,724	1,506
Total investment activity income (loss)	1,528	4,288	5,821	4,203	2,646	1,005	596	1,035	1,724	1,506
Investment expenses	-	-	-	-	-	-	-	-	-	-
Total net investment income (loss)	1,528	4,288	5,821	4,203	2,646	1,005	596	1,035	1,724	1,506

Schedule of Summary Membership Data
10 Year Trend *

For year ended June 30,	Male Average Age	Male Average Service	Male Average Annual Salaries	Female Average Age	Female Average Service	Female Average Annual Salaries	Total Number of Active Members
2008	44.5	11.4	$ 49,818	44.7	10.4	$ 41,440	272,690
2007	44.5	11.7	49,220	44.7	10.5	40,958	264,023
2006	44.6	12.0	49,153	44.7	10.7	41,155	263,350
2005	44.9	12.6	47,416	45.0	11.0	38,832	255,465
2004	45.1	13.0	47,103	45.1	11.1	37,901	247,901
2003	45.1	13.5	45,947	45.0	11.2	36,465	246,700
2002	45.2	14.0	45,182	44.9	11.3	36,073	242,616
2001	45.5	14.6	45,686	44.9	11.6	35,852	243,311
2000	45.2	14.4	45,049	44.6	11.3	35,331	234,210
1999	45.2	14.6	43,498	44.7	11.5	34,132	223,495

* Actuarial Valuation for year ended June 30, 2008 is most current valuation completed at publication date.

Schedule of Summary Annuity Data
10 Year Trend *

For year ended June 30,	Number of Annuitants & Beneficiaries	Total Annual Annuities **	Average Annual Annuity
2008	173,540	$ 3,812,000	$ 21,963
2007	168,026	3,523,000	20,970
2006	161,813	3,274,000	20,236
2005	156,519	3,027,550	19,343
2004	151,552	2,798,211	18,464
2003	145,693	2,545,135	17,469
2002	141,414	2,248,291	15,899
2001	132,716	1,871,995	14,105
2000	134,058	1,880,644	14,028
1999	132,869	1,830,582	13,777

* Actuarial Valuation for year ended June 30, 2008 is most current valuation completed at publication date.

** Total Annual Annuities dollar amounts expressed in thousands.

Components of Total Contribution Rate

(In Percentages)

Employer Year	Employer Payroll	Member Contribution (Average)	Employer Contribution: Normal Requirement (A)	Employer Contribution: (Funded) / Unfunded Accrued Liability (B)	Employer Contribution: Employer Pension Rate	Employer Contribution: Health Insurance Premium Assistance Contribution (C)	Employer Contribution: Total Employer Rate	Grand Total Contribution Rate
2008-2009	$ 12,402,782	7.29	6.68	(3.37)	4.00	0.76	4.76	12.05
2007-2008	11,921,469	7.25	6.68	(0.24)	6.44	0.69	7.13	14.38
2006-2007	11,410,257	7.21	6.62	(0.95)	5.72	0.74	6.46	13.67
2005-2006	11,419,049	7.16	7.61	(4.28)	4.00	0.69	4.69	11.85
2004-2005	11,062,589	7.12	7.48	(7.10)	4.00	0.23	4.23	11.35
2003-2004	10,030,705	7.08	7.25	(4.27)	2.98	0.79	3.77	10.85
2002-2003	9,652,881	7.10	7.20	(10.03)	0.18	0.97	1.15	8.25
2001-2002	9,378,944	6.43	5.63	(6.05)	0.00	1.09	1.09	7.52
2000-2001	9,414,884	5.77	6.29	(4.65)	1.64	0.30	1.94	7.71
1999-2000	8,939,598	5.72	6.40	(2.04)	4.36	0.25	4.61	10.33
1998-1999	8,247,602	5.69	6.33	(0.44)	5.89	0.15	6.04	11.73
1997-1998	8,091,481	5.65	6.44	2.17	8.61	0.15	8.76	14.41
1996-1997	7,745,001	5.62	6.44	3.56	10.00	0.60	10.60	16.22
1995-1996	7,616,585	5.59	6.43	4.67	11.10	0.62	11.72	17.31
1994-1995	7,378,342	5.55	6.43	4.18	10.61	0.45	11.06	16.61
1993-1994	6,885,337	5.51	7.34	5.58	12.92	0.25	13.17	18.68
1992-1993	6,348,565	5.48	7.90	5.84	13.74	0.50	14.24	19.72
1991-1992	6,098,222	5.46	8.00	6.40	14.40	0.50	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

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 post-employment healthcare insurance premium assistance requirement.

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

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

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

Employer Payroll is the estimated or actual aggregate employer salaries used in the actuarial valuation that determined the employer contribution rates for the employer years.

Schedule of Pension Benefit and Refund Deductions from Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

	Retirements *									Refunds	
For Year Ended June 30,	Normal	Early	Disability	Pension Lump Sum Benefits	Death	Beneficiary	Survivor	Transfers	Total Pension Benefits Deductions	Refunds	Total Pension Benefits and Refund Deductions
2009	$ 2,110,018	$ 1,538,421	$ 130,820	$ 666,827	$ 53,695	$ 86,164	$ 53,352	$ 7,947	$ 4,647,244	$ 20,369	$ 4,667,613
2008	4,636,340	**	**	**	**	**	**	17,157	4,653,497	28,713	4,682,210
2007	4,044,435	**	**	**	**	**	**	6,010	4,050,445	18,180	4,068,625
2006	3,860,658	**	**	**	**	**	**	8,462	3,869,120	16,330	3,885,450
2005	3,639,838	**	**	**	**	**	**	10,859	3,650,697	16,233	3,666,930
2004	3,252,424	**	**	**	**	**	**	16,315	3,268,739	14,767	3,283,506
2003	2,890,192	**	**	**	**	**	**	12,116	2,902,308	13,943	2,916,251
2002	2,707,125	**	**	**	**	**	**	9,434	2,716,559	14,858	2,731,417
2001	2,090,290	**	**	**	**	**	**	10,867	2,101,157	22,369	2,123,526
2000	2,200,747	**	**	**	**	**	**	4,710	2,205,457	22,446	2,227,903

* Data presented in Normal Column for years 2000 to 2008 are aggregate amounts for all Retirement Types.
** Data for these years is not readily available in the format adopted for the Year Ended June 30, 2009.

Schedule of Average Monthly Pension Benefit Payments **
Grouped by Years of Credited Service
10 Year Trend

	Years of Credited Service									
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+	Total
Fiscal Year Ended June 30, 2008										
Normal and Early	4,054	9,541	20,539	17,450	16,748	19,166	38,331	27,318	4,509	**157,656**
	$ 355	$ 165	$ 270	$ 584	$ 1,032	$ 1,733	$ 2,904	$ 3,732	$ 3,629	**$ 1,896**
Disability	-	1,468	1,664	1,364	1,280	1,178	466	14	1	**7,435**
	-	$ 876	$ 949	$ 1,205	$ 1,854	$ 2,714	$ 3,707	$ 3,681	$ 4,550	**$ 1,595**
Beneficiary and Survivor	789	402	964	874	879	917	1,381	1,522	721	**8,449**
	$ 1,127	$ 121	$ 223	$ 347	$ 533	$ 783	$ 1,083	$ 1,223	$ 1,255	**$ 817**
Fiscal Year Ended June 30, 2007										
Normal and Early	2,812	8,675	20,554	17,448	16,304	18,664	37,422	25,100	5,382	**152,361**
	$ 54	$ 149	$ 256	$ 553	$ 971	$ 1,662	$ 2,821	$ 3,574	$ 3,488	**$ 1,820**
Disability	-	1,437	1,689	1,370	1,307	1,154	430	11	1	**7,399**
	-	$ 595	$ 770	$ 1,044	$ 1,569	$ 2,476	$ 3,466	$ 3,576	$ 4,550	**$ 1,356**
Beneficiary and Survivor	94	430	1,025	930	936	980	1,453	1,628	790	**8,266**
	$ 47	$ 119	$ 218	$ 342	$ 530	$ 768	$ 1,075	$ 1,201	$ 1,234	**$ 767**
Fiscal Year Ended June 30, 2006										
Normal and Early	2,723	7,810	20,380	17,198	15,979	18,140	35,227	23,660	5,465	**146,582**
	$ 53	$ 147	$ 249	$ 537	$ 945	$ 1,611	$ 2,747	$ 3,474	$ 3,397	**$ 1,756**
Disability	-	1,375	1,655	1,339	1,261	1,136	398	10	1	**7,175**
	-	$ 579	$ 750	$ 1,023	$ 1,510	$ 2,429	$ 3,422	$ 3,549	$ 4,550	**$ 1,320**
Beneficiary and Survivor	88	413	1,000	902	911	951	1,404	1,572	815	**8,056**
	$ 47	$ 116	$ 212	$ 327	$ 516	$ 742	$ 1,027	$ 1,154	$ 1,182	**$ 739**
Fiscal Year Ended June 30, 2005										
Normal and Early	2,654	7,117	20,423	17,022	15,827	17,732	33,402	21,971	5,615	**141,763**
	$ 67	$ 147	$ 244	$ 523	$ 921	$ 1,561	$ 2,669	$ 3,326	$ 3,278	**$ 1,679**
Disability	8	1,321	1,641	1,281	1,232	1,113	357	10	1	**6,964**
	$ 1,301	$ 550	$ 723	$ 975	$ 1,464	$ 2,377	$ 3,340	$ 3,546	$ 4,550	**$ 1,271**
Beneficiary and Survivor	79	400	976	881	876	913	1,322	1,530	814	**7,791**
	$ 47	$ 110	$ 204	$ 316	$ 496	$ 709	$ 987	$ 1,075	$ 1,099	**$ 700**
Fiscal Year Ended June 30, 2004										
Normal and Early	3,111	6,585	20,407	16,821	15,637	17,285	31,443	20,313	5,699	**137,301**
	$ 224	$ 148	$ 240	$ 509	$ 901	$ 1,516	$ 2,592	$ 3,191	$ 3,198	**$ 1,602**
Disability	24	1,256	1,589	1,205	1,225	1,083	305	8	1	**6,696**
	$ 873	$ 527	$ 700	$ 937	$ 1,435	$ 2,342	$ 3,212	$ 3,227	$ 4,550	**$ 1,229**
Beneficiary and Survivor	123	408	946	861	830	881	1,235	1,444	826	**7,554**
	$ 224	$ 107	$ 196	$ 303	$ 465	$ 680	$ 944	$ 997	$ 1,042	**$ 658**

** Actuarial valuation for year ended June 30, 2008 is the most current valuation completed at the publication date.

Schedule of Average Monthly Pension Benefit Payments
Grouped by Years of Credited Service
10 Year Trend (Continued)

	Years of Credited Service									
	< 5	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+	Total
Fiscal Year Ended June 30, 2003										
Normal and Early	2,762	6,165	20,389	16,688	15,509	16,761	29,365	18,553	5,813	132,005
	$ 131	$ 149	$ 236	$ 496	$ 879	$ 1,463	$ 2,501	$ 3,021	$ 3,104	$ 1,516
Disability	20	1,182	1,524	1,167	1,198	1,011	268	7	1	6,378
	$ 749	$ 505	$ 673	$ 903	$ 1,397	$ 2,267	$ 3,044	$ 3,035	$ 4,550	$ 1,176
Beneficiary and Survivor	111	396	916	857	815	827	1,166	1,379	842	7,309
	$ 180	$ 104	$ 190	$ 287	$ 452	$ 654	$ 889	$ 941	$ 979	$ 622
Fiscal Year Ended June 30, 2002										
Normal and Early	2,443	5,891	20,446	16,670	15,398	16,430	27,659	17,341	5,925	128,203
	$ 46	$ 146	$ 227	$ 472	$ 830	$ 1,367	$ 2,302	$ 2,737	$ 2,849	$ 1,378
Disability	-	1,137	1,487	1,144	1,172	940	208	8	1	6,097
	-	$ 472	$ 630	$ 827	$ 1,308	$ 2,067	$ 2,598	$ 2,901	$ 4,174	$ 1,060
Beneficiary and Survivor	89	398	891	835	783	796	1,112	1,347	862	7,113
	$ 52	$ 98	$ 184	$ 277	$ 430	$ 625	$ 821	$ 889	$ 924	$ 588
Fiscal Year Ended June 30, 2001										
Normal and Early	2,399	5,345	20,007	16,211	14,889	15,100	25,230	14,975	5,952	120,108
	$ 42	$ 137	$ 205	$ 424	$ 759	$ 1,213	$ 2,145	$ 2,381	$ 2,605	$ 1,221
Disability	-	1,097	1,444	1,098	1,112	857	159	5	1	5,773
	-	$ 432	$ 576	$ 767	$ 1,220	$ 1,895	$ 2,054	$ 2,809	$ 4,174	$ 948
Beneficiary and Survivor	82	397	867	801	745	749	1,044	1,281	868	6,834
	$ 53	$ 95	$ 177	$ 268	$ 419	$ 604	$ 782	$ 845	$ 884	$ 562
Fiscal Year Ended June 30, 2000										
Normal and Early	*	*	*	*	*	*	*	*	*	121,812
	*	*	*	*	*	*	*	*	*	$ 1,215
Disability	*	*	*	*	*	*	*	*	*	5,592
	*	*	*	*	*	*	*	*	*	$ 923
Beneficiary and Survivor	*	*	*	*	*	*	*	*	*	6,654
	*	*	*	*	*	*	*	*	*	$ 541
Fiscal Year Ended June 30, 1999										
Normal and Early	*	*	*	*	*	*	*	*	*	121,064
	*	*	*	*	*	*	*	*	*	$ 1,193
Disability	*	*	*	*	*	*	*	*	*	5,384
	*	*	*	*	*	*	*	*	*	$ 890
Beneficiary and Survivor	*	*	*	*	*	*	*	*	*	6,421
	*	*	*	*	*	*	*	*	*	$ 516

* Data for these years not available in the format adopted for years ending June 30, 2001 through 2008.

Ten Largest Employers

(Based on reported members' salaries)
(Dollar Amounts in Thousands)

	Employer	Total Reported Salaries (FY 2009)	Percentage of Total Salaries compared to Salaries from All Employers
1.	City of Philadelphia School District	$ 1,125,330	9.12%
2.	Pittsburgh School District	282,917	2.29
3.	Central Bucks School District	135,779	1.10
4.	North Penn School District	106,630	0.86
5.	Allentown City School District	102,785	0.83
6.	Council Rock School District	101,031	0.82
7.	Bethlehem Area School District	94,656	0.77
8.	Pennsbury School District	94,577	0.77
9.	Reading School District	93,932	0.76
10.	Lower Merion School District	91,331	0.74

Due to the stable comparable populations of school employees in PSERS' employers over the years, a single presentation provides perspective for a ten-year period.

Schedule of Employers
School Districts

A

Abington Heights
Abington
Albert Gallatin
Aliquippa
Allegheny Valley
Allegheny-Clarion 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 Brothersvalley
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 Borough
Bristol Borough
Bristol Township
Brockway Area
Brookville Area
Brownsville Area
Burgettstown Area
Burrell
Butler Area

C

California Area
Cambria Heights
Cameron County
Camp Hill
Canon-McMillan
Canton Area
Carbondale Area
Carlisle Area
Carlynton
Carmichaels Area
Catasauqua Area
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 City
Clarion Area
Clarion-Limestone Area
Claysburg-Kimmel
Clearfield Area
Coatesville Area
Cocalico
Colonial
Columbia Borough
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 Area
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 LeBoeuf
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 Area
Harrisburg City
Hatboro-Horsham
Haverford Township
Hazleton Area
Hempfield Area
Hempfield
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 Central
Keystone Oaks
Keystone
Kiski Area
Kutztown Area

L
Lackawana Trail
Lakeland
Lake-Lehman
Lakeview
Lampeter-Strasburg
Lancaster
Laurel Highlands
Laurel
Lebanon
Leechburg Area
Lehighton Area
Lewisburg Area
Ligonier Valley
Line Mountain
Littlestown Area
Lower Dauphin
Lower Merion
Lower Moreland Township
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
Middletown Area
Midd-West
Midland Borough
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 Borough
Moshannon Valley
Mount Carmel Area
Mount Pleasant Area
Mount Union Area
Mountain View
Mt. Lebanon
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
Northern Bedford County
Northern Cambria
Northern Lebanon
Northern Lehigh
Northern Potter
Northern Tioga
Northern York County
Northgate
Northwest Area
Northwestern Lehigh
Northwestern
Norwin

Schedule of Employers (Continued)

O

Octorara Area
Oil City Area
Old Forge
Oley Valley
Oswayo Valley
Otto-Eldred
Owen J Roberts
Oxford Area

P

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

Q

Quaker Valley
Quakertown Community

R

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

S

Saint Clair Area
Saint Marys Area
Salisbury Township
Salisbury-Elk Lick
Saucon Valley
Sayre Area
Schuylkill Haven Area
Schuylkill Valley
Scranton
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 County
Southern Lehigh
Southern Tioga
Southern York County
Southmoreland
Spring Cove
Spring Grove Area
Springfield
Springfield Township
Spring-Ford Area
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
Trinity Area
Tri-Valley
Troy Area
Tulpehocken Area
Tunkhannock Area
Turkeyfoot Valley Area
Tuscarora
Tussey Mountain
Twin Valley
Tyrone Area

U

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

Schedule of Employers (Continued)

V

Valley Grove
Valley View

W

Wallenpaupack Area
Wallingford-Swarthmore
Warren County
Warrior Run
Warwick
Washington
Wattsburg Area
Wayne Highlands
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 Borough
William Penn
Williams Valley
Williamsburg Community
Williamsport Area
Wilmington Area
Wilson Area
Wilson
Windber Area
Wissahickon
Woodland Hills
Wyalusing Area
Wyoming Area
Wyoming Valley West
Wyomissing Area

Y

York City
York Suburban
Yough

Area Vocational Technical Schools

A. W. Beattie Career Center
Admiral Peary AVTS
Beaver County AVTS
Bedford County Technical Center
Berks CTC
Bethlehem AVTS
Bucks County Technical High School
Butler County AVTS
Carbon Career & Technical Institute
Career Institute of Technology
Center for Technical Studies of MontgomeryCounty
Central PA Institute of Science & Technology
Central Westmoreland CTC
Clarion County Career Center
Clearfield County CTC
Columbia-Montour AVTS
Crawford County AVTS
CTC of Lackawanna County
Cumberland-Perry AVTS
Dauphin County AVTS
Delaware County AVTS
Eastern Center for Arts & Technology
Eastern Westmoreland CTC
Erie County Technical School
Fayette County AVTS
Forbes Road CTC
Franklin County CTC
Fulton County AVTS
Greater Altoona CTC
Greater Johnstown AVTS
Greene County CTC
Huntingdon Co CTC
Indiana County Technology Center
Jefferson County-DuBois AVTS
Lancaster County CTC
Lawrence County CTC
Lebanon County CTC
Lehigh Career & Technical Institute
Lenape Tech
Lycoming CTC
Mercer County Career Center
Middle Bucks Institute of Technology
Mifflin-Juniata CTC
Mon Valley CTC
Monroe Career & Tech Inst
North Fayette Co AVTS
North Montco Tech Career Center
Northern Tier Career Center
Northern Westmoreland CTC
Northumberland County AVTS
Parkway West CTC
Reading-Muhlenberg CTC
Schuylkill Technology Centers
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 Co School of Technology

Schedule of Employers (Continued)

Intermediate Units

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

Colleges / Universities

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

Other

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

Schedule of Employers (Continued)

Charter Schools (C S)

21St Century Cyber C S
Achievement House C S
Ad Prima C S
Agora Cyber C S
Alliance For Progress C S
Antonia Pantoja Charter School
Architecture and Design C S
Avon Grove C S
Bear Creek Community C S
Beaver Area Academic C S
Belmont C S
Boys Latin of Philadelphia C S
Bucks County Montessori C S
Career Connections C S
Central Pennsylvania 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
Community Academy of Philadelphia C S
Crispus Attucks Youthbuild C S
Center for Student Learning C S at Pennsbury
Delaware Valley C S
Discovery C S
Dr. Robert Ketterer C S
Erin Dudley Forbes C S
Eugenio Maria de Hostos Community Bilingual C S
Evergreen Community C S
Family C S
Fell C S
First Philadelphia C S for Literacy
Folk Arts-Cultural Treasures C S
Franklin Towne C S
Freire C S
Germantown Settlement C S
Global Leadership Academy 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 Performng Arts
Lincoln C S
Lincoln Park Performing Arts C S
Manchester Academic C S
Mariana Bracetti Academy C S
Maritime Academy C S
Mastery Charter High School
Mastery CS - Pickett Campus
Mastery CS - Shoemaker Campus
Mastery CS - Thomas Campus
Math Civics and Sciences C S
Mathmatics,Science &Technology Commmunity C S
Montessori Regional C S
Multi-Cultural Academy C S
New Foundations C S
New Hope Academy
New Media Technology C S
Nittany Valley C S
Northside Urban Pathways C S
Northwood Academy C S
Nueva Esperanza Academy C S
Pennsylvania Learners Online Regional Cyber C S
Pennsylania Leadership C S
Pennsylvania Cyber C S
Pennsylvania Distance Learning C S
Pennsylvania Virtual C S
People for People C S
Perseus House C S of Excellence
Philadelphia Academy 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
Planet Abacus C S
Pocono Mountain C S
Preparatory Charter of Mathematics, Science, Technology and Careers School
Propel C S - Homestead
Propel C S - McKeesport
Propel C S - Montour
Propel-East C S
Renaissance Academy-Edison C S
Renaissance Advantage C S
Renaissance C S
Richard Allen Preparatory C S
Robert Benjamin Wiley Community C S
Roberto Clemente C S
Russell Byers C S
Sankofa Academy C S
School Lane C S
Souderton C S Collaborative
Spectrum C S
Sugar Valley Rural C S
SUSQ-CYBER C S
Sylvan Heights Science C S
Tidioute Community C S
Truebright Science Academy C S
Tuscarora Blended Learning C S
Universal Institute C S
Urban League of Pittsburgh C S
Wakisha C S
Walter D Palmer Leadershp Learning Partnershp C S
West Oak Lane C S
West Philadelphia Achievement Charter Elementary School
Wissahickon C S
Wonderland C S
World Communications C S
Young Scholars C S
Young Scholars of Central Pennsylvania C S