Est. 1919

PSERS

Partners for your Future®

Pennsylvania

Public School Employees' Retirement System

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2010

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, 2010

Melva S. Vogler
Chairman
Board of Trustees

Sally J. Turley
Vice Chairman
Board of Trustees

Jeffrey B. Clay
Executive Director

Report prepared by the Public School Employees' Retirement System staff

Table of Contents

Table of Contents (Continued)


Certificate of Achievement for Excellence in Financial Reporting
Presented to
Pennsylvania Public School Employees' Retirement System
For its Comprehensive Annual Financial Report for the Fiscal Year Ended
June 30, 2009
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
Jeffrey L. Esser
Executive Director

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2009

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
Program Administrator

This page intentionally left blank


Est. 1919
PSERS
Partners for your Future
Introductory
Financial
Investment
Actuarial
Statistical

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

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

November 5, 2010

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
Pennsylvania Public School Employees' Retirement System Board of Trustees

Dear Governor Rendell, Legislators, Members, Employer Board members and PSERS Board of Trustees:

We are pleased to present the ninety-first edition of the Comprehensive Annual Financial Report for the Pennsylvania Public School Employees' Retirement System (System, PSERS, Fund) for the year ended June 30, 2010. This report is intended to provide financial, investment, actuarial and statistical information in a single publication. The front cover of this year's CAFR portrays several reference books found in any school library. This is a subtle implication to the long-standing relationship that PSERS shares with the public school institutions in Pennsylvania. The reference book theme carries forward into the CAFR's five section title pages. 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 in any of the 749 reporting entities in Pennsylvania. As of June 30, 2010, the System had approximately 282,000 active members with an estimated annual active payroll of $12.8 billion.

The annuitant membership at June 30, 2010 was comprised of approximately 185,000 retirees and beneficiaries who receive over $340 million in pension and healthcare benefits each month. The average yearly benefit paid to annuitants is $23,466. 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 749 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. In addition, no significant findings were noted during the audit and therefore, no management letter was issued. This is the first time in many years that a management letter was not issued by the independent auditors and is reflective of the hard work and dedication of PSERS' staff to continue to improve the internal controls, operations and efficiency of the System.

Economic Summary

The past fiscal year saw a rebound from the worst economic contraction since the Great Depression. The U.S. Gross Domestic Product (GDP) increased in all four quarters of the fiscal year ended June 30, 2010 (FY 2010) and the U.S. unemployment rate stabilized after increasing significantly in FY 2009. As a result, the Fund experienced positive investment performance in all asset classes except for real estate. For FY 2010 PSERS' investment portfolio generated a rate of return of 14.59% which resulted in $6.1 billion of net investment income. The total net assets of the System increased from $43.2 billion to $45.8 billion from July 1, 2009 to June 30, 2010. The increase was due to net investment income plus member and employer contributions exceeding the deductions for benefits and administrative expenses.

The Board has continued to fulfill its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the long-term growth of the System's assets and the 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, 2010 was 8.83% 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 thirty largest pension systems in the nation.

Major Initiatives

Pension Funding

The resolution of the current funding issues facing the System continues to represent the greatest challenge in the history of the System. The employer contribution rate is projected to significantly increase from 5.64 percent in FY 2011 to nearly 29 percent in FY 2013. PSERS continues to work closely with and provide technical assistance to the legislature on this significant issue. During the most recent legislative session, numerous pieces of legislation addressing the pension funding issue were introduced. One bill, HB 2497, passed both the House and Senate and was then sent back to the House for concurrence on Senate amendments in the bill. As of the date of this publication, it is unclear if the House will concur on the Senate amendments.

The pension funding issue also remains a top issue for the PSERS Board. As a consequence of passage of the Fiscal Code Bill (Act 2010-46) that accompanied the Commonwealth's General Fund Budget (Act 2010-1A), the Board met in July 2010 and recertified the employer contribution rate for Fiscal Year 2010-2011. The rate was decreased from 8.22% down to 5.64% as directed under the provisions of Act 46.

Unlike past recertifications of the employer contribution rate by the Board, this recertification was not the result of either a modification of PSERS' funding methodology or any other change made to the Public School Employees' Retirement Code. Therefore, the Board passed a resolution that voiced its concern and stated that the mandated recertification of the employer contribution rate not only fails to address the serious long-term under-funding of PSERS, but increased the unfunded liability of PSERS.

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. For additional information on the funding issues see http://www.psers.state.pa.us/press/pension_funding_issues/index.html.

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 into law. The administrative budget is not funded from the Commonwealth's General Fund, rather from the earnings of the Fund itself. The Commonwealth's Office of Administration continued FY 2009 cost control initiatives into FY 2010 that included a ban on most out-of-state travel, a moratorium on new vehicle purchases, and a freeze on hiring and management salaries. As reflected in the five-year table below, PSERS has also been 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. In conjunction with the Commonwealth's initiatives the System continually looks for ways to cut costs while maintaining excellent customer service and efficiency of operations. As an example, during FY 2010 postage and printing costs were less than FY 2009. Postage costs were reduced by 20.33% and printing by 7.62% as the System continued to look for more efficient ways to communicate with members and employers using the Internet and other electronic means.

Fiscal Year:	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Administrative Budget*	$39,539,000	$39,455,000	$40,811,000	$42,068,000	$42,651,600
Expenditures**	36,935,084	38,230,663	38,009,568	39,224,000	39,339,480
Lapse (unspent funds)	2,603,916	1,224,337	2,801,432	2,844,000	3,312,120
Percentage Lapsed	6.6%	3.1%	6.9%	6.8%	7.8%

*Administrative Budget is net of budgetary reserve of $229,000 in FY 2009 and $575,400 in FY 2010.
**Expenditures are those posted to the Commonwealth's accounting system and therefore do not include accruals.

In addition to these savings, during FY 2010, PSERS continued its on going efforts to recover funds from securities class action litigation. The System received $11.0 million in settlements from these cases in FY 2010.

Customer Service

PSERS' efforts to provide complete and accurate retirement benefits in a much timelier manner have continued to be a success. Traditionally, PSERS' retirement benefits had been paid to members in two steps; a reduced 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. With new processes in place and improved employer reporting, PSERS expects to process 75% of all retirements in 2010 as one step, enabling staff to only work on a member's account once and providing the full benefit to the member as the initial payment. This reduction in duplicated work has enabled staff to focus on other customer service areas.

In the not so distant past, PSERS had a backlog of more than 34,000 purchase of service applications to be processed. Despite receiving thousands more every year, by December of 2009 the backlog was reduced to 17,600. As of the date of this publication, there are less than 10,000 left with a goal of having the backlog nearly eliminated as of the close of calendar year 2010. This will provide members with a more accurate portrayal of the service they have accrued.

Due to the system enhancements to enable better and more frequent reporting by employers, all active and inactive members were provided an up-to-date Statement of Account by December 31, 2009. Employers continue to be timely in their reporting which enables PSERS to provide members with a current Statement of Account before the close of each calendar year.

With all of these improvements in place, the next frontier being addressed is reviewing member accounts at periodic milestones and event triggers to ensure each detail of a member's account is accurately portrayed throughout a member's career. Through these kinds of optimizations and enhancements, PSERS is committed to continuing to improve upon the services it provides to members and employers.

Health Options Program (HOP) Initiatives

The Board authorized an open enrollment for 2011 allowing all PSERS annuitants, survivor annuitants, and the spouse or dependents of annuitants or survivor annuitants to enroll in HOP without a qualifying event. The open enrollment period is from October 1, 2010 to November 15, 2010 for benefit coverage effective January 1, 2011. HOP conducted over 130 open enrollment meetings for 17,000 members across the Commonwealth and in states with large concentrations of PSERS retirees. The meetings informed members about the benefit plans for 2011 and the impact of the Patient Protection and Affordable Care Act on their coverage. The last time the Board authorized an open enrollment was for the 2006 plan year when prescription drug coverage was added to Medicare.

The Board also expanded the number of Medicare Advantage and companion pre-65 managed care plans available through HOP. For the 2011 plan year, the following organizations offer plans to HOP participants: Aetna, Capital Blue Cross/Keystone – Central, Geisinger, Highmark, Independence Blue Cross/Keystone – East, and UPMC. HOP participants may also enroll in the HOP Medical Plan (a supplement to original Medicare), a companion pre-65 Medical Plan, and one of two Medicare prescription drug plans.

The Board continues to expand the capabilities of the HOPbenefits.com website. HOP members and PSERS retirees turning age 65 may access their personalized statement online. Members enrolled in the HOP Medical Plan may also access their personal health information, view claim submissions and payments, and make inquiries online.

Financial Highlights

The fair value of the System's net assets totaled $45.8 billion as of June 30, 2010. The System is the 17th largest state-sponsored public defined benefit pension fund in the nation and the 27th 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 2010 PSERS provided $5.3 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 2010, the appropriation was $43.2 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, 2009) 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 79.2%. 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 69% of total revenues over the twenty-year period from FY 1991 to FY 2010. During FY 2010, net investment income was $6.1 billion. The investment portfolio, which is one part of the System's net assets, totaled $46.5 billion, at fair value, as of June 30, 2010. For FY 2010, the time-weighted rate of return on the System's investments was 14.59%.

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 15.0% 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.

GASB Pension Accounting and Financial Reporting Project (Pension Project)

In 2006 the GASB began a multi-year project to reexamine the current pension accounting standards as detailed in GASB Statements 25 and 27. In March 2009, the GASB issued an Invitation to Comment (ITC) on possible changes to the pension accounting standards. The ITC discussed two alternative approaches that the standards might follow. The first approach was similar to the current standards and the second was based on a market value approach similar to private sector pension accounting.

On June 16, 2010, the GASB issued its Preliminary Views (PV) on proposed changes to accounting and financial reporting standards for state and local government employers that sponsor defined benefit pension plans. The PV is an intermediate step in the GASB Pension Project and reflects the GASB's expectation of significant discussion related to the proposed changes. In the PV, the GASB proposed a middle approach which combines elements of the two alternatives described in the ITC.

The proposed standards in the PV would have a significant impact on pension accounting and financial reporting by employers and would separate the accounting standards from the standards used to determine funding requirements. PSERS provided comments to the GASB on the PV in September 2010 and has collaborated with constituent groups that have also provided comments to the GASB.

Once the GASB reviews the input received in response to the PV, it will issue an Exposure Draft of a new standard on pension accounting which will be followed by the issuance of the new accounting standard that could be effective in 2013. PSERS will continue to monitor the GASB Pension Project very closely to gauge the future impact on its financial governance.

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, 2009. 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. PSERS has received a Certificate of Achievement for 27 consecutive years from FY 1983 to FY 2009. 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 2010 certificate.

Public Pension Coordinating Council – Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2009. 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	Brian S. Carl, CPA, CTP
Executive Director	Chief Financial Officer

Administrative Organization
PSERS Board of Trustees
As of June 30, 2010

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: *Honorable Thomas E. Gluck, Acting Secretary of Education; Honorable Dwight Evans and Tina Byles-Williams*

PSERS Board of Trustees

As of June 30, 2010

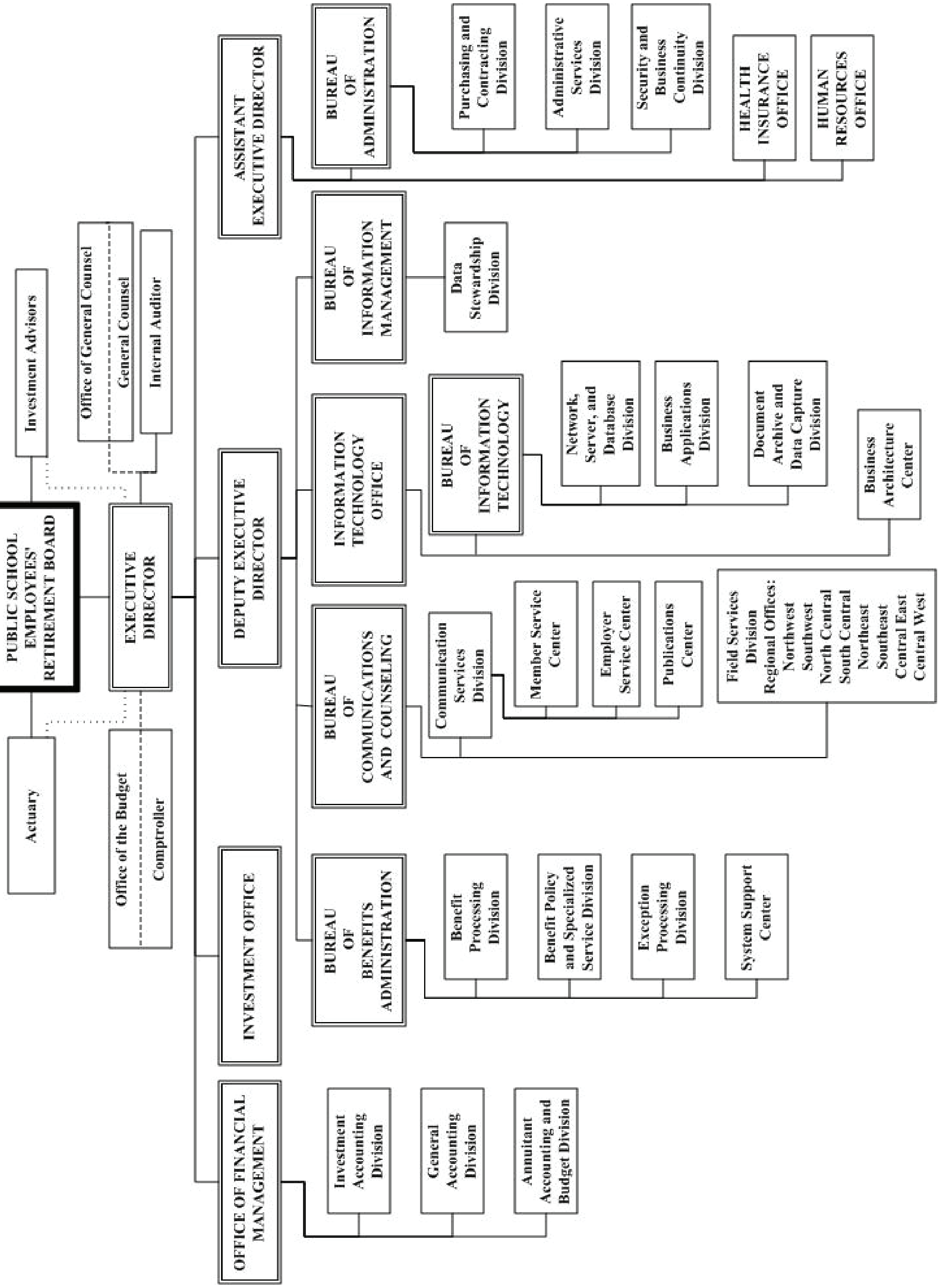
2010 Board Committees

As of June 30, 2010

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

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



Administrative Staff

Jeffrey B. Clay
Executive Director

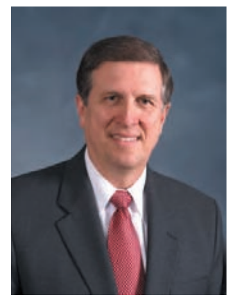
Alan H. Van Noord
Chief Investment Officer

Terrill J. Savidge
Deputy Executive Director

Gerald Gornish
Chief Counsel

Brian S. Carl
Chief Financial Officer

Joseph E. Wasiak
Assistant Executive Director

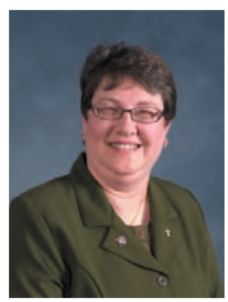


Richard R. Spinks
Chief Technology Officer

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

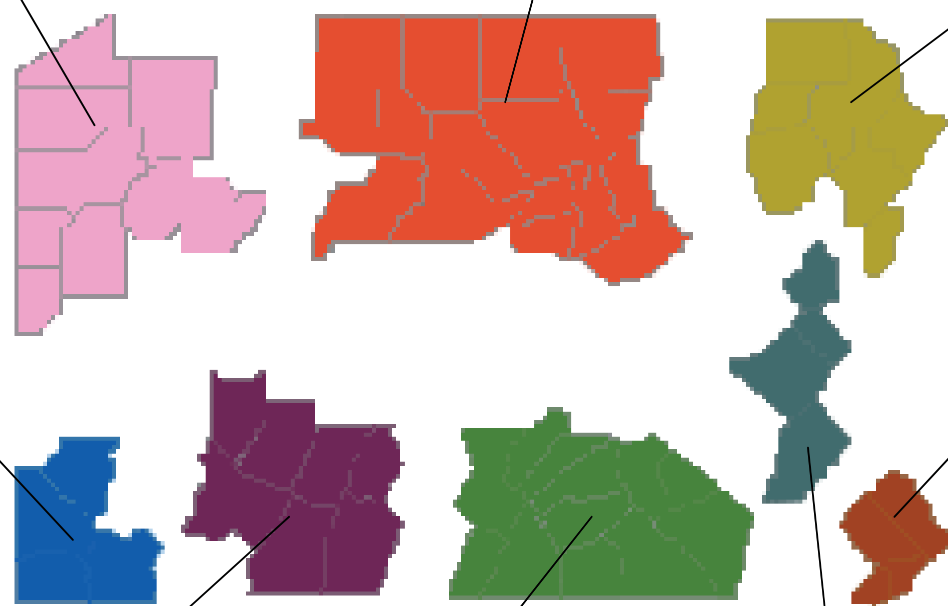
Evelyn M. Tatkovski
Press Secretary

PSERS REGIONAL OFFICES

NORTHWEST
Suite C, Penn Wood Center
464 Allegheny Boulevard
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
Suite 201
417 Lackawanna Avenue
Scranton, PA 18503-2013
Local (570) 614-0269
FAX (570) 614-0278
Toll Free 1-888-773-7748 ext. 5375



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

SOUTHEAST
Suite 500, 605 Louis Drive
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
Suite 101, Three Crossgate Drive
Mechanicsburg, PA 17050-2459
Local (717) 795-9270
FAX (717) 795-9281
Toll Free 1-888-773-7748 ext. 5675

CENTRALEAST
Suite 103, 110 West Arch Street
Fleetwood, PA 19522-1321
Local (610) 944-9113
FAX (610) 944-9275
Toll Free 1-888-773-7748 ext. 5475

PSERS Headquarters Building

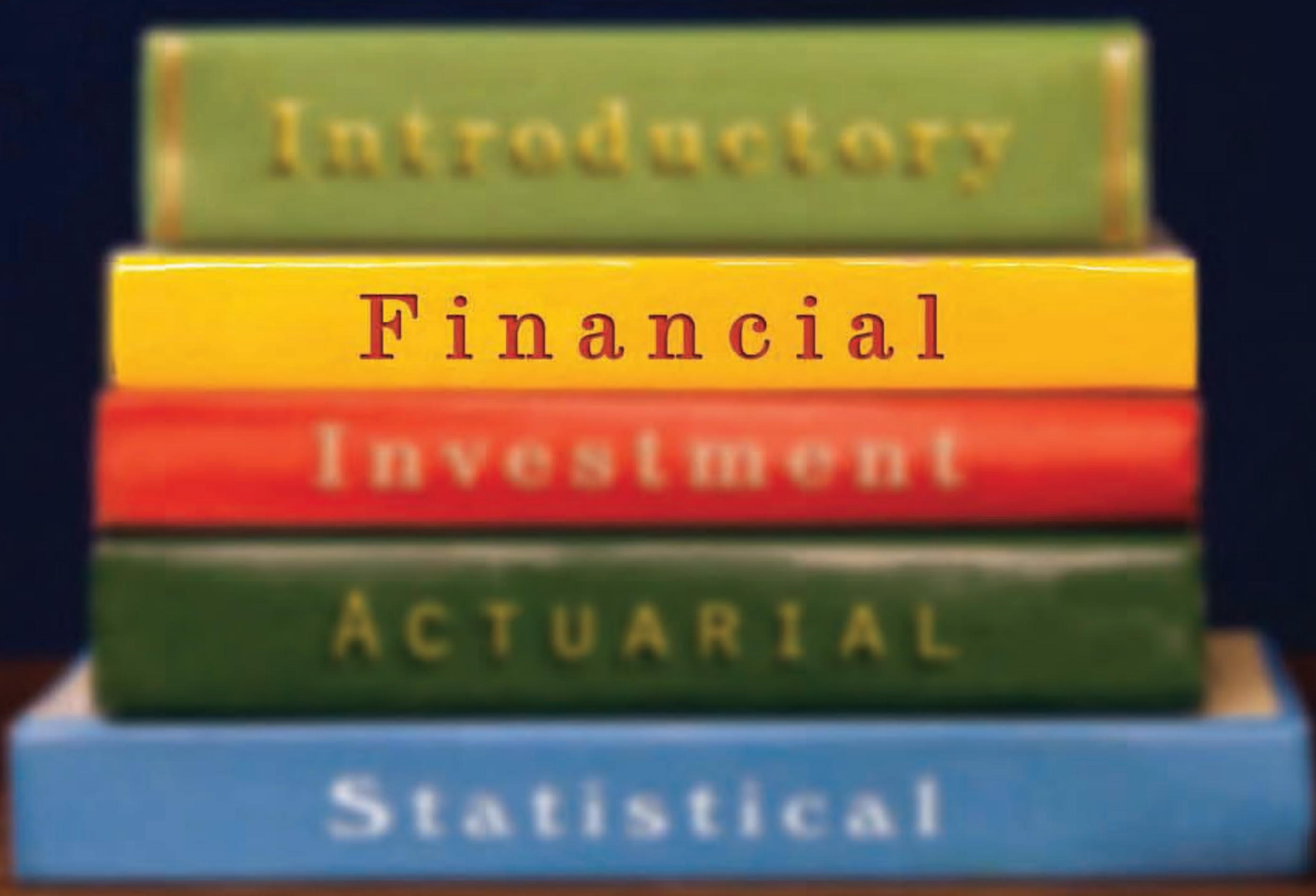
The headquarters of the Public School Employees' Retirement System is located at 5 North Fifth Street in downtown Harrisburg, Pennsylvania within the State Capital complex. Regional field offices are also maintained in Ebensburg, Fleetwood, Franklin, Lock Haven, Mechanicsburg, Pittsburgh, Warminister and Scranton.

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

Partners for your Future



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, 2010 and 2009, 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, 2010 and 2009, 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 subject 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, 3 aryland
September) ' ,) (* (

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, System, Fund) for the fiscal year ended June 30, 2010, 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 (PA) and the Health Options Program (HOP), for its annuitants. The financial statements present the financial position and 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, 2010, 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, 2009 to June 30, 2010, 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, 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 14.59% for the fiscal year ended June 30, 2010 (FY 2010), -26.54% for the fiscal year ended June 30, 2009 (FY 2009) and -2.82% for the fiscal year ended, June 30, 2008 (FY 2008).

- PSERS' total plan net assets increased by $2.6 billion from $43.2 billion at June 30, 2009 to $45.8 billion at June 30, 2010. This increase was due to net investment income plus member and employer contributions exceeding the deductions for benefits and administrative expenses. The change in total plan net assets from June 30, 2008 to June 30, 2009 was a decrease in the amount of $19.5 billion from $62.7 billion at June 30, 2008 to $43.2 billion at June 30, 2009. This decrease was due 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, 2009 decreased from 86.0% at June 30, 2008 to 79.2% at June 30, 2009. This decrease is due to experience losses on investment assets, liability losses, assumption changes, and contributions that were less than the normal cost plus interest on the unfunded liability. The funded ratio at June 30, 2007 was 85.8%.

- Total member contributions increased from $1.09 billion in FY 2009 to $1.14 billion in FY 2010. Total member contributions also increased from FY 2008 to FY 2009. 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. The portion of member contributions for the HOP grew due to increased participation as well as ongoing health insurance rate increases.

- Total employer contributions increased from $608.4 million during FY 2009 to $638.0 million in FY 2010. This increase is primarily attributable to a slight increase in the total employer contribution rate from 4.76% in FY 2009 to 4.78% in FY 2010 and an increase in the active member payroll. Total employer contributions decreased from FY 2008 to FY 2009 which was attributable to a decrease in the

Management's Discussion and Analysis (continued)

total employer contribution rate from 7.13% in FY 2008 to 4.76% in FY 2009.

- Total PSERS' benefit expense increased by $400 million from $4.9 billion in FY 2009 to $5.3 billion in FY 2010. This increase is attributable to the number of new retirements for the year, higher lump sum payments as well as an ongoing increase to the average monthly benefit. New retirements during FY 2010 outpaced those of FY 2009 by approximately 5.0%. 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.

- Total PSERS' administrative expenses decreased from $51.3 million for FY 2009 to $30.5 million in FY 2010. This overall decrease is primarily due to the impact of the capitalization of intangible assets as a result of PSERS' implementation of Governmental Accounting Standards Board (GASB) Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* (See Note 9). There was an increase of almost $3.0 million in administrative expenses for HOP due primarily to higher administrative fees for increased program participation. Total PSERS' administrative expenses increased by $2.0 million from $49.3 million in FY 2008 to $51.3 million in FY 2009. Administrative expenses were within PSERS' budgeted amounts for each of the fiscal years.

Funded Status

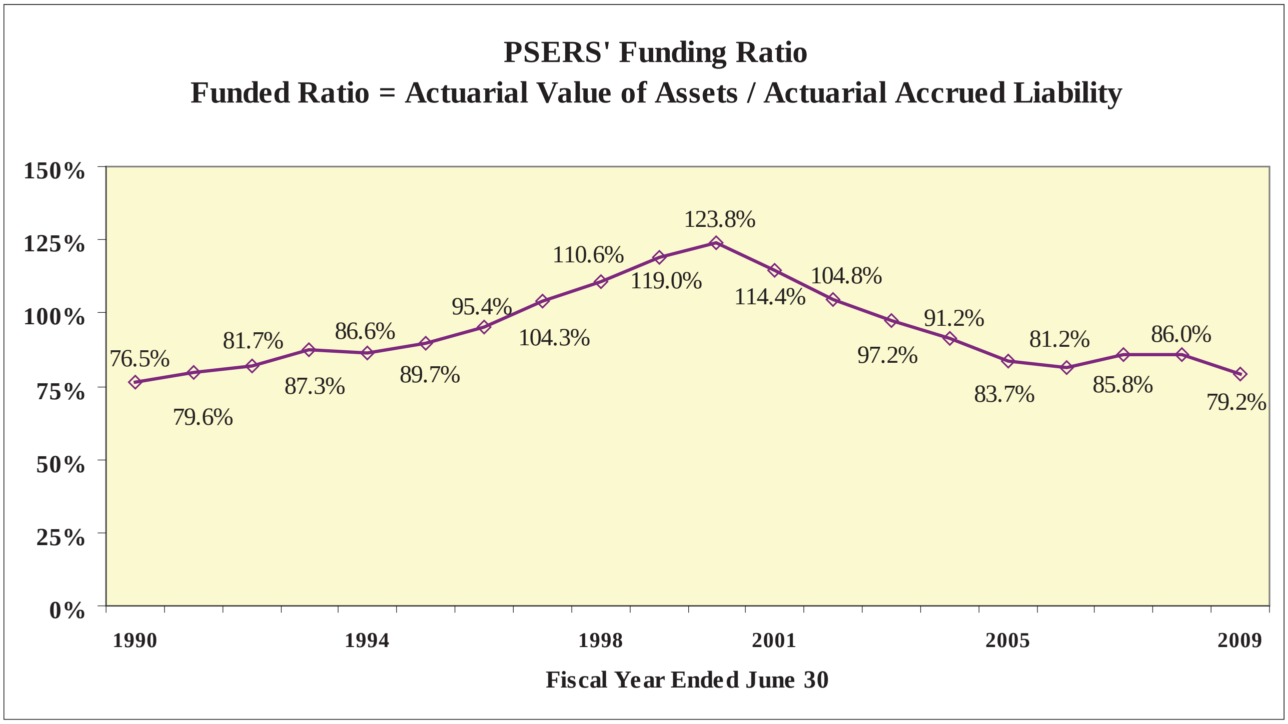
PSERS uses an actuarial reserve type of funding that is financed by member contributions, employer contributions and earnings from invested assets. An independent actuarial valuation of PSERS' actuarial assets and liabilities is performed annually. As part of this valuation, the progress toward funding pension obligations of PSERS is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or funded status. The most recent actuarial valuation reports that PSERS is 79.2% funded as of June 30, 2009.

The results of operations for FY 2010 will be reflected in the actuarial valuation for the year ended June 30, 2010. Due to the normal lag time for completion of the actuarial valuation, the resulting funded status will be available at the end of the 2010 calendar year and will be reported in the financial statements for the fiscal year ended June 30, 2011 (FY 2011). Based on the investment performance for the five-year period ended June 30, 2010, which is below the investment rate of return assumption during that time period, the funded ratio at June 30, 2010 is expected to decrease. PSERS' State Accumulation Account had a negative balance at June 30, 2010 and 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.

Est. 1919 PSERS Partners for your Future

This space intentionally left blank

Management's Discussion and Analysis (continued)



Analysis of Plan Net Assets

(Dollar Amounts in Thousands)

Summary of Plan Net Assets	**FY 2010**	Increase (Decrease)	FY 2009	Increase (Decrease)	FY 2008
Assets:					
Receivables	**$ 1,065,061**	$ (289,940)	$ 1,355,001	$ (908,385)	$ 2,263,386
Investments	**46,504,268**	3,160,333	43,343,935	(20,548,285)	63,892,220
Securities lending collateral pool	**1,524,235**	(67,486)	1,591,720	(3,255,279)	4,846,999
Capital assets	**19,215**	18,685	530	(135)	665
Total Assets	**49,112,779**	2,821,592	46,291,186	(24,712,084)	71,003,270
Liabilities:					
Payables and other liabilities	**1,751,017**	258,591	1,492,426	(2,005,221)	3,497,647
Obligations under securities lending	**1,524,234**	(67,486)	1,591,720	(3,255,279)	4,846,999
Total Liabilities	**3,275,251**	191,105	3,084,146	(5,260,500)	8,344,646
Plan Net Assets	**$ 45,837,527**	$ 2,630,487	$ 43,207,040	$ (19,451,584)	$ 62,658,624
Summary of Changes in Plan Net Assets					
Additions:					
Contributions	**$ 1,815,166**	$ 85,309	$ 1,729,857	$ (172,579)	$ 1,902,436
Net investment income (loss)	**6,114,988**	22,313,300	(16,198,312)	(14,422,727)	(1,775,585)
Total Additions	**7,930,154**	22,398,609	(14,468,455)	(14,595,306)	126,851
Deductions:					
Benefit expense	**5,269,175**	337,321	4,931,854	(9,827)	4,941,681
Administrative expenses	**30,492**	(20,783)	51,275	2,025	49,250
Total Deductions	**5,299,667**	316,538	4,983,129	(7,802)	4,990,931
Changes in Plan Net Assets	**$ 2,630,487**	$ 22,082,071	$ (19,451,584)	$ (14,587,504)	$ (4,864,080)

Management’s Discussion and Analysis (continued)

Investments

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

For FY 2010, PSERS’ rate of return on investments was 14.59% which exceeded PSERS’ total fund Policy Index of 10.87%. 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. Net investment income exceeded $6.1 billion in FY 2010 compared to a net investment loss of -$16.2 billion in FY 2009 as the U.S. recovered from the worst economic contraction since the Great Depression. In FY 2009 the Fund experienced a -26.54% return during a very challenging fiscal year. The U.S. Gross Domestic Product (GDP) increased in all four quarters of FY 2010 and the U.S. unemployment rate stabilized after increasing significantly in FY 2009. Internationally, emerging markets, such as China and India, have largely recovered from the economic downturn while developed markets, such as the United Kingdom and France, have rebounded but have not returned to economic levels prior to the downturn.

The annualized rate of return over the past three and five-year periods ended June 30, 2010 was -6.48% and 2.99%, respectively. The return for the three-year period trailed the total fund Policy Index return by 171 basis points while the return for the five-year period exceeded the total fund Policy Index return by 24 basis points. The annualized rate of return for the ten and twenty-five-year periods ended June 30, 2010 was 3.51% and 8.83%, respectively.

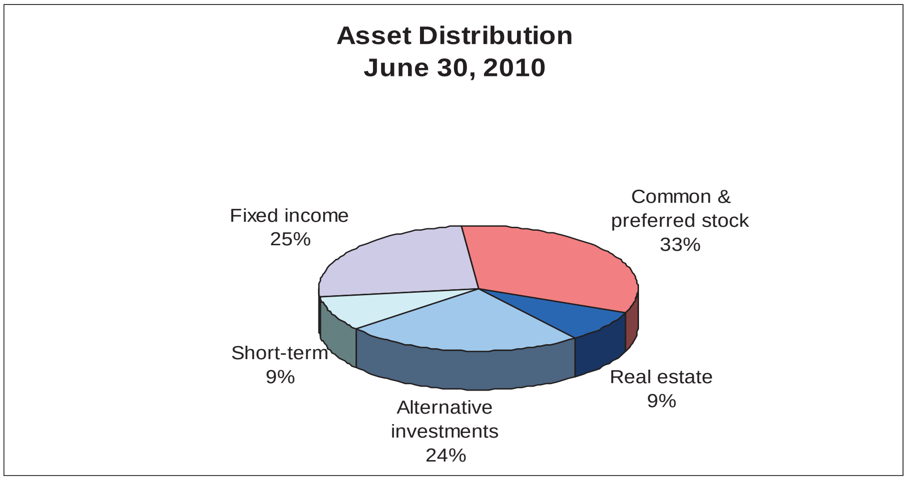
PSERS’ long-term actuarial investment rate of return assumption was 8.00% at June 30, 2010. PSERS’ Board of Trustees (Board) decreased the actuarial investment rate of return assumption from 8.50% to 8.25% effective for the June 30, 2008 actuarial valuation. The Board also decreased the rate of return 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. PSERS continued to monitor and endeavored to reduce risk in its investment portfolio during FY 2010.

The asset distribution of PSERS’ investment portfolio at June 30, 2010, 2009 and 2008, at fair value, and including postemployment healthcare assets, is presented in the table at the bottom of the page.

(Dollar Amounts in Thousands)

Asset Class	2010	%	2009	%	2008	%
Short-term	**$ 4,163,515**	**9.0**	$ 5,398,729	12.5	$ 4,215,171	6.6
Fixed income	**11,873,202**	**25.5**	11,333,549	26.2	17,984,233	28.2
Common and preferred stock	**15,316,957**	**32.9**	13,883,372	32.0	27,875,324	43.6
Real estate	**3,973,873**	**8.6**	3,699,353	8.5	4,951,840	7.8
Alternative investments	**11,176,721**	**24.0**	9,028,932	20.8	8,865,652	13.8
Total	**$ 46,504,268**	**100.0**	$ 43,343,935	100.0	$ 63,892,220	100.0

Management's Discussion and Analysis (continued)



Short-term investments (cash and cash equivalents) decreased by $1.2 billion from $5.4 billion at June 30, 2009 to $4.2 billion at June 30, 2010. Due to an improved liquidity situation in the financial markets, PSERS was able to substantially reduce its cash management level during FY 2010. Fixed income investments increased by $600 million from $11.3 billion at June 30, 2009 to $11.9 billion at June 30, 2010 mostly due to market value appreciation which was partially offset by allocation reductions. Common and preferred stock investments also increased by $1.4 billion from $13.9 billion at June 30, 2009 to $15.3 billion at June 30, 2010. The upturn in this asset category was mainly the result of positive returns in the domestic and international equity markets which were counteracted to a certain extent by allocation decreases to the asset class. Real estate investments rose by $300 million from $3.7 billion at June 30, 2009 to $4.0 billion at June 30, 2010 as a result of contributions to new and existing partnerships offsetting continuing declines in value of partnership investments. Alternative investments increased by $2.2 billion from $9.0 billion at June 30, 2009 to $11.2 billion at June 30, 2010 due to contributions to new and existing partnerships combined with a recovery of value in partnership portfolio holdings.

Short-term investments (cash and cash equivalents) increased by $1.2 billion from $4.2 billion at June 30, 2008 to $5.4 billion at June 30, 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 at June 30, 2008 to $11.3 billion at June 30, 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 at June 30, 2008 to $13.9 billion at June 30, 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 at June 30, 2008 to $3.7 billion at June 30, 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 at June 30, 2008 to $9.0 billion at June 30, 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.

Securities Lending

Securities lending collateral pool and obligations under securities lending decreased only slightly from $1.6 billion at June 30, 2009 to $1.5 billion at June 30, 2010. The collateral pool, however, dropped from $4.8 billion at June 30, 2008 to $1.6 billion at June 30, 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.

The System experienced a net gain of $8.5 million from securities lending activities in FY 2010 compared to a net loss of $26.8 million in FY 2009. The loss from securities lending activities for FY 2009 was the result of the decline in valuation of certain securities purchased with cash collateral by the lending agent. Absent this factor, the System would have experienced a net gain of $22.9 million or almost three times that of FY 2010. After the financial institution collapse in the Fall of 2008, it became increasingly difficult for the lending agent to attain earnings on investing cash collateral in excess of the rates being rebated to the borrowers. This spread fell from 93 basis points in FY 2009 to 35 basis points in FY 2010. Because

Management's Discussion and Analysis (continued)

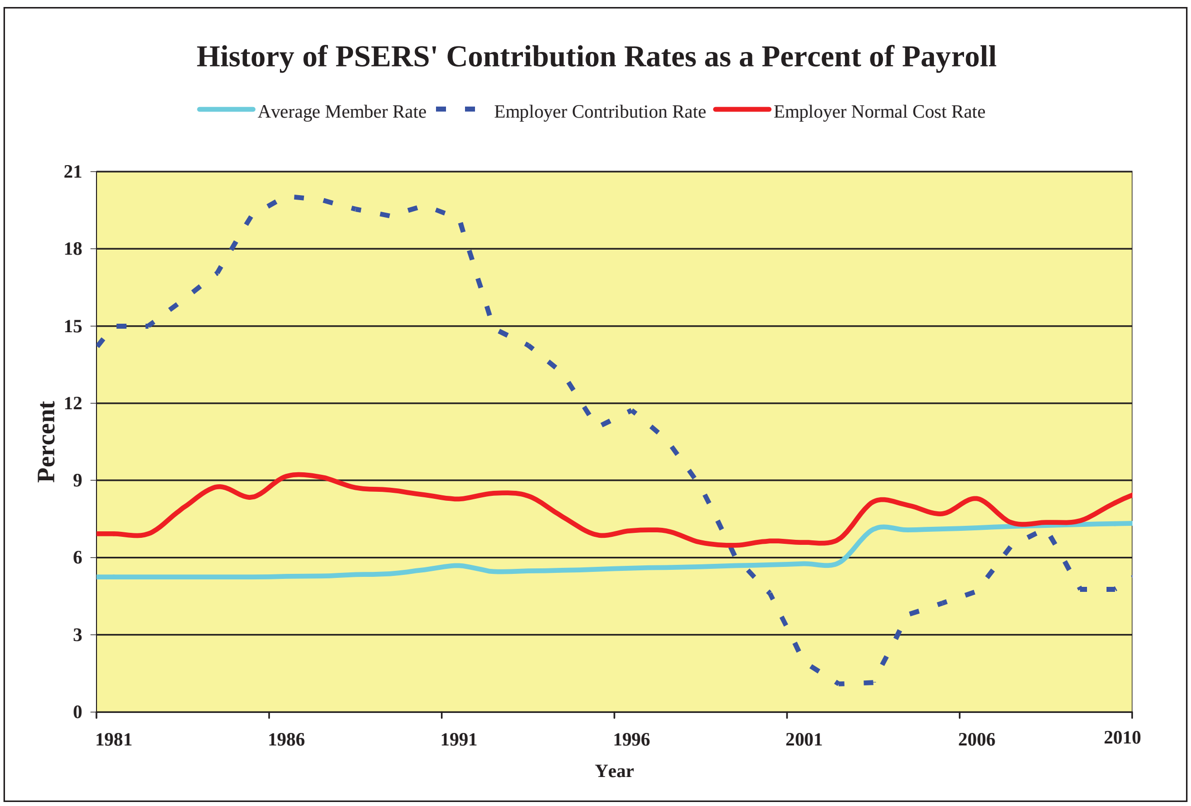
of the heightened risk associated with the sudden downturn in the market in FY 2009, restrictions were placed on the lending of particular securities in PSERS' portfolio and the risk profile of the investments permitted in the collateral pool was reduced.

Contributions

Employer contributions increased from $608.4 million in FY 2009 to $638.0 million in FY 2010 due to the slight increase in the total employer contribution rate from 4.76% in FY 2009 to 4.78% in FY 2010 and an increase in the active member payroll.

Total member contributions increased from $1.09 billion in FY 2009 to $1.14 billion in FY 2010 due to increases in both the average member contribution rate and active member payroll for pension and increased participation in the HOP. The average member contribution rate for pension increased from 7.29% in FY 2009 to 7.32% in FY 2010. Total member contributions increased from $1.04 billion in FY 2008 to $1.09 billion in FY 2009 as a result of the increase in the average member contribution rate and total active member payroll for pension and increased participation in the HOP. The average member contribution rate for pension increased from 7.25% in FY 2008 to 7.29% in FY 2009. A thirty-year history of PSERS' contribution rates is presented at the bottom of the page.

As a result of improved remittances from PSERS' employers during FY 2010, accounts receivable balances for member and employer contributions were slightly lower at June 30, 2010 compared to June 30, 2009 despite increased contributions in FY 2010. Total member and employer accounts receivable at June 30, 2010 were $450.6 million compared to $454.1 million as of June 30, 2009.



Management's Discussion and Analysis (continued)

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

The current funding issue confronting PSERS represents the greatest challenge the Agency has faced in its history. The funding issue, commonly referred to as the "rate spike" or "rate plateau," refers to the significant increase in the projected employer contribution rate in FY 2013 and following years, that is paid by school employers and the Commonwealth to PSERS to fund pension benefits.

The projected rate spike 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 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 a projected rate of 11.23% as of the June 30, 2007 valuation. Over the past several years, however, the sharp downturn in the economy and financial markets that contributed to the -26.54% return for FY 2009 and the -2.82% investment return for FY 2008 has essentially eliminated any past progress made in reducing the FY 2013 projected rate increase. Based on the June 30, 2009 actuarial valuation, the projected rate in FY 2013 now exceeds the original projection of 27.73% and peaks in excess of 33% in FY 2015. The majority of the projected FY 2013 rate increase is devoted to the payment of unfunded liabilities that have accumulated since 2001.

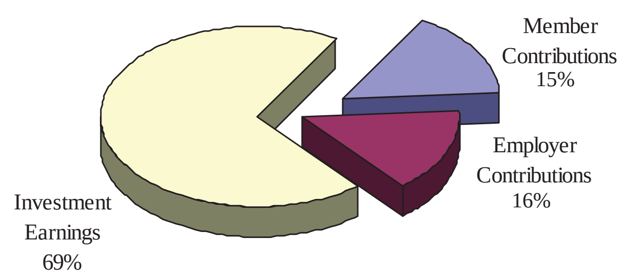
Several pieces of legislation have been introduced to address the funding issue. House Bill (HB) 2497, which includes prospective benefits reductions for future new employees, actuarial smoothing techniques, and rate collars to control the level of annual increases in the employer contribution rate, has passed the Pennsylvania House of Representatives. The Pennsylvania Senate passed a modified version of HB2497 and sent the revised bill back to the House. As of the publication date of this report, the bill was waiting for further action in the Pennsylvania House. PSERS will continue to monitor pension legislation and provide analytical and technical support for new bills and/or amendments to existing bills.

Investment Income

Net investment income (loss) changed by $22.3 billion from -$16.2 billion in FY 2009 to $6.1 billion in FY 2010, which is consistent with the increase in the investment rate of return from -26.54% for FY 2009 to 14.59% for FY 2010. 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. As depicted in the following chart, investment earnings provided 69% of PSERS' funding over the past 20 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.

PSERS' Sources of Funding

Twenty Year History (1991-2010)



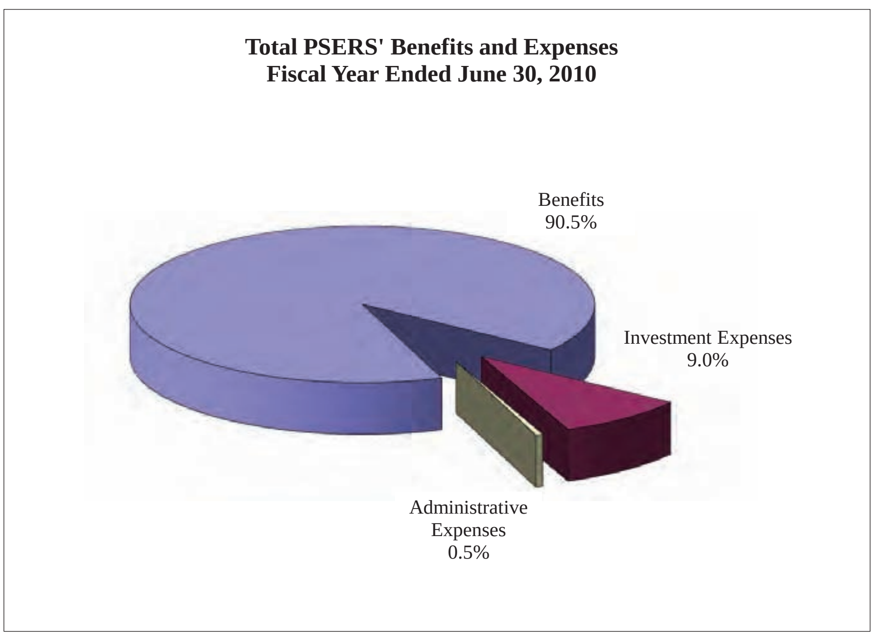
Management's Discussion and Analysis (continued)

Total PSERS' Benefits and Expenses

The primary source of expense during FY 2010 was for the payment of benefits totaling $5.3 billion. The breakdown is $5.0 billion for Pension, $89.9 million for PA and $193.3 million for HOP benefits. The following chart illustrates the significant portion of expenses attributable to benefit payments. Total PSERS' benefit expense increased from $4.9 billion in FY 2009 to $5.3 billion in FY 2010. This increase is attributable to the number of new retirements for the year, higher lump sum payments, as well as an ongoing increase to the average monthly benefit. As a result of these factors pension benefits payable at June 30, 2010 increased to $540.0 million compared to $345.7 million at June 30, 2009. New retirements during FY 2010 outpaced the number from FY 2009 by approximately 5.0%. Benefit expenses remained consistent from FY 2008 to FY 2009 due to higher monthly benefits from the increase in the overall number of retirees and beneficiaries being offset by lower lump sum payments due to the decrease in the number of new retirees in FY 2009.

Investment expenses increased by $44.7 million from $477.6 million in FY 2009 to $522.3 million in FY 2010 chiefly due to a rise in management fees in the public market asset classes. The growth in these fees was primarily a result of certain investment managers earning higher performance incentives in FY 2010 than in FY 2009. 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 FY 2008. Investment expenses are reported as a reduction in net investment income (loss) on the Statements of Changes in Plan Net Assets.

Administrative expenses decreased by $20.8 million from $51.3 million during FY 2009 compared to $30.5 million during FY 2010. This decrease was primarily caused by capitalization of previously expensed GASB 51 qualifying costs for computer systems development in the amount of $23.8 million. This decrease was partially offset by an increase in costs due to increasing membership within the member funded HOP. 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 HOP.



Management's Discussion and Analysis (continued)

Postemployment Healthcare

PSERS administers two postemployment healthcare programs, the Health Insurance Premium Assistance Program (PA) and the Health Options Program (HOP) for its annuitants. The following paragraphs and summary financial data provide supplemental information to the financial statements which contain the financial position and activities for the two postemployment healthcare programs.

Financial Highlights for Postemployment Healthcare

Health Insurance Premium Assistance (PA)

- Total plan net assets increased by $11.7 million in FY 2010 due to Employer contributions exceeding the payment of benefits and associated administrative expenses. The change from June 30, 2008 to June 30, 2009 was an increase of $9.3 million also due to contributions exceeding expenses.

- Total receivables decreased slightly from $38.3 million at June 30, 2009 to $37.5 million at June 30, 2010 due to improved employer collections.

- Investments increased from $67.3 million at June 30, 2009 to $79.8 million at June 30, 2010 due to net cash flows of contributions exceeding expenditures.

Health Options Program (HOP)

- Total plan net assets increased by $15.8 million in FY 2010 primarily due to positive claims experiences serving to increase short-term investments. The change from June 30, 2008 to June 30, 2009 was an increase of $17.0 million also due to positive claims experience.

- Total receivables increased from $9.6 million at June 30, 2009 to $13.4 million at June 30, 2010. The increase is tied primarily to an increase in participation and expected amount due from the Centers for Medicare & Medicaid Services (CMS) for the 2009 Plan Year.

- Investments increased from $127.0 million at June 30, 2009 to $142.4 million at June 30, 2010 due to positive claims experiences causing cash flow to exceed expenditures.

- Total liabilities increased 11.5% from June 30, 2009 to June 30, 2010. The increase is due to increased participation in the program and due to payment timing for an invoice for prescription drug benefits.

Contributions

- Total employer contributions for PA increased from $92.5 million in FY 2009 to $102.7 million in FY 2010 due to the increase in employer contribution rate from 0.76% in FY 2009 to 0.78% in FY 2010 as well as an increase in the active member payroll.

- Total member and CMS contributions for HOP increased from $210.4 million in FY 2009 to $225.1 million in FY 2010. This increase is representative of the 7.0% increase in plan participation.

Investment Income

- Total investment income for PA decreased from $1.9 million in FY 2009 to $0.9 million in FY 2010. The decrease is due to declining short-term interest rates from FY 2009 to FY 2010.

- Investment income for HOP decreased from $1.5 million in FY 2009 to $0.4 million in FY 2010. This decrease is due to lower rates of return on short-term investments.

Benefits and Expenses

- Overall expenses for PA increased from $85.0 million in FY 2009 to $91.9 million in FY 2010. This increase is primarily due to the increase in number of members receiving premium assistance benefits.

- Overall expenses for HOP increased from $194.9 million in FY 2009 to $209.8 million in FY 2010. The increase is due to increased participation in the program.

Management's Discussion and Analysis (continued)

Premium Assistance

Summary of Plan Net Assets

(Dollar Amounts in Thousands)

Assets:	FY 2010	Increase (Decrease)	FY 2009	Increase (Decrease)	FY 2008
Receivables	**$ 37,540**	$ (787)	$ 38,327	$ 9,122	$ 29,205
Investments	**79,848**	12,580	67,268	(132)	67,400
Total Assets	**117,388**	11,793	105,595	8,990	96,605
Liabilities					
Payables and other liabilities	**557**	76	481	(339)	820
Total Liabilities	**557**	76	481	(339)	820
Plan Net Assets	**$ 116,831**	$ 11,717	$ 105,114	$ 9,329	$ 95,785

Summary of Changes in Plan Net Assets

Additions:	FY 2010	Increase (Decrease)	FY 2009	Increase (Decrease)	FY 2008
Contributions	**$ 102,703**	$ 10,210	$ 92,493	$ 11,176	$ 81,317
Net investment income	**869**	(992)	1,861	(894)	2,755
Total Additions	**103,572**	9,218	94,354	10,282	84,072
Deductions:					
Benefit expenses	**89,911**	6,705	83,206	(1,129)	84,335
Administrative expenses	**1,944**	125	1,819	575	1,244
Total Deductions	**91,855**	6,830	85,025	(554)	85,579
Changes in Plan Net Assets	**$ 11,717**	$ 2,388	$ 9,329	$ 10,836	$ (1,507)

Health Options Program

Summary of Plan Net Assets

(Dollar Amounts in Thousands)

Assets:	FY 2010	Increase (Decrease)	FY 2009	Increase (Decrease)	FY 2008
Receivables	**$ 13,418**	$ 3,844	$ 9,574	$ 3,604	$ 5,970
Investments	**142,436**	15,393	127,043	12,702	114,341
Total Assets	**155,854**	19,237	136,617	16,306	120,311
Liabilities:					
Payables and other liabilities	**33,633**	3,462	30,171	(727)	30,898
Total Liabilities	**33,633**	3,462	30,171	(727)	30,898
Plan Net Assets	**$ 122,221**	$ 15,775	$ 106,446	$ 17,033	$ 89,413

Summary of Changes in Plan Net Assets

Additions:	FY 2010	Increase (Decrease)	FY 2009	Increase (Decrease)	FY 2008
Contributions	**$ 225,085**	$ 14,728	$ 210,357	$ 22,368	$ 187,989
Net investment income	**440**	(1,088)	1,528	(2,760)	4,288
Total Additions	**225,525**	13,640	211,885	19,608	192,277
Deductions:					
Benefit expenses	**193,307**	12,272	181,035	5,899	175,136
Administrative expenses	**16,443**	2,626	13,817	1,674	12,143
Total Deductions	**209,750**	14,898	194,852	7,573	187,279
Changes in Plan Net Assets	**$ 15,775**	$ (1,258)	$ 17,033	$ 12,035	$ 4,998

This page intentionally left blank

Statements of Plan Net Assets
June 30, 2010 and 2009
(Dollar Amounts in Thousands)

	2010			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 240,569	$ 6,597	$ 40	$ 247,206
Employers	173,258	30,184	-	203,442
Investment income	252,495	289	38	252,822
Investment proceeds	347,033	-	-	347,033
Ctrs for Medicare & Medicaid Svcs	-	-	6,231	6,231
Miscellaneous	748	470	7,109	8,327
Total Receivables	1,014,103	37,540	13,418	1,065,061
Investments, at fair value:				
Short-term	3,941,231	79,848	142,436	4,163,515
Fixed income	11,873,202	-	-	11,873,202
Common and preferred stock	15,316,957	-	-	15,316,957
Real estate	3,973,873	-	-	3,973,873
Alternative investments	11,176,721	-	-	11,176,721
Total Investments	46,281,984	79,848	142,436	46,504,268
Securities lending collateral pool	1,524,234	-	-	1,524,234
Capital assets (net of accumulated depreciation of $16,641)	19,215	-	-	19,215
Total Assets	48,839,536	117,388	155,854	49,112,778
Liabilities:				
Accounts payable and accrued expenses	77,048	361	1,287	78,696
Benefits payable	540,011	196	16,047	556,254
Premium advances	-	-	16,299	16,299
Investment purchases and other liabilities	1,099,768	-	-	1,099,768
Obligations under securities lending	1,524,234	-	-	1,524,234
Total Liabilities	3,241,061	557	33,633	3,275,251
Net assets held in trust for pension and postemployment healthcare benefits	$ 45,598,475	$ 116,831	$ 122,221	$ 45,837,527

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

Statements of Plan Net Assets
June 30, 2010 and 2009
(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	$ 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, 2010 and 2009
(Dollar Amounts in Thousands)

	2010			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 952,047	$ -	$ 191,184	$ 1,143,231
Employers	535,331	102,703	-	638,034
Ctrs for Medicare & Medicaid Svcs	-	-	33,901	33,901
Total contributions	1,487,378	102,703	225,085	1,815,166
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	5,142,243	(1,039)	-	5,141,204
Short-term	19,015	1,955	440	21,410
Fixed income	440,358	-	-	440,358
Common and preferred stock	784,431	-	-	784,431
Real estate	62,273	-	-	62,273
Alternative investments	179,116	-	-	179,116
Total investment activity income	6,627,436	916	440	6,628,792
Investment expenses	(522,268)	(47)	-	(522,315)
Net income from investing activities	6,105,168	869	440	6,106,477
From securities lending activities:				
Securities lending income	9,574	-	-	9,574
Securities lending expense	(1,063)	-	-	(1,063)
Net income from securities lending activities	8,511	-	-	8,511
Total net investment income	6,113,679	869	440	6,114,988
Total Additions	7,601,057	103,572	225,525	7,930,154
Deductions:				
Benefits	4,962,222	89,911	193,307	5,245,440
Refunds of contributions	16,720	-	-	16,720
Net transfer to State Employees' Retirement System	7,015	-	-	7,015
Administrative expenses	12,105	1,944	16,443	30,492
Total Deductions	4,998,062	91,855	209,750	5,299,667
Net increase	2,602,995	11,717	15,775	2,630,487
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	42,995,480	105,114	106,446	43,207,040
Balance, end of year	$ 45,598,475	$ 116,831	$ 122,221	$ 45,837,527

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

Statements of Changes in Plan Net Assets
Years Ended June 30, 2010 and 2009
(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.

Notes to Financial Statements
Years Ended June 30, 2010 and 2009

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, 2010, there were 747 participating employers, generally school districts. Membership as of June 30, 2009, the most recent year for which actual amounts are available, is presented in the table at the bottom of this page.

The Public School Employees' Retirement Board (Board) is established by state law as an independent administrative board of the Commonwealth. The Board exercises control and management of the System, including the investment of its assets. The 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 (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 from the Public Employee Retirement Commission providing an estimate of the cost and actuarial effect of the proposed change.

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.

Currently employed members:		
Vested	185,000	
Nonvested	94,000	
Total currently employed members		**279,000**
Retirees and beneficiaries currently receiving benefits	178,000	
Inactive members and vestees entitled to but not receiving benefits	104,000	
Total retirees and other members		**282,000**
Total number of members		**561,000**

Notes to Financial Statements (continued)

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%**

In addition to regular retirement benefits, the System also provides for disability retirement benefits and death benefits. Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits. Certain exceptions apply to normal disability retirements.

Death benefits are payable upon the death of an active member who has reached age 62 or who has at least five years of credited service. Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Members with credited service in the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) may elect to transfer service to the Public School Employees' Retirement System upon commencement of employment in the public school system. Similarly, a member with credited service in the System may transfer such service to SERS upon becoming a member of that system.

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

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. The contribution rates based on qualified member compensation for virtually all members are presented in the table at the top of this page.

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 4.78% and 4.76% of qualified compensation for the years ended June 30, 2010 and 2009, 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 (PA). The PA contribution rate is set at a level necessary to establish reserves sufficient to provide PA 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 PA was 0.78% and 0.76% for the years ended June 30, 2010 and 2009, respectively.

Notes to Financial Statements (continued)

iii. Funding Status and Annual Required Contributions (ARC)

As of June 30, 2009, the most recent actuarial valuation, the plan was 79.2% funded. The actuarial accrued liability for benefits was $75.6 billion, and the actuarial value of assets was $59.9 billion, resulting in an unfunded accrued liability of $15.7 billion. The covered payroll of active members was $12.5 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 125.7%.

For fiscal year ended June 30, 2010, the ARC was $1.93 billion. The actual employer contributions, net of purchase of service contributions, for fiscal year ended June 30, 2010 was $527.2 million resulting in a 27% 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 contribution rate.

For purposes of determining the annual required contributions under Governmental Accounting Standards Board Statement No. 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.

(b) Asset Valuation Method

For actuarial purposes, assets are valued using a five-year moving market average value that will recognize the 8.00% 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 (as required by Act 2002-38). 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, 2009, the date of the most recent actuarial valuation include:

- Investment return – 8.00%, includes inflation at 3.25%
- Salary increases – 6.00%, which reflects an allowance for inflation of 3.25%, real wage growth 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 Annuity Reserve Account with interest credited thereon at an annual rate of 5.50% is compared to

Notes to Financial Statements (continued)

the actuarial accrued liability for the remaining lifetimes of the retirees and beneficiaries and any deficiency is then funded by a transfer from the State Accumulation Account. Consequently, all such determined benefits are fully funded.

The actuarial accrued liability for active and inactive members is calculated on the projected benefit basis using the entry-age normal actuarial cost method under which the present value of each member's expected benefit payable at retirement or death is determined. The assets of the Members' Savings Account, State Accumulation Account and the fair value adjustment are subtracted from this present value to arrive at the funded or unfunded actuarial accrued liability.

(C) Postemployment Healthcare Plans

i. Health Insurance Premium Assistance Program

(a) Premium Assistance Benefits

The System provides a Health Insurance Premium Assistance Program (PA) for all eligible annuitants who qualify or elect to participate. Under this program, employer contribution rates for PA are established to provide reserves in the Health Insurance Account that are sufficient for the payment of PA 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 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.

(b) Funding Status and Annual Required Contributions

As of June 30, 2009, the most recent actuarial valuation, the plan was 9.1% funded. The actuarial accrued liability for benefits was $1.2 billion, and the actuarial value of assets was $105.1 million, resulting in an unfunded accrued liability of $1.1 billion. The covered payroll of active members was $12.5 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 8.4%.

For fiscal year ended June 30, 2010, the ARC was $117.2 million. The actual employer contributions for fiscal year ended June 30, 2010 was $102.7 million resulting in an 88% 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.

(c) Actuarial Assumptions and Methods

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 PA account, and the contribution required is the amount necessary to establish reserves sufficient to provide PA 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.

ii. Health Options Program

The Health Options Program (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 who participate in HOP. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect. HOP offers several health plans. Participants may select among a self-funded Medicare supplement plan, two Medicare Rx plans, and multiple Medicare Advantage plans for those eligible for Medicare. Participants not eligible for Medicare have a choice of a self-funded high deductible indemnity plan and multiple managed care plans. Medicare Advantage and managed care plans are available to retirees residing in the plan's service area. The Medicare Advantage and managed care plans are provided by private insurance companies or managed care organizations and benefits are fully insured.

Notes to Financial Statements (continued)

The Medicare supplement and high deductible plans are self-funded and claims are adjudicated by a third party administrator. The Medicare Rx Options and the prescription drug benefit of the high deductible plan for those not eligible for Medicare are also self-funded and HOP uses a pharmacy benefits manager to administer the benefits. Effective January 1, 2006, 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 43,000 participants in the PDP. An independent actuarial consulting firm sets the rates for the self-funded benefits. The HOP maintains reserves for claims that are incurred but not reported (IBNR) and for claim fluctuation for the self-funded benefit plans. At June 30, 2010 and 2009 PSERS recorded $10,107,000 and $10,423,000, respectively, in IBNR. The IBNR is included in benefits payable. 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.

(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, 2010 and 2009, $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 generally 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 regulatory agencies such as the Securities and Exchange Commission have regulatory oversight.

Notes to Financial Statements (continued)

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

(C) Capital Assets

Capital assets consist primarily of data processing equipment and software and internally developed computer software qualifying as intangible assets according to GASB 51. Capital assets other than intangible assets are depreciated using the straight-line method over an estimated useful life of seven years. The System amortizes intangible assets using the straight-line method over an estimated useful life of twenty years.

(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, premium assistance benefits payable, and the HOP IBNR claims for its participants.

(E) Compensated Absences

The System uses the accrual basis of accounting for measuring vacation leave, sick leave, and other compensated absences liabilities. Employees of the System are paid for accumulated vacation leave upon termination or retirement. Retiring employees of the System that meet service, age, or disability requirements are paid between 30% and 100% of sick days available at retirement, up to 163 maximum days paid. As of June 30, 2010 and 2009, $3,324,000 and $3,222,000, respectively, was accrued for unused vacation and sick leave for the System's employees and included in "Accounts payable and accrued expenses" on the Statements of Plan Net Assets.

(F) Participant Premium Advances

Premium advances in the fiscal years ended June 30, 2010 and 2009 are for HOP premiums related to health care coverage to be provided in calendar year 2010 and 2009, 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.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) provided for periodic increases in the annual compensation limits for qualified retirement plans. The annual compensation limit for 2009 and 2010 was $245,000. EGTRRA also provided for periodic increases in the annual benefit limits for qualified defined benefit plans. The maximum annual defined benefit limit at age 62 for 2009 and 2010 was $195,000.

The Pension Protection Act of 2006 allows distributions for a deceased member to be rolled over by a nonspouse beneficiary. The direct trustee-to-trustee transfer is an eligible rollover distribution and is made to an IRA that is treated as an inherited account.

(H) Risk Management

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

(I) Reclassifications

Certain 2009 amounts have been reclassified in conformity with the 2010 presentation.

(J) Members Receivables

Members receivables include an amount for members' obligations to the System for the purchase of service credit of $157,747,000 and $164,892,000 at June 30, 2010 and

Notes to Financial Statements (continued)

2009, 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 member's employer establishes a payroll deduction process. The member's employer then forwards quarterly payments of the withheld amounts to PSERS.
- Accept an actuarial reduction debt through which the amount of the purchase plus accumulated interest will reduce the member's retirement or death benefit.
- Rollover funds from an eligible distribution.

Because members have control over the timing of their remittances to the System, many purchase of service receivables extend beyond one year. An estimated $110,162,000 of the $240,569,000 members pension receivables at June 30, 2010 are expected to be collected by the System subsequent to June 30, 2011. At June 30, 2009, an estimated $144,278,000 of the $244,327,000 members pension receivables were expected to be collected by the System subsequent to June 30, 2010.

(K) Adoption of New Accounting Standards

In June 2007 the Governmental Accounting Standards Board issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB 51 states that intangible assets are subject to all the accounting and financial reporting requirements applicable to other types of capital assets. GASB 51 also offers specialized guidance on certain unique aspects of accounting and financial reporting for intangibles. The System adopted this Statement during the year ended June 30, 2010.

During the year ended June 30, 2010 the System adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. GASB 53 was issued to address the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

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:

	(Dollar Amounts in Thousands)	
	2010	**2009**
Pension:		
State Accumulation Account	**$ (4,732,711)**	$ (5,608,486)
Members' Savings Account	**11,850,031**	11,087,345
Annuity Reserve Account	**38,481,155**	37,516,621
	$ 45,598,475	$ 42,995,480
Postemployment healthcare:		
Health Insurance Account	**$ 116,831**	$ 105,114
Health Insurance Program Account	**122,221**	106,446
	$ 239,052	$ 211,560

(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 Annuity Reserve Account increasing the reserve credit to the 8.00% 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 Annuity Reserve Account for subsequent payment of benefits.

(C) Annuity Reserve Account

The Annuity Reserve Account represents the amounts transferred from the Members' Savings and State Accumulation Accounts, plus additional contributions made by the Commonwealth and employers for the

Notes to Financial Statements (continued)

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 Annuity Reserve Account.

(D) Health Insurance Account

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

(E) Health Insurance Program Account

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

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.

Est. 1919
PSERS
Partners for your Future

This space intentionally left blank

Notes to Financial Statements (continued)

A summary of the fair value of investments at June 30, 2010 and 2009 follows:

	(Dollar Amounts in Thousands) 2010	2009
Pension investments:		
Short-term:		
PSERS Short-Term Investment Fund	**$ 3,171,190**	$ 4,253,396
Other domestic short-term	**544,374**	706,544
International short-term	**225,667**	244,478
	3,941,231	5,204,418
Fixed income:		
Domestic mortgage-backed securities	**3,432,285**	3,740,617
U.S. government and agency obligations	**1,619,970**	1,416,505
Domestic corporate and taxable municipal bonds	**2,073,324**	2,271,173
Miscellaneous domestic fixed income	**343,884**	456,144
Collective trust funds	**3,227,846**	2,529,667
International fixed income	**1,175,893**	919,443
	11,873,202	11,333,549
Common and preferred stock:		
Domestic common and preferred stock	**5,247,040**	3,073,854
Collective trust funds	**4,486,879**	3,929,724
International common and preferred stock	**5,583,038**	6,879,794
	15,316,957	13,883,372
Real estate:		
Equity real estate	**3,780,406**	3,493,360
Directly-owned real estate	**193,467**	205,993
	3,973,873	3,699,353
Alternative investments:		
Private equity	**6,130,796**	5,047,201
Private debt	**4,277,438**	3,283,060
Venture capital	**768,487**	698,671
	11,176,721	9,028,932
Pension investments at fair value	**$ 46,281,984**	$ 43,149,624
Postemployment healthcare investments:		
Premium Assistance:		
PSERS Short-Term Investment Fund	**$ 24,908**	$ 27,063
Other domestic short-term	**54,940**	40,205
	79,848	67,268
Health Options Program:		
PSERS Short-Term Investment Fund	**85,141**	84,683
Other domestic short-term	**57,295**	42,360
	142,436	127,043
Postemployment healthcare investments at fair value	**$ 222,284**	$ 194,311

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 Commonwealth's Treasury Department is the custodian of the System's funds. Commonwealth 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 HOP. These deposits are not required to be collateralized by statute or policy. These deposits totaled $57,295,000 and $42,360,000 at June 30, 2010 and 2009, 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, including derivatives and other similar 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.

(a) 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, 2010 and 2009 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.

(b) 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.

(c) 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 27.9% of the investment portfolio. The fixed income target allocation consists of:

- An allocation of 5.0% of the portfolio has been made to the domestic core plus segment 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.

- An allocation of 8.0% of the portfolio has been made to the high yield and opportunistic segment of the fixed income asset class benchmarked to the Barclays Capital U.S. High Yield Index. The high yield and opportunistic allocation is composed of less liquid public non-investment grade fixed income securities with an overall weighted-average NRSRO credit rating of B- or better.

- An allocation of 5% of the portfolio has been made to the Treasury Inflation-Protected Securities (TIPS) segment of the fixed income asset class benchmarked to the 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.

Notes to Financial Statements (continued)

The portfolio manager is permitted to leverage the portfolio using TIPS total return swaps up to 3:1.

- An allocation of 2.0% 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 A or better.

- An allocation of 2.9% of the portfolio has been made to the emerging markets fixed income asset class benchmarked to the JP Morgan GBI-EM Global Diversified (USD Unhedged) Index composed of primarily investment grade, relatively liquid 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.

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, 2010 and 2009.

	(Dollar Amounts in Thousands)	
Quality Rating	**2010 Fair Value**	2009 Fair Value
AAA	**$ 3,347,321**	$ 4,434,124
AA	**3,891,933**	5,037,592
A	**844,840**	888,204
BBB	**860,078**	812,151
BB and below	**1,153,604**	895,804
NR*	**3,981,288**	3,068,343
Total Exposed to Credit Risk	**14,079,064**	15,136,218
US Government Guaranteed**	**1,957,653**	1,596,060
Total Fixed Income and Short-Term Investments	**$ 16,036,717**	$ 16,732,278

* Not Rated securities include $3,227,846 and $2,529,667 in collective trust funds at June 30, 2010 and 2009, respectively.

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

For derivatives exposed to credit risk, the table below presents aggregate market value by the least favorable credit rating provided by NRSROs at June 30, 2010 and 2009.

	(Dollar Amounts in Thousands)	
Quality Rating	**2010 Fair Value**	2009 Fair Value
AA	**$ 2,176**	$ (12,577)
A	**(197,715)**	55,355
Total Swaps-Total Return	**$ (195,539)**	$ 42,778

(d) 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 a Board-approved effective duration range 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.

This space intentionally left blank

Notes to Financial Statements (continued)

At June 30, 2010 and 2009, the System's fixed income portfolio had the following option-adjusted durations by fixed income sector:

	(Dollar Amounts in Thousands)			
	2010		2009	
Investment Type	**Option-Adjusted Duration**	**Fair Value**	Option-Adjusted Duration	Fair Value
Domestic mortgage-backed securities	**1.2**	**$ 3,432,285**	1.7	$ 3,740,617
U.S. government and agency obligations	**5.1**	**1,619,970**	3.6	1,416,505
Domestic corporate and taxable municipal bonds	**3.3**	**2,073,324**	3.0	2,271,173
Miscellaneous domestic fixed income	**0.4**	**343,884**	0.4	456,144
Fixed income collective trust funds	**4.6**	**3,227,846**	4.3	2,529,667
International fixed income	**4.0**	**1,175,893**	3.8	919,443
PSERS Short-Term Investment Fund	**0.1**	**3,281,239**	0.1	4,365,142
Total fixed income & Short-Term Investment Funds	**2.6***	**15,154,441**	2.1*	15,698,691
Total adjustments for futures contracts	**0.1****	**-**	0.1**	-
Total fixed income & Short-Term Investment Funds	**2.7****	**$ 15,154,441**	2.2**	$ 15,698,691

* The option-adjusted duration of 2.6 and 2.1 at June 30, 2010 and 2009, 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, 2010 and 2009.

This space intentionally left blank

Notes to Financial Statements (continued)

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. As part of the System's program to manage risk and enhance returns, the System invests in non-U.S. markets. Investment managers in non-U.S. equity and global fixed income may hedge their non-U.S. foreign currency exposure back to U.S. dollars. At June 30, 2010 and 2009 PSERS had the following non-U.S. currency exposure:

2010
(Dollar Amounts in Thousands)

Currency	Equity	Fixed Income	Alternative Investments & Real Estate	Short-Term*	Total Fair Value
Euro	$ 718,560	$ 225,174	$ 1,569,466	$ (1,062,424)	**$ 1,450,776**
Japanese yen	1,002,241	44,154	-	265,647	**1,312,042**
British pound sterling	925,069	27,859	6,361	(255,052)	**704,237**
Canadian dollar	449,599	28,858	1,635	(15,744)	**464,348**
Brazil real	106,741	48,410	-	203,926	**359,077**
Hong Kong dollar	331,705	-	-	2,235	**333,940**
Australian dollar	319,224	3,230	-	(28,455)	**293,999**
South African rand	124,363	20,119	-	143,848	**288,330**
Indonesian rupian	51,497	26,481	-	171,451	**249,429**
Turkish lira	40,351	21,626	-	143,646	**205,623**
Indian rupee	113,637	-	-	76,055	**189,692**
Mexican new peso	34,856	45,167	-	79,731	**159,754**
Other non-US currencies	964,616	121,486	-	(649,128)	**436,974**
Total	$ 5,182,459	$ 612,564	$ 1,577,462	$ (924,264)	**$ 6,448,221**

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-US currencies	886,940	89,209	-	(63,368)	**912,781**
Total	$ 6,367,376	$ 469,455	$ 1,258,301	$ 421,024	**$ 8,516,156**

* Includes investment receivables and payables

Notes to Financial Statements (continued)

	(Dollar Amounts in Thousands)	
	2010	2009
Currency	**Notional Value**	Notional Value
Japanese yen	**$ 107,111**	$ 163,061
British pound sterling	**72,823**	154,480
Canadian dollar	**27,023**	25,750
Euro	**23,146**	172,934
Australian dollar	**17,839**	24,077
Malaysian ringgit	**1,099**	-
Total Futures Contracts and Total Return Swaps	**$ 249,041**	$ 540,302

At June 30, 2010 and 2009, the System had foreign currency exposures for its derivatives (except for foreign exchange contracts which are included in Note 5) as presented in the table at the top of the page.

(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 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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 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. 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 2 days and 15 days at June 30, 2010 and 2009, respectively. During the fiscal years ended June 30, 2010 and 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. 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.

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, 2010, the fair value of loaned securities was $2,102,233,000, which includes $636,236,000 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 $2,239,674,000 of which $1,524,234,000 was cash. 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

Notes to Financial Statements (continued)

Net Assets. The fair value of the associated collateral was $2,232,432,000 of which $1,591,720,000 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 table presented at the bottom of the page summarizes the aggregate notional or contractual amounts for the System's derivative financial instruments at June 30, 2010 and 2009.

This space intentionally left blank

	(Dollar Amounts in Thousands)	
	2010	2009
Futures contracts – long:		
Treasury futures	**$ 400,302**	$ 460,044
Eurodollar futures	**83,922**	245,141
U.S. equity futures	**424,961**	1,214,777
Non-U.S. equity futures	**154,454**	199,432
Commodity futures	**1,015,632**	1,036,767
Non-U.S. bond futures	**69,060**	154,103
Futures contracts – short:		
Treasury futures	**294,089**	304,684
Eurodollar futures	**263,378**	426,875
U.S. equity futures	**-**	985,490
Commodity futures	**21,659**	51,020
Non-U.S. bond futures	**40,038**	38,411
Foreign exchange forward and spot contracts, gross	**11,147,219**	6,266,360
Options - calls purchased	**2,555,244**	1,198,018
Options - puts purchased	**2,241,375**	766,916
Options - calls sold	**2,784,401**	972,583
Options - puts sold	**2,376,839**	827,220
Swaps - total return type	**3,950,185**	5,041,734

Notes to Financial Statements (continued)

(Dollar Amounts in Thousands)

	Change In Fair Value FY 2010		Fair Value at June 30, 2010	
Derivative Type	**Classification**	**(Gain)/Loss**	**Classification**	**Amount**
Futures	Investment income	$ 16,146	Investment	$ (16,146)
Total return type swaps	Investment income	195,539	Investment	(195,539)
Options	Investment income	(2,093)	Investment	2,093
Foreign exchange contracts	Investment income	4,414	Investment	(4,414)
	Change In Fair Value FY 2009		**Fair Value at June 30, 2009**	
Derivative Type	**Classification**	**(Gain)/Loss**	**Classification**	**Amount**
Futures	Investment income	$ (3,060)	Investment	$ 3,060
Total return type swaps	Investment income	(42,778)	Investment	42,778
Options	Investment income	(10,713)	Investment	10,713
Foreign exchange contracts	Investment income	10,398	Investment	(10,398)

The fair values of derivative instruments outstanding at June 30, 2010 and 2009 are classified by type and by the changes in fair value of the derivative instrument in the table as presented at the top of the page.

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, 2010 and 2009 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. The fair value of option contracts of $2,093,000 and $10,713,000 at June 30, 2010 and 2009, respectively, is included in the Statements of Plan Net Assets.

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. To reduce the risk of counterparty non-performance, the investment managers generally enter into these contracts with institutions regarded as meeting high standards of credit worthiness. The contracts reported below primarily include forwards. The $11,147,219,000 of foreign currency contracts outstanding at June 30, 2010 consist of “buy” contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $5,219,411,000 and “sell” contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $5,927,808,000. The $6,266,360,000 of foreign currency contracts outstanding at June 30, 2009 consist of “buy” contracts of $3,609,991,000 and “sell” contracts of $2,656,369,000. The unrealized loss on contracts of $(4,414,000) and $(10,398,000) at June 30, 2010 and 2009, respectively, is included in the Statements of Plan Net Assets and represents the fair value of the contracts.

Notes to Financial Statements (continued)

The following table summarizes the System's foreign exchange contracts by currency at June 30, 2010 and 2009:

	2010 (Dollar Amounts in Thousands)			
Currency	**Buys**	**Unrealized Gain/(Loss)**	**Sells**	**Unrealized Gain/(Loss)**
British pound sterling	$ 586,528	$ (2,641)	$ 851,017	$ (5,525)
Euro	539,486	(2,917)	1,527,863	13,594
Swiss franc	511,100	13,794	678,377	(26,277)
Japanese yen	466,086	12,782	204,617	(5,852)
Brazil real	412,989	194	210,547	666
Australian dollar	405,024	(5,533)	368,986	3,188
Canadian dollar	233,343	(6,153)	234,936	4,381
Turkish lira	212,278	(2,691)	68,574	88
South African rand	200,943	(271)	58,571	(42)
Mexican new peso	199,108	(3,426)	120,167	56
Indian rupee	175,622	2,612	4,563	5
Norwegian krone	171,567	2	146,774	328
Swedish krona	157,145	1,490	171,665	(2,202)
New Zealand dollar	113,680	(419)	92,993	(154)
Philippines peso	92,357	(614)	26,114	(24)
South Korean won	91,801	(1,986)	162,813	5,823
Indonesian rupian	89,833	(162)	16,661	(51)
Malaysian ringgit	86,622	537	34,484	(609)
Other	473,899	(2,675)	948,086	6,270
Total	**$ 5,219,411**	**$ 1,923**	**$ 5,927,808**	**$ (6,337)**

	2009 (Dollar Amounts in Thousands)			
Currency	**Buys**	**Unrealized Gain/(Loss)**	**Sells**	**Unrealized Gain/(Loss)**
Euro	$ 1,037,498	$ 13,252	$ 753,084	$ (17,902)
Japanese yen	778,940	(4,948)	534,881	(11,673)
British pound sterling	336,353	9,153	168,219	(2,059)
Australian dollar	248,663	4,874	127,844	(1,260)
Canadian dollar	103,477	(1,136)	137,900	2,092
South African rand	92,605	5,664	43,302	(2,938)
Swedish krona	83,837	(163)	111,030	(853)
Mexican new peso	83,909	480	42,875	(1,188)
Norwegian krone	71,057	(321)	64,825	414
Swiss franc	70,963	(348)	63,140	(559)
Hungarian forint	70,488	2,355	14,755	(632)
Danish krone	70,486	(1)	33,788	372
Brazil real	59,510	1,747	33,353	(596)
Chilean peso	52,109	1,571	10,416	(586)
Indonesian rupian	50,485	(276)	7,167	33
Philippines peso	44,518	(415)	42,472	(16)
Other	355,093	1,229	467,318	(5,764)
Total	**$ 3,609,991**	**$ 32,717**	**$ 2,656,369**	**$ (43,115)**

Notes to Financial Statements (continued)

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, 2010 and 2009, the System entered into total return type 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 $(195,539,000) and $42,778,000 at June 30, 2010 and 2009, 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 August 31, 2010 to August 9, 2011.

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, 2010 and 2009 is $2,089,780,000 and $2,295,709,000, 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.

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 3.15% at June 30, 2010, 3.29% at June 30, 2009 and 3.28% at June 30, 2008. The System's contributions to SERS for the years ended June 30, 2010, 2009 and 2008 were $601,000, $625,000 and $602,000, 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. The Pennsylvania Employees Benefit Trust Fund (PEBTF) is a third-party administrator for the REHP under the provisions of an Administrative Agreement between OA and PEBTF.

Employer costs for retiree healthcare benefits are charged as a component of payroll expenditures on a 'pay-as-you-go' basis. REHP funding is arranged between OA and the Governor's Budget Office. The 2009-2010 employer 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 their REHP enrollment date.

In October 2009, the Commonwealth released an Actuarial Valuation of its Post-Retirement Medical Plan with calculations made as of July 1, 2008 using census data collected as of December 2008 and health care claims costs for calendar 2008. The Valuation for FY 2009 reported overall Annual Required Contributions (ARC) of $818,510,000 with the System's allocated ARC of $3,566,000. Based on the aggregate REHP qualifying contributions for FY 2009, the net Other Postemployment Benefits (OPEB) liability for the System was $1,363,000. For FY 2010, the valuation indicated overall ARC of $850,440,000 with the System's allocated ARC of $3,705,000. Based on the aggregate REHP qualifying contributions for FY 2010, the net OPEB liability for the System is $1,460,000. Therefore, the cumulative 2 year total OPEB liability as of June 30, 2010 is $2,823,000. The Actuarial Valuation is available at the Office of the Budget's website: www.budget.state.pa.us.

Notes to Financial Statements (continued)

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.

9. Intangible Assets

In compliance with the requirements of GASB 51, the System examined its administrative expense records to determine if any expenditure qualified for intangible asset recognition. It was found that the multi-year initiative to redesign the System's member and pension administration systems qualified for recognition as internally developed computer software under GASB 51 and Commonwealth of Pennsylvania Management Directives.

(A) Assumptions

In FY 2003, the System began contracting with third parties on a multi-year project to develop a new pension administration system (NPAS) using customized off-the-shelf computer software (V3). The System will continue to contractually rely on third parties to reengineer and upgrade V3 to meet PSERS business requirements. V3 software will have major upgrades over time and will have a finite expected useful life estimated at 20 years. The first release of NPAS was implemented during July 2004, which is the start of the useful life of V3 for amortization purposes.

(B) Recognition

From FY 2003 through the current FY 2010, it was determined that $23.8 million qualifies for recognition under GASB 51 as intangible assets. Amortization for fiscal years prior to FY 2010 was calculated starting in fiscal year ended June 30, 2005 (FY 2005) assuming an estimated useful life period of 20 years. Cumulative amortization through the end of FY 2010 totaled $5.7 million.

Recognition of intangible assets and amortization was made during FY 2010 by offset to administrative expenses.

This space intentionally left blank

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

Pension

Valuation as of June 30	(1) Actuarial accrued liabilities (AAL)	(2) Actuarial value of assets	(3) (Funded) Unfunded actuarial accrued liabilities (FAAL) or UAAL (1) – (2)	(4) Ratio of assets to AAL (2) / (1)	(5) Covered payroll	(6) (FAAL) or UAAL as a percentage of covered payroll (3) / (5)
2009	$ 75,520.7	$ 59,781.6	$ 15,739.1	79.2%	$ 12,524.6	125.7%
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%

Premium Assistance

Valuation as of June 30	(1) Actuarial accrued liabilities (AAL)	(2) Actuarial value of assets	(3) (Funded) Unfunded actuarial accrued liabilities (FAAL) or UAAL (1) – (2)	(4) Ratio of assets to AAL (2) / (1)	(5) Covered payroll	(6) (FAAL) or UAAL as a percentage of covered payroll (3) / (5)
2009	$ 1,159.0	$ 105.1	$ 1,053.9	9.1%	$ 12,524.6	8.4%
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
2010	$ 1,928,278	$ 527,212*	27%
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%

* Net of purchase of service contributions.

Premium Assistance

Year ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
2010	$ 117,187	$ 102,703	88%
2009	109,531	92,493	84%
2008	101,352	81,317	80%
2007	94,970	86,763	91%

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

Supplemental Schedule 1
Schedule of Operating Expenses
Year Ended June 30, 2010
(Dollar Amounts in Thousands)

	Administrative Expenses (1)	Investment Expenses (2)	Total
Personnel costs:			
Salaries & wages	$ 14,972	$ 3,393	**$ 18,365**
Social security contributions	1,136	251	**1,387**
Retirement contributions	462	139	**601**
Employees' insurance contributions	4,211	543	**4,754**
Other employee benefits	113	723	**836**
Total personnel costs	20,894	5,049	**25,943**
Operating costs:			
Investment managers' fees	-	509,767	**509,767**
Custodian fees	-	598	**598**
Specialized services	20,079	-	**20,079**
Rental of real estate, electricity	2,108	183	**2,291**
Consultant & legal fees	1,227	4,499	**5,726**
Treasury and other commonwealth services	1,265	162	**1,427**
Postage	1,052	-	**1,052**
Contracted maintenance and repair services	280	14	**294**
Office supplies	497	81	**578**
Rental of equipment & software	862	234	**1,096**
Printing	408	-	**408**
Travel and training	291	16	**307**
Telecommunications	601	14	**615**
Equipment (non-capital assets)	1,028	4	**1,032**
Miscellaneous expenses	2,809	1,694	**4,503**
Total operating costs	32,507	517,266	**549,773**
Other charges:			
Capitalized assets (3)	(23,849)	-	**(23,849)**
Depreciation (3)	940	-	**940**
Total other charges	(22,909)	-	**(22,909)**
Total operating expenses	$ 30,492	$ 522,315	**$ 552,807**

(1) Includes administrative expenses of $1,944 related to Postemployment Healthcare Premium Assistance and $16,443 related to Postemployment Healthcare Health Options Program for the fiscal year ended June 30, 2010.

(2) Includes investment expenses of $47 related to Postemployment Healthcare Premium Assistance for fiscal year ended June 30, 2010 and does not include $17,650 in capitalized broker commissions for the fiscal year ended June 30, 2010.

(3) Depreciation includes amortization of intangible assets. Capitalized assets and depreciation have been adjusted due to the impact of capitalization of intangible assets as a result of PSERS' implementation of Governmental Accounting Standards Board Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* (See Note 9).

Supplemental Schedule 2
Summary of Investment Expenses
Year Ended June 30, 2010
(Dollar Amounts in Thousands)

		Assets under management*		Fees
External management:				
Domestic equity	$	858,000	$	5,284
International equity		3,307,000		32,162
Fixed income		7,281,000		58,355
Real estate		3,975,000		83,687
Alternative investments		9,362,000		178,183
Absolute return		5,196,000		137,360
Commodities		1,769,000		14,736
Total external management		**31,748,000**		**509,767**
Total internal management		**14,256,000**		**7,451**
Total investment management	**$**	**46,004,000**	$	**517,218**
Custodian fees				598
Consultant and legal fees				4,499
Total investment expenses			**$**	**522,315**

* Net asset value of investments at June 30, 2010; investments are classified on an asset allocation basis.

Supplemental Schedule 3
Schedule of Payments to Non-Investment Consultants
Year Ended June 30, 2010
(Dollar Amounts Greater than $50,000)

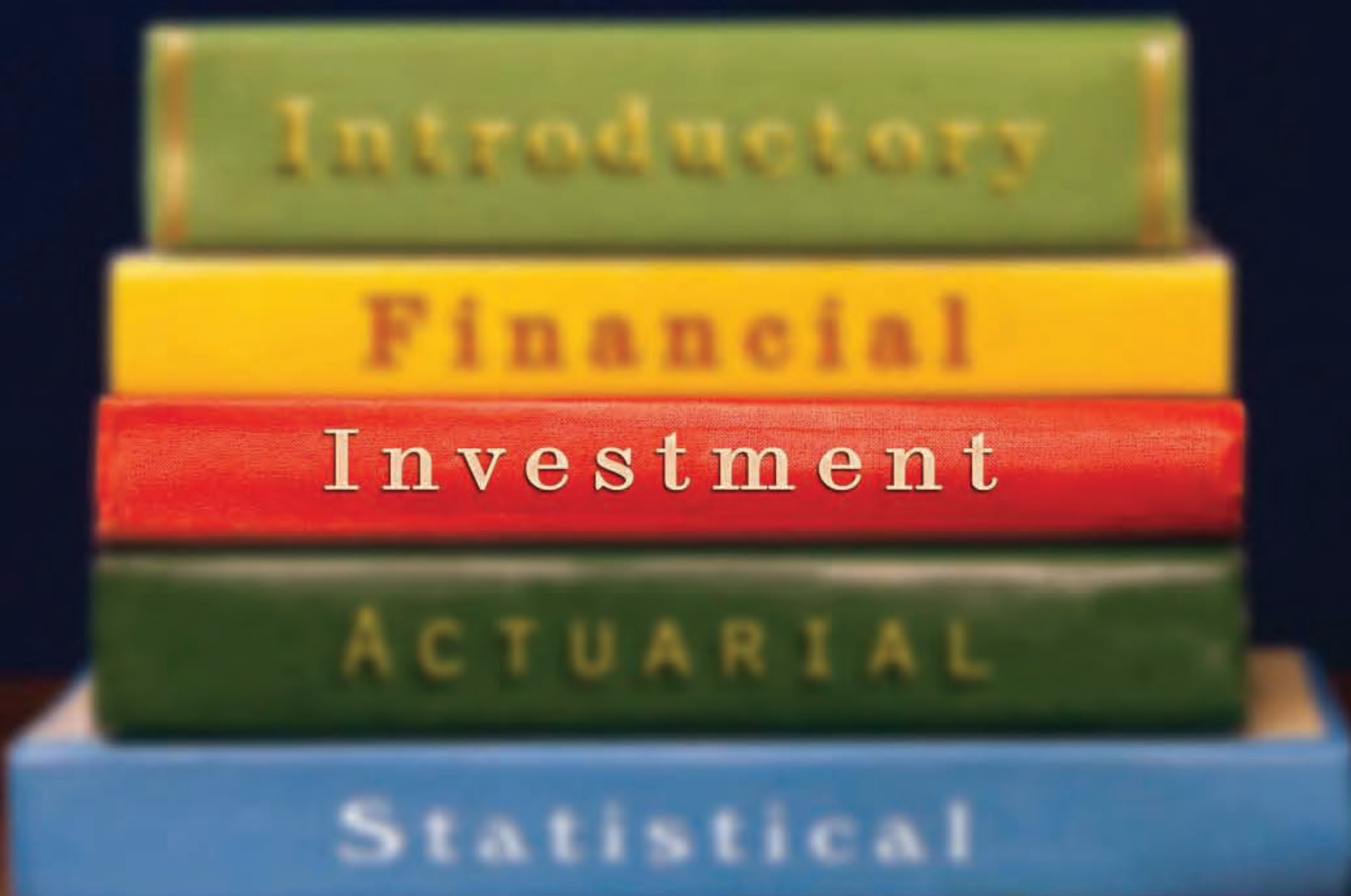
Consultant	Fees	Services Provided
CoreSource, Inc.	$ 11,018,949	Postemployment healthcare benefits administration and claims adjudication
ViTech Systems Group, Inc.	3,582,055	Pension administration system services
Rx Solutions, Inc.	2,816,847	Administration of postemployment healthcare benefits and prescription drug plan
The Segal Company	2,467,835	Actuarial services and consulting for HOP and prescription drug plan
Buck Consultants LLC	716,018	Pension benefit actuarial services
Independent Pharmaceutical Consultants, Inc.	378,275	Pharmacy benefit consulting services
Clifton Gunderson LLP	114,755	Financial audit of pension system and postemployment healthcare programs

This page intentionally left blank

Est. 1919

PSERS

Partners for your Future



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).

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 15% 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 during the first quarter of the calendar 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 the use of 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, 2010, 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 Aksia LLC as an absolute return consultant, 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, 43 external public market investment management firms were managing $16.3 billion in assets of the System, $14.3 billion in assets were managed by the System's internal investment managers, and the remaining $15.9 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 during the first quarter of each 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, 2010 included an equity target allocation of 28.6% consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (12.5%) and non-U.S. equity exposure (16.1%). 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 non-U.S. equity exposure includes both developed and emerging markets portfolios as well as large and small capitalization investment managers.

The fixed income target allocation of 27.9% consisted of U.S. core fixed income exposure (5.0%), leveraged Treasury Inflation-Protected Securities exposure (5.0%), high yield and opportunistic fixed income exposure (8.0%), emerging markets fixed income exposure (2.9%), global fixed income exposure (2.0%), 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 8.0% consisted primarily of limited partnerships. The types of partnerships the System invests in include core, value-added, and opportunistic real estate limited partnerships.

Alternative investments had a target allocation of 20.5%. 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, venture capital, and unlisted subordinated debt positions on behalf of PSERS and other limited partners.

The absolute return target allocation of 10.0% 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 target 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 5.0% 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, 2010, the fair value of the investment portfolio was $46.5 billion, an increase of $3.2 billion from last year's value. This increase was due to net investment income ($6.1 billion) less the deductions for benefits and administrative expenses exceeding member and employer contributions ($3.5 billion) plus net changes in other investment assets and liabilities ($0.6 billion). The investment portfolio, as invested, was composed of 28.4% common and preferred stocks (equity), 27.2% fixed income investments, 20.4% alternative investments, 9.1% real estate, 11.2% absolute return portfolios, and 3.7% commodities at June 30, 2010. 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 a rebound in U.S. economic activity from the significant economic contraction during the 2008-2009 fiscal year. The U.S. Gross Domestic Product (GDP) increased by 1.6%, 5.0%, 3.7%, and 1.7% in the third quarter 2009, fourth quarter 2009, first quarter 2010, and second quarter 2010, respectively. The official U.S. unemployment rate (otherwise known as the U3 unemployment rate) hit a cyclical high of 10.1% in October 2009 but is unchanged from the end of the previous fiscal year at 9.5%. The more encompassing U6 unemployment rate, however, which measures not only people without work seeking full-time employment (U3 unemployment rate) but also counts "marginally attached workers and those working part-time for economic reasons," remains elevated at 16.5% as of fiscal year end, unchanged from the end of last fiscal year. This past year saw a lot of tail winds for the U.S. economy, including a massive fiscal stimulus program and a strong inventory build by companies, both of which contributed significantly to the GDP figures noted above.

Internationally, the economic conditions are really a tale of two markets. The emerging markets, such as China and India, have weathered the downturn well and their economic activity has bounced back to new highs. Conditions have been strong enough that a number of these countries needed to tighten their monetary policies to keep their economies from overheating. The developed markets, such as the United Kingdom and France, have not bounced back nearly as much. These markets continue to have very loose monetary policies due to weaker economic conditions. In general, the emerging market economies are less burdened by debt than the developed world. This scenario was highlighted in the final quarter of the fiscal year when countries such as Portugal, Ireland, Greece, and Spain suffered through a sovereign debt crisis which ultimately required the European Union to agree on a €750 billion bailout plan that would be available to rescue euro-zone economies that get into financial troubles. As part of these bailout plans, the countries receiving financial aid would be required to implement austerity measures which will require either increases in taxes or decreases in government spending, both of which will have a negative impact on growth in those countries. It is expected that the growth will continue to weaken in the developed markets over the next few years as they work to reduce their debts to more sustainable levels.

There is concern that the U.S. economic rebound which started last year may not be sustainable without considerable additional fiscal and monetary stimulus. The deceleration in U.S. GDP growth over the past two quarters calls into question the durability of this recovery that has been supported by massive deficit spending, inventory rebuilding after the slowdown, and low interest rates. The National Bureau of Economic Research (NBER), a private, nonprofit, nonpartisan research organization dedicated to promoting a greater understanding of how the economy works, is the organization that reviews relevant economic indicators and announces when they believe economic expansions and contractions begin and end. NBER recently announced that this current economic contraction began in December 2007 and officially ended in June 2009. NBER, however, noted in their press release that "the committee did not conclude that economic conditions since that month (June 2009) have been favorable or that the economy has returned to normal operating capacity."

While corporations have done a good job of improving their balance sheets, the consumer, which represents about 70% of the U.S. economy, still has a significant amount of consumer and mortgage debt. The U.S. Federal Reserve (the Fed) has already lowered the Federal Funds rate to 0.00% and has no further room to ease monetary policy through interest rate cuts. This position leaves the Fed with less conventional monetary stimulus tools such as quantitative easing which are blunter and less proven monetary tools than interest rate cuts. The U.S. unemployment rate remains elevated and consumer income is not growing quickly. Consumer confidence, as measured by the University of Michigan Survey of Consumer Confidence Sentiment, remains near levels normally seen in recessionary periods. The U.S. federal deficit has grown significantly over the past few years in an effort to support the waning economy. The only ways to bring federal deficits under control are to cut spending or raise taxes, both of which will take money out of consumers' pockets. These represent significant headwinds to consumer spending and growth in the U.S. which could remain in place for a considerable period of time. With short-term interest rates anchored at 0.00%, we anticipate that we will be in a low asset return environment for the foreseeable future, providing further headwinds to income growth.

With the backing of monetary and fiscal stimulus during the past fiscal year, we saw a significant rally in risk assets worldwide which led to positive returns in most asset classes. The Morgan Stanley Capital International (MSCI) U.S. Broad Market Index, a U.S. equity index, returned 14.06% during the fiscal year. Returns for the first three quarters of the fiscal year were exceptionally strong, posting a 30.08% return before declining 11.86% in the fiscal fourth quarter as it had become apparent that the economy was slowing. Foreign markets in U.S. dollar terms also fared well as the MSCI All-Country World (ACW) ex. U.S. Investable Market Index, an international equity index, returned 11.49% for the fiscal year. 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 12.85% during the fiscal year as these investments were written up to prices comparable to gains in the public equity markets.

Fixed income markets performed very well in this environment as longer-term interest rates fell and investors looked to take advantage of wide credit spreads in search of yield. For the fiscal year, the Barclays U.S. Universal Index, a U.S. fixed income index, was up 10.59% and the Barclays Multiverse Index, a global fixed income index, was up 5.54%. Returns in both of these indexes were driven by a flattening yield curve, falling inflation expectations due to the economic contraction, and tightening credit spreads. Where the tightening of credit spreads really had an impact was on lower quality credits. The Barclays High Yield Index returned 26.77% during the past fiscal year. The Barclays U.S. TIPS Index, an index of U.S. treasury inflation protection securities, driven by falling real yields, returned 9.52% for the fiscal year.

According to the National Council of Real Estate Investment Fiduciaries (NCREIF) Index, a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only, real estate returned -9.60% during the past fiscal year. Index returns are reported on a quarter lag due to the time taken to acquire this information from private market sources, so the returns are for the twelve months ended March 31, 2010. Investment performance in the private real estate markets remained weak due to an excess of commercial real estate supply due to the significant contraction in the economy since the end of 2007. The index returns, however, have recently stabilized and have shown positive performance during the past quarter.

As a result of strong returns from global equities, alternative investments, fixed income, and the absolute return program, the System generated a total return of 14.59% for the one-year period ended June 30, 2010. This return exceeded the total fund Policy Index return of 10.87% by 372 basis points. Annualized total returns for the three-, five-, and ten-year periods ended June 30, 2010 were -6.48%, 2.99%, and 3.51%, respectively. The three-year return ending June 30, 2010 fell short of the total fund Policy Index return by 171 basis points while the five- and ten-year returns ending June 30, 2010 exceeded the total fund Policy Index returns by 24 and 91 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.

Est. 1919

PSERS

Partners for your Future

This space intentionally left blank

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, 2010			
	1 Year	**3 Years**	**5 Years**	**10 Years**
PSERS Total Portfolio	**14.59**	**-6.48**	**2.99**	**3.51**
Total Fund Policy Index	10.87	-4.77	2.75	2.60
Median Public Defined Benefit Plan (DBP) Fund Universe (Wilshire Database)	14.06	-4.89	2.81	3.13
PSERS Domestic Stock Portfolios	**18.29**	**-10.36**	**-1.03**	**0.19**
Domestic Equity Policy Index (1)	15.20	-9.52	-0.39	-0.83
Median Public DBP Fund Universe - Domestic Equities (Wilshire Database)	16.48	-9.42	-0.39	-0.38
PSERS International Stock Portfolios	**15.07**	**-8.22**	**5.84**	**3.58**
International Equity Policy Index (2)	11.49	-9.45	4.20	2.47
Median Public DBP Fund Universe - International Equities (Wilshire Database)	11.62	-12.38	1.94	1.83
PSERS Domestic Fixed Income Portfolios	**21.43**	**9.01**	**6.53**	**7.45**
Domestic Fixed Income Policy Index (3)	16.97	10.24	6.96	7.25
Median Public DBP Fund Universe - Domestic Bonds (Wilshire Database)	15.39	7.00	5.68	6.64
PSERS Global Fixed Income Portfolios	**14.43**	**8.33**	**6.12**	**7.22**
Global Fixed Income Policy Index (4)	4.89	6.52	4.88	6.26
Median Public DBP Fund Universe - Global Bonds (Wilshire Database)	14.43	7.28	5.56	6.87
PSERS Commodity Portfolios	**5.93**	**-7.81**	**N/A**	**N/A**
Dow Jones - UBS Commodity Index	2.75	-8.36	N/A	N/A
PSERS Absolute Return Portfolios	**15.60**	**N/A**	**N/A**	**N/A**
Benchmark - 8.0% Annualized Return	8.00	N/A	N/A	N/A
PSERS Real Estate (5)	**-18.01**	**-22.84**	**-3.02**	**4.91**
Blended Real Estate Index (6)	-9.60	-4.32	4.19	7.13
Median Public DBP Fund Universe - Real Estate (Wilshire Database)	-2.58	-12.28	-0.36	6.81
PSERS Alternative Investments (5)	**22.39**	**1.99**	**12.05**	**7.00**
Venture Economics Median Return, Vintage Year Weighted	12.85	1.39	5.78	2.53
Median Public DBP Fund Universe - Private Equity (Wilshire Database)	23.82	1.46	11.93	6.00

1) MSCI USA Investable Market Index effective April 1, 2009; previously was the Dow Jones Wilshire 5000 Index.

2) MSCI All Country World (ACW) ex. USA 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 (27.8%), Barclays Capital U.S. TIPS Index (Series-L) (27.8%), and Barclays U.S. High Yield Index (44.4%) effective April 1, 2010. 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) Returns presented are a blend of the Barclays Multiverse Index (40.8%) and the JP Morgan Global Bond Index Emerging Markets Global Diversified (USD Unhedged) Index (59.2%) Between April 1, 2007 and March 31, 2010, the Barclays Multiverse Index was used; previous to April 1, 2007, the Barclays Global Aggregate Bond Index was used.

5) Returns reported on a one-quarter lag, except for publicly traded real estate security investments.

6) NCREIF Index effective April 1, 2010. The NCREIF Index is reported on a one-quarter lag. Previously, returns presented were a blend of the FTSE EPRA/NAREIT Global Real Estate Index and the NCREIF Index. 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 $8.5 million in net gains during the year.

Accomplishments

The System continued its efforts to diversify its market exposures during the first quarter of FY 2010 as the allocation to absolute return mandates, an asset class used as a risk diversifier added during the current fiscal year, was fully funded after increasing the target allocation from 7.5% to 10.0%.

The System continued its multi-year project to implement an independent accounting book of record for the System's investment transactions and holdings. In early FY 2011, the real estate and private market investment portfolios were converted to the System's internal accounting software provided by Financial Control Systems, Inc. The System also continued to develop various management reports using the internal accounting software.

Market Update

Subsequent to the close of FY 2010, the equity markets commenced on a broad rally that started in July 2010 as risk assets rallied on the potential for additional quantitative easing from the Fed. The potential for quantitative easing also caused the U.S. dollar to weaken versus most other foreign currencies on the prospects that the Fed would be printing additional money causing the U.S. dollar to be worth less to foreign investors. As measured by the U.S. Dollar Index, an index which averages the exchange rate between the U.S. dollar and six major world currencies, the value of the U.S. dollar fell by 8.49% during the quarter ended September 30, 2010. For the quarter ended September 30, 2010, the MSCI U.S. Broad Market Index was up 11.10% while the MSCI ACW ex. USA Investable Market Index was up 16.80%. 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 2.89% during the quarter, the Barclays U.S. High Yield Index was up 6.71%, and the Barclays Multiverse Index was up 7.37%. Commodities also had a positive return for the quarter as the Dow Jones – UBS Commodity index was up 11.61%. The System's assets increased by over $2 billion during the quarter ended September 30, 2010 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 7.50%.

Summary

The System had a very good fiscal year ended June 30, 2010 after two consecutive fiscal years with negative total returns. The economy and the markets experienced a significant rebound from the lows encountered during the prior fiscal year. Most risk assets across the spectrum performed well, allowing the System to generate returns substantially in excess of the actuarial investment rate of return assumption of 8.0%. The System, however, was unable to meet or exceed this assumption for the three-, five-, and ten-year periods ended June 30, 2010. We continue to believe that we are in the midst of a challenging period for asset returns for the reasons discussed above; however, we also 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.

Alan H. Van Noord, CFA
Chief Investment Officer

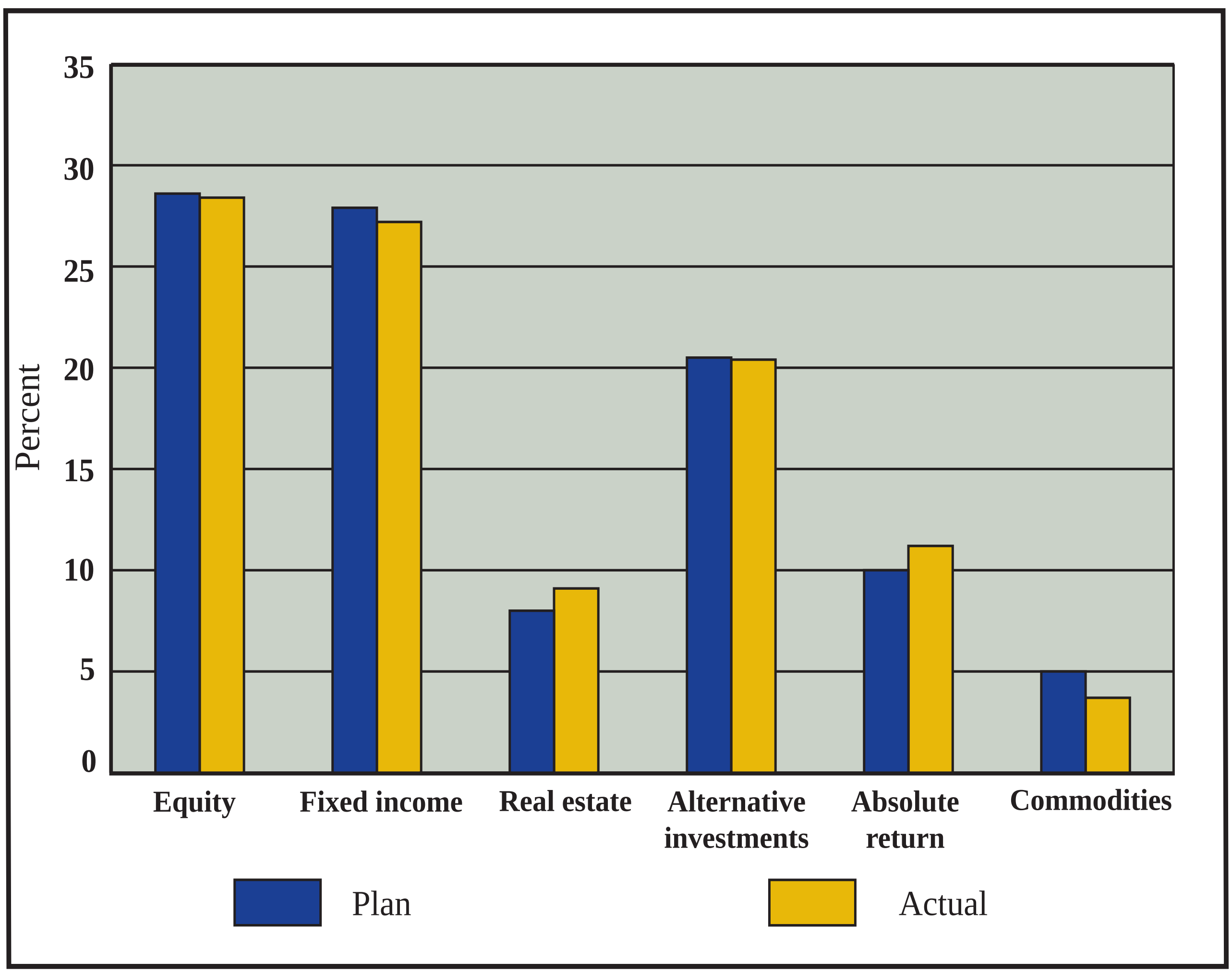
Portfolio Summary Statistics
Asset Allocation
As of June 30, 2010
(Dollar Amounts in Thousands)

Pension investments		Fair Value ($)	% Fair Value
Common and preferred stock (Equity):			
Large cap stocks	$	3,492,153	7.6%
Mid and small cap stocks		1,718,720	3.8%
Emerging markets stocks		2,189,564	4.8%
Total Non-U.S. equity		**7,400,437**	**16.2%**
Large cap stocks		3,087,743	6.7%
Mid and small cap stocks		2,195,506	4.8%
Microcap stocks		298,635	0.7%
Total U.S. equity		**5,581,884**	**12.2%**
Total Common and preferred stock - Asset Allocation Basis		**12,982,321**	**28.4%**
Fixed income:			
Investment grade fixed income		5,265,818	11.5%
High yield and opportunistic fixed income		2,757,937	6.0%
Total U.S. Fixed income		**8,023,755**	**17.5%**
Non-U.S. core fixed income		989,693	2.2%
Emerging markets fixed income		667,666	1.4%
Total Non-U.S. Fixed income		**1,657,359**	**3.6%**
Cash and cash equivalents		**2,785,638**	**6.1%**
Total Fixed income - Asset Allocation Basis		**12,466,752**	**27.2%**
Real estate		**4,183,829**	**9.1%**
Alternative investments:			
Private equity		6,124,452	13.4%
Private debt		2,446,586	5.3%
Venture capital		768,678	1.7%
Total Alternative investments - Asset Allocation Basis		**9,339,716**	**20.4%**
Absolute return		**5,126,872**	**11.2%**
Commodities		**1,679,291**	**3.7%**
Total Pension investments - Asset Allocation Basis	**$**	**45,778,781**	**100.0%**
Net Asset Allocation Adjustment*		503,203	
Pension investments per Statement of Plan Net Assets	**$**	**46,281,984**	
Postemployment Healthcare investments	**$**	**222,284**	**100.0%**

* Includes 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.

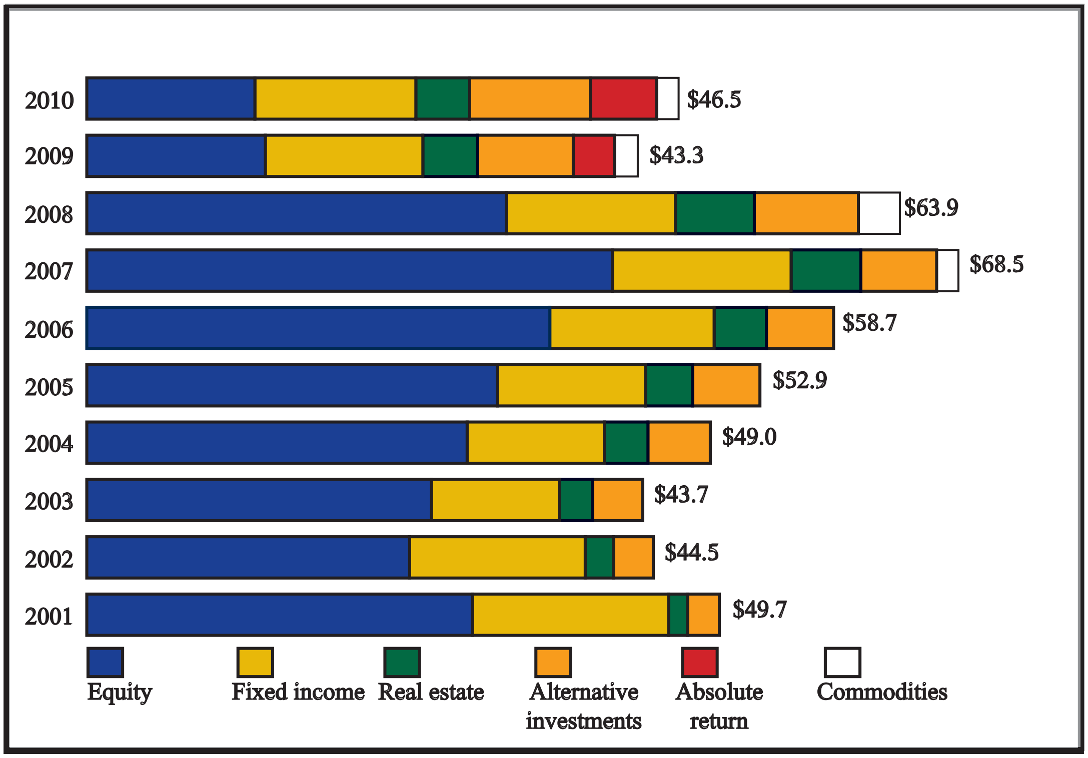
Comparison of Actual Portfolio Distribution to Asset Allocation Plan As of June 30, 2010

Asset Category	Plan	Actual
Common and preferred stock (Equity)	28.6%	28.4%
Fixed income	27.9%	27.2%
Real estate	8.0%	9.1%
Alternative investments	20.5%	20.4%
Absolute return	10.0%	11.2%
Commodities	5.0%	3.7%
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.

Common and Preferred Stock - Non-U.S. Equity

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2010

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Nestle SA	1,529	73,992
BHP Billiton Ltd.	2,543	72,449
HSBC Holdings PLC	5,575	56,161
Royal Dutch Shell PLC	2,091	52,244
Roche Holding AG	320	44,257
Vodafone Group PLC	21,222	44,168
Novartis AG	766	37,361
British American Tobacco PLC	1,105	35,300
Siemens AG	375	34,040
BP PLC	6,701	31,963
Total of 10 Largest Holdings		**481,935**
Total Non-U.S. Equity - Asset Allocation Basis		**7,400,437**

Common and Preferred Stock - U.S. Equity

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2010

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Security Capital Preferred Growth	16,299	194,914
Exxon Mobil Corporation	1,984	113,222
Apple Computer, Inc.	368	92,613
Microsoft Corporation	3,074	70,740
Procter & Gamble Company	1,149	68,896
Johnson & Johnson	1,085	64,105
IBM	502	61,926
General Electric Company	4,113	59,309
JP Morgan Chase & Company	1,554	56,901
Bank of America Corporation	3,888	55,871
Total of 10 Largest Holdings		**838,497**
Total U.S. Equity - Asset Allocation Basis		**5,581,884**

Fixed Income

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2010

(Dollar Amounts and Shares in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value($) or No. of Shares	Fair Value ($)
BlackRock US Extended Core Global Alpha Fund	N/A	N/A	501	651,739
Bridgewater Int'l Inflation-Linked Bond Fund	N/A	N/A	341	462,015
Bridgewater U.S. Inflation-Linked Bond Fund	N/A	N/A	238	305,999
Bridgewater Pure Alpha Fund II Ltd.	N/A	N/A	174	288,254
U.S. Treasury - Inflation Index	01/15/25	2.375	174,296	193,347
U.S. Treasury - Inflation Index	01/15/16	2.000	115,326	124,417
U.S. Treasury - Inflation Index	01/15/26	2.000	104,342	110,334
U.S. Treasury - Inflation Index	01/15/20	1.375	87,200	89,291
U.S. Treasury - Notes	08/15/19	3.625	77,050	81,474
U.S. Treasury - Inflation Index	07/15/16	2.500	64,767	72,073
Total of 10 Largest Holdings				**2,378,943**
Total Fixed Income - Asset Allocation Basis				**12,466,752**

Absolute Return

10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2010
(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Brigade Leveraged Capital Fund	712	888,283
Bridgewater Pure Alpha Fund II Ltd.	511	854,865
AQR Offshore Multi-Strategy Fund Ltd.	8	693,655
BlackRock Global Ascent Ltd.	500	677,196
First Quadrant Global Macro Fund Ltd.	5,511	605,556
Brevan Howard Fund, Ltd.	3,194	355,884
BlackRock Global Investors Capital Structure Investments Fund Ltd.	198	215,099
PIMCO Global Credit Opportunities Offshore Fund	161	194,150
Boston Company US Micro Cap Hedge Fund	150	191,104
PIMCO Absolute Return Strategy V Offshore Fund	118	185,635
Total of 10 Largest Holdings		**4,861,427**
Total Absolute Return - Asset Allocation Basis		**5,126,872**

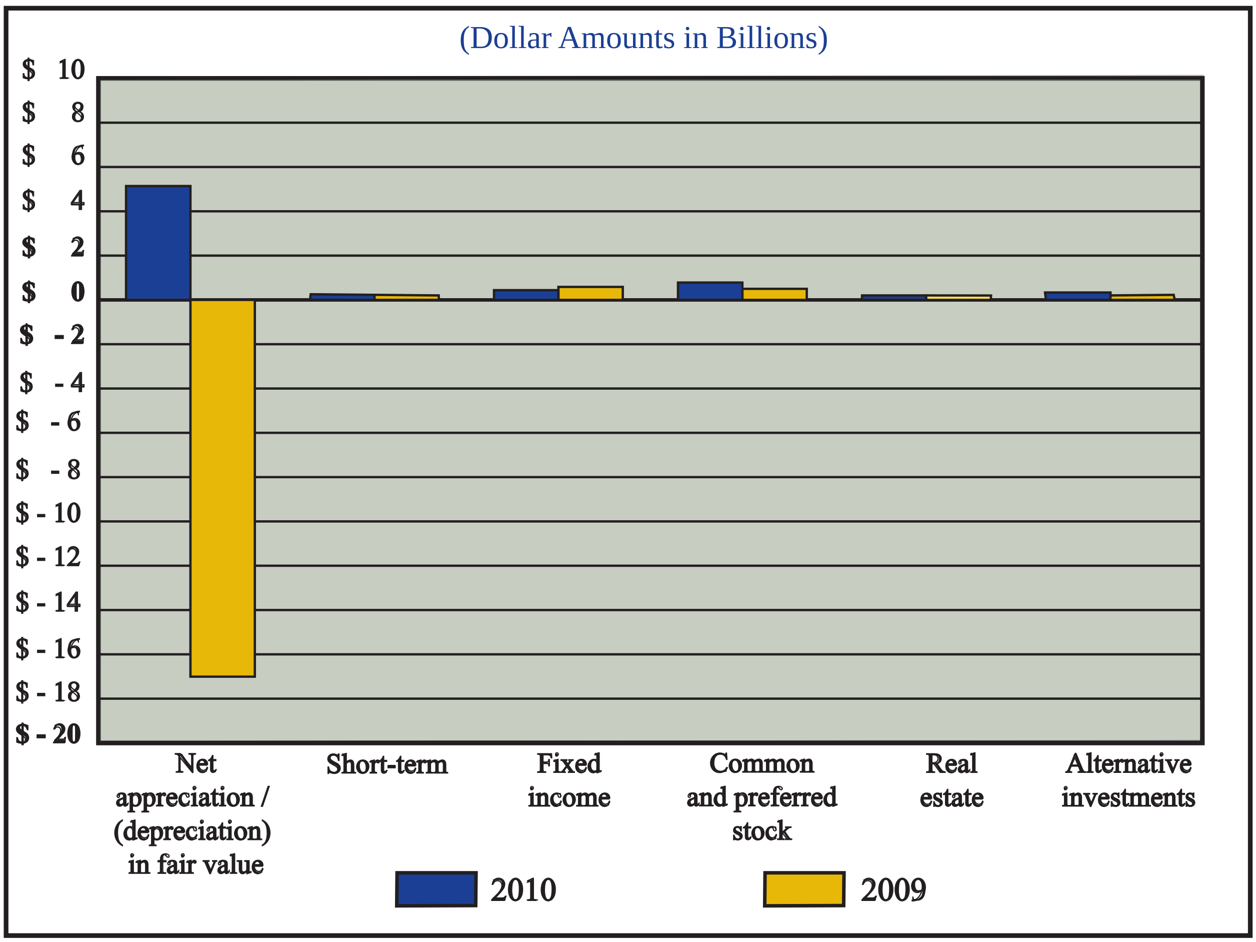
Postemployment Healthcare Investments

10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2010
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
PSERS Short-Term Investment Fund	Various	Various	110,049	110,049
M & T Bank Repurchase Agreement	07/01/10	0.010	21,900	21,900
M & T Bank Repurchase Agreement	07/01/10	0.010	21,395	21,395
M & T Bank Repurchase Agreement	07/01/10	0.010	13,894	13,894
GNMA Guaranteed REMIC 2004-29 Class B	08/16/29	5.000	4,307	4,481
FHLMC Multiclass 2522 Class TB	11/15/21	5.500	2,425	2,470
FHLMC Multiclass 2090 Class PK	10/15/13	5.490	2,349	2,451
FNMA Guaranteed REMIC 2003-24 Class BE	04/25/17	4.500	2,149	2,199
FHLMC Multiclass 2633 Class PD	08/15/16	4.500	2,000	2,071
Capital Auto Receivables Asset Trust 2007-SN2 Class A4	05/16/11	1.380	2,051	2,052
Total of 10 Largest Holdings				**182,962**
Total System Holdings - Postemployment Healthcare Investments				**222,284**

Comparison of Investment Activity Income
For Fiscal Years Ended June 30, 2010 and 2009
(Dollar Amounts in Thousands)

Investing Activities	2010	2009
Net appreciation (depreciation) in fair value of investments	$ 5,141,204	$ (17,008,184)
Short-term	21,410	58,958
Fixed income	440,358	587,007
Common and preferred stock	784,431	500,001
Real estate	62,273	92,515
Alternative investments	179,116	75,776
Total investment activity income (loss)	$ 6,628,792	$ (15,693,927)



Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2010 were $17.7 million. The System has commission recapture contracts with several brokers. These contracts generally stipulate that the brokers rebate a percentage of commissions earned on investment transactions directly to the System. During the fiscal year ended June 30, 2010, the System earned $570,000 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, 2010

Broker Name	Fees Paid ($)	Broker Name	Fees Paid ($)
Jones & Associates	2,000,016	SG Securities	242,545
Goldman Sachs & Company	1,534,280	Jefferies & Company Incorporated	228,177
Instinet Corporation	880,125	Cantor, Fitzgerald & Company	218,379
Credit Suisse	854,678	ITG Securities	194,797
Merrill Lynch	866,825	BNY Convergex	181,832
UBS Securities	844,994	Edelweiss Capital Limited	177,343
Knight Securities	742,400	B-Trade Services, LLC	165,188
Citigroup	645,482	Exane Securities	146,466
JP Morgan Chase & Company	578,069	ABN AMRO	138,759
Deutsche Bank	536,690	Royal Bank of Scotland	120,608
Morgan Stanley & Company	517,746	Credit Agricole Cheuvreux	119,269
Macquaries Equities	485,632	Daiwa Securities	109,863
Nomura Securities International	406,039	Northland Securities Incorporated	102,458
Credit Lyonnais Securities	337,536	Cazenove Incorporated	101,003
Liquidnet Incorporated	245,135		

Professional Consultants
External Investment Advisors
As of June 30, 2010

Absolute Return Managers

- Acorn Derivatives Management Corporation
- AQR Capital Management, LLC
- BlackRock Financial Management, Inc.
- Boston Company Asset Management, LLC (The)
- Brevan Howard Master Fund, Ltd.
- Bridgewater Associates, LP
- Brigade Leveraged Capital Structures Offshore, Ltd.
- First Quadrant, LP
- FX Concepts, LLC
- Lazard Asset Management, LLC
- Pacific Investment Management Company
- Pareto Investment Management, Ltd.

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 Manager

- Security Capital Research & Management, Inc.

Non-U.S. Large Cap Equity Managers

- Baillie Gifford Overseas, Ltd.
- BlackRock Financial Management, Inc.
- Marathon Asset Management LLP
- Martin Currie, Inc.
- Mercator Asset Management, LP

Active Currency Program Manager

- Pareto Investment Management, Ltd.

Professional Consultants (Continued)

Non-U.S. Small Cap Equity Managers

- Acadian Asset Management, Inc.
- Batterymarch Financial Management, Inc.
- GlobeFlex Capital, LP
- Munder Capital Management
- Oberweis Asset Management, Inc.
- Pyramis Global Advisors, Inc.
- Wasatch Advisors, Inc.

Non-U.S. Emerging Markets Equity Managers

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

Enhanced Commodity Index Managers

- Credit Suisse Asset Management, LLC
- NB Alternative Fund Management, LLC

Full Discretion Commodity Managers

- DB Advisors
- Schroders Investment Management North America, Inc.
- Wellington Management Company, LLP

U.S. Core Plus Fixed Income Managers

- Aberdeen Asset Management, Inc.
- 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

Emerging Markets Debt Managers

- Stone Harbor Investment Partners, LP
- Franklin Templeton Investments

Global Treasury Inflation - Protected Securities Manager

- Bridgewater Associates, Inc.

Credit Opportunities Managers

- BlackRock Mortgage (Offshore) Investors, LP
- Brookfield Investment Management, Inc.
- LBC Credit Partners II, LP
- Mariner Investment Group, LLC
- Oaktree Loan Fund 2x, LP
- Sankaty Credit Opportunities IV, LP
- Sankaty Managed Account (PSERS), LP
- Sankaty Middle Market Opportunities Fund, LP
- 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
- Blackstone Real Estate Partners Europe III, LP
- BPG Co-Investment Partnership, LP
- Broadway Partners Real Estate Fund II & III, LP
- Cabot Industrial Value Fund III, LP
- Carlyle Europe Real Estate Partners III-A, LP
- Carlyle Realty Partners III, IV & V, LP
- Centerline Diversified Risk CMBS Fund 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

Professional Consultants (Continued)

- 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

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 & 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 & II, 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
- KBL Healthcare Ventures, LP
- KKR 2006 Fund, LP
- KRG Capital Fund 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

Professional Consultants (Continued)

- Willis Stein & Partners, LP

Private Debt Partnerships

- Avenue Asia Special Situations Fund II, III & IV, LP
- Avenue Europe Special Situations Fund, LP
- 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
- EDMP, Inc.
- Hanseatic Management Services, Inc.
- Harvest Fund Advisors, LLC
- Hellman, Jordan Management Company, Inc.
- John Hsu Capital Group, Inc.
- Opus Capital Group, LLC
- Piedmont Investment Advisors, LLC
- Pugh Capital Management, Inc.
- Shah Capital Management, Inc.
- Westwood Global Investments, LLC
- 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.

Proxy Voting Agent

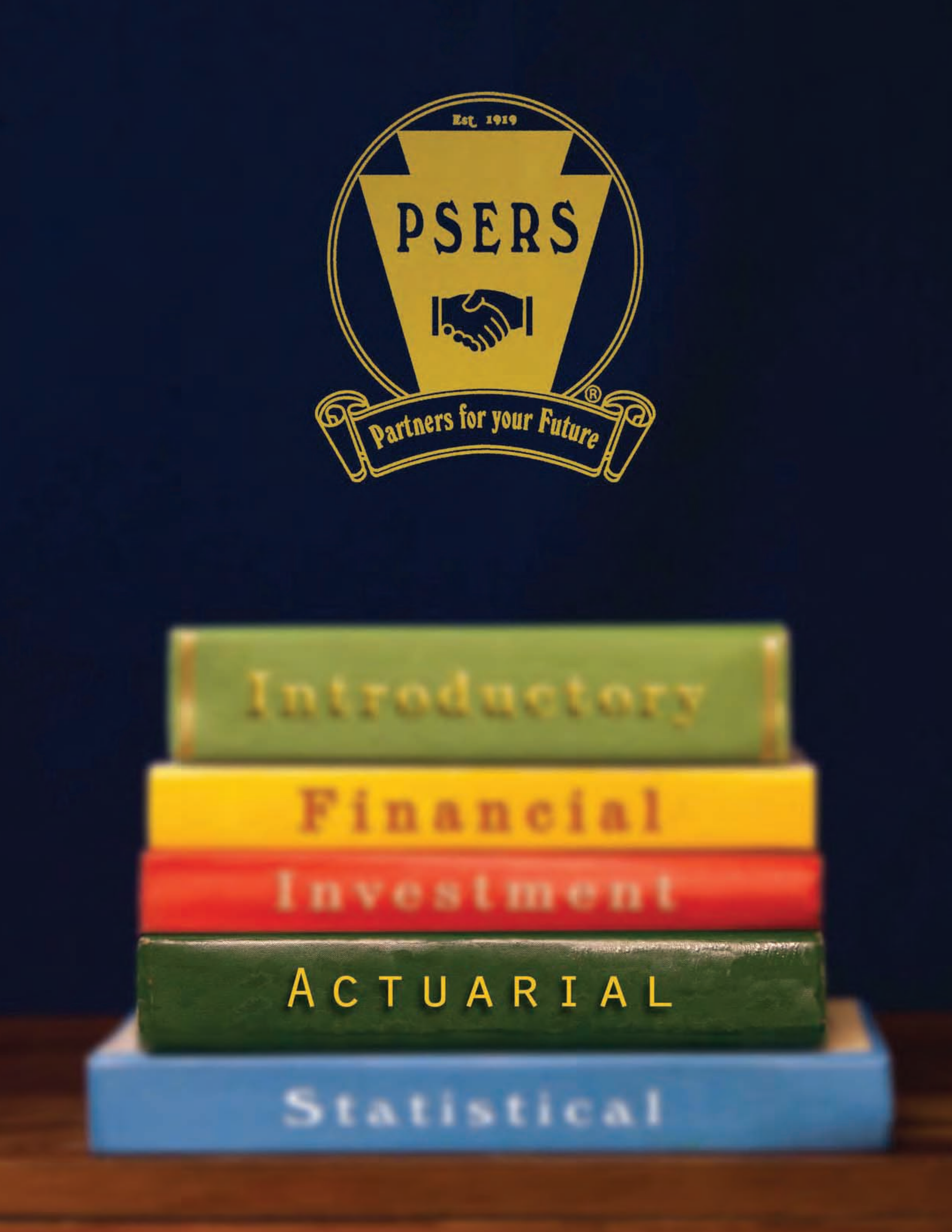
- Glass, Lewis & Co., LLC

Real Estate Investment Consultant

- Courtland Partners, Ltd.

Hedge Fund Consultant

- Aksia, LLC


Est. 1919
PSERS
Partners for your Future
Introductory
Financial
Investment
ACTUARIAL
Statistical

buckconsultants
an ACS company

January 15, 2010

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, 2009.

The valuation takes into account all of the promised benefits to which members are entitled as of June 30, 2009, 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 2010/2011.

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.)

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 2010/2011 is 8.22%. As of June 30, 2009, the total funded ratio of the plan (for Pensions and Health Insurance combined) is 79.2%, 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 any changes in U.S. equity prices and bond yields that have occurred after the valuation date. Taking these into account may significantly change 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
Principal, Consulting Actuary

Dana Spangher, FSA, MAAA, EA
Principal, Consulting Actuary

Edward Quinn, MAAA, EA
Director, Retirement Actuary

Executive Summary

This report presents the actuarial valuation as of June 30, 2009 for the Public School Employees' Retirement System of Pennsylvania.

The principal valuation results include:

- The employer contribution rate for fiscal year 2010/2011, which is 8.22%.
- The total funded ratio of the plan determined as of June 30, 2009 under the funding requirements of Section 8328 of the Retirement Code, which is 79.2% 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 experience as of June 30, 2009, which is a loss of $4.6 billion.
- Annual disclosures as of June 30, 2009 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 8.00% for the June 30, 2009 valuation.

The actuarial assumptions and methods are outlined in Table 12.

Contribution Rates

The results of the valuation as of June 30, 2009 determine the employer contribution rate for fiscal year 2010/2011. The calculated employer contribution rate for the 2010/2011 fiscal year is 8.22%, and the Board of Trustees certified this rate at their December 2009 meeting.

The average contribution rate payable by the members is 7.34%. 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 7.50%. The average member contribution rate of 7.34% 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 4.78% for fiscal year 2009/2010 to 8.22% for fiscal year 2010/2011. The reconciliation of the employer contribution rates by source is as follows:

• FY2009/2010 rate after adjustment for pension floor	4.78%
• Adjustment due to effect of 4% floor on FY 2010 pension contribution	(0.37)
• FY 2009 /2010 rate prior to adjustment for pension floor	4.41%
• Increase due to change in normal rate	0.00
• Net decrease due to payroll growth and liability experience	(0.03)
• Increase due to actuarial loss on assets	2.04
• Increase due to change in interest rate from 8.25% to 8.00%	1.94
• Decrease due to change in health insurance contribution rate	(0.14)
• FY 2010/2011 employer contribution rate	8.22%

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, 2009. Comparable results from the June 30, 2008 valuation are also shown.

Item	June 30, 2009	June 30, 2008
Demographics		
Active Members		
• Number	279,701	272,690
• Average Annual Pay	$ 44,779	$ 43,718
Annuitants		
• Number	177,963	173,540
• Average Annual Benefit Payment	$ 22,456	$ 21,963
Contribution Rates (as a Percentage of Payroll)	(Fiscal Year 2010/2011)	(Fiscal Year 2009/2010)
Employer Contribution Rate:		
• Total Pension Contribution Rate	7.58%	4.00%
• Health Insurance Contribution Rate	0.64	0.78
• Total Contribution Rate Calculated by Actuary	8.22%	4.78%
• Total Contribution Rate Certified by Board	**8.22%	4.78%
Member Average Contribution Rate	7.34	7.32
• Total Rate	15.56%	12.10%
Actuarial Funded Status*		
• Accrued Liability	$ 75,625.9 Mil	$ 70,941.4 Mil
• Actuarial Value of Assets	59,886.7	61,017.9
• Unfunded Accrued Liability	$ 15,739.2	$ 9,923.5
• Funded Ratio	79.2%	86.0%

*Pensions and Health Insurance combined

** In July 2010 the PA General Assembly passed Fiscal Code Bill (Act 2010-46) that accompanied the Commonwealth's General Fund Budget (Act 2010-1A). As a result the PSERS Board met in July 2010 and recertified the employer contribution rate for Fiscal Year 2010-2011. The rate was decreased from 8.22% to 5.64% as directed under the provisions of Act 46.

Five-Year History of Principal Financial Results

Five-Year History of Contribution Rates

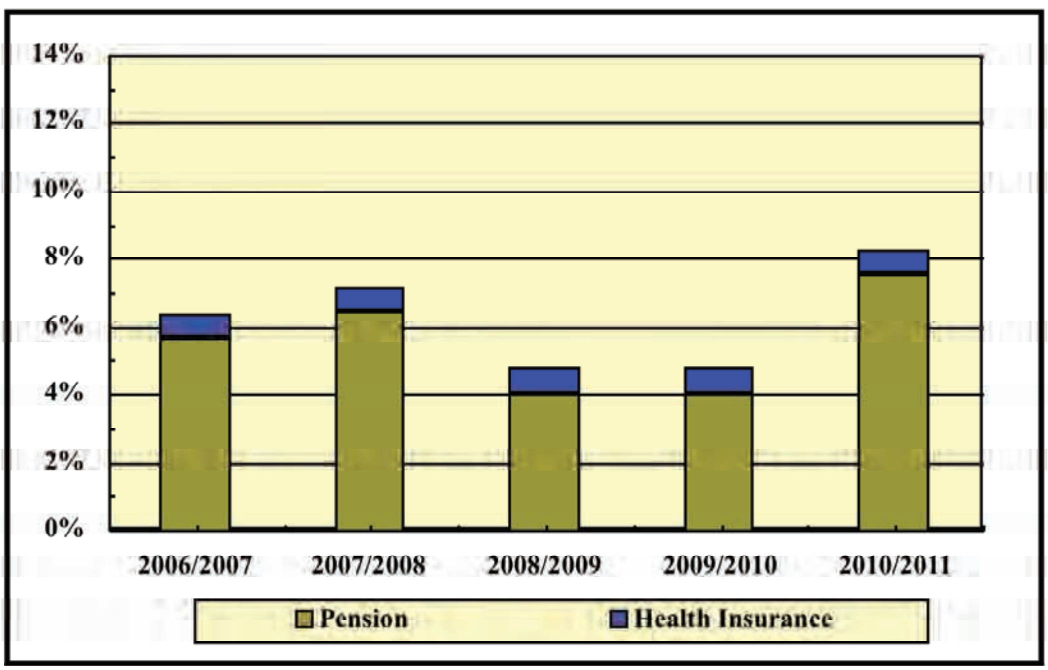
(As a % of Payroll)

FiscalYear	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Insurance	Total*
2010/2011	7.34%	8.08%	(0.50)%	0.64%	8.22%
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

* 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 8.22% 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 79.2% as of June 30, 2009. This funded ratio is based on an actuarial value of assets of $59.9 billion and an accrued liability of $75.6 billion. The funded ratio for Pensions alone is also 79.2% as of June 30, 2009, based on an actuarial value of assets of $59.8 billion, and an accrued liability of $75.5 billion.

Reasons for Change in the Total Funded Ratio

The total funded ratio decreased from 86.0% as of June 30, 2008 to 79.2% as of June 30, 2009. This decrease is primarily due to asset losses that occurred during the year and the additional actuarial liability due to the change in the valuation interest rate from 8.25% to 8.00%. There were additional losses due to contributions that were less than the normal cost plus one year's interest on the June 30, 2008 unfunded accrued liability. These losses were partially offset by a net actuarial experience gain.

Five-Year History of Total Funded Ratio*

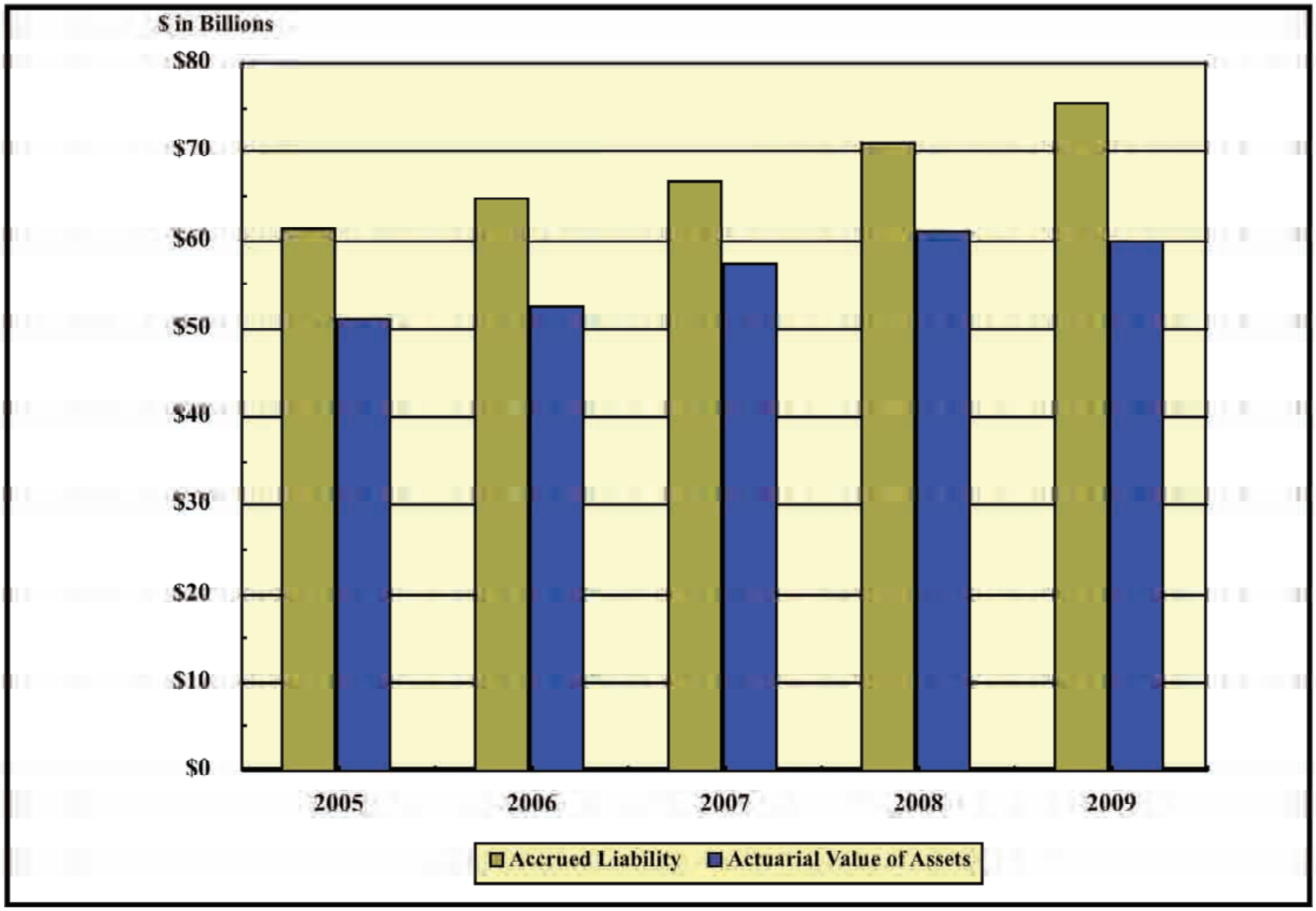
($ Amounts in Millions)

Valuation as of June 30	Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio
2009	$75,625.9	$59,886.7	$15,739.2	79.2%
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

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

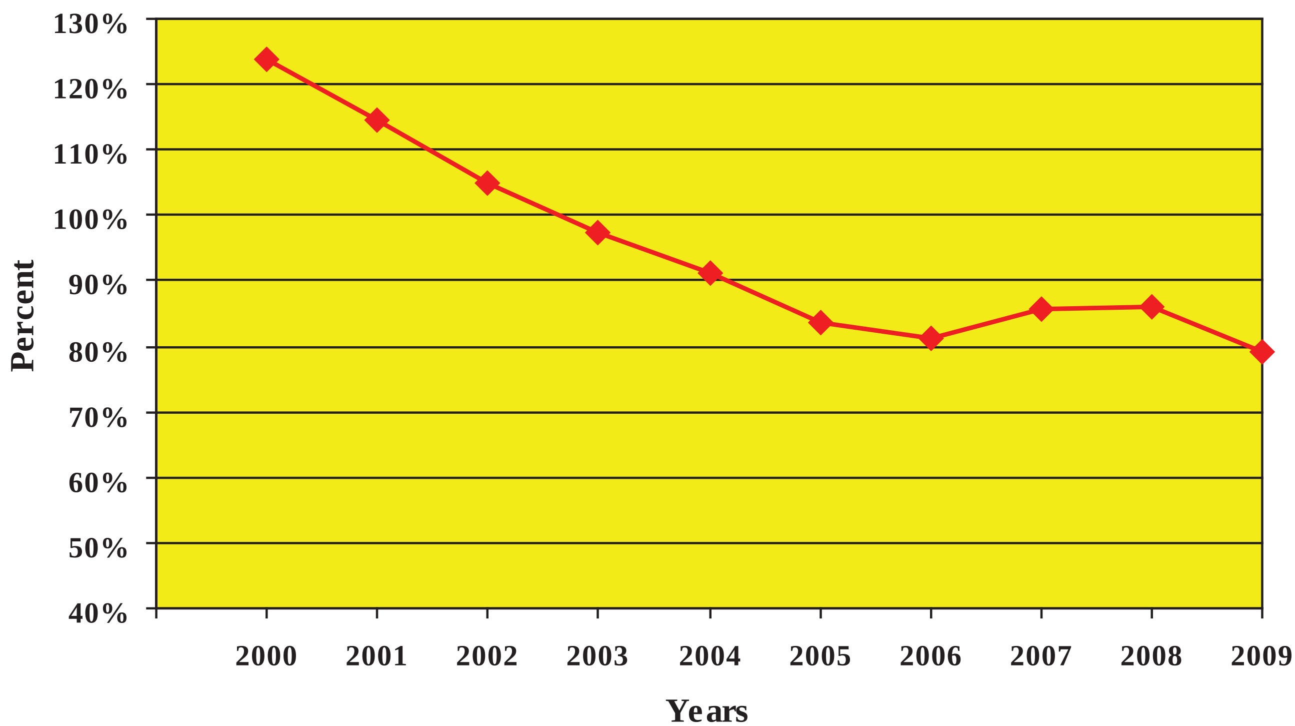
The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

Five-Year History of Accrued Liability and Actuarial Value of Assets



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 (2000 – 2009)



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 79.2% as of June 30, 2009. This funded ratio is based on an actuarial value of pension assets of $59.8 billion and an accrued liability for pensions of $75.5 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, 2009, the health insurance assets were $105,114,000, measured on a market value basis, while the GASB 43 health insurance liabilities were $1,159,055,000, resulting in a funded ratio of 9.1%.

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 2004/2005 through 2008/2009 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.

Fiscal Year	Rate of Return Based on	
	Market Value*	Actuarial Value
2008/2009	-26.5%	3.5%
2007/2008	-2.8	12.4
2006/2007	22.9	13.9
2005/2006	15.3	7.9
2004/2005	12.9	3.2

* 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, 2009

($ Amounts in Thousands)

Item	June 30, 2009	June 30, 2008
Member Data		
1. Number of Members		
a) Active Members	279,701	272,690
b) Inactive Members and Vestees	103,805	100,803
c) Annuitants, Beneficiaries and Survivor Annuitants	177,963	173,540
d) Total	561,469	547,033
2. Annualized Salaries	$ 12,524,593	$ 11,921,469
3. Annual Annuities	$ 3,996,288	$ 3,811,499
Valuation Results		
4. Present Value of Future Pension Benefits		
a) Active Members	$ 57,954,419	$ 53,857,049
b) Inactive Members and Vestees	930,887	941,679
c) Annuitants, Beneficiaries and Survivor Annuitants	37,112,318	34,617,953
d) Total	$ 95,997,624	$ 89,416,681
5. Present Value of Future Pension Normal Cost		
a) Active Members	$ 9,879,309	$ 9,090,223
b) Employer	10,597,579	9,480,821
c) Total	$ 20,476,888	$ 18,571,044
6. Pension Accrued Liability		
a) Active Members (4a) - (5c)	$ 37,477,531	$ 35,286,005
b) Inactive Members and Vestees	930,887	941,679
c) Annuitants, Beneficiaries and Survivor Annuitants	37,112,318	34,617,953
d) Total	$ 75,520,736	$ 70,845,637
7. Health Insurance Assets for Premium Assistance	$ 105,114	$ 95,785
8. Total Accrued Liability for Funding (6) + (7)	$ 75,625,850	$ 70,941,422
9. Actuarial Value of Assets	$ 59,886,689	$ 61,017,942
10. Funded Status (9) / (8)	79.2 %	86.0 %
11. Unfunded Accrued Liability (8) - (9)	$ 15,739,161	$ 9,923,480
12. Total Normal Cost Rate	15.42 %	14.67 %
13. Member Contribution Rate	7.34 %	7.32 %
14. Employer Normal Cost Rate (12) - (13)	8.08 %	7.35 %
Employer Annual Funding Requirement	**Fiscal 2010/2011**	**Fiscal 2009/2010**
15. Employer Contribution Rate Calculated by Actuary		
a) Normal	8.08 %	7.35 %
b) Unfunded Accrued Liability	(0.50)	(3.72)
c) Preliminary Pension Rate	7.58 %	3.63 %
d) Preliminary Pension Rate with 4% Floor	7.58	4.00
e) Health Insurance	0.64	0.78
f) Total Rate	8.22 %	4.78 %

TABLE 2

SUMMARY OF SOURCES OF EMPLOYER CONTRIBUTION RATE AS OF JUNE 30, 2009

($ Amounts in Thousands)

	Funding Period (Years)	Beginning July 1	Initial Liability	7/1/2009 Outstanding Balance	Annual Payment Amount	Annual Payment Percent *
1. Amortization of:						
a) 2001 Fresh Start Unfunded Base	10	2002	$ (9,137,130)	$ (3,858,968)	$ (1,499,028)	(11.09)%
b) 2001 Asset Method Change (Act 38)	10	2002	(4,638,306)	(1,958,938)	(760,956)	(5.63)%
c) Other 2001 Changes	30	2002	7,570,507	6,656,353	642,168	4.75 %
d) 2002 Changes	30	2003	3,014,171	2,890,790	274,704	2.03 %
e) 2002 COLA	10	2003	463,795	251,220	75,928	0.56 %
f) 2003 COLA	10	2004	754,524	533,466	133,746	0.99 %
g) 2003 Changes	30	2004	3,229,593	3,336,953	312,757	2.32 %
h) 2004 Changes	30	2005	2,903,093	3,034,742	280,869	2.08 %
i) 2005 Changes	30	2006	3,765,745	3,978,527	363,995	2.69 %
j) 2006 Changes	30	2007	812,226	866,473	78,440	0.58 %
k) 2007 Changes	30	2008	(3,870,741)	(4,165,943)	(373,502)	(2.76)%
l) 2008 Changes	30	2009	(347,095)	(375,730)	(33,388)	(0.25)%
m) 2009 Changes	30	2010	4,550,216	4,550,216	436,519	3.23 %
Total Amortization Payments				$ 15,739,161	$ (67,748)	(0.50)%
2. Employer Normal Cost Rate						8.08 %
3. Preliminary Pension Rate (1) + (2)						7.58 %
4. Preliminary Pension Rate with 4% Floor -- Maximum of (3) and 4%						7.58 %
5. Health Insurance Rate						0.64 %
6. Final Total Employer Contribution Rate Calculated by Actuary (4) + (5)						8.22 %

* Based on Estimated Employer Payroll for Fiscal Year Ending 2011 of $ 13,510,000.

TABLE 3

DETERMINATION OF HEALTH INSURANCE CONTRIBUTION RATE FOR FISCAL YEAR 2010/2011

($ Amounts in Thousands)

Item						
1. June 30, 2009 Balance in Health Insurance Account					$	105,114
2. Estimated Fiscal 2009/2010 Contribution						
(a) Contribution Rate Certified in 2008 Valuation						0.78%
(b) Estimated Fiscal 2009/2010 payroll					$	12,990,231
(c) Estimated Contribution = (a) x (b)					$	101,324
3. Estimated Number of Annuitants who:				Are Eligible		Elect Coverage
(a) Fiscal 2009/2010				117,100		77,286
(b) Fiscal 2010/2011				119,900		79,134
(c) Fiscal 2011/2012				122,600		80,916
4. Estimated Disbursements:	Administration		Assistance		Total	
(a) Fiscal 2009/2010	$	2,233	$	92,743	$	94,976
(b) Fiscal 2010/2011		2,252		94,961		97,213
(c) Fiscal 2011/2012		2,342		97,099		99,441
(d) Total	$	6,827	$	284,803	$	291,630
5. Required Fiscal 2010/2011 Contribution (4d) - (1) -(2c)					$	85,192
6. Required Health Insurance Contribution Rate						
(a) Estimated 2010/2011 Payroll					$	13,510,000
(b) Required Health Insurance Contribution Rate (5) / (6a) (rounded up)						0.64%

Notes:

1. Current estimates of fiscal 2009/2010 membership payroll and administrative expenses, and of fiscal 2010/2011 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, 2009

($ Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 2008	$ 62,569,211
2. Contributions During Fiscal 2008/2009	1,519,500
3. Disbursements During Fiscal 2008/2009	4,750,819
4. Investment Return During Fiscal 2008/2009	
a) Investment Return (Net of Investment Expenses)	$ (16,199,840)
b) Administrative Expenses	37,458
c) Investment Return After Expenses (a) - (b)	$ (16,237,298)
5. Market Value of Assets as of June 30, 2009 (1) + (2) - (3) + (4c)	$ 43,100,594
6. Rate of Return (per Wilshire)	(26.54)%
Asset Allocation by Account	
1. Members' Savings Account	$ 11,087,345
2. Annuity Reserve Account	37,112,318
3. State Accumulation Account	(5,204,183)
4. Health Insurance Account	105,114
5. Total (1) + (2) + (3) + (4)	$ 43,100,594

TABLE 5

DERIVATION OF ACTUARIAL VALUE OF ASSETS AS OF JUNE 30, 2009*

($ Amounts in Thousands)

1. Market Value of Assets as of June 30, 2009 — $ 43,100,594

2. Determination of Deferred Gain (Loss)

Fiscal Year	Return on Assets: Actual	Return on Assets: Expected	Return on Assets: Difference	% Deferred	Deferred Amount
2008/2009	$ (16,237,298)	$ 4,900,688	$ (21,137,986)	80%	$ (16,910,389)
2007/2008	(1,816,980)	4,728,472	(6,545,452)	60%	(3,927,271)
2006/2007	12,658,871	4,359,054	8,299,817	40%	3,319,927
2005/2006	7,901,068	4,242,878	3,658,190	20%	731,638
					$ (16,786,095)

3. Actuarial Value of Assets (1) - (2) — $ 59,886,689

4. Actuarial Rate of Return ** — 3.54%

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

** The actuarial rate of return is the investment return based on the change in the actuarial value of assets from the June 30, 2008 valuation to the June 30, 2009 valuation.

TABLE 6

ANALYSIS OF CHANGE IN UNFUNDED ACCRUED LIABILITY AS OF JUNE 30, 2009*

($ Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 2008	$ 9,923,480
2. Interest Credit to June 30, 2009	844,364
3. Contributions Toward Unfunded Accrued Liability	(421,101)
4. Expected Unfunded Accrued Liability at June 30, 2009 (1) + (2) - (3)	$ 11,188,945
5. Actual Unfunded Accrued Liability at June 30, 2009	$ 15,739,161
6. Increase (Decrease) from Expected (5) - (4)	$ 4,550,216
7. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Loss from Investment Return on Actuarial Value of Assets	$ 2,800,622
(ii) Loss from New Entrants and Pickups	310,489
(iii) Gain from Salary Increases Less than Expected	(225,166)
(iv) Loss from Mortality Experience	90,538
(v) Gain from Vested Termination Experience (Retirement/Disability/Termination)	(71,915)
(vi) Gain from Non-vested Termination Experience	(215,117)
(vii) Loss from Data/Miscellaneous	75,133
Subtotal	$ 2,764,584
(b) Change in Assumption	$ 1,785,632
(c) Grand Total	$ 4,550,216

* The amounts reported include liabilities for Pensions only.

TABLE 7

SCHEDULE OF FUNDING PROGRESS FOR PENSIONS*

GASB STATEMENT NO. 25 DISCLOSURE

($ 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
2009	$ 59,781,575	$ 75,520,736	$ 15,739,161	79.2 %	$ 12,524,593	125.7 %
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

* 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

($ 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
2009	$ 105,114	$ 1,159,055	$ 1,053,941	9.1 %	$ 12,524,593	8.4 %
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

($ Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	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

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, 2009 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:	6/30/2009
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 *	8.00%
- 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

($ Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Actual Employer Contribution	Percentage Contributed
2009	$ 109,531	$ 92,493	84 %
2008	101,352	81,317	80
2007	94,970	86,763	91

The fiscal year ended June 30, 2009 Annual Required Contribution (ARC) presented above was determined as part of the actuarial valuation as of two years prior to the date indicated (i.e., the ARC for the fiscal year ended June 30, 2009 was determined by the valuation completed as of June 30, 2007, which was based on an 8.50% interest rate.) Prior to that, the ARC was determined as part of the actuarial valuation as of one year prior to the dates indicated.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2009
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 *	8.00%
- Projected Salaried Increases *	6.00%

* Includes Inflation at:	3.25%

TABLE 9

SOLVENCY TEST

COMPARATIVE SUMMARY OF ACCRUED LIABILITY AND ACTUARIAL VALUE OF ASSETS

($ Amounts in Thousands)

PENSIONS

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)
2009	$ 11,087,345	$ 37,112,318	$ 27,321,073	$ 59,781,575	100 %	100 %	42 %
2008	10,532,683	34,617,953	25,695,001	60,922,157	100	100	61
2007	10,183,433	31,603,788	24,708,649	57,057,838	100	100	62
2006	9,571,668	29,117,164	25,938,529	52,464,726	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

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

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)
2009	$ 0	$ 759,891	$ 399,164	$ 105,114	N/A	14 %	0 %
2008	0	749,070	383,941	95,785	N/A	13	0
2007	0	684,677	373,415	97,292	N/A	14	0
2006	0	684,435	371,719	92,777	N/A	14	0

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	12,500,000	7.29	6.68	(3.37)	3.31	4.00	0.76	4.76	**79.2**
2010 [7]	12,899,000	7.32	7.35	(3.72)	3.63	4.00	0.78	4.78	73.4
2011 [7]	**13,510,000**	**7.34**	**8.08**	**(0.50)**	**7.58**	**7.58**	**0.64**	**8.22**	66.8
2012	13,920,859	7.37	8.02	1.85	9.87	9.87	0.72	10.59	58.3
2013	14,345,321	7.38	8.00	20.50	28.50	28.50	0.72	29.22	54.2
2014	14,797,664	7.40	7.96	23.42	31.38	31.38	0.71	32.09	55.1
2015	15,280,148	7.42	7.93	24.97	32.90	32.90	0.70	33.60	56.7
2016	15,794,512	7.43	7.91	24.68	32.59	32.59	0.68	33.27	58.5
2017	16,341,270	7.44	7.89	24.18	32.07	32.07	0.67	32.74	60.5
2018	16,926,735	7.45	7.87	23.54	31.41	31.41	0.65	32.06	62.6
2019	17,557,664	7.46	7.85	22.78	30.63	30.63	0.64	31.27	64.7
2020	18,232,076	7.46	7.84	21.97	29.81	29.81	0.61	30.42	66.8
2021	18,948,040	7.47	7.82	21.15	28.97	28.97	0.59	29.56	68.9

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
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			**169,919**	**8,044**	**177,963**	**279,701**
2010	15,634	4,666	180,887	8,590	189,477	279,701
2011	12,845	4,808	188,924	9,099	198,023	279,701
2012	12,936	5,014	196,846	9,566	206,412	279,701
2013	12,870	5,226	204,490	10,003	214,493	279,701
2014	12,674	5,422	211,742	10,414	222,156	279,701
2015	12,137	5,618	218,261	10,812	229,073	279,701
2016	11,747	5,823	224,185	11,200	235,385	279,701
2017	11,634	6,019	229,800	11,582	241,382	279,701
2018	11,431	6,211	235,020	11,965	246,985	279,701
2019	11,405	6,406	240,019	12,346	252,365	279,701

* 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: 8.00% per annum, compounded annually (adopted as of June 30, 2009). The components are 3.25% for inflation and 4.75% 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 tables based on PSERS' experience are used for disability retirements. (The 1995 George B. Buck Mortality Tables, rated forward one year for males and unadjusted for females, adopted in 2000, are used to determine actuarial equivalent benefits.)

Table 12 (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 8.00% (8.25% prior to June 30, 2009 and 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).

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 second 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, 2009 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, 2009, the adjusted limit is $230,000. 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.

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.

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.

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, 2009

($ Amounts in Thousands)

ACTIVE MEMBERS *

Item	Male	Female	Total
Number of Members	75,892	203,809	279,701
Annual Salaries **	$ 3,841,116	$ 8,683,477	$ 12,524,593
Average Age ***	44.4	44.7	44.6
Average Service ***	11.2	10.3	10.6

* Excludes 103,805 inactive members and vestees.
** The salaries shown in the table above represent an annual rate of pay for the year ended June 30, 2009 for members who were in active service on June 30, 2009.
*** Average completed years of age and service.

ANNUITANTS AND BENEFICIARIES

Item	Number	Annual Annuities[#]	Average Annuities	Average Age
Annuitants (Normal, Early and Withdrawal)	162,206	$ 3,786,453	$ 23,343	69.8
Survivors and Beneficiaries	8,044	79,117	9,836	76.0
Disabled Annuitants	7,713	130,718	16,948	63.1
Total	177,963	$ 3,996,288	$ 22,456	69.8

[#] The annuities shown in the table above represent the annual amount payable as of July 1, 2009 for participants who were in payment on June 30, 2009.

EXHIBIT I

ACTIVE MEMBERSHIP DATA AS OF JUNE 30, 2009

NUMBER AND AVERAGE ANNUAL SALARY

Age	Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 25	9,816 $29,755	40 $31,693								9,856 $29,763
25-29	22,062 $38,142	6,916 $48,524	45 $37,810							29,023 $40,615
30-34	10,503 $35,593	14,102 $51,508	3,905 $58,932	38 $45,548						28,548 $46,660
35-39	9,870 $27,882	8,228 $49,650	11,188 $61,644	2,521 $68,025	67 $45,430					31,874 $48,563
40-44	11,400 $23,699	7,062 $39,555	6,207 $56,075	6,344 $69,048	2,113 $68,596	72 $46,867				33,198 $44,699
45-49	11,113 $22,561	8,967 $33,006	6,237 $44,546	4,108 $60,116	4,995 $70,016	1,824 $66,205	135 $43,734			37,379 $41,410
50-54	8,409 $23,503	8,241 $32,944	7,732 $41,292	5,198 $52,421	4,573 $63,062	5,096 $72,334	3,773 $73,102	103 $45,527		43,125 $46,339
55-59	5,520 $23,524	5,356 $33,286	5,638 $42,018	5,563 $51,144	5,233 $59,278	3,546 $68,459	6,752 $77,872	2,273 $80,051	26 $47,947	39,907 $52,409
60-64	3,274 $20,442	2,772 $30,332	2,530 $38,032	2,659 $45,206	2,800 $51,342	1,921 $58,440	1,242 $66,428	1,182 $80,259	278 $80,973	18,658 $44,128
Over 64	2,466 $14,637	1,520 $21,555	1,091 $27,635	855 $34,105	773 $39,126	557 $40,252	421 $42,200	221 $52,802	229 $75,317	8,133 $27,974
Total	94,433 $28,952	63,204 $41,353	44,573 $50,028	27,286 $57,340	20,554 $61,803	13,016 $66,855	12,323 $73,665	3,779 $77,581	533 $76,932	279,701 $44,779

EXHIBIT II

THE NUMBER AND AVERAGE ANNUAL ANNUITY AS OF JUNE 30, 2009

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		2,694 $835	1,145 $1,934	366 $4,584	116 $9,566	19 $14,953				4,340 $1,730
50-54		798 $1,380	953 $1,821	469 $4,455	253 $10,029	160 $20,884	91 $32,112	6 $35,219		2,730 $5,101
55-59		691 $4,243	1,917 $2,249	1,034 $6,121	817 $15,336	1,404 $32,034	5,936 $45,524	2,412 $54,047	3 $60,065	14,214 $33,187
60-64	365 $7,402	831 $3,694	3,135 $3,269	2,243 $9,141	2,068 $19,068	3,245 $29,914	11,982 $41,171	9,816 $54,349	218 $59,654	33,903 $35,767
65-69	706 $3,700	1,271 $3,376	3,138 $4,367	3,152 $9,050	2,998 $15,752	3,754 $24,788	9,397 $34,785	6,189 $46,722	715 $60,252	31,320 $27,091
70-74	750 $1,386	1,026 $2,615	2,787 $3,939	2,740 $7,419	3,101 $12,270	3,499 $20,001	5,131 $29,530	3,870 $37,680	929 $47,554	23,833 $20,332
75-79	760 $4,004	1,031 $2,067	2,550 $3,458	2,499 $6,347	2,880 $11,009	3,168 $17,438	3,564 $25,965	2,609 $35,543	1,105 $42,255	20,166 $17,295
80-84	778 $5,772	979 $1,732	2,344 $3,346	2,482 $6,276	2,623 $10,939	2,466 $16,650	2,094 $22,635	1,641 $29,621	748 $39,715	16,155 $13,932
85-89	766 $6,411	670 $1,785	1,527 $3,344	1,657 $6,003	1,442 $9,963	1,360 $14,419	956 $19,106	996 $23,988	335 $33,638	9,709 $11,182
Over 89	270 $3,850	483 $1,983	1,007 $3,749	902 $6,592	836 $10,147	746 $13,633	549 $18,457	648 $21,967	395 $26,494	5,836 $11,173
Total	4,395 $4,514	10,474 $2,130	20,503 $3,352	17,544 $7,226	17,134 $13,079	19,821 $21,936	39,700 $35,592	28,187 $45,356	4,448 $44,644	162,206 $23,343

EXHIBIT III

THE NUMBER AND AVERAGE ANNUAL ANNUITY AS OF JUNE 30, 2009

BENEFICIARIES AND SURVIVOR ANNUITANTS

Age	Years of Service								Total
	0-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 50	82 $7,817	32 $1,716	28 $3,461	33 $5,076	27 $7,100	23 $12,755	9 $16,412	11 $11,832	245 $7,034
50-54	69 $9,356	21 $1,934	26 $2,799	24 $5,769	18 $9,116	15 $20,814	16 $11,913	10 $12,710	199 $8,500
55-59	123 $14,768	23 $3,629	26 $4,191	38 $6,544	40 $12,778	68 $13,646	38 $16,317	11 $8,607	367 $12,020
60-64	172 $16,059	36 $2,736	30 $4,009	40 $6,098	58 $11,464	138 $15,549	120 $19,099	25 $14,316	619 $14,031
65-69	190 $15,068	56 $3,240	68 $5,155	59 $7,039	64 $11,683	156 $17,356	148 $20,687	36 $15,556	777 $14,012
70-74	220 $11,504	100 $2,995	84 $4,527	85 $7,641	85 $11,143	160 $14,149	153 $19,150	72 $18,767	959 $11,838
75-79	247 $9,665	112 $2,883	133 $4,309	126 $6,627	117 $9,020	206 $12,695	173 $14,768	105 $20,900	1,219 $10,286
80-84	330 $7,465	149 $2,633	136 $3,940	154 $6,506	162 $8,726	183 $11,174	229 $11,996	102 $16,733	1,445 $8,516
85-89	249 $6,382	149 $2,384	136 $3,627	128 $5,517	143 $7,299	146 $9,552	240 $11,011	100 $12,714	1,291 $7,356
Over 89	142 $4,485	110 $2,099	77 $3,507	80 $5,169	72 $7,226	112 $7,028	178 $9,063	152 $10,223	923 $6,528
Total	1,824 $10,052	788 $2,614	744 $4,035	767 $6,284	786 $9,236	1,207 $12,835	1,304 $14,417	624 $14,980	8,044 $9,836

EXHIBIT IV

THE NUMBER AND AVERAGE ANNUAL ANNUITY AS OF JUNE 30, 2009

RETIRED ON ACCOUNT OF DISABILITY

Age	Years of Service									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	
Under 50		242 $11,504	145 $14,032	90 $20,412	37 $25,284	12 $26,131				526 $15,028
50-54		214 $10,048	177 $12,521	151 $16,491	127 $25,098	99 $37,413	13 $45,176	1 $29,573		782 $18,312
55-59		284 $9,388	298 $11,950	258 $17,499	255 $24,134	328 $36,229	160 $47,983			1,583 $23,030
60-64		292 $7,464	329 $10,087	303 $13,722	333 $22,632	384 $30,818	207 $42,852	3 $42,642	1 $1,755	1,852 $20,516
65-69		198 $5,730	281 $8,116	242 $10,568	242 $17,167	178 $26,066	49 $33,816	2 $47,699		1,192 $13,858
70-74		129 $5,517	182 $7,033	159 $8,663	128 $14,078	91 $20,517	25 $29,012	2 $42,997		716 $10,963
75-79		86 $3,921	133 $5,954	128 $8,837	89 $13,010	46 $20,079	7 $22,730	1 $43,179		490 $9,274
80-84		69 $3,877	107 $5,874	47 $8,267	69 $12,527	42 $17,214	6 $24,289	1 $24,751	1 $54,601	342 $9,056
85-89		40 $3,854	37 $6,743	25 $7,382	25 $10,338	17 $15,288	8 $18,540	2 $35,460		154 $8,609
Over 89		12 $3,246	24 $4,856	14 $8,794	8 $10,031	8 $16,327	10 $21,642			76 $9,288
Total		1,566 $7,934	1,713 $9,619	1,417 $13,241	1,313 $19,901	1,205 $30,081	485 $41,529	12 $39,812	2 $28,178	7,713 $16,948

EXHIBIT V

ANNUITANT AND BENEFICIARY MEMBERSHIP DATA AS OF JUNE 30, 2009

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	21,284	$ 493,158	$ 23,170
60 - 64	33,903	1,212,609	35,767
65 - 69	31,320	848,505	27,091
70 - 74	23,833	484,580	20,332
75 - 79	20,166	348,765	17,295
Over 79	31,700	398,836	12,582
Total	162,206	$ 3,786,453	$ 23,343
Survivors and Beneficiaries			
Under 60	811	$ 7,826	$ 9,650
60 - 64	619	8,685	14,031
65 - 69	777	10,887	14,012
70 - 74	959	11,352	11,838
75 - 79	1,219	12,538	10,286
Over 79	3,659	27,829	7,606
Total	8,044	$ 79,117	$ 9,836
Disabled Annuitants			
Under 60	2,891	$ 58,681	$ 20,298
60 - 64	1,852	37,996	20,516
65 - 69	1,192	16,519	13,858
70 - 74	716	7,849	10,963
75 - 79	490	4,544	9,274
Over 79	572	5,129	8,967
Total	7,713	$ 130,718	$ 16,948
Grand Total Average Annual Benefit	177,963	$ 3,996,288	$ 22,456

EXHIBIT VI

10 YEAR HISTORY OF MEMBERSHIP DATA

Valuation as of June 30	Number of Active Members	Percentage Change in Membership	Total Annual Payroll (Thousands)	Percentage Change in Payroll
2009	279,701	2.57%	$ 12,524,593	5.06%
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%

10 YEAR HISTORY OF MEMBERSHIP DATA THE NUMBER AND ANNUAL ANNUITIES OF ANNUITANT AND SURVIVOR ANNUITANT MEMBERS

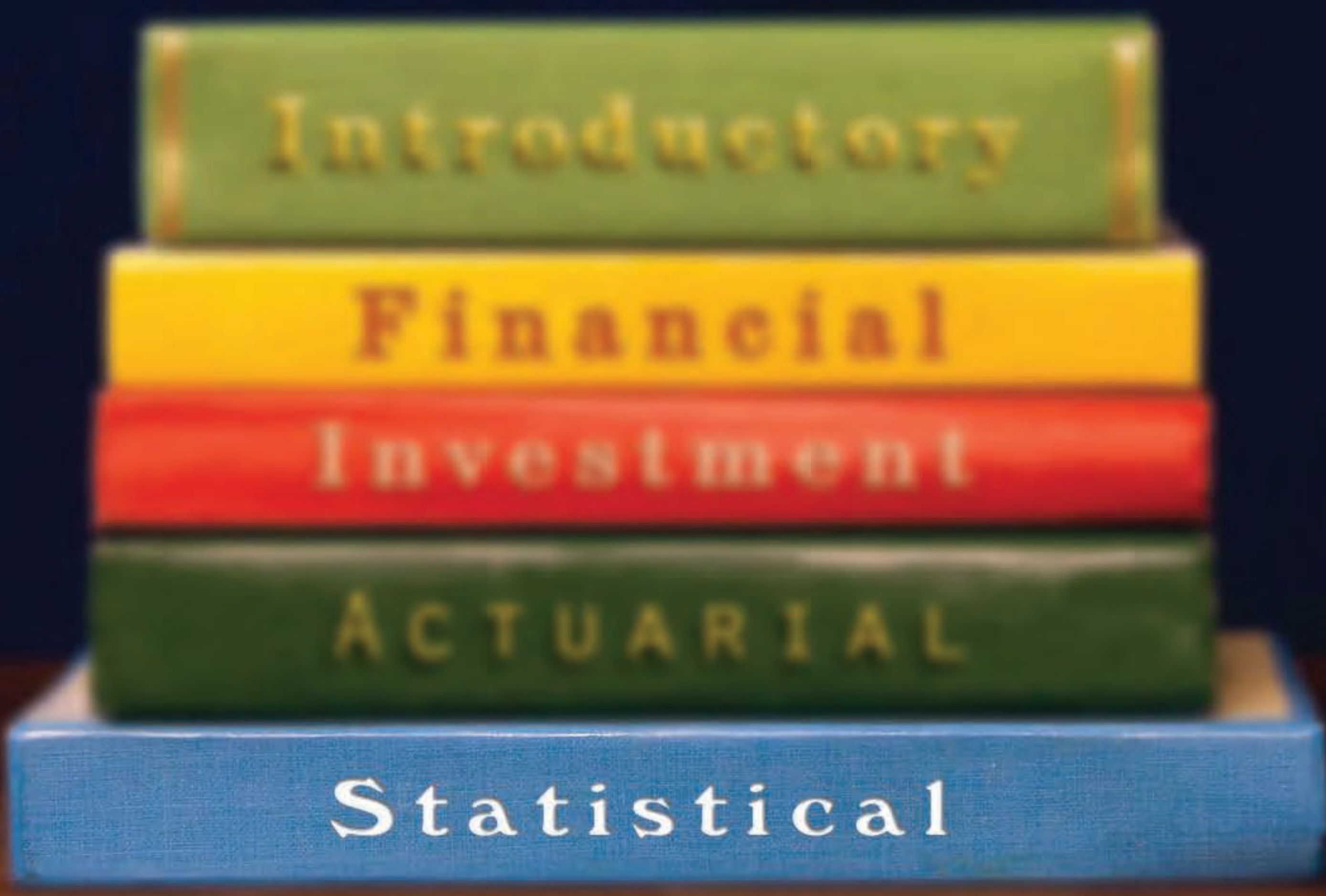
Year Ended June 30	Number	Annual Annuities (Millions)	Average Annual Annuities	Additions*	Annual Annuities* (Millions)	Deletions*	Annual Annuities* (Millions)	Percentage Change in Membership	Percentage Change in Annuities
2009	177,963	$ 3,996.3	$ 22,456	9,651	$ 314.9	5,228	$ 74.4	2.55%	4.85%
2008	173,540	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%

* 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.

Est. 1919

PSERS

Partners for your Future



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, 2010.

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, 2010.

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, 2010.

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, 2010.

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, 2010.

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, 2009.

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, 2009.

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, 2010.

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, 2009.

The ***Schedule of Average Monthly Pension Benefit Payments by Type*** 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, 2009.

The ***Schedules of Average Monthly Pension Benefit Payments and Average Final Average Salary*** provides summary statistics of average monthly pension benefits and postemployment healthcare benefits, counts of recipients with benefit effective dates within the designated fiscal year, and the recipients' average final average salary grouped in five-year increments of member credited service over the ten-year period ended June 30, 2009.

Operating Information

The list of ***Ten Largest Employers*** shows the System's ten largest employers in terms of reported annual salaries during FY 2010 and the ***Schedule of Employers*** provides the full list of PSERS' employers.

Schedule of Trend Data
(Dollar Amounts in Thousands)*

For years ended June 30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Contribution Rates:										
Total Pension %	4.00	4.00	6.44	5.72	4.00	4.00	2.98	.18	0.00	1.64
Health Care Insurance Premium Assistance %	.78	.76	.69	.74	.69	.23	.79	.97	1.09	.30
Total Employer %	4.78	4.76	7.13	6.46	4.69	4.23	3.77	1.15	1.09	1.94
Average Member %	7.32	7.29	7.25	7.21	7.16	7.12	7.08	7.10	6.43	5.77
Contributions:										
Member - Pension $	952,047	911,118	879,598	855,322	827,647	788,310	783,691	752,110	662,561	579,850
Member - HOP $	191,184	178,801	159,563	144,185	155,199	167,199	160,731	145,197	143,006	141,875
Employer - Pension $	535,331	515,889	753,532	659,545	456,878	431,556	321,091	20,831	539	158,193
Employer - Health Care Insurance Premium Assistance $	102,703	92,483	81,317	86,763	74,065	26,252	85,631	95,625	108,911	27,523
CMS $	33,901	31,556	28,426	27,789	13,941	-	-	-	-	-
Average Annual Member Compensation $ *	45,344	44,779	43,718	43,217	43,361	41,210	40,463	39,128	38,658	38,695
Market Value of Assets $	45,761,000	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
Actuarial Value of Assets $	#	59,886,700	61,018,000	57,155,000	52,558,000	51,219,300	52,094,500	52,900,500	54,296,400	54,830,300
Accrued Actuarial Liability $	#	75,629,900	70,941,000	66,593,000	64,720,000	61,129,444	56,978,143	54,313,328	51,693,207	47,870,922
Funded Ratio %	#	79.2	86.0	85.8	81.2	83.7	91.2	97.2	104.8	114.4
Total Benefits & Refunds $	5,269,175	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
Average Pension $ *	23,466	22,456	21,963	20,970	20,236	19,343	18,464	17,469	15,899	14,105
Annuitants & Beneficiaries	184,934	177,963	173,540	168,026	161,813	156,519	151,552	145,693	141,414	132,716
Active Members	282,041	279,701	272,690	264,023	263,350	255,465	247,901	246,700	242,616	243,311

* 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, 2010. Results for this valuation were not available at publication date.

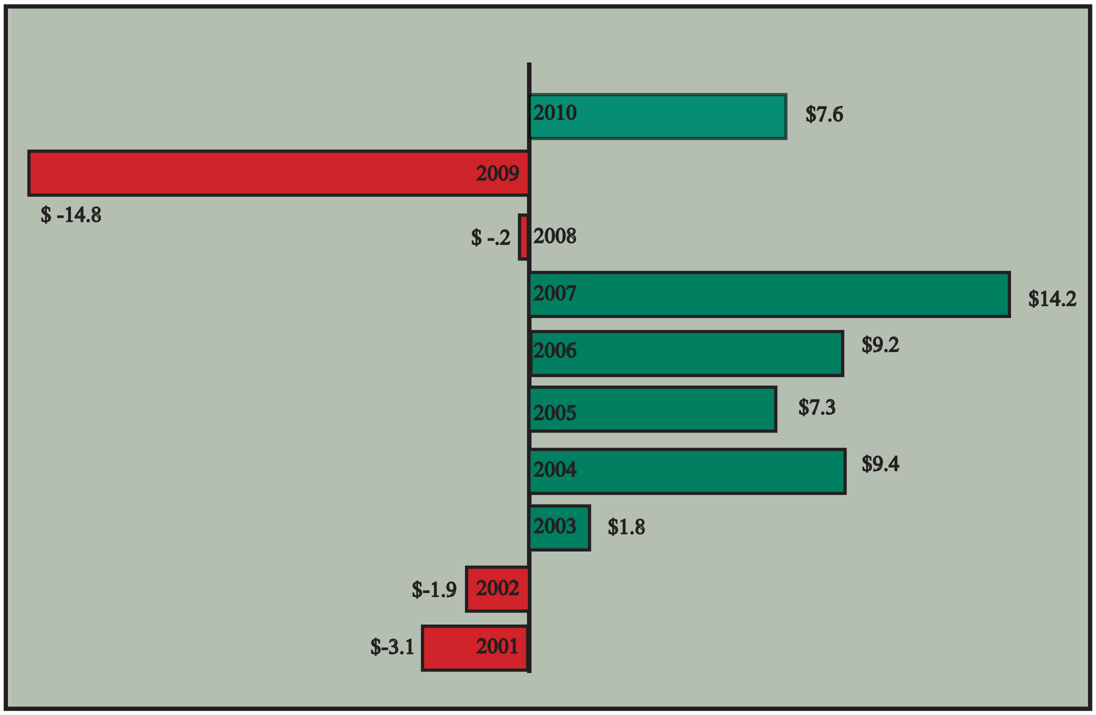
Schedule of Total Changes in Pension Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

	Additions to Plan Net Assets				Deductions from Plan Net Assets						
Year Ended 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)
2010	$ 952,047	$ 535,331	$ 6,113,679	$ 7,601,057	$ 4,095,334	$ 866,888	$ 16,720	$ 12,105	$ 7,015	$ 4,998,062	$ 2,602,995
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)

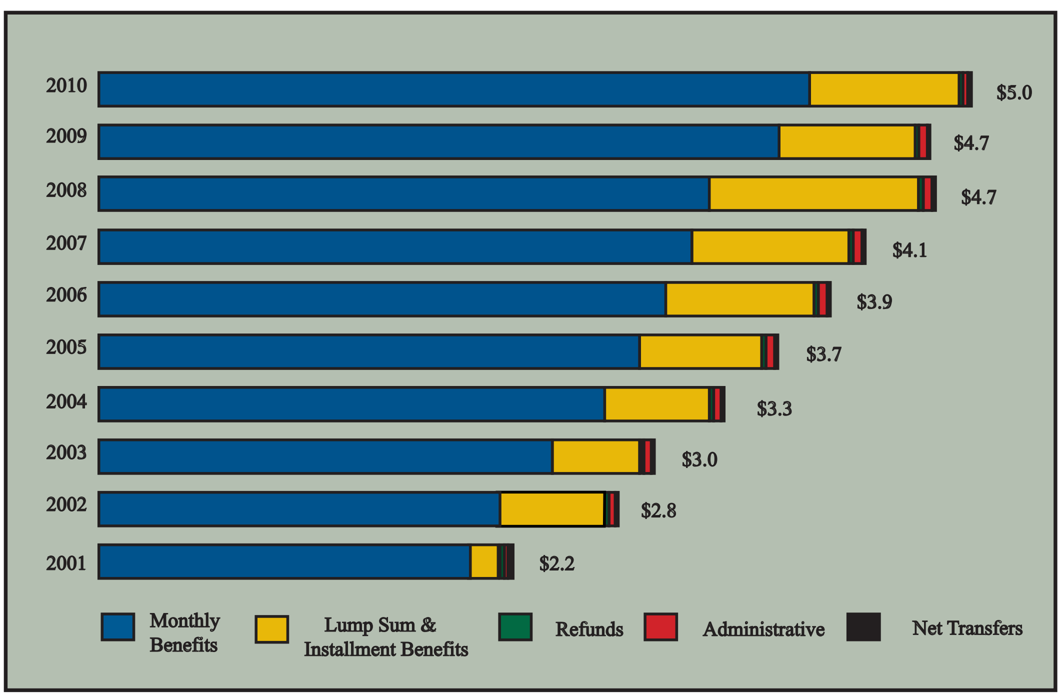
* Reporting of administrative expenses for fiscal year ended June 30, 2010 includes effects of the capitalization of intangible assets as a result of PSERS' implementation of GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets*.

** 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

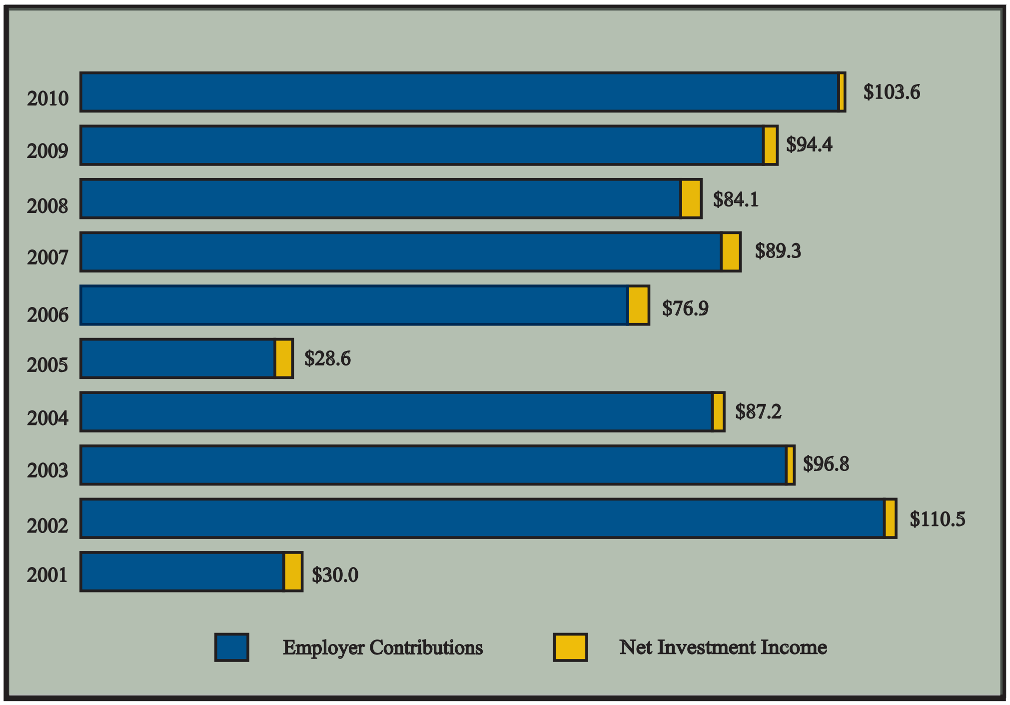
	Additions to Plan Net Assets			Deductions from Plan Net Assets			
Year Ended June 30	Employer Contributions	Net Investment Income	Total Additions	Benefits	Administrative	Total Deductions	Net Increase / (Decrease)
2010	$ 102,703	$ 869	$ 103,572	$ 89,911	$ 1,944	$ 91,855	$ 11,717
2009	92,493	1,861	94,354	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)

Health Options Program

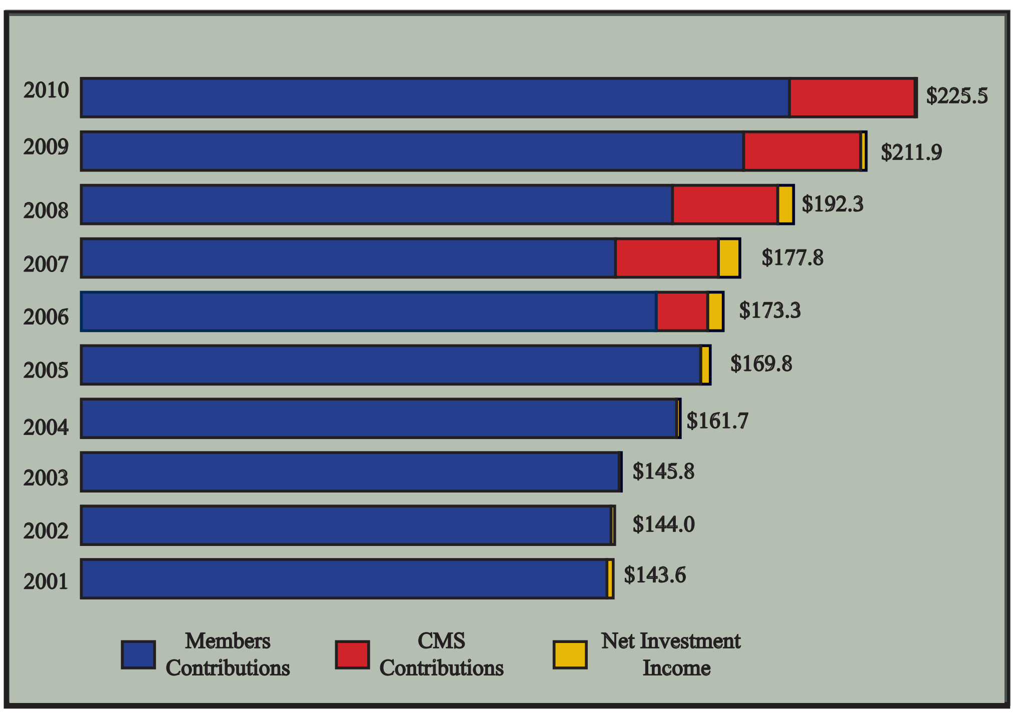
	Additions to Plan Net Assets				Deductions from Plan Net Assets			
Year Ended June 30	Member Contributions	CMS Contributions	Net Investment Income	Total Additions	Benefits	Administrative	Total Deductions	Net Increase / (Decrease)
2010	$ 191,184	$ 33,901	$ 440	$ 225,525	$ 193,307	$ 16,443	$ 209,750	$ 15,775
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

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

Premium Assistance

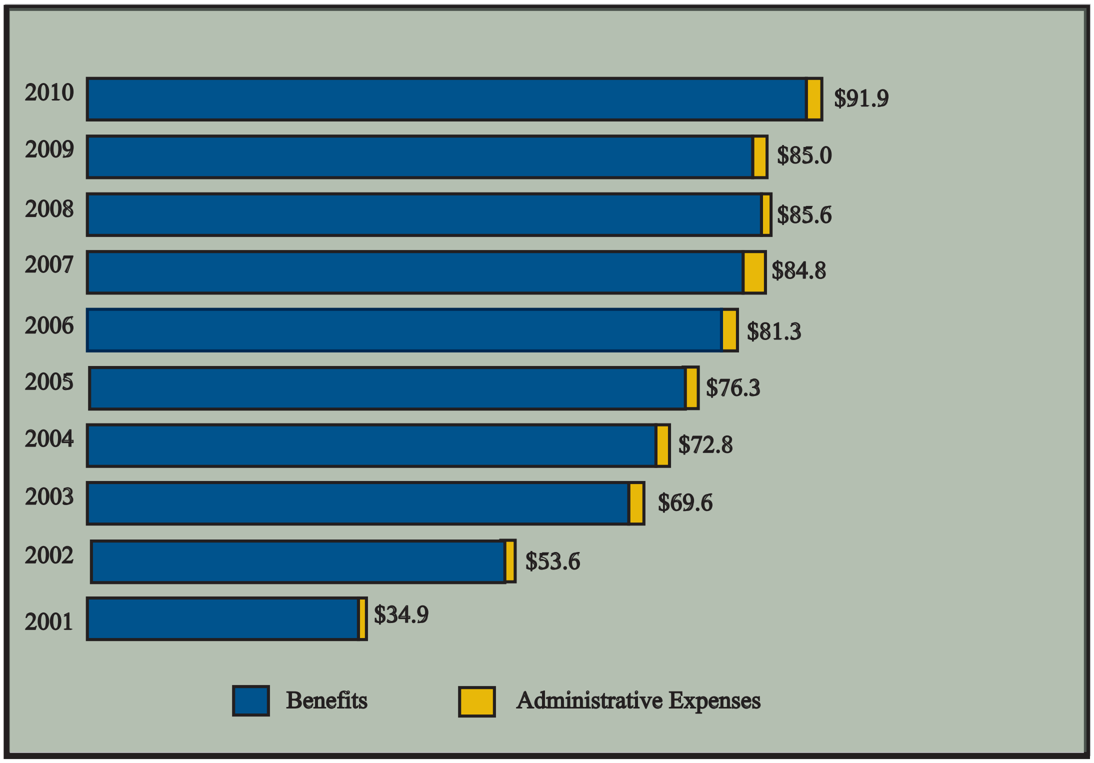


Health Options Program

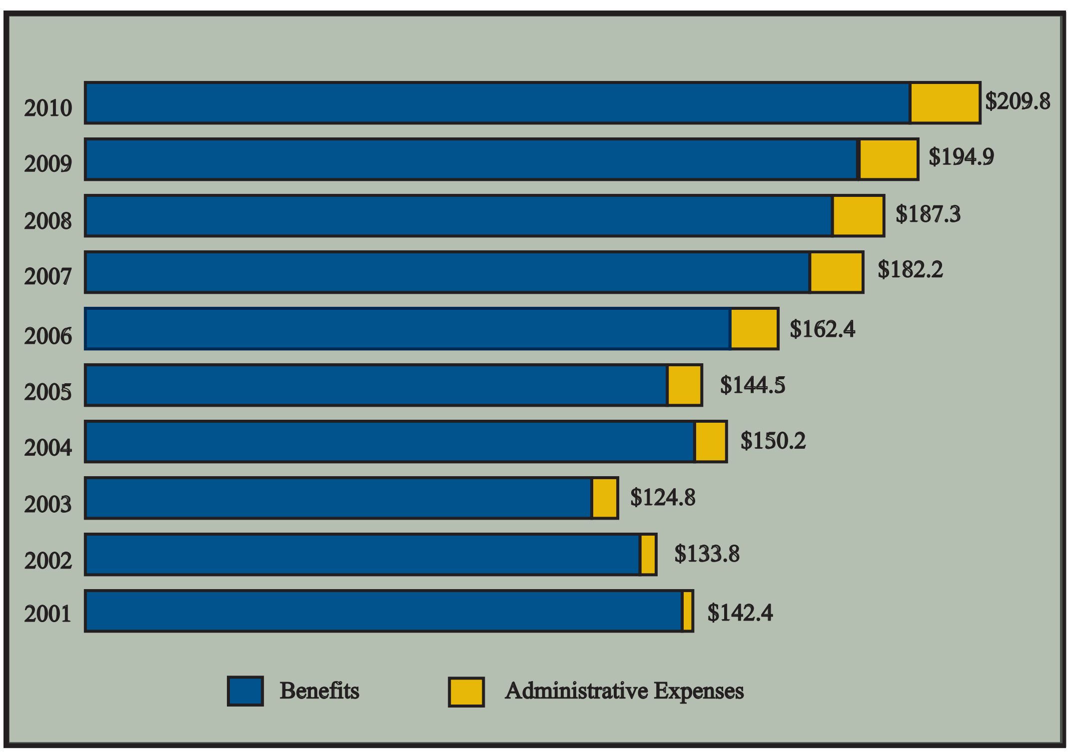


Deductions from Postemployment Healthcare Plans Net Assets
10 Year Trend
(Dollar Amounts in Millions)

Premium Assistance



Health Options Program



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

For years ended June 30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Investment Income:										
From investing activities:										
Net appreciation (depreciation) in fair value of investments	$ 5,142,243	$ (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)
Investment Income	1,485,193	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
Total investment activity income (loss)	6,627,436	(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)
Investment expenses	(522,268)	(477,520)	(399,098)	(313,726)	(211,247)	(192,629)	(191,267)	(179,033)	(162,755)	(143,663)
Net income (loss) from investing activities	6,105,168	(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)
From securities lending activities:										
Securities lending income	9,574	55,574	319,107	419,762	270,447	125,882	46,075	43,870	57,391	147,852
Securities lending expense	(1,063)	(82,394)	(270,254)	(393,837)	(247,491)	(109,779)	(31,379)	(28,838)	(41,137)	(124,225)
Net income (loss) from securities lending activities	8,511	(26,820)	48,853	25,925	22,956	16,103	14,696	15,032	16,254	23,627
Total net investment income (loss)	$ 6,113,679	$ (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)

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

For years ended June 30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Investment Income:										
From investing activities:										
Net appreciation (depreciation) in fair value of investments	$ (1,039)	$ (363)	$ 268	$ 88	$ (480)	$ (2,218)	$ (3,003)	$ (2,405)	$ (564)	$ 260
Investment Income	1,955	2,269	2,525	2,517	3,362	4,635	4,627	3,566	2,159	2,274
Total investment activity income	916	1,906	2,793	2,605	2,882	2,417	1,624	1,161	1,595	2,534
Investment expenses	(47)	(45)	(38)	(32)	(32)	(48)	(33)	(23)	(22)	(22)
Total net investment income	$ 869	$ 1,861	$ 2,755	$ 2,573	$ 2,850	$ 2,369	$ 1,591	$ 1,138	$ 1,573	$ 2,512

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

For years ended June 30	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Investment Income:										
From investing activities:										
Net appreciation in fair value of investments	$ -	$ -	$ -	$ -	$ 123	$ 672	$ -	$ -	$ -	$ -
Investment Income	440	1,528	4,288	5,821	4,080	1,974	1,005	596	1,035	1,724
Total investment activity income	440	1,528	4,288	5,821	4,203	2,646	1,005	596	1,035	1,724
Investment expenses	-	-	-	-	-	-	-	-	-	-
Total net investment income	$ 440	$ 1,528	$ 4,288	$ 5,821	$ 4,203	$ 2,646	$ 1,005	$ 596	$ 1,035	$ 1,724

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
2009	44.4	11.2	$ 50,613	44.7	10.3	$ 42,606	279,701
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

* Actuarial Valuation for year ended June 30, 2009 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
2009	177,963	$ 3,996,000	$ 22,456
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

* Actuarial Valuation for year ended June 30, 2009 is most current valuation completed at publication date.

** Total Annual Annuities dollar amounts expressed in thousands.

Components of Total Contribution Rate

(In Percentages)

			Employer Contribution					
Employer Year	Employer Payroll	Member Contribution (Average)	Normal Requirement (A)	(Funded) / Unfunded Accrued Liability (B)	Employer Pension Rate	Health Insurance Premium Assistance Contribution (C)	Total Employer Rate	Grand Total Contribution Rate
2009-2010	$ 12,899,000	7.32	7.35	(3.72)	4.00	0.78	4.78	12.10
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

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 compensation 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
2010	$ 2,273,819	$ 1,600,435	$ 136,174	$ 733,333	$ 52,409	$ 109,656	$ 56,396	$ 7,015	$ 4,969,237	$ 16,720	$ 4,985,957
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

* Data presented in Normal column for years 2001 to 2008 are aggregate amounts for all Retirement Types.
** Data for these years is not readily available in the format adopted for the years ended June 30, 2009 and 2010.

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, 2009										
Normal and Early	4,395	10,474	20,503	17,544	17,134	19,821	39,700	28,187	4,448	**162,206**
	$ 376	$ 178	$ 279	$ 602	$ 1,090	$ 1,828	$ 2,966	$ 3,780	$ 3,720	**$ 1,945**
Disability	-	1,566	1,713	1,417	1,313	1,205	485	12	2	**7,713**
	-	$ 661	$ 802	$ 1,103	$ 1,658	$ 2,507	$ 3,461	$ 3,318	$ 2,348	**$ 1,412**
Beneficiary and Survivor		1,824	788	744	767	786	1,207	1,304	624	**8,044**
	$	$ 838	$ 218	$ 336	$ 524	$ 770	$ 1,070	$ 1,201	$ 1,248	**$ 820**
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**

** Actuarial valuation for year ended June 30, 2009 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, 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**
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**

* Data for these years not available in the format adopted for years ending June 30, 2001 through 2009.

Schedule of Average Monthly Pension Benefit Payments and Average Final Average Salary *

	Years of Credited Service								
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+
Fiscal year ended June 30, 2009									
Number of retired members:	259	1,213	857	753	835	902	1,959	1,757	165
Final Average Salary	$18,802	$27,718	$31,600	$39,456	$48,973	$61,459	$71,256	$76,947	$77,351
Monthly Benefit	$ 106	$ 230	$ 556	$ 1,063	$ 1,726	$ 2,764	$ 3,915	$ 4,834	$ 5,343
Fiscal year ended June 30, 2008									
Number of retired members:	253	1,304	903	857	798	1,038	2,318	1,936	139
Final Average Salary	$18,146	$26,404	$31,479	$38,271	$47,220	$57,595	$70,232	$75,942	$75,041
Monthly Benefit	$ 104	$ 210	$ 556	$ 1,010	$ 1,647	$ 2,551	$ 3,863	$ 4,775	$ 5,164
Fiscal year ended June 30, 2007									
Number of retired members:	274	1,348	920	884	836	1,163	2,702	2,105	142
Final Average Salary	$17,233	$26,678	$29,390	$38,155	$45,934	$56,810	$68,962	$73,165	$77,381
Monthly Benefit	$ 85	$ 231	$ 502	$ 1,011	$ 1,591	$ 2,534	$ 3,800	$ 4,604	$ 5,421
Fiscal year ended June 30, 2006									
Number of retired members:	256	1,184	816	889	788	1,063	2,654	1,908	132
Final Average Salary	$16,172	$25,512	$28,360	$35,156	$43,902	$54,791	$66,976	$72,236	$75,847
Monthly Benefit	$ 88	$ 222	$ 475	$ 947	$ 1,536	$ 2,467	$ 3,725	$ 4,571	$ 5,255
Fiscal year ended June 30, 2005									
Number of retired members:	199	931	770	867	711	1,121	2,903	2,234	166
Final Average Salary	$16,899	$24,980	$28,573	$35,081	$42,144	$53,664	$66,212	$70,328	$73,362
Monthly Benefit	$ 85	$ 232	$ 519	$ 938	$ 1,488	$ 2,436	$ 3,684	$ 4,454	$ 5,096
Fiscal year ended June 30, 2004									
Number of retired members:	171	804	753	736	702	989	2,647	1,849	141
Final Average Salary	$15,913	$22,502	$27,392	$33,361	$40,589	$52,181	$62,708	$68,374	$69,609
Monthly Benefit	$ 79	$ 229	$ 505	$ 861	$ 1,503	$ 2,376	$ 3,480	$ 4,339	$ 4,916
Fiscal year ended June 30, 2003									
Number of retired members:	150	641	669	628	590	894	2,130	1,383	124
Final Average Salary	$14,079	$22,793	$25,867	$32,917	$37,832	$50,223	$62,936	$66,993	$66,185
Monthly Benefit	$ 69	$ 250	$ 458	$ 865	$ 1,368	$ 2,279	$ 3,484	$ 4,266	$ 4,704
Fiscal year ended June 30, 2002									
Number of retired members:	171	775	1,067	938	1,102	1,622	2,998	2,696	310
Final Average Salary	$13,116	$21,376	$26,805	$32,646	$38,066	$49,993	$60,427	$64,811	$63,227
Monthly Benefit	$ 68	$ 215	$ 436	$ 835	$ 1,370	$ 2,291	$ 3,302	$ 4,181	$ 4,488
Fiscal year ended June 30, 2001									
Number of retired members:	94	156	586	385	317	293	183	162	29
Final Average Salary	$12,667	$20,056	$24,857	$29,082	$35,472	$43,359	$52,445	$67,708	$70,915
Monthly Benefit	$ 66	$ 335	$ 346	$ 595	$ 1,053	$ 1,579	$ 2,338	$ 3,500	$ 3,994
Fiscal year ended June 30, 2000									
Number of retired members:	104	237	876	608	679	793	613	719	108
Final Average Salary	$13,326	$17,458	$24,500	$29,866	$35,886	$45,953	$53,891	$62,629	$61,327
Monthly Benefit	$ 52	$ 260	$ 328	$ 598	$ 1,047	$ 1,698	$ 2,408	$ 3,279	$ 3,461

* Actuarial valuation for year ended June 30, 2009 is the most current valuation completed at the publication date.

Schedule of Average Monthly Premium Assistance Benefit Payments and Average Final Average Salary *

	Years of Credited Service								
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+
Fiscal year ended June 30, 2009									
Number of retired members:		32	33	202	353	555	1,324	1,273	129
Final Average Salary		$30,120	$44,926	$44,889	$49,416	$62,449	$72,314	$76,742	$79,676
Monthly Benefit		$ 100	$ 96	$ 99	$ 98	$ 97	$ 95	$ 96	$ 97
Fiscal year ended June 30, 2008									
Number of retired members:		32	36	242	336	609	1,686	1,435	114
Final Average Salary		$31,419	$41,391	$41,714	$49,709	$59,708	$70,486	$75,903	$72,718
Monthly Benefit		$ 97	$ 100	$ 99	$ 99	$ 97	$ 95	$ 95	$ 96
Fiscal year ended June 30, 2007									
Number of retired members:		29	36	271	370	741	1,986	1,609	101
Final Average Salary		$36,165	$39,981	$37,907	$46,781	$59,682	$69,722	$73,808	$78,288
Monthly Benefit		$ 9	$ 99	$ 98	$ 99	$ 96	$ 93	$ 93	$ 98
Fiscal year ended June 30, 2006									
Number of retired members:		35	29	288	343	713	1,931	1,491	113
Final Average Salary		$27,700	$40,994	$37,316	$43,608	$56,647	$68,662	$72,726	$74,851
Monthly Benefit		$ 97	$ 100	$ 97	$ 98	$ 98	$ 93	$ 92	$ 92
Fiscal year ended June 30, 2005									
Number of retired members:		32	42	265	297	751	2,143	1,759	136
Final Average Salary		$31,231	$32,470	$37,651	$41,099	$56,000	$68,328	$71,690	$74,802
Monthly Benefit		$ 78	$ 99	$ 100	$ 97	$ 94	$ 89	$ 87	$ 94
Fiscal year ended June 30, 2004									
Number of retired members:		33	44	232	322	661	1,974	1,536	116
Final Average Salary		$27,158	$35,190	$34,821	$43,361	$54,435	$64,237	$69,087	$69,369
Monthly Benefit		$ 99	$ 98	$ 100	$ 100	$ 96	$ 95	$ 93	$ 96
Fiscal year ended June 30, 2003									
Number of retired members:		27	28	197	249	586	1,666	1,159	101
Final Average Salary		$33,030	$35,265	$36,195	$38,325	$53,729	$63,796	$68,781	$66,844
Monthly Benefit		$ 99	$ 100	$ 96	$ 100	$ 99	$ 95	$ 94	$ 97
Fiscal year ended June 30, 2002									
Number of retired members:		21	36	267	442	1,086	2,303	2,353	250
Final Average Salary		$27,002	$32,137	$35,038	$38,346	$52,710	$61,955	$65,753	$64,852
Monthly Benefit		$ 99	$ 100	$ 100	$ 100	$ 100	$ 96	$ 97	$ 100
Fiscal year ended June 30, 2001									
Number of retired members:		26	32	83	111	167	121	132	21
Final Average Salary		$27,630	$26,677	$32,285	$38,393	$44,936	$55,171	$68,457	$78,476
Monthly Benefit		$ 100	$ 100	$ 99	$ 96	$ 100	$ 97	$ 100	$ 100
Fiscal year ended June 30, 2000									
Number of retired members:		15	34	161	266	499	440	622	87
Final Average Salary		$26,697	$32,572	$30,371	$35,750	$48,035	$55,597	$63,594	$61,737
Monthly Benefit		$ 100	$ 100	$ 100	$ 100	$ 98	$ 100	$ 98	$ 98

* Actuarial valuation for year ended June 30, 2009 is the most current valuation completed at the publication date..

Ten Largest Employers

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

	Employer	Total Reported Salaries (FY 2010)	Percentage of Total Salaries compared to Salaries from All Employers
1.	Philadelphia School District	$ 1,249,659	9.64%
2.	Pittsburgh School District	290,313	2.24
3.	Central Bucks School District	138,200	1.07
4.	North Penn School District	111,295	0.86
5.	Allentown City School District	106,418	0.82
6.	Council Rock School District	102,290	0.79
7.	Reading School District	99,512	0.77
8.	Bethlehem Area School District	96,475	0.74
9.	Lower Merion School District	95,168	0.73
10.	Pennsbury School District	94,419	0.73

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
Central Bucks
Central Cambria
Central Columbia
Central Dauphin
Central Fulton
Central Greene
Central Valley
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
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 Montgomery County
Central PA Institute of Science & Technology
Central Westmoreland CTC
Clarion County Career Center
Clearfield County CTC
Columbia-Montour AVTS
Crawford County CTC
CTC of Lackawanna County
Cumberland-Perry AVTS
Dauphin County Technical School
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 CTC
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
Thaddeus Stevens College of Technology
Western Pennsylvania School for the Blind
Western Pennsylvania School for the Deaf
York Adams Academy

Charter Schools (C S)

21St Century Cyber C S
Achievement House C S
Ad Prima C S
Agora C S
Alliance For Progress C S
Antonia Pantoja Charter School
Architecture and Design C S
Arise Academy Charter High School
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

Schedule of Employers (Continued)

Center for Student Learning C S at Pennsbury
Delaware Valley C S
Discovery C S
Dr. Robert Ketterer C S
Eastern University Academy C S
Environmental C S at Frick Park
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 Charter Elementary School
Franklin Towne C S
Freire C S
Global Leadership Academy C S
Graystone Academy C S
Green Woods C S
Hardy Williams Academy C S
Helen Thackston 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
Kipp West Philadelphia Preparatory 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 Leadership Academy 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
Pan American 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
Richard Allen Preparatory C S
Robert Benjamin Wiley Community C S
Roberto Clemente C S
Russell Byers C S
Sankofa Academy C S
Sankofa Freedom Academy C S
School Lane C S
Seven Generations C S
Souderton C S Collaborative
Spectrum C S
Sugar Valley Rural C S
SUSQ-CYBER C S
Sylvan Heights Science C S
Tacony Academy 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
Vida 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