Partners for Your Future

PENNSYLVANIA PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2013

Est. 1919 PSERS Partners for your Future ®

A COMPONENT UNIT OF THE

COMMONWEALTH OF PENNSYLVANIA

Pennsylvania
Public School Employees' Retirement System

(A Component Unit of the Commonwealth of Pennsylvania)

5 North 5th Street
Harrisburg, Pennsylvania 17101-1905

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Comprehensive Annual Financial Report

for the
Fiscal Year Ended June 30, 2013

Report prepared by the Public School Employees' Retirement System staff

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Approaching 100 Years

Since 1917 PSERS has administered a defined benefit pension plan for public school employees in the Commonwealth of Pennsylvania and currently serves over 600,000 members.

Introductory Section

Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

5 North 5th Street
Harrisburg PA 17101-1905

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October 29, 2013

The Honorable Thomas W. Corbett, 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 Corbett, Legislators, Members, Employer Board members and PSERS Board of Trustees:

We are pleased to present the ninety-fourth edition of the Comprehensive Annual Financial Report (CAFR) for the Pennsylvania Public School Employees' Retirement System (PSERS, System, or Fund) for the fiscal year ended June 30, 2013 (FY 2013). This report is intended to provide financial, investment, actuarial and statistical information in a single publication. The front cover of this year's CAFR shows PSERS' headquarters along with pictures that exemplify the System's members. The divider pages provide statistics related to PSERS' operations.

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 797 reporting entities in Pennsylvania. As of June 30, 2013, the System had over 267,000 active members with an estimated annual active payroll of $12.6 billion.

The annuitant membership at June 30, 2013 was comprised of approximately 209,000 retirees and beneficiaries who receive over $435 million in pension and healthcare benefits each month. The average yearly benefit paid to annuitants is $24,603. 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 797 reporting units contribute. PSERS is administered by a staff of 314. The System is headquartered in Harrisburg, Pennsylvania, and has 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 an independent certified public accounting firm is required by the Retirement Code. PSERS has contracted with SB & Company, LLC for this audit of its financial statements and has received an unmodified opinion as evidenced in the Independent Auditors' Report in the Financial Section of this report. An unmodified opinion means that PSERS' financial statements fairly present its financial condition. In addition, no significant findings were noted during the audit and therefore, a management letter was not issued. This is the fourth consecutive year 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

Economically, the fiscal year that ended June 30, 2013 was characterized by positive gains in the first three quarters and a fourth quarter that gave back some of those gains. The positive gains were led by a strong rally in developed market equities, specifically U.S. equities. Domestically, the Federal Reserve (Fed) implemented another asset purchase program during the year (QE3). In December, Operation Twist (a plan to sell short-term notes and purchase long-term Treasuries to reduce interest rates) came to an end and was replaced with outright purchases of longer-dated U.S. Treasuries. This Fed program partially offset the effects of U.S. fiscal tightening through sequestration (government spending cuts of about $40 billion), the payroll tax increase, the expiration of some of the Bush-era tax cuts, and the Affordable Care Act tax increase during 2013, which acted as a drag on U.S. growth of about 1.0 – 1.5%. U.S. economic activity as represented by the U.S. Gross Domestic Product (GDP) was fairly tepid during the past fiscal year while housing was strong, up 12.07% as measured by the S&P Case-Shiller 20-City Home Price Index. Internationally, Chinese growth and falling inflation expectations overshadowed loose monetary policy, causing the commodity markets to perform poorly. The Bank of Japan introduced a 2% inflation target and announced open-ended purchases of assets amounting to 13 trillion yen per month and fiscal stimulation amounting to over 1% of GDP for 2013. These loose monetary conditions led to a strong "risk-on" environment for the first three quarters of the fiscal year. Europe still has excess debt, austerity, and unemployment issues, China continues to slow, and the emerging markets are facing a potentially vicious cycle of capital outflows. In summary, the equity markets had a strong "risk-on" year while fixed income markets and commodity markets had weak years. Even with a more risk balanced allocation, the System was still able to generate strong absolute returns. For FY 2013 PSERS' investment portfolio generated a net rate of return of 7.96%, which resulted in $4.1 billion of net investment income. The total net assets of the System increased from $48.8 billion to $49.3 billion from July 1, 2012 to June 30, 2013. This increase was due in large part to net investment income plus member and employer contributions exceeding 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, 2013 was 8.65% 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

Act 120 of 2010 Implementation Update

Act 120 of 2010 included a series of actuarial and funding changes to PSERS as well as significant benefit changes for individuals who become new members on or after July 1, 2011. Implementation of the actuarial, funding and benefit changes in Act 120 of 2010 continued throughout the year. Highlights of the implementation follow:

- The employer contribution rate caps defined in Act 120 of 2010 are in effect. These rate caps step up the employer contribution rate in predictable increments and allow advance notice to the school employers and Commonwealth for budget planning purposes. The rate caps in Act 120 have had a dramatic impact on the employer contribution rate. If Act 120 was not in effect, the employer rate would have jumped to 32.32% on July 1, 2013, rather than the current rate of 16.93%. While this suppression of the employer contribution rate helps school employers and the Commonwealth budget for the increasing rates, the use of rate caps continues the underfunding of the System.
- The System is in the process of incorporating the "shared risk" provisions of Act 120. With a shared risk program, Class T-E and T-F members benefit when investments of the fund are doing well and share some of the risk when investments underperform. The member contribution rate will stay within the specified range allotted for Class T-E and T-F, but could increase or decrease by 0.5% every three years based on investment performance. The first possible member rate adjustment may occur on July 1, 2015 when the rate could increase 0.5%. While PSERS' assumed rate of return is 7.5%, PSERS' actual investment rate of return, net of fees, was 3.43% for fiscal year 2012 and 7.96% for fiscal year 2013, two of the three years being used for the look back period.

- Act 120 also established specific timeframes for the purchase of Non-Qualifying Part Time (NQPT) service. Over 280,000 Class T-C and T-D members active on July 1, 2011 have a three-year window, beginning July 1, 2011, to file an application to purchase NQPT service. Class T-C and T-D members who were not active on July 1, 2011 and all Class T-E and T-F members have a one-year window, from the date of notification by PSERS, to file an application to purchase NQPT service.
- In regards to the new membership classes created by Act 120, as of June 30, 2013 PSERS had 23,822 active Class T-E members with a 2.0% pension multiplier and a contribution rate of 7.5% and 3,564 active Class T-F members with a 2.5% pension multiplier and higher contribution rate of 10.3%. The combined total of Class T-E and T-F members represents over 10% of PSERS' active membership.

Acts 32 and 33 of 2013 Implementation

Legislation was passed on July 1, 2013, that impacts active members who go on a military leave on or after July 1, 2013. The legislation primarily changed the rules regarding service credit and eligibility points earned during the military leave, purchasing this service upon return to school employment, what occurs in the event of a member's death or disability while on a new military leave, and the employer's role in the aforementioned activities. This legislation does not affect any members already on a military leave or any members extending a current military leave as this is considered a part of the original military leave.

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. PSERS has annually underspent its approved budget, keeping more funds available to invest for PSERS' members.

PSERS continues to be prudent in its use of funds and managing the annual budget. In FY 2013, PSERS discontinued printing and mailing CAFRs to its 700 plus employers to save costs and now is utilizing its website as the primary method to distribute its CAFR. The Pension Administration System contract was renewed in January 2013, at the same cost, but includes a provision for up to 2,000 additional hours of programming change requests which was not part of the previous contract. Based on a request from PSERS, over 6,000 members recently converted from mailed paper checks to Electronic Funds Transfer (EFT), saving PSERS their postage and Treasury processing fees each month. Going forward, nearly all new retirees will receive their monthly annuities by EFT.

PSERS participates in an international benchmarking survey evaluating its costs and service performance in comparison to other similar public pension funds. Based on the FY 2012 survey, PSERS had a 28% lower pension administration cost per member than the average cost for its peer group.

In addition, during FY 2013, PSERS continued its ongoing efforts to recover funds from securities class action litigation. The System received $6.5 million in settlements from these cases in FY 2013.

Customer Service

During these challenging economic times, PSERS has continued to improve service while dealing with increased workloads. Despite experiencing a 14% increase in receipt of retirement applications, PSERS continued its efforts to provide retirement benefits in a timely fashion through a one-step process. In the past, PSERS processed most initial retirements in two steps. The first step was the calculation and payment of an estimated monthly benefit and the second step was the calculation and payment of a finalized monthly benefit which occurred later. Most retirements are now processed using a one-step process which eliminates the calculation and payment of an estimated monthly benefit. The number of benefits processed in one step increased from 74% in FY 2012 to 88% in FY 2013. This increase was achievable largely in part due to a change in the System's process to review member accounts at periodic milestones and event triggers to ensure each detail of a member's account is accurately portrayed prior to the member applying for retirement. Approximately 57% of all members that retired this past year had their account reviewed in conjunction with their request for a retirement estimate, up from the previous year's 41%. In addition to these service improvements, another major endeavor that was completed was the extensive redesign of members' Statement of Account to be more comprehensive and understandable.

PSERS is also making an investment in technology to continue to improve the efficiency of its operations in the future. This represents a multi-year effort to upgrade the System's pension administration system to enable improved customer service through many enhancements such as member self-service features. PSERS is excited to see the many benefits this platform upgrade has to offer and looks forward to its full implementation.

Pension Reform Update

Significant discussion on additional pension reform continues to take place. Numerous pieces of pension legislation have already been introduced and more are expected. As of the date of this letter, no pension legislation has passed.

For many years PSERS has provided extensive, objective technical information and volumes of actuarial data to members of the General Assembly. We have accurately and professionally cost and drafted every piece of pension legislation brought to PSERS by the General Assembly regardless of the impact on the structure of the System. While PSERS does not take a position on any legislation or support any specific policy on pension reform, PSERS takes its role in helping to resolve the pension funding issue very seriously. PSERS will continue to cooperate and provide information so effective pension policy decisions can be made by all decision-makers.

Financial Highlights

The fair value of the System's net assets totaled $49.3 billion as of June 30, 2013. The System is the 18th largest state-sponsored public defined benefit pension fund in the nation and the 30th 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 Position 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 2013, PSERS provided over $6.3 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 2013, the appropriation was $44.1 million.

Funding

Funding is the process of specifically setting aside money for current and future use. Proper funding for a defined benefit pension plan entails an actuarial examination of the fund balances and liabilities to ensure money will be available for future and current benefit payments. The actuarial valuation measures the progress toward funding pension obligations of the System by comparing the actuarial assets to the actuarial liabilities of the System.

The results of PSERS' latest published actuarial valuation (as of June 30, 2012) 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 66.4%. 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

Over the past few years, PSERS' Board and investment staff made significant changes to the Fund's investment asset allocation, including further refining the Fund's investment strategy and increasing the diversification of the Fund's assets. In particular, PSERS actively reduced its risk profile by significantly decreasing its equity exposure and by moving portions of the Fund's assets into asset classes that are less correlated to the equity markets.

Income from the investment portfolio represents the major source of revenue to the System, accounting for 71% of total revenues over the twenty-year period from FY 1994 to FY 2013. During FY 2013, net investment income was $4.1 billion. The investment portfolio, which is one part of the System's net assets, totaled $49.5 billion, at fair value, as of June 30, 2013. For FY 2013, the time-weighted net rate of return on the System's investments was 7.96%.

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 that exceeds the Policy Index (the Policy Index is a custom benchmark, based on the Board-established asset allocation structure that seeks 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 worked proactively, in conjunction with the State Employees' Retirement System, to address this IRS initiative.

In September of 2013, PSERS was notified by the IRS that their tax qualification status has been confirmed pending minor modifications to the Retirement Code. This most recent notification is set to expire on January 31, 2016.

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.

PSERS' management believes the internal accounting controls currently in place are adequate to meet the purpose for which they were intended and also believes the financial statements, supporting schedules and statistical tables are fairly presented.

GASB Pension Accounting and Financial Reporting Project (Pension Project)

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that reflect substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans,* addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions,* establishes new accounting and financial reporting requirements for governments that provide their employees with pensions.

Statement No. 67 replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* for most public employee pension plans. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* for most government employers. The new Statements also replace the requirements of Statement No. 50, *Pension Disclosures,* for those governments and pension plans.

Statement No. 67 provides public employee pension plans such as PSERS guidance for financial reporting. Statement No. 67 will significantly change related financial reporting through note disclosures and new required supplementary information (RSI) schedules. These changes are necessary for government employers to comply with Statement No. 68.

Statement No. 68 will require cost-sharing governments (employers) to report a net pension liability, pension expense, and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all the employers in the plan. Additionally, all government employers participating in the plan will be required to include plan information in their note disclosures and RSI schedules.

Statement No. 67 will take effect for pension plans in fiscal years beginning after June 15, 2013. Statement No. 68 will take effect for employers and governmental nonemployer contributing entities in fiscal years beginning after June 15, 2014. Statements Nos. 67 and 68 are available for download at no cost from the GASB website, www.gasb.org.

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, 2012. 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 30 consecutive years from FY 1983 to FY 2012. 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 2013 certificate.

Public Pension Coordinating Council Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2012. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

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

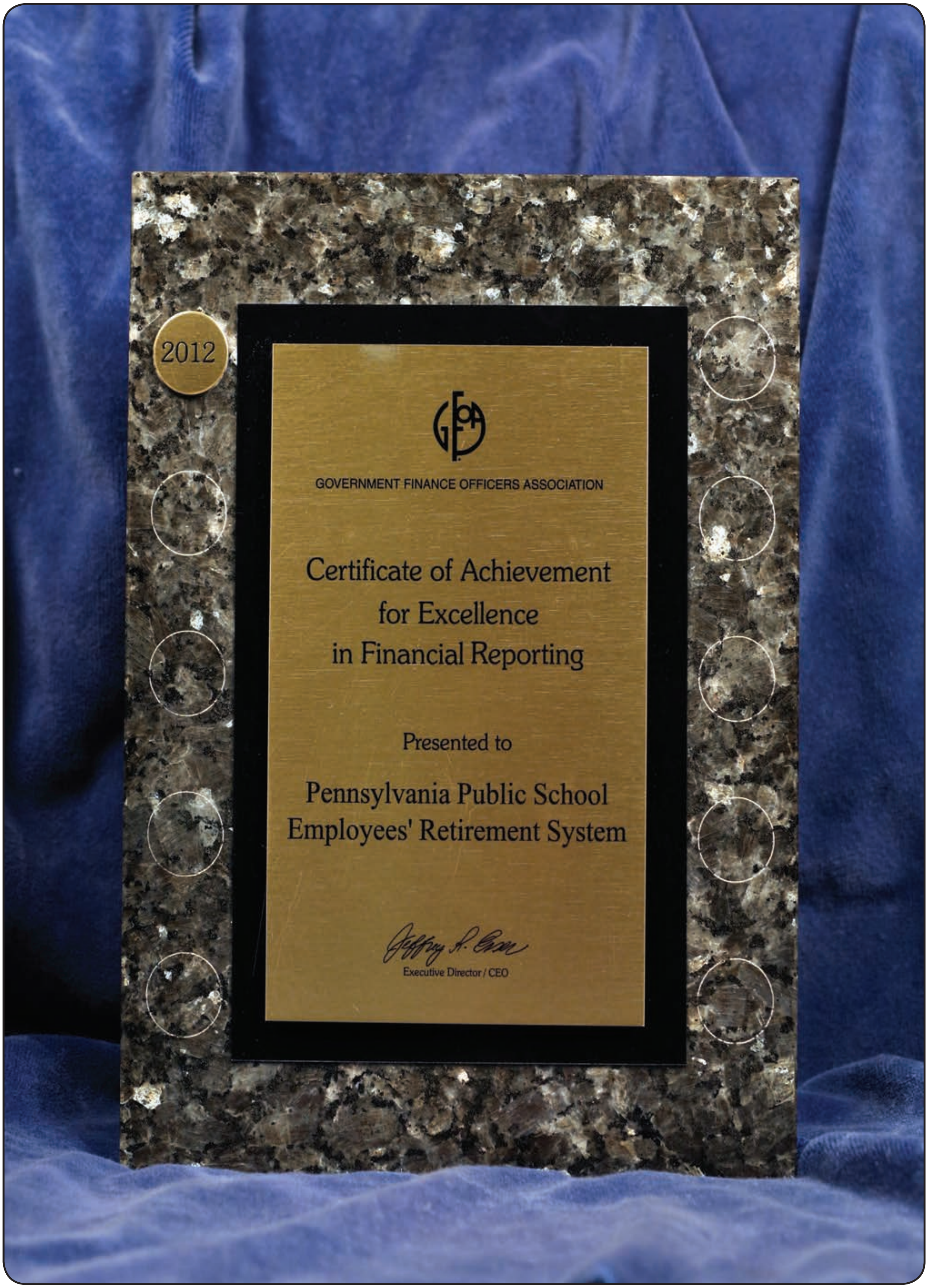
Acknowledgements

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

Respectfully submitted,

Jeffrey B. Clay
Executive Director

Brian S. Carl, CPA, CTP
Chief Financial Officer


2012
GOVERNMENT FINANCE OFFICERS ASSOCIATION
Certificate of Achievement
for Excellence
in Financial Reporting
Presented to
Pennsylvania Public School
Employees' Retirement System
Executive Director / CEO

PPC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2012

Presented to

Pennsylvania Public School Employees' Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle

Alan H. Winkle
Program Administrator

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

Administrative Organization
PSERS Board of Trustees

As of September 8, 2013

Seated, front row: *Bernard Gallagher, designee for Honorable Joseph F. Markosek; Stacey Connors, designee for Honorable Patrick M. Browne; Melva S. Vogler, Board Chairman; Sally J. Turley, Board Vice-Chairman; Deborah J. Beck; Treasurer Robert M. McCord*

Standing, second row: *Ambassador Martin J. Silverstein; Charles Zogby, designee for Acting Secretary of Education Carolyn C. Dumaresq; Glen S. Galante; Anthony Mannino, designee for Honorable Lawrence M. Farnese; James M. Sando; Richard N. Rose; James R. Biery; Honorable Glen R. Grell; Stuart L. Knade, designee for Nathan G. Mains; Jeffrey B. Clay, PSERS' Executive Director, Board Secretary*

PSERS Board of Trustees

2013 Board Committees

As of September 8, 2013

Appeals/Member Services

Ms. Beck, Chair
Mr. Biery
Senator Farnese
Mr. Mains
Mr. Rose
Mr. Sando
Mrs. Turley

Audit/Budget

Mr. Galante, Chair
Representative Grell, Vice Chair
Mr. Mains
Representative Markosek
Treasurer McCord
Mr. Rose
Ambassador Silverstein

Bylaws/Policy

Representative Grell, Chair
Ms. Beck
Mr. Biery
Senator Browne
Representative Markosek
Mrs. Turley

Corporate Governance

Mr. Sando, Chair
Senator Browne
Mr. Galante
Treasurer McCord
Mr. Rose
Ambassador Silverstein

Elections

Representative Markosek, Chair
Dr. Dumaresq
Senator Farnese
Ambassador Silverstein
Mrs. Turley

Finance

Mr. Rose, Chair

Committee is comprised of all Board Members

Health Care

Mrs. Turley, Chair
Mr. Galante, Vice Chair
Ms. Beck
Representative Grell
Mr. Mains
Representative Markosek

Personnel

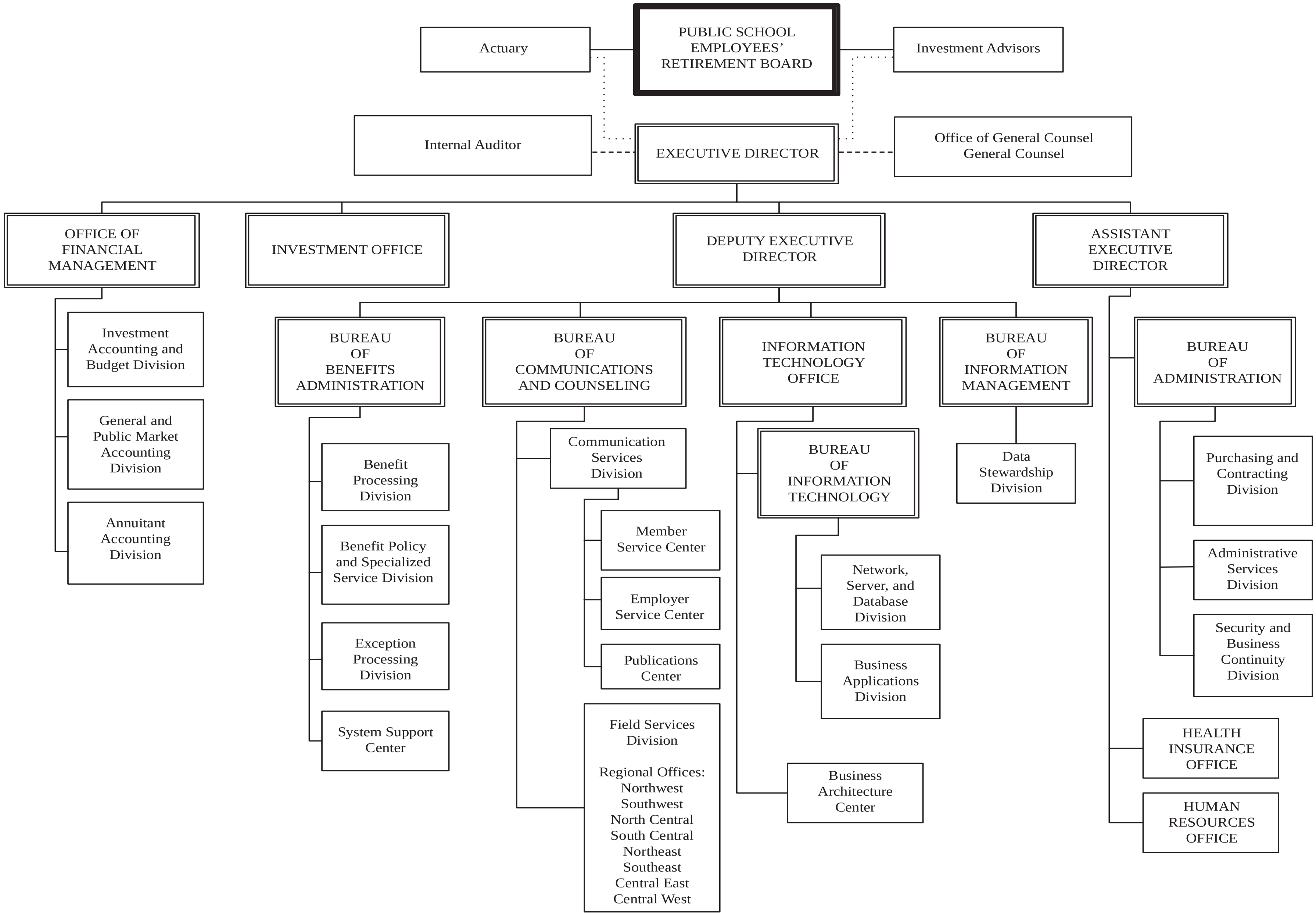
Mr. Mains, Chair
Treasurer McCord, Vice Chair
Senator Browne
Representative Grell
Mr. Rose
Mr. Sando

Technology Steering

Senator Farnese, Chair
Mr. Sando, Vice Chair
Mr. Biery
Dr. Dumaresq
Mr. Galante
Treasurer McCord

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
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Terrill J. Sanchez
Deputy Executive Director

Michele M. Ferencz
Chief Counsel

Brian S. Carl
Chief Financial Officer

Joseph E. Wasiak
Assistant Executive Director

Richard R. Spinks
Chief Technology Officer

James F. Noone
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Ginger L. Bucher
Director of Benefits Administration

Eugene W. Robison
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Deborah L. Garraway
Director of Information Management

Mary E. Geesey
Director of Information Technology

Tammy L. Meshey
Director of Human Resources

Donald J. Halke, II
Internal Auditor

Mark F. Schafer
Director of Health Insurance

Francis J. Ryder
Director of Government Relations

Evelyn M. Tatkovski
Press Secretary

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Public School Employees' Retirement System of Pennsylvania

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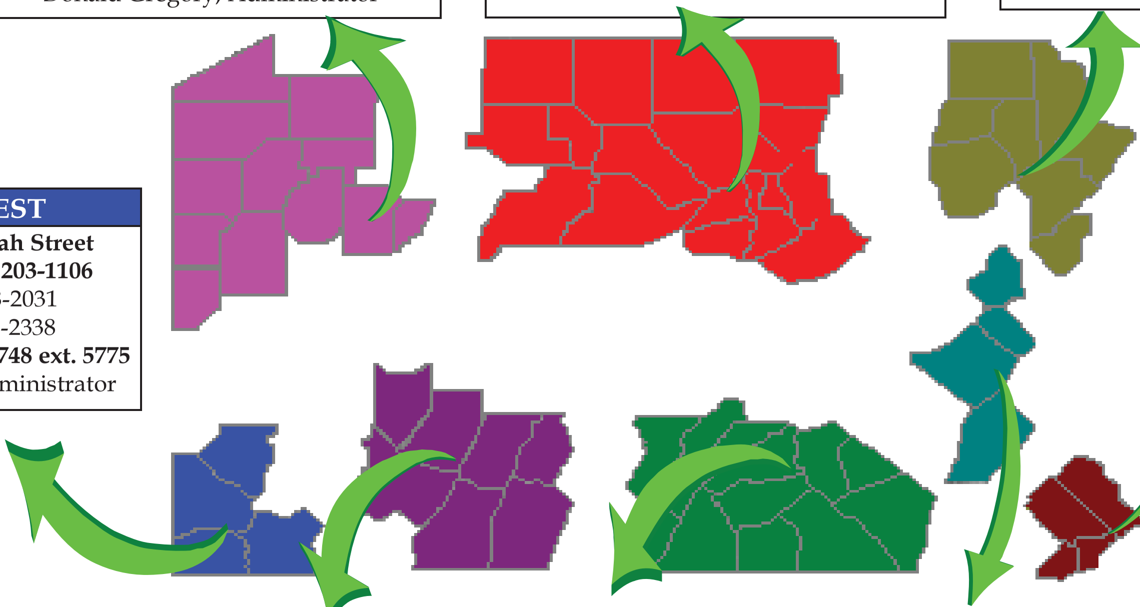

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FAX (610) 944-9275
Toll Free 1-888-773-7748 ext. 5475
Lisa A. York, Administrator

PSERS Headquarters Building

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

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

Efficiency of Administration

For the 2012 fiscal year, based on a leading international benchmarking survey, PSERS' administration cost per member was 28% lower than its public pension peer group.

Financial Section

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SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of Commonwealth of Pennsylvania Public School Employees' Retirement System (PSERS), as of June 30, 2013, and for the year then ended, and the related notes to the financial statements, which collectively comprise PSERS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

PSERS' management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of PSERS, as of June 30, 2013, and the respective changes in its financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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Other Matters

The financial statements of PSERS as of and for the year ended June 30, 2012, were audited by another auditor who expressed an unmodified opinion on those statements on September 18, 2012.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Schedules of Funding Progress and Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PSERS' basic financial statements. The Schedule of Operating Expenses, Summary of Investment Expenses, and Schedule of Payments to Non-Investment consultants are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PSERS' basic financial statements. The Introductory, Investment, Actuarial and Statistical Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

SB & Company, LLC

Hunt Valley, Maryland
September 18, 2013

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, 2013 (FY 2013) provides a narrative summary of PSERS' financial position and performance, including highlights and comparative data. The MD&A is presented as required supplementary 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. As part of the HOP, PSERS has an Employer/Union Direct Contract with the Centers for Medicare and Medicaid Services (CMS) to provide a Medicare Part D Prescription Drug Plan to participants. The financial statements present the financial position and activities for the pension plan and the two postemployment healthcare programs.

The ***Statements of Plan Net Position*** provide a snapshot of the financial position of PSERS at June 30, 2013, including comparative amounts for the prior year.

The ***Statements of Changes in Plan Net Position*** summarize PSERS' financial activities that occurred during the fiscal period from July 1, 2012 to June 30, 2013, 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 Supplementary Schedules*** immediately following the notes to financial statements provide two schedules illustrating 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 supplementary schedules provide additional detailed information concerning the operating expenses, investment expenses and payments to non-investment consultants. All of this supplementary information is considered useful in understanding and evaluating the financial activities of PSERS.

Financial Highlights

- The rate of return on investments was 7.96% for FY 2013, 3.43% for the fiscal year ended June 30, 2012 (FY 2012) and 20.37% for the fiscal year ended June 30, 2011 (FY 2011). The annualized rate of return for the three years ended June 30, 2013 was 10.36%, which exceeded the 7.5% actuarial investment rate of return assumption. Unless otherwise noted, all rates of return are net of fees.

- PSERS' total plan net position increased by $500 million from $48.8 billion at June 30, 2012 to $49.3 billion at June 30, 2013. This increase was due in large part to net investment income plus member and employer contributions exceeding deductions for benefits and administrative expenses. The change in total plan net position from June 30, 2011 to June 30, 2012 was a decrease of $2.6 billion from $51.4 billion at June 30, 2011 to $48.8 billion at June 30, 2012. This decrease was due in large part to deductions for benefits and administrative expenses exceeding net investment income plus member and employer contributions.

- PSERS' funded ratio as of the latest actuarial valuation dated June 30, 2012, decreased from 69.1% at June 30, 2011 to 66.4% at June 30, 2012. This decrease was primarily due to experience losses on investment assets and employer contributions that were less than the normal cost on the unfunded liability. The funded ratio at June 30, 2010 was 75.1%.

- Total member contributions for pension increased from $952.9 million in FY 2012 to $991.1 million in FY 2013. The increase was due to a $40.4 million increase in purchase of service contributions which was partially offset by a 1% reduction in active member payroll. The portion of participant premiums for the HOP grew due to increased participation as well as ongoing health insurance rate increases.

- Total employer contributions increased from $1.1 billion in FY 2012 to $1.6 billion in FY 2013. This increase was primarily attributable to an increase in the total employer contribution rate from 8.65% in FY 2012 to 12.36% in FY 2013 which was partially offset by a 1% reduction in active

Management's Discussion and Analysis (continued)

member payroll. Total employer contributions increased from FY 2011 to FY 2012 which was attributable to an increase in the total employer contribution rate from 5.64% in FY 2011 to 8.65% in FY 2012 which was partially offset by a 2.6% reduction in the active member payroll.

- Total PSERS' benefit expense increased by $400 million from $6.0 billion in FY 2012 to $6.4 billion in FY 2013. This increase is attributable to the number of new retirements for the year, higher lump sum payments, an ongoing increase to the average monthly benefit, and the number of members receiving benefits. New retirements during FY 2013 increased by approximately 1% from FY 2012. Total PSERS' benefit expense increased by $400 million from $5.6 billion in FY 2011 to $6.0 billion in FY 2012. This increase is attributable to the number of new retirements for the year, higher lump sum payments, an ongoing increase to the average monthly benefit, and the number of members receiving benefits. New retirements during FY 2012 outpaced those of FY 2011 by approximately 6%.

- Total PSERS' administrative expenses increased from $56.5 million for FY 2012 to $62.2 million in FY 2013 mainly due to an increase in the administrative costs in the HOP from increasing enrollments and other information technology expenditures. Total PSERS' administrative expenses decreased slightly from $57.7 million in FY 2011 to $56.5 million for FY 2012.

Analysis of Plan Net Position

(Dollar Amounts in Thousands)

Summary of Plan Net Position	FY 2013	Increase (Decrease)	FY 2012	Increase (Decrease)	FY 2011
Assets:					
Receivables	$ **1,173,601**	$ (259,510)	$ 1,433,111	$ 258,554	$ 1,174,557
Investments	**49,534,407**	993,558	48,540,849	(3,288,315)	51,829,164
Securities lending collateral pool	**615,159**	108,355	506,804	(255,001)	761,805
Capital assets	**22,404**	71	22,333	1,304	21,029
Total Assets	**51,345,571**	842,474	50,503,097	(3,283,458)	53,786,555
Liabilities:					
Payables and other liabilities	**1,454,715**	222,001	1,232,714	(358,855)	1,591,569
Obligations under securities lending	**615,159**	108,355	506,804	(255,001)	761,805
Total Liabilities	**2,069,874**	330,356	1,739,518	(613,856)	2,353,374
Plan Net Position	$ **49,275,697**	$ 512,118	$ 48,763,579	$ (2,669,602)	$ 51,433,181
Summary of Changes in Plan Net Position					
Additions:					
Contributions	$ **2,546,165**	$ 507,351	$ 2,038,814	$ 248,354	$ 1,790,460
Participant premiums and CMS	**275,214**	28,110	247,104	14,010	233,094
Net investment income	**4,126,338**	3,032,359	1,093,979	(8,153,113)	9,247,092
Total Additions	**6,947,717**	3,567,820	3,379,897	(7,890,749)	11,270,646
Deductions:					
Benefit expense	**6,373,363**	380,384	5,992,979	375,732	5,617,247
Administrative expenses	**62,236**	5,716	56,520	(1,225)	57,745
Total Deductions	**6,435,599**	386,100	6,049,499	374,507	5,674,992
Changes in Plan Net Position	$ **512,118**	$ 3,181,720	$ (2,669,602)	$ (8,265,256)	$ 5,595,654

Management's Discussion and Analysis (continued)

Funded Status

PSERS uses an actuarial reserve type of funding that is financed by member contributions, employer contributions, and earnings from invested assets. An independent actuarial valuation of PSERS' actuarial assets and liabilities is performed annually. As part of this valuation, the progress toward funding pension obligations of PSERS is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or funded status. The most recent actuarial valuation reports that PSERS is 66.4% funded as of June 30, 2012. The funded ratio decreased from 69.1% as of June 30, 2011 due to a decrease in the actuarial value of assets, which is based on a ten-year smoothing period, employer contributions below the normal cost, and an increase in the actuarial accrued liability.

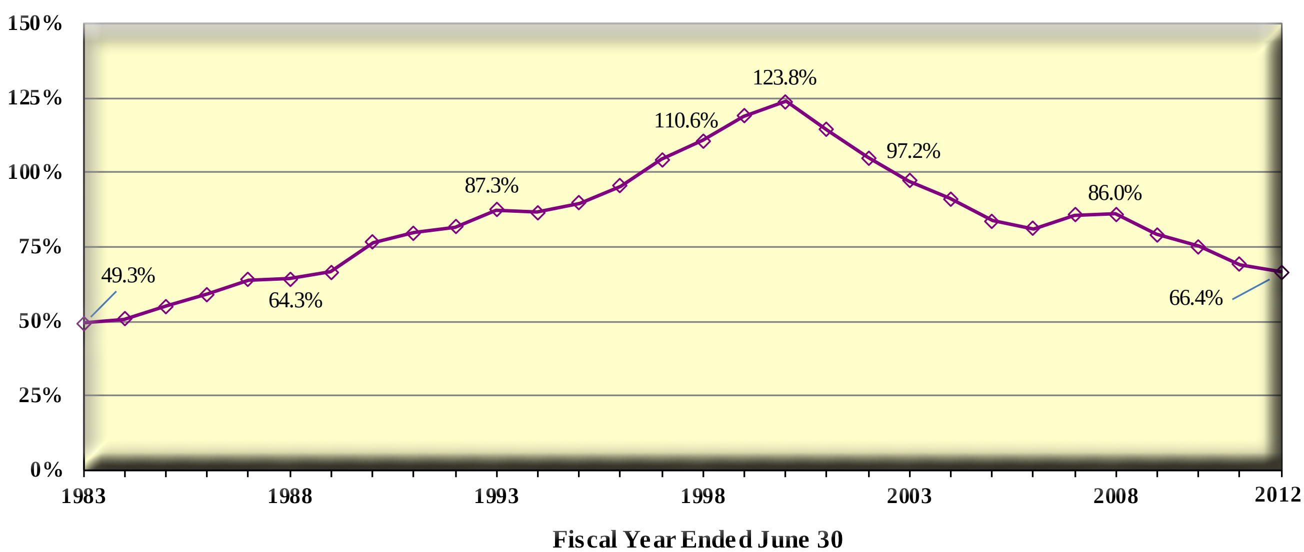
The results of operations for FY 2013 will be reflected in the actuarial valuation for the year ended June 30, 2013. Due to the normal lag time for completion of the actuarial valuation, the resulting funded status will be available at the end of the 2013 calendar year and will be reported in the financial statements for the fiscal year ending June 30, 2014 (FY 2014). Based on the investment performance for the nine-year period ended June 30, 2013, which is below the investment rate of return assumption during that time period, and employer contributions below the normal cost plus interest, the funded ratio at June 30, 2013 is expected to decrease. FY 2013 is the fourth year of a five-year transition from five-year to ten-year smoothing of actuarial assets. A thirty-year history of PSERS' funded status is shown at the bottom of the page.

PSERS' State Accumulation Account remained consistent at June 30, 2013 and 2012 (See Note 3). The deficit increased slightly in FY 2013 due to employer contributions below the normal cost. Employer contributions and investment earnings will be used to reduce the deficit in this account in the future.

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

PSERS' Funding Ratio
Funded Ratio = Actuarial Value of Assets / Actuarial Accrued Liability



Management's Discussion and Analysis (continued)

account the risk associated with each asset class as well as the financial objectives of the Fund.

Economically, the fiscal year that ended June 30, 2013 was characterized by positive gains in the first three quarters and a fourth quarter that gave back some of those gains. The positive gains were led by a strong rally in developed market equities, specifically U.S. equities. Domestically, the Federal Reserve (Fed) implemented another asset purchase program during the year (QE3). In December, Operation Twist (a plan to sell short-term notes and purchase long-term Treasuries to reduce interest rates) came to an end and was replaced with outright purchases of longer-dated U.S. Treasuries. This Fed program partially offset the effects of U.S. fiscal tightening through sequestration (government spending cuts of about $40 billion), the payroll tax increase, the expiration of some of the Bush-era tax cuts, and the Affordable Care Act tax increase during 2013 which acted as a drag on U.S. growth of about 1.0 – 1.5%. U.S. economic activity as represented by the U.S. Gross Domestic Product (GDP) was fairly tepid during the past fiscal year while housing was strong, up 12.07% as measured by the S&P Case-Shiller 20-City Home Price Index. Internationally, Chinese growth and falling inflation expectations overshadowed loose monetary policy, causing the commodity markets to perform poorly. The Bank of Japan introduced a 2% inflation target and announced open-ended purchases of assets amounting to 13 trillion yen per month and fiscal stimulation amounting to over 1% of GDP for 2013. These loose monetary conditions led to a strong "risk-on" environment for the first three quarters of the fiscal year. Europe still has excess debt, austerity, and unemployment issues, China continues to slow, and the emerging markets are facing a potentially vicious cycle of capital outflows. In summary, the equity markets had a strong "risk-on" year while fixed income markets and commodity markets had weak years. Even with a more risk balanced allocation, the System was still able to generate strong absolute returns.

For FY 2013 PSERS' rate of return on investments was 7.96% which exceeded PSERS' total fund Policy Index of 5.68% for the same time period. The Policy Index is a custom benchmark, which is based on the Board-established asset allocation structure, that seeks to generate a return that meets the actuarial rate of return assumption. Net investment income of $4.1 billion in FY 2013 increased from a net investment income of $1.1 billion in FY 2012.

The annualized rate of return over the past three- and five-year periods ended June 30, 2013 was 10.36% and 2.50%, respectively. The returns for the three- and five-year periods exceeded the total fund Policy Index returns for those periods by 223 and 51 basis points, respectively. The annualized rate of return for the ten- and twenty-five-year periods ended June 30, 2013 was 7.72% and 8.65%, respectively.

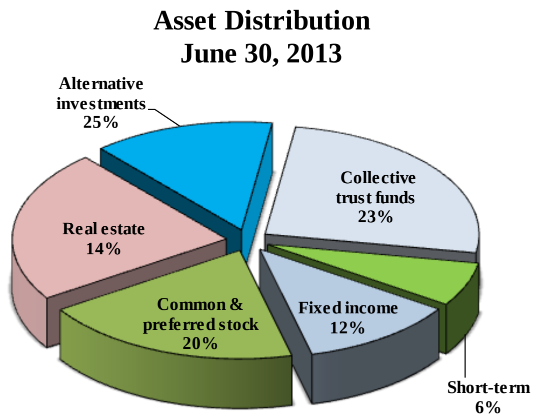
PSERS' long-term actuarial investment rate of return assumption was 7.5% at June 30, 2013. PSERS' Board of Trustees (Board) decreased the actuarial investment rate of return assumption from 8.0% to 7.5% for the June 30, 2011 actuarial valuation. The change made by the Board lowered PSERS' rate of return assumption to provide a more realistic outlook on the future earnings potential of the Fund as long-term capital market assumptions have declined.

The asset distribution of PSERS' investment portfolio at June 30, 2013, 2012 and 2011, at fair value, and including postemployment healthcare assets, is presented in the table at the bottom of the page.

Short-term investments (cash and cash equivalents) increased by $600 million from $2.6 billion at June 30, 2012 to $3.2 billion at June 30, 2013. This asset class was overweighted at June 30, 2013 and underweighted at June 30, 2012 according to the asset allocation plans approved by the Board. Due to a reallocation of exposure from investments, PSERS increased its short-term investments during FY 2013. Fixed income investments decreased by

	(Dollar Amounts in Thousands)					
Asset Class	**2013**	**%**	2012	%	2011	%
Short-term	**$ 3,242,139**	**6.5%**	$ 2,649,495	5.5	$ 5,813,421	11.2
Fixed income	**5,828,418**	**11.8%**	7,207,558	14.8	8,527,633	16.4
Common and preferred stock	**9,762,527**	**19.7%**	9,357,122	19.3	11,319,183	21.8
Collective trust funds	**11,280,497**	**22.8%**	10,460,482	21.5	8,320,294	16.1
Real estate	**6,797,535**	**13.7%**	6,003,753	12.4	5,263,467	10.2
Alternative investments	**12,623,291**	**25.5%**	12,862,439	26.5	12,585,166	24.3
Total	**$ 49,534,407**	**100.0%**	$ 48,540,849	100.0	$ 51,829,164	100.0

Management's Discussion and Analysis (continued)



$1.4 billion from $7.2 billion at June 30, 2012 to $5.8 billion at June 30, 2013 mostly due to manager terminations and reallocation of exposure to other asset classes during FY 2013. Common and preferred stock investments increased by $400 million from $9.4 billion at June 30, 2012 to $9.8 billion at June 30, 2013. The rise in this asset category was mainly the result of strong returns for domestic equity, international equity, and master limited partnerships, as well as reallocation of exposure from other asset classes to master limited partnerships. Collective trust funds rose by $800 million from $10.5 billion at June 30, 2012 to $11.3 billion at June 30, 2013 mostly due to a reallocation of exposure from other asset classes and an increase in investment income. Real estate investments increased by $800 million from $6.0 billion at June 30, 2012 to $6.8 billion at June 30, 2013 due to contributions to new and existing partnerships combined with valuation increases in partnership portfolio holdings. Alternative investments decreased by $300 million from $12.9 billion at June 30, 2012 to $12.6 billion at June 30, 2013 due to significant partnership distributions which exceeded contributions to new and existing partnerships combined with valuation increases in partnership portfolio holdings.

Short-term investments (cash and cash equivalents) decreased by $3.2 billion from $5.8 billion at June 30, 2011 to $2.6 billion at June 30, 2012. This asset class was overweighted at June 30, 2011 and underweighted at June 30, 2012 according to the asset allocation plans approved by the Board. Due to manager terminations, reallocation of investments and funding for benefit payments, PSERS decreased its short-term investments during FY 2012. Fixed income investments decreased by $1.3 billion from $8.5 billion at June 30, 2011 to $7.2 billion at June 30, 2012 mostly due to manager terminations and reallocation of exposure to other asset classes during FY 2012. Common and preferred stock investments also decreased by $1.9 billion from $11.3 billion at June 30, 2011 to $9.4 billion at June 30, 2012. The reduction in this asset category was mainly the result of negative returns in the international equity market. Collective trust funds rose by $2.2 billion from $8.3 billion at June 30, 2011 to $10.5 billion at June 30, 2012 mostly due to a reallocation of exposure from other asset classes. Real estate investments increased by $700 million from $5.3 billion at June 30, 2011 to $6.0 billion at June 30, 2012 due to contributions to new and existing partnerships combined with a recovery of value in partnership portfolio holdings. Alternative investments increased by $300 million from $12.6 billion at June 30, 2011 to $12.9 billion at June 30, 2012 due to contributions to new and existing partnerships combined with valuation increases in partnership portfolio holdings.

Securities Lending

The System experienced only a slight change in net income from securities lending activities from $8.3 million in FY 2012 to $8.2 million in FY 2013 as a small improvement in spreads was offset by a decrease in volume.

Contributions

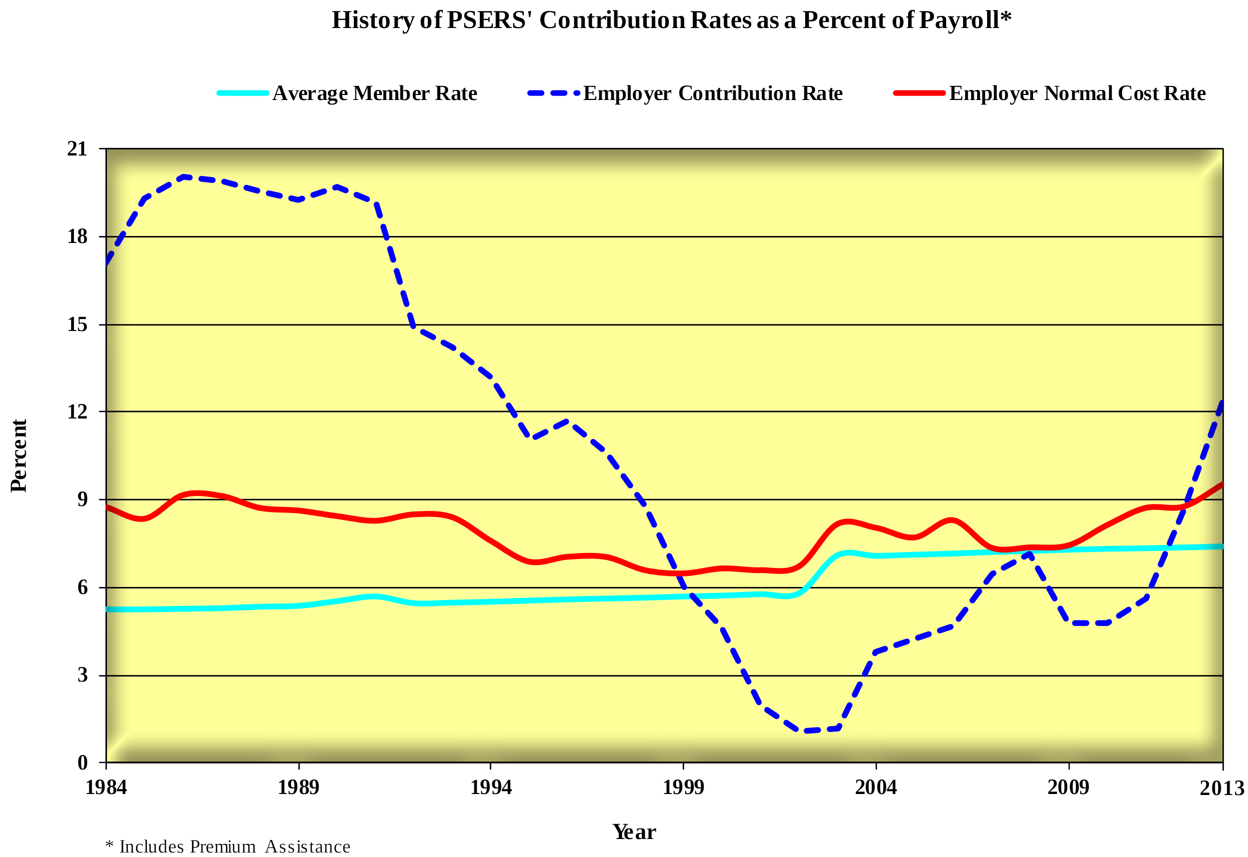
Employer contributions increased from $1.1 billion in FY 2012 to $1.6 billion in FY 2013 due to the increase in the total employer contribution rate from 8.65% in FY 2012 to 12.36% in FY 2013.

Total member contributions increased from $952.9 million in FY 2012 to $991.1 million in FY 2013 due to a $40 million increase in purchase of service contributions and a small increase in the average member contribution rate. The average member contribution rate for pension increased from 7.37% in FY 2012 to 7.40% in FY 2013. These increases were partially offset by a 1% decrease in active member payroll. Total member contributions decreased from $1.0 billion in FY 2011 to $952.9 million in FY 2012 due to a decrease in active member payroll for pension offset by a slight increase in the average member contribution rate. The average member contribution rate for pension increased from 7.34% in FY 2011 to 7.37% in FY 2012.

A thirty-year history of PSERS' contribution rates is presented on the next page.

As a result of an increase in service credit purchases by members from FY 2012 to FY 2013, member contribution receivables increased from $290.1 million at June 30, 2012 to $312.0 million at June 30, 2013. The increase in the employer contribution rate from FY 2012 to FY 2013 combined with an increase in employer cost of service credit purchases resulted in the employer contribution receivable rising from $319.2 million at June 30, 2012 to $451.8 million at June 30, 2013.

Management's Discussion and Analysis (continued)



Pennsylvania Act 120 of 2010

On November 23, 2010, the Governor signed HB 2497 into law. The legislation is now known as Act 120 of 2010.

Act 120 preserves the benefits of existing members and includes a series of actuarial and funding changes to PSERS and benefit reductions for individuals who become new members of PSERS on or after July 1, 2011. The Act created two new membership classes, T-E and T-F.

Act 120 has a projected net savings of $1.38 billion thru FY 2044 as the $24.65 billion of projected savings from benefit reductions is offset by the $23.27 billion cost of deferring contributions for budgetary purposes. Act 120 addressed the pending employer contribution rates spike projected for FY 2013 by smoothing the projected rate increases over a five- to nine-year time period. In addition, the benefit reductions and risk sharing provisions for new members on July 1, 2011 and thereafter have created a low employer cost structure for new members and shifted some of the investment risk to members. The employer normal cost for Act 120 members is 68% less than pre-Act 120 members as the benefit plan is primarily member funded.

Act 120 New Member Highlights

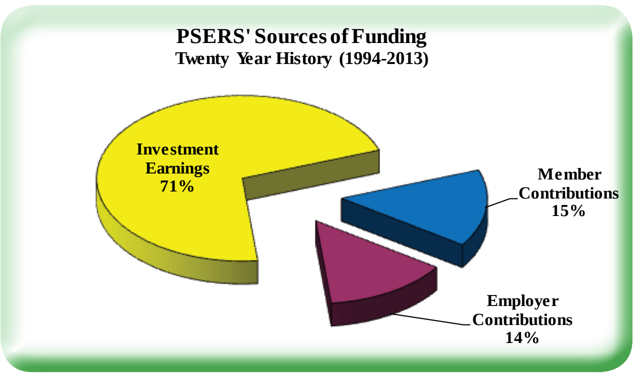
- Reduced benefit accrual by 20% from 2.5% to 2% of salary for each year of service and retained employee contributions at pre-reform levels
- Increased normal retirement age
- Eliminated lump sum withdrawals of contributions and interest at retirement
- Extended vesting period from five to ten years
- Required that members purchase Non Qualifying Part Time (NQPT) service and most types of nonschool or nonstate service credit (other than military service) at full actuarial cost of the service
- Created "shared risk" to allow increased employee contributions for investment underperformance
- Capped growth of employer contribution:
  - » 3.0% in FY 2012
  - » 3.5% in FY 2013
  - » 4.5% each year thereafter until no longer needed
- Re-amortized the System's existing liabilities over 24 years through an actuarial "Fresh Start"

In addition to the changes detailed above, the bill also prohibits the use of pension obligation bonds (POBs) for funding liabilities. POBs are bonds issued by a state or local government to pay its obligation to the pension fund.

Management's Discussion and Analysis (continued)

Investment Income

Net investment income increased from $1.1 billion in FY 2012 to $4.1 billion in FY 2013, which is consistent with the increase in the investment rate of return from 3.43% for FY 2012 to 7.96% for FY 2013. Net investment income decreased from $9.2 billion in FY 2011 to $1.1 billion in FY 2012, which is consistent with the decrease in the investment rate of return from 20.37% for FY 2011 to 3.43% for FY 2012. As depicted in the following chart, investment earnings provided 71% of PSERS' funding over the past 20 years. Net investment income also includes investment expenses as a deduction. The "Total PSERS' Benefits and Expenses" section that follows includes an analysis of investment expenses.



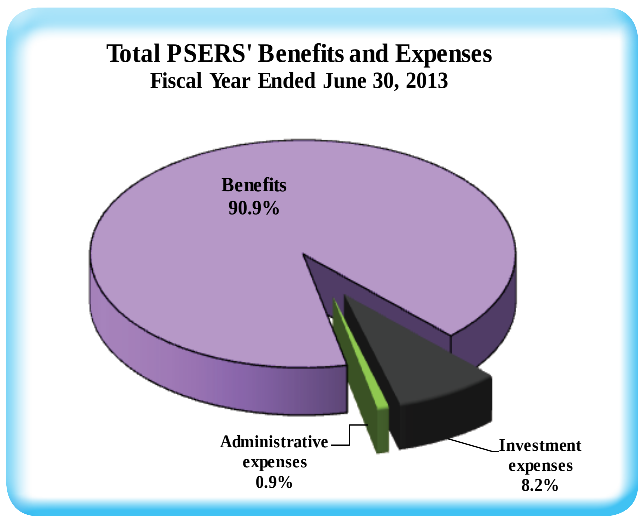
Total PSERS' Benefits and Expenses

The primary source of expense during FY 2013 was for the payment of benefits approximating $6.3 billion. The breakdown consisted of $6.0 billion for Pension, $100.1 million for the PA program, and $229.0 million for HOP benefits. The chart at the end of this page illustrates the significant portion of expenses attributable to benefit payments.

Total PSERS' benefit expense increased from $6.0 billion in FY 2012 to $6.3 billion in FY 2013. The increase is attributable to an ongoing increase to the average monthly benefit, higher lump sum payments, and an increase in the number of members receiving benefits. There was an increase in fourth quarter retirements in FY 2013 versus the same period in FY 2012, resulting in a higher pension benefits payable figure at June 30, 2013 of $747.6 million compared to $495.0 million at June 30, 2012. New retirements during FY 2013 increased by approximately 1% from FY 2012. Benefit expense increased from $5.6 billion in FY 2011 to $6.0 billion in FY 2012. The increase is attributable to higher lump sum payments as well as an ongoing increase to the average monthly benefit and an increase in the number of members receiving benefits.

Investment expenses increased by $76.3 million from $481.3 million in FY 2012 to $557.6 million in FY 2013 mainly due to an increase in management fees in the collective trust fund and alternative investment asset classes. The rise in the collective trust fund asset class is mainly attributable to an increase in performance fees due to the strong performance this asset class had for FY 2013. The rise in the alternative investment class is attributable to changes in fee structure brought on by partnerships maturing. Investment expenses decreased by $33.4 million from $514.7 million in FY 2011 to $481.3 million in FY 2012 mainly due to a decline in management fees in the real estate and alternative investment asset classes. This reduction is widely attributable to changes in fee structure brought on by partnerships maturing. Also contributing to this change was a decrease in performance fees in the public market sector from FY 2011 to FY 2012.

Administrative expenses increased by $5.7 million from $56.5 million during FY 2012 compared to $62.2 million during FY 2013 due to an increase in the administrative costs in the HOP from increasing enrollments and other information technology expenditures. Administrative expenses decreased by $1.2 million from $57.7 million during FY 2011 compared to $56.5 million during FY 2012.



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 supplementary information to the financial statements which contain the financial position and activities for the two postemployment healthcare programs.

Health Insurance Premium Assistance (PA) Program

Financial Highlights

- Total plan net position increased by $6.6 million in FY 2013 due to an increase in employer contributions driven by the increase in the contribution rate from 0.65% for FY 2012 to 0.86% for the FY 2013. The change from June 30, 2011 to June 30, 2012 was a decrease of $17.5 million due to a decrease in employer contributions and an increase in benefit payments.
- Total receivables increased from $29.1 million at June 30, 2012 to $38.2 million at June 30, 2013 due to the increase in the employer contribution rate.
- Investments decreased from $65.1 million at June 30, 2012 to $62.6 million at June 30, 2013 due to lower investment returns.

Contributions

Total employer contributions for PA increased from $81.3 million in FY 2012 to $108.7 million in FY 2013 due to the increase in the employer contribution rate from FY 2012 to FY 2013. The contribution rate had increased from 0.65% in FY 2012 to 0.86% in FY 2013.

Investment Income

Total investment income for PA decreased from $0.4 million in FY 2012 to $0.1 million in FY 2013. The decrease is due to declining short-term interest rates from FY 2012 to FY 2013 and a reduction in investments.

Benefits and Expenses

Overall expenses for PA increased from $99.3 million in FY 2012 to $102.2 million in FY 2013. This increase is primarily due to the increase in number of members receiving premium assistance benefits.

Health Options Program (HOP)

Financial Highlights

- Total plan net position increased by $23.8 million in FY 2013 primarily due to the rise in contributions that outpaced the rise in expenses. The change from June 30, 2011 to June 30, 2012 is also primarily due to the rise in contributions that outpaced the rise in expenses.
- Total receivables increased from $16.8 million at June 30, 2012 to $23.0 million at June 30, 2013. The increase is tied primarily to higher contributions due to an increase in participation in the HOP.
- Investments increased from $157.8 million at June 30, 2012 to $175.7 million at June 30, 2013 due to increased participation, which increased contributions and improved cash flow.
- Total liabilities increased 1.0% from June 30, 2012 to June 30, 2013. The increase is due to increased participation in the program slightly offset by a decrease in claims payable.

Contributions

Total participant premiums and Centers for Medicare and Medicaid Services (CMS) contributions for HOP increased from $247.1 million in FY 2012 to $275.2 million in FY 2013. This increase is representative of the 8.3% increase in plan participation.

Investment Income

Investment income for HOP remained at $0.2 million for FY 2012 and FY 2013.

Benefits and Expenses

Overall expenses for HOP increased from $233.2 million in FY 2012 to $251.7 million in FY 2013. This increase is primarily due to the increase in number of members enrolled in the HOP combined with an increase in the administrative costs.

Management's Discussion and Analysis (continued)

Premium Assistance

Summary of Plan Net Position

(Dollar Amounts in Thousands)

Assets:	FY 2013	Increase (Decrease)	FY 2012	Increase (Decrease)	FY 2011
Receivables	**$ 38,210**	$ 9,108	$ 29,102	$ (3,519)	$ 32,621
Investments	**62,577**	(2,495)	65,072	(15,515)	80,587
Total Assets	**100,787**	6,613	94,174	(19,034)	113,208
Liabilities					
Payables and other liabilities	**438**	17	421	(1,529)	1,950
Total Liabilities	**438**	17	421	(1,529)	1,950
Plan Net Position	**$ 100,349**	$ 6,596	$ 93,753	$ (17,505)	$ 111,258

Summary of Changes in Plan Net Position

Additions:	FY 2013	Increase (Decrease)	FY 2012	Increase (Decrease)	FY 2011
Contributions	**$ 108,676**	$ 27,333	$ 81,343	$ (7,899)	$ 89,242
Net Investment Income	**110**	(313)	423	(268)	691
Total Additions	**108,786**	27,020	81,766	(8,167)	89,933
Deductions:					
Benefit Expenses	**100,078**	2,872	97,206	3,688	93,518
Administrative Expenses	**2,112**	47	2,065	77	1,988
Total Deductions	**102,190**	2,919	99,271	3,765	95,506
Changes in Plan Net Position	**$ 6,596**	$ 24,101	$ (17,505)	$ (11,932)	$ (5,573)

Health Options Program

Summary of Plan Net Position

(Dollar Amounts in Thousands)

Assets:	FY 2013	Increase (Decrease)	FY 2012	Increase (Decrease)	FY 2011
Receivables	**$ 23,043**	$ 6,230	$ 16,813	$ 3,044	$ 13,769
Investments	**175,690**	17,905	157,785	11,884	145,901
Total Assets	**198,733**	24,135	174,598	14,928	159,670
Liabilities					
Payables and other liabilities	**38,946**	378	38,568	827	37,741
Total Liabilities	**38,946**	378	38,568	827	37,741
Plan Net Position	**$ 159,787**	$ 23,757	$ 136,030	$ 14,101	$ 121,929

Summary of Changes in Plan Net Position

Additions:	FY 2013	Increase (Decrease)	FY 2012	Increase (Decrease)	FY 2011
Participant premiums and CMS	**$ 275,214**	$ 28,110	$ 247,104	$ 14,010	$ 233,094
Net Investment Income	**226**	(11)	237	(73)	310
Total Additions	**275,440**	28,099	247,341	13,937	233,404
Deductions:					
Benefit Expenses	**229,039**	16,012	213,027	(1,940)	214,967
Administrative Expenses	**22,644**	2,431	20,213	1,484	18,729
Total Deductions	**251,683**	18,443	233,240	(456)	233,696
Changes in Plan Net Position	**$ 23,757**	$ 9,656	$ 14,101	14,393	$ (292)

Statements of Plan Net Position
June 30, 2013 and 2012
(Dollar Amounts in Thousands)

	2013			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 306,802	$ 5,197	$ 26	$ 312,025
Employers	421,104	30,685	-	451,789
Investment income	155,306	81	19	155,406
Investment proceeds	228,612	-	-	228,612
CMS Part D and prescriptions	-	-	22,849	22,849
Miscellaneous	524	2,247	149	2,920
Total Receivables	1,112,348	38,210	23,043	1,173,601
Investments, at fair value:				
Short-term	3,003,872	62,577	175,690	3,242,139
Fixed income	5,828,418	-	-	5,828,418
Common and preferred stock	9,762,527	-	-	9,762,527
Collective trust funds	11,280,497	-	-	11,280,497
Real estate	6,797,535	-	-	6,797,535
Alternative investments	12,623,291	-	-	12,623,291
Total Investments	49,296,140	62,577	175,690	49,534,407
Securities lending collateral pool	615,159	-	-	615,159
Capital assets (net of accumulated depreciation $22,127)	22,404	-	-	22,404
Total Assets	51,046,051	100,787	198,733	51,345,571
Liabilities:				
Accounts payable and accrued expenses	148,264	336	1,466	150,066
Benefits payable	747,575	102	17,094	764,771
Participant premium advances	-	-	20,386	20,386
Investment purchases and other liabilities	519,492	-	-	519,492
Obligations under securities lending	615,159	-	-	615,159
Total Liabilities	2,030,490	438	38,946	2,069,874
Net position held in trust for pension and postemployment healthcare benefits	$ 49,015,561	$ 100,349	$ 159,787	$ 49,275,697

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

Statements of Plan Net Position
June 30, 2013 and 2012
(Dollar Amounts in Thousands)

	2012			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 284,565	$ 5,492	$ 19	$ 290,076
Employers	296,374	22,807	-	319,181
Investment income	284,451	251	28	284,730
Investment proceeds	521,217	-	-	521,217
CMS Part D and prescriptions	-	-	16,615	16,615
Miscellaneous	589	552	151	1,292
Total Receivables	1,387,196	29,102	16,813	1,433,111
Investments, at fair value:				
Short-term	2,426,638	65,072	157,785	2,649,495
Fixed income	7,207,558	-	-	7,207,558
Common and preferred stock	9,357,122	-	-	9,357,122
Collective trust funds	10,460,482	-	-	10,460,482
Real estate	6,003,753	-	-	6,003,753
Alternative investments	12,862,439	-	-	12,862,439
Total Investments	48,317,992	65,072	157,785	48,540,849
Securities lending collateral pool	506,804	-	-	506,804
Capital assets (net of accumulated depreciation $20,044)	22,333	-	-	22,333
Total Assets	50,234,325	94,174	174,598	50,503,097
Liabilities:				
Accounts payable and accrued expenses	106,413	314	1,571	108,298
Benefits payable	494,996	107	18,499	513,602
Participant premium advances	-	-	18,498	18,498
Investment purchases and other liabilities	592,316	-	-	592,316
Obligations under securities lending	506,804	-	-	506,804
Total Liabilities	1,700,529	421	38,568	1,739,518
Net position held in trust for pension and postemployment healthcare benefits	$ 48,533,796	$ 93,753	$ 136,030	$ 48,763,579

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

Statements of Changes in Plan Net Position
Years Ended June 30, 2013 and 2012
(Dollar Amounts in Thousands)

	2013			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 991,087	$ -	$ -	$ 991,087
Employers	1,446,402	108,676	-	1,555,078
Total contributions	2,437,489	108,676	-	2,546,165
Participant premiums	-	-	234,516	234,516
Centers for Medicare & Medicaid Services	-	-	40,698	40,698
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	3,428,449	(1,140)	-	3,427,309
Short-term	7,758	1,306	226	9,290
Fixed income	228,760	-	-	228,760
Common and preferred stock	255,248	-	-	255,248
Collective trust funds	17,749	-	-	17,749
Real estate	251,742	-	-	251,742
Alternative investments	485,622	-	-	485,622
Total investment activity income	4,675,328	166	226	4,675,720
Investment expenses	(557,533)	(56)	-	(557,589)
Net income from investing activities	4,117,795	110	226	4,118,131
From securities lending activities:				
Securities lending income	9,541	-	-	9,541
Securities lending expense	(1,334)	-	-	(1,334)
Net income from securities lending activities	8,207	-	-	8,207
Total net investment income	4,126,002	110	226	4,126,338
Total Additions	6,563,491	108,786	275,440	6,947,717
Deductions:				
Benefits	6,016,892	100,078	229,039	6,346,009
Refunds of contributions	24,461	-	-	24,461
Net transfer to State Employees' Retirement System	2,893	-	-	2,893
Administrative expenses	37,480	2,112	22,644	62,236
Total Deductions	6,081,726	102,190	251,683	6,435,599
Net increase (decrease)	481,765	6,596	23,757	512,118
Net position held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	48,533,796	93,753	136,030	48,763,579
Balance, end of year	$ 49,015,561	$ 100,349	$ 159,787	$ 49,275,697

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

Statements of Changes in Plan Net Position
Years Ended June 30, 2013 and 2012
(Dollar Amounts in Thousands)

	2012			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 952,887	$ -	$ -	$ 952,887
Employers	1,004,584	81,343	-	1,085,927
Total contributions	1,957,471	81,343	-	2,038,814
Participant premiums	-	-	213,642	213,642
Centers for Medicare & Medicaid Services	-	-	33,462	33,462
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	539,129	(1,543)	-	537,586
Short-term	8,422	2,018	237	10,677
Fixed income	328,492	-	-	328,492
Common and preferred stock	258,258	-	-	258,258
Collective trust funds	5,209	-	-	5,209
Real estate	170,991	-	-	170,991
Alternative investments	255,769	-	-	255,769
Total investment activity income	1,566,270	475	237	1,566,982
Investment expenses	(481,234)	(52)	-	(481,286)
Net income from investing activities	1,085,036	423	237	1,085,696
From securities lending activities:				
Securities lending income	9,457	-	-	9,457
Securities lending expense	(1,174)	-	-	(1,174)
Net income from securities lending activities	8,283	-	-	8,283
Total net investment income	1,093,319	423	237	1,093,979
Total Additions	3,050,790	81,766	247,341	3,379,897
Deductions:				
Benefits	5,655,306	97,206	213,027	5,965,539
Refunds of contributions	24,675	-	-	24,675
Net transfer to State Employees' Retirement System	2,765	-	-	2,765
Administrative expenses	34,242	2,065	20,213	56,520
Total Deductions	5,716,988	99,271	233,240	6,049,499
Net increase (decrease)	(2,666,198)	(17,505)	14,101	(2,669,602)
Net position held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	51,199,994	111,258	121,929	51,433,181
Balance, end of year	$ 48,533,796	$ 93,753	$ 136,030	$ 48,763,579

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

Notes to Financial Statements
Years Ended June 30, 2013 and 2012

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). As of June 30, 2013, there were 797 participating employers, generally school districts. Membership as of June 30, 2012, 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. Act 120 of 2010 (Act 120) preserves the benefits of existing members and introduced benefit reductions for individuals who become new members on or after July 1, 2011. Act 120 created two new membership classes, Membership Class T-E (Class T-E) and Membership Class T-F (Class T-F). To qualify for normal retirement, Class T-E and Class T-F members must work until age 65 with a minimum of 3 years of service or attain a total combination of age and service that is equal to or greater than 92 with a minimum of 35 years of service. The Internal Revenue Code (IRC) limitation on the annual benefits for a defined benefit plan was $205,000 for 2013 and $200,000 for 2012.

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. For members whose membership started prior to July 1, 2011, after completion of five years of

Currently employed members:		
Vested	195,108	
Nonvested	78,396	
Total currently employed members		**273,504**
Retirees and beneficiaries currently receiving benefits	202,015	
Inactive members and vestees entitled to but not receiving benefits	122,286	
Total retirees and other members		**324,301**
Total number of members		**597,805**

Notes to Financial Statements (continued)

PSERS members whose membership started prior to July 1, 2011:		
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%
PSERS members whose membership started on or after July 1, 2011 (Act 120 members):		
Membership Class T-E*		7.50%
Membership Class T-F**		10.30%

* Shared risk program could cause future contribution rates to fluctuate between 7.5% and 9.5%
** Shared risk program could cause future contribution rates to fluctuate between 10.3% and 12.3%

service, a member's right to the defined benefits is vested and early retirement benefits may be elected. For Class T-E and Class T-F members, the right to benefits is vested after ten years of service. Active members may purchase credit for various types of school and non-school service on a lump-sum, installment purchase basis, or through an actuarially calculated benefit reduction. Class T-E and Class T-F members must purchase Non Qualifying Part Time service and most other types of non-school or non-state service credit at full actuarial cost.

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

Death benefits are payable upon the death of an active member who has reached age 62 or who has at least five years of credited service (ten years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death. Benefits may be distributed for a deceased member by a nonspouse beneficiary via a direct trustee-to-trustee transfer to an Individual Retirement Account (IRA), which is treated as an inherited account.

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. All non-vested members may receive a refund of their individual balance of member contributions and interest from the Members' Savings Account upon termination of public school employment. Vested members who enrolled prior to July 1, 2011 may elect to receive a return of their accumulated contributions and interest upon their retirement which results in a reduced monthly annuity. Vested Class T-E and Class T-F members cannot withdraw their individual balance from the Members' Savings Account upon their retirement.

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 are determined using the entry age normal actuarial funding method. This method determines the amount of contributions necessary to (1) fully fund all current costs, (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 Act 120) and are dependent upon membership class. The contribution rates based on qualified member compensation for virtually all members are presented in the table at the top of this page. The IRC limitation on the annual compensation for a

Notes to Financial Statements (continued)

defined benefit plan was $250,000 for 2012 and $255,000 for 2013.

Active members who enrolled between July 1, 2001, the effective date of Act 9, and June 30, 2011 are Membership Class T-D (Class T-D). The contribution rates for all members in Class T-D were effective January 1, 2002. For Act 120 members, all new members automatically become Class T-E members. New members, however, have a one-time opportunity to elect Class T-F within 45 days of receiving written notification from PSERS. Failure to elect Class T-F at time of original eligibility will make the member ineligible for Class T-F forever. Act 120 introduced a shared risk program that could affect Class T-E and Class T-F members' contribution rates in future fiscal years. With the shared risk program Class T-E and Class T-F members benefit when investments of the fund are doing well and share some of the risk when investments underperform. The member contribution rate will stay within the specified range allotted for Class T-E or Class T-F; but could increase or decrease by .5% every three years starting July 1, 2015, dependent on investment performance of PSERS. The member contribution rate will never go below the base rate of 7.5% for Class T-E and 10.3% for Class T-F members, or above 9.5% for Class T-E and 12.3% for Class T-F members.

The total contribution rate for the employers and the Commonwealth was 12.36% and 8.65% of qualified compensation for the years ended June 30, 2013 and 2012, respectively.

Act 120 suppresses the employer contribution rate by using rate caps in future years to keep the rate from rising too high, too fast for budgetary purposes.

The rate caps limit the amount the pension component of the employer contribution rate can increase over the prior year's rate as follows:

- FY 2012 - not more than 3.0% plus the premium assistance contribution rate
- FY 2013 - not more than 3.5% plus the premium assistance contribution rate
- FY 2014 and thereafter - not more than 4.5% plus the premium assistance contribution rate

The rate cap remains at 4.5% until the rate cap no longer applies, i.e. the rise in the employer contribution rate is less than the rate cap in effect at that time. Once the rate caps no longer apply, the employer normal cost becomes the contribution rate floor.

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. All school entity employers are reimbursed by the Commonwealth at least 50% of the total employer contributions based on the total contribution rate. The Commonwealth reimburses certain school entity employers at a rate greater than 50% based upon non-pension criteria which stipulate that the entity must have a Commonwealth Department of Education calculated Market Value / Personal Income Aid Ratio in excess of .5000. The Commonwealth remits 50% of the total 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 Position.

A portion of each employer and Commonwealth contribution to the System is set aside for the funding of the Health Insurance Premium Assistance (PA) Program. The PA Program contribution rate is set at a level necessary to establish reserves sufficient to provide PA Program 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 the PA Program was 0.86% and 0.65% for the years ended June 30, 2013 and 2012, respectively.

iii. Funding Status and Annual Required Contributions (ARC)

As of June 30, 2012, the most recent actuarial valuation, the plan was 66.3% funded. The actuarial accrued liability for pension benefits was $87.7 billion, and the actuarial value of pension assets was $58.2 billion, resulting in an unfunded accrued liability of $29.5 billion. The covered payroll of active members was $12.7 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 232.3%.

For fiscal year ended June 30, 2013, the ARC was $3.1 billion. The actual employer contributions, net of purchase of service contributions, for fiscal year ended June 30, 2013 was $1.4 billion resulting in a 46% contributed rate.

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

Notes to Financial Statements (continued)

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 is used in determining benefit liabilities and normal cost. Act 120 modified the funding method. The outstanding balance of the unfunded accrued liability as of June 30, 2010 was re-amortized over a 24-year period with amortization payments based on level percentage of pay. Future valuation experience gains or losses, and changes in the unfunded accrued liability resulting from changes in actuarial assumptions and methods, are amortized over a 24-year period as a level percent of pay. Future increases in accrued liability enacted by legislation after June 30, 2010 will be funded over a 10-year period as a level percent of pay.

For purposes of determining the annual required contributions under GASB 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) the amortization payment will be set equal to the level dollar amount that will amortize the unfunded accrued liability over a period of 30 years.

(b) Asset Valuation Method

For actuarial purposes, Act 120 extended the asset smoothing from five years to ten years. Assets are valued using a ten-year moving market average value that will recognize the actuarial expected investment return immediately and spread the difference between actual and expected investment return beginning with fiscal year ended June 30, 2010 over a period of ten years (the averaging period is being phased-in from fiscal year 2006). Previously, PSERS recognized the actuarial expected return immediately and spread the difference between actual and expected investment return over a period of five years.

(c) Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2012, the date of the most recent actuarial valuation, include:

- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Amortization method - level percent of pay
- 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 liabilities 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 the actuarial accrued liability for the remaining lifetimes of the retirees and beneficiaries and any deficiency is then funded by a transfer from the State Accumulation Account.

The actuarial accrued liability for active and inactive members is calculated on the projected benefit basis using the entry-age normal actuarial cost method under which the present value of each member's expected benefit payable at retirement or death is determined. The 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 (PA) Program for all eligible annuitants who qualify or elect to participate. Under this program, employer contribution rates for the PA Program are established to provide reserves in the Health Insurance Account that are sufficient for the payment of PA Program 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. As of June 30, 2013 there were no assumed future benefit increases to participating eligible annuitants in the PA Program.

Notes to Financial Statements (continued)

(b) Funding Status and Annual Required Contributions

As of June 30, 2012, the most recent actuarial valuation, the plan was 6.9% funded. The actuarial accrued liability for benefits was $1.365 billion, and the actuarial value of assets was $93.8 million, resulting in an unfunded accrued liability of $1.271 billion. The covered payroll of active members was $12.7 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 10.0%.

For fiscal year ended June 30, 2013, the ARC was $113.0 million. The actual employer contributions for fiscal year ended June 30, 2013 was $108.0 million resulting in a 96% contributed rate.

The Schedule of Funding Progress and the Schedule of Employer Contributions included as Required Supplementary Information following the notes to the financial statements provide multiple year 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 Program account, and the contribution required is the amount necessary to establish reserves sufficient to provide PA Program 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 normal 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 using level dollar open amortization. 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.

Each annual actuarial valuation for the PA Program includes calculations that are based on the PA benefits provided under the terms of the substantive plan in effect at the time of each valuation. The valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarial calculations for the PA Program reflect a long-term perspective. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Other significant actuarial assumptions employed by the actuary as of June 30, 2012, the date of the most recent actuarial valuation were:

- Investment return - 7.50%, includes inflation at 3.00%
- Salary increases - 5.50%, which reflects an allowance for inflation of 3.00%, real wage growth of 1%, and merit or seniority increases of 1.50%
- Multiple decrement tables - mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary

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. 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 56,719 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, 2013 and 2012 PSERS recorded $12,810,000 and $14,389,000, 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.

Notes to Financial Statements (continued)

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 position 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 securities 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 securities exchanges or securities pricing services. Securities which are not traded on a national securities 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, 2013 and 2012, $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, 2015. The line is payable at an interest rate equivalent to the lender's commercial paper rate plus 75 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 based on published market prices and quotations from national securities exchanges or securities pricing services. The changes in market value are 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. Investments that are not subject to this oversight are subject to annual independent audits.

In accordance with PSERS' investment guidelines, cash collateral from securities loaned is invested in one of two collateral investment pools, the first of which is denominated in U.S. dollars (USD) and the second in Euros. The USD pool is invested entirely in overnight repurchase agreements carried at amortized cost which approximates fair value. The Euro pool is invested in asset-backed floating rate notes which are marked-to-market daily based on published market prices and quotations from national securities exchanges or securities pricing services. In addition to the floating rate notes, the Euro pool is invested in repurchase agreements.

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.

Notes to Financial Statements (continued)

(C) Capital Assets

Capital assets consist primarily of data processing equipment and software and internally developed computer software recognized as intangible assets. Capital assets are depreciated using the straight-line method over an estimated useful life of five years. Intangible assets are amortized using the straight-line method over an estimated useful life of twenty years for assets purchased prior to July 1, 2012 and 5 years for assets purchased after June 30, 2012.

(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 161 maximum days paid. As of June 30, 2013 and 2012, $3,237,000 and $3,452,000, respectively, were 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 Position.

(F) Participant Premium Advances

Premium advances in the fiscal years ended June 30, 2013 and 2012 are for HOP premiums related to health care coverage to be provided in calendar year 2013 and 2012, 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.

(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 2012 amounts have been reclassified in conformity with the 2013 presentation. These reclassifications had no effect on net position held in trust for pension benefits or the change in plan net position.

(J) Members Receivables

Members receivables include an amount for members' obligations to the System for the purchase of service credit. 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 monthly payments of the withheld amounts to PSERS.
- Accept an actuarial reduction debt through which the amount of the purchase plus accumulated interest will reduce the member's retirement or death benefit.
- Rollover funds from an eligible distribution.

The following is a summary of the members receivables at June 30, 2013 and 2012:

	(Dollar Amounts in Thousands)	
	2013	2012
Pension:		
Member contributions	**$ 71,895**	$ 76,202
Purchase of service	**229,130**	202,271
Other	**5,777**	6,092
Total Members Receivable	**$ 306,802**	$ 284,565

Notes to Financial Statements (continued)

(K) Adoption of New Accounting Standards

During the year ended June 30, 2013 the System adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement provides accounting and financial reporting requirements to address the presentation issues associated with the new financial position elements created in GASB's Concepts Statement No. 4, "Elements of Financial Statements." This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.*

In June 2011 GASB issued GASB Statement No. 64 (GASB 64), *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. GASB 64 became effective during FY 2012 and was issued to provide government entities guidance to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty or a swap counterparty's credit support provider is replaced. Upon examination of the provisions of GASB 64, it was determined to have no current impact on PSERS.

3. Description of Accounts

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

(A) State Accumulation Account

The State Accumulation Account is credited with the contributions of the Commonwealth and the employers. Additionally, interest earnings of the System (after crediting the Members' Savings Account with 4% interest and the reserve for retirement with 5.50% statutory interest) are credited to this account. Each year, the necessary amounts, as determined by the actuary for the payment of retirement, disabilities, and death benefits, are transferred from the State Accumulation Account to the Annuity Reserve Account increasing the reserve credit to the 7.50% 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%.

	(Dollar Amounts in Thousands) 2013	2012
Pension:		
State Accumulation Account	$ (13,758,928)	$ (13,746,778)
Members' Savings Account	13,089,342	12,535,442
Annuity Reserve Account	49,685,147	49,745,132
	$ 49,015,561	$ 48,533,796
Postemployment Healthcare:		
Health Insurance Account	$ 100,349	$ 93,753
Health Insurance Program Account	159,787	136,030
	$ 260,136	$ 229,783

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

(E) Health Insurance Program Account

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

Notes to Financial Statements (continued)

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. See the summary of investments table on the following page.

(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 $87,258,000 and $69,588,000 at June 30, 2013 and 2012, 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 Position.

(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, 2013 and 2012 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.

Notes to Financial Statements (continued)

A summary of the fair value of investments at June 30, 2013 and 2012 follows:

	(Dollar Amounts in Thousands)	
	2013	2012
Pension investments:		
Short-term:		
PSERS Short-Term Investment Fund	**$ 2,267,954**	$ 1,621,607
Other domestic short-term	**606,776**	584,277
International short-term	**129,142**	220,754
	3,003,872	2,426,638
Fixed income:		
Domestic asset-backed and mortgage-backed securities	**1,871,421**	2,580,131
U.S. government and agency obligations	**1,344,866**	1,961,606
Domestic corporate and taxable municipal bonds	**1,378,989**	1,426,219
International fixed income	**1,233,142**	1,239,602
	5,828,418	7,207,558
Common and preferred stock:		
Domestic common and preferred stock	**5,634,776**	5,056,850
International common and preferred stock	**4,127,751**	4,300,272
	9,762,527	9,357,122
Collective trust funds	**11,280,497**	10,460,482
Real estate:		
Equity real estate	**6,526,261**	5,767,203
Directly-owned real estate	**271,274**	236,550
	6,797,535	6,003,753
Alternative investments:		
Private equity	**8,380,952**	8,054,170
Private debt	**3,399,037**	3,918,894
Venture capital	**843,302**	889,375
	12,623,291	12,862,439
Pension investments at fair value	**$ 49,296,140**	$ 48,317,992

Postemployment healthcare investments:		
Premium Assistance Program:		
PSERS Short-Term Investment Fund	**$ 42,994**	$ 21,995
Other domestic short-term	**19,583**	43,077
	62,577	65,072
Health Options Program:		
PSERS Short-Term Investment Fund	**88,432**	88,197
Other domestic short-term	**87,258**	69,588
	175,690	157,785
Postemployment healthcare investments at fair value	**$ 238,267**	$ 222,857

Notes to Financial Statements (continued)

(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 23.0% of the investment portfolio. The fixed income target allocation consists of:

- An allocation of 5.0% of the portfolio has been made to the U.S. core plus segment of the fixed income asset class benchmarked to the Barclays Capital U.S. Aggregate Index. The U.S. 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 6.0% of the portfolio has been made to the high yield segment of the fixed income asset class benchmarked to the Barclays Capital U.S. High Yield Index. The high yield 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 6.0% 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. The portfolio manager is permitted to leverage the portfolio using TIPS total return swaps up to 3:1.

- An allocation of 1.0% of the portfolio has been made to the non-U.S. developed markets fixed income asset class benchmarked to the Barclays Capital Global Aggregate GDP-weighted Developed Market ex-U.S. (Unhedged) Index composed of primarily investment grade, relatively liquid non-U.S. public bonds with an overall weighted-average NRSRO credit rating of A or better.

- An allocation of 2.0% of the portfolio has been made to the emerging markets fixed income asset class benchmarked to the Barclays Capital EM Local Currency-Government-MV Weighted (Unhedged) -10% Country Cap 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 3.0% 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 AA 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, 2013 and 2012.

	(Dollar Amounts in Thousands)	
	2013	2012
Quality Rating	**Fair Value**	Fair Value
AAA	**$ 462,587**	$ 764,417
AA	**732,914**	473,928
A	**501,547**	705,148
BBB	**773,066**	702,523
BB and Below	**901,324**	971,777
NR*	**10,777,373**	8,055,914
Total Exposed to Credit Risk	**14,148,811**	11,673,707
US Government Guaranteed**	**2,572,807**	3,638,615
Total Fixed Income and Short-Term Investments	**$ 16,721,618**	$ 15,312,322

* Not Rated securities include $7,651,061 and $5,455,269 in collective trust funds at June 30, 2013 and 2012 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, 2013 and 2012.

	(Dollar Amounts in Thousands)	
	2013	2012
Quality Rating	**Fair Value**	Fair Value
AA	**$ -**	$ (11,394)
A	**(93,228)**	(11,866)
Total Swaps-Total Return	**$ (93,228)**	$ (23,260)

Notes to Financial Statements (continued)

(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%. PSERS measures interest rate risk using option-adjusted duration, which recognizes the fact that yield changes may change the expected cash flows due to embedded options.

At June 30, 2013 and 2012, the System's fixed income portfolio had the following option-adjusted durations by fixed income sector:

(Dollar Amounts in Thousands)

	2013		2012	
Investment Type	**Option-Adjusted Duration**	**Fair Value**	Option-Adjusted Duration	Fair Value
Domestic asset-backed and mortgage-backed securities	**1.8**	**$ 1,871,421**	1.0	$ 2,580,131
U.S. government and agency obligations	**8.6**	**1,344,866**	6.9	1,961,606
Domestic corporate and taxable municipal bonds	**3.6**	**1,378,989**	0.6	1,426,219
International fixed income	**5.4**	**1,233,142**	4.0	1,239,602
Collective trust funds	**4.0**	**7,651,061**	4.3	5,455,269
PSERS Short-Term Investment Fund	**0.1**	**2,399,380**	0.1	1,731,799
Total	**3.6***	**$ 15,878,859**	3.1*	$ 14,394,626

* 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 portfolio duration upward by 0.1 at June 30, 2013 and 2012. The total portfolio option-adjusted duration is calculated by weighting each investment type by fair value.

(e) Foreign Currency Risk

Foreign currency risk is the risk that fluctuations 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, 2013 and 2012, 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 bottom of the page.

(Dollar Amounts in Thousands)

	2013	2012
Currency	**Notional Value**	Notional Value
British pound sterling	**$ 83,290**	$ 82,410
Japanese yen	**65,407**	60,038
Euro	**74,402**	63,260
Canadian dollar	**29,289**	29,455
Australian dollar	**22,700**	22,457
Hong Kong dollar	**267**	-
Total Futures Contracts and Total Return Swaps	**$ 275,355**	$ 257,620

Notes to Financial Statements (continued)

Non-U.S. currency exposures at June 30, 2013 and 2012:

2013

(Dollar Amounts in Thousands)

Currency	Equity	Fixed Income	Alternative Investments & Real Estate	Short-Term*	Total Fair Value
Euro	$ 555,685	$ 217,309	$ 2,697,145	$ (26,730)	$ **3,443,409**
British pound sterling	656,998	41,197	29,062	3,058	**730,315**
Japanese yen	641,692	64,537	-	(9,646)	**696,583**
Canadian dollar	246,348	21,888	47	7,641	**275,924**
Hong Kong dollar	244,622	-	-	77	**244,699**
South Korean won	100,066	44,102	-	33	**144,201**
Swiss franc	191,796	-	-	(48,258)	**143,538**
Brazil real	65,173	67,787	-	(291)	**132,669**
Swedish krona	100,390	170	-	8,657	**109,217**
South African rand	74,211	31,740	-	372	**106,323**
Taiwan new dollar	103,916	-	-	2,193	**106,109**
Mexican new peso	38,304	68,633	-	(2,625)	**104,312**
Other non-U.S. currencies	661,058	320,349	-	(161,824)	**819,583**
Total	$ **3,680,259**	**$ 877,712**	**$ 2,726,254**	**$ (227,343)**	$ **7,056,882**

2012

(Dollar Amounts in Thousands)

Currency	Equity	Fixed Income	Alternative Investments & Real Estate	Short-Term*	Total Fair Value
Euro	$ 573,763	$ 171,451	$ 2,420,337	$ (629,843)	$ **2,535,708**
Japanese yen	675,615	53,696	-	73,113	**802,424**
British pound sterling	772,071	36,716	24,171	(139,358)	**693,600**
Canadian dollar	359,569	22,974	269	17,386	**400,198**
Australian dollar	264,528	-	-	(39,707)	**224,821**
Hong Kong dollar	210,518	-	-	210	**210,728**
Brazil real	52,874	65,855	-	75,055	**193,784**
South African rand	64,243	43,544	-	72,791	**180,578**
New Turkish lira	37,238	39,922	-	101,023	**178,183**
Mexican new peso	10,288	67,619	-	52,407	**130,314**
South Korean won	72,610	42,477	-	(1,328)	**113,759**
Norwegian krone	39,774	2,906	-	70,461	**113,141**
Polish zloty	7,660	36,509	-	62,622	**106,791**
Other non-U.S. currencies	713,324	197,579	-	(438,917)	**471,986**
Total	$ **3,854,075**	**$ 781,248**	**$ 2,444,777**	**$ (724,085)**	$ **6,356,015**

* Includes investment receivables and payables

Notes to Financial Statements (continued)

(C) Securities Lending

In accordance with a contract between the Commonwealth and its custodial agent, the System participates in a securities lending program. Under this program, the custodian, acting as the lending agent, loans securities (equities, fixed income 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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012.

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 were one-day and two-days at June 30, 2013 and 2012, respectively. During the fiscal years ended June 30, 2013 and 2012, 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.

As of June 30, 2013, the fair value of loaned securities was $2,394,222,000, which includes $1,802,924,000 of loaned securities which are collateralized by securities and irrevocable letters of credit that are not included in the Statements of Plan Net Position. The fair value of the associated collateral was $2,556,501,000 of which $615,159,000 was cash. As of June 30, 2012, the fair value of loaned securities was $2,841,486,000, which includes $2,343,034,000 of loaned securities which are collateralized by securities and irrevocable letters of credit that are not included in the Statements of Plan Net Position. The fair value of the associated collateral was $2,962,708,000 of which $506,804,000 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.

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

Notes to Financial Statements (continued)

The table presented below summarizes the aggregate notional or contractual amounts for the System's derivative financial instruments at June 30, 2013 and 2012.

	(Dollar Amounts in Thousands)	
	2013	2012
Futures contracts - long:		
Treasury futures	$ **631,594**	$ 386,242
Eurodollar futures	**3,719**	-
U.S. equity futures	**556,477**	550,224
Non-U.S. equity futures	**238,147**	217,950
Commodity futures	**1,118,598**	1,339,130
Non-U.S. bond futures	**29,059**	-
Futures contracts - short:		
Treasury futures	**147,528**	209,438
Eurodollar futures	**14,200**	49,991
Commodity futures	**29,446**	-
Non-U.S. bond futures	**11,425**	-
Foreign exchange forward and spot contracts, gross	**1,834,065**	9,497,409
Options - calls purchased	**3,952**	5,103,649
Options - puts purchased	**23,684**	5,140,968
Options - calls sold	-	5,751,549
Options - puts sold	**27,792**	5,831,011
Swaps - total return type	**1,686,905**	2,338,655

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, 2013 and 2012 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 fair value of option contracts of $(76,000) and $25,617,000 at June 30, 2013 and 2012, respectively, is included in the Statements of Plan Net Position. During FY 2013, the System discontinued two active currency strategy portfolios which heavily utilized foreign exchange forward and option contracts.

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 and in the chart above primarily include forwards. The $1,834,065,000 of foreign currency contracts outstanding at June 30, 2013 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $718,075,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $1,115,990,000. The $9,497,409,000 of foreign currency contracts outstanding at June 30, 2012 consist of "buy" contracts of $4,376,438,000 and "sell" contracts of $5,120,971,000. The unrealized gain (loss) on contracts of $1,920,000 and $(7,891,000) at June 30, 2013

Notes to Financial Statements (continued)

and 2012, respectively, is included in the Statements of Plan Net Position and represents the fair value of the contracts.

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, 2013 and 2012, 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 $(93,228,000) and $(23,260,000) at June 30, 2013 and 2012, respectively, is included in the Statements of Plan Net Position and represents the fair value of the contracts. The contracts have varying maturity dates ranging from July 1, 2013 to June 13, 2014.

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, 2013 and 2012 is $1,318,695,000 and $1,437,519,000, 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/or reduce the volatility of their portfolios.

The fair values of derivative instruments outstanding at June 30, 2013 and 2012 are classified by type and by the changes in fair value of the derivative instrument in the table below.

(Dollar Amounts in Thousands)

	Change in Fair Value Gain/(Loss) FY 2013		Fair Value at June 30, 2013	
Investment Derivative Type	**Classification**	**Amount**	**Classification**	**Amount**
Futures	Investment income	**$ (93,969)**	Receivable/(Payable)	**$ (93,969)**
Total return type swaps	Investment income	**(93,228)**	Receivable/(Payable)	**(93,228)**
Options	Investment income	**(76)**	Investment	**(76)**
Foreign exchange contracts	Investment income	**1,920**	Receivable/(Payable)	**1,920**
Total		**$ (185,353)**		**$ (185,353)**

	Change in Fair Value Gain/(Loss) FY 2012		Fair Value at June 30, 2012	
Investment Derivative Type	**Classification**	**Amount**	**Classification**	**Amount**
Futures	Investment income	$ 11,174	Receivable/(Payable)	$ 11,174
Total return type swaps	Investment income	(23,260)	Receivable/(Payable)	(23,260)
Options	Investment income	25,617	Investment	25,617
Foreign exchange contracts	Investment income	(7,891)	Receivable/(Payable)	(7,891)
Total		$ 5,640		$ 5,640

Notes to Financial Statements (continued)

The following table summarizes the System's foreign exchange contracts by currency at June 30, 2013 and 2012:

2013

(Dollar Amounts in Thousands)

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Euro	$ 231,677	$ (1,154)	$ 324,089	$ 3,676
Japanese yen	121,855	(900)	177,071	671
British pound sterling	117,687	(985)	153,881	1,718
Canadian dollar	78,764	(1,153)	71,405	871
Australian dollar	59,836	(1,862)	262,798	1,889
Swedish krona	21,779	(200)	9,918	118
Norwegian krone	18,645	(514)	14,183	98
New Zealand dollar	18,031	(547)	16,367	236
Philippine dollar	14,675	(683)	-	-
Swiss franc	8,146	110	58,846	833
Mexican new peso	6,064	(279)	9,148	(192)
Singapore dollar	4,838	(47)	435	(2)
Turkish lira	3,398	(73)	3,099	56
Other non-US currencies	12,680	11	14,750	224
Total	**$ 718,075**	**$ (8,276)**	**$ 1,115,990**	**$ 10,196**

2012

(Dollar Amounts in Thousands)

Currency	Buys	Unrealized Gain/(Loss)	Sells	Unrealized Gain/(Loss)
Euro	$ 746,352	$ (4,418)	$ 1,350,760	$ (1,985)
Japanese yen	379,984	(807)	354,361	734
Australian dollar	343,044	7,831	346,844	(6,826)
British pound sterling	324,185	2,330	506,845	(1,875)
Mexican new peso	266,694	7,152	193,829	(5,942)
Canadian dollar	237,112	1,409	234,769	(966)
Turkish lira	200,666	2,497	99,968	(1,386)
Brazil real	196,941	2,739	126,023	(2,077)
New Zealand dollar	170,912	4,248	175,612	(5,503)
Norwegian krone	168,289	1,360	89,258	(453)
South African rand	148,768	2,116	76,178	(1,264)
Indonesian rupian	131,107	(2,192)	128,228	865
Indian rupee	130,890	(252)	104,850	(259)
Swiss franc	119,192	661	424,828	(3,640)
Swedish krona	105,483	2,008	290,916	(8,691)
Hungarian forint	88,252	4,496	8,249	(236)
Taiwan new dollar	86,403	(626)	135,764	896
Other non-US currencies	532,164	787	473,689	(622)
Total	$ 4,376,438	$ 31,339	$ 5,120,971	$ (39,230)

Notes to Financial Statements (continued)

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 which can be downloaded from SERS' website at www.sers.state.pa.us.

The contribution requirements of plan members and the System are mandated by Commonwealth statute. Most SERS plan members are required to contribute 5%, 6.25%, or 9.37% 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 10.51% at June 30, 2013, 6.99% at June 30, 2012, and 4.11% at June 30, 2011. The System's contributions to SERS for the years ended June 30, 2013, 2012 and 2011 were $2,375,000, $1,363,000, and $790,000 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 Administration 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. FY 2013 employer costs were charged at the rate of $265/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 September 2012, the Commonwealth released an Actuarial Valuation of its Post-Retirement Medical Plan with calculations made as of July 1, 2012 using census data collected as of December 2011 and health care claims costs for calendar 2011. This valuation provided Other Postemployment Benefits (OPEB) reporting that was used for both FY 2011 and FY 2012. For FY 2012, the valuation indicated overall Annual OPEB Cost (AOC) of $870.2 million with the System's allocated AOC $3.3 million. Based on the aggregate REHP qualifying contributions for FY 2012, the net OPEB liability for the System was $.9 million for that fiscal year. For FY 2013, the valuation indicated overall AOC of $869.1 million with the System's allocated AOC $4.0 million. Based on the aggregate REHP qualifying contributions for FY 2013, the net OPEB liability for the System was $1.2 million for that fiscal year.

(Dollar Amounts in Thousands)

Fiscal Year	Commonwealth ARC/AOC	PSERS' ARC/ AOC	PSERS' Net OPEB
2013	$ 869,100	$ 3,966	$ 1,166
2012	870,200	3,133	871
2011	883,160	3,319	1,070

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. Commitments

As of June 30, 2013, PSERS had commitments for the future purchase of investments in alternative investments of $6.7 billion and real estate of $2.2 billion.

10. Subsequent Events

The System has performed an evaluation of subsequent events through September 18, 2013, the date the basic financial statements were available to be issued. No material events were identified by the System.

Required Supplementary 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) Unfunded Actuarial Accrued Liabilities UAAL (1) - (2)	(4) Ratio of Assets to AAL (2) / (1)	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3) / (5)
2012	$ 87,760.7	$ 58,227.6	$ 29,533.1	66.3%	$ 12,714.4	232.3%
2011	85,640.4	59,141.1	26,499.3	69.1%	12,910.0	205.3%
2010	79,005.4	59,306.8	19,698.6	75.1%	12,788.8	154.0%
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%

Premium Assistance

Valuation as of June 30	(1) Actuarial Accrued Liabilities (AAL)	(2) Actuarial Value of Assets	(3) Unfunded Actuarial Accrued Liabilities UAAL (1) - (2)	(4) Ratio of Assets to AAL (2) / (1)	(5) Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3) / (5)
2012	$ 1,364.7	$ 93.8	$ 1,270.9	6.9%	$ 12,714.4	10.0%
2011	1,339.4	111.3	1,228.2	8.3%	12,910.0	9.5%
2010	1,162.2	116.8	1,045.4	10.1%	12,788.8	8.2%

* The amounts reported above 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 Supplementary 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
2013	$ 3,110,429	$ 1,434,815	46%
2012	2,629,244	1,001,140	38%
2011	2,436,602	646,560	27%
2010	1,928,278	527,212	27%
2009	1,761,295	503,227	29%
2008	1,852,238	753,532	41%

Premium Assistance

Year Ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
2013	$ 113,016	$ 107,993	96%
2012	102,104	80,936	79%
2011	119,320	88,796	74%

* Includes purchase of service contributions in FY 2008.

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, with the exception of the year ended June 30, 2011. Act 46 required the Board to recertify the employer contribution rate from 8.22% to 5.64%, allocating 5% to the pension component and .64% to the premium assistance component.

Supplementary Schedule 1
Schedule of Operating Expenses
Year Ended June 30, 2013
(Dollar Amounts in Thousands)

	Administrative Expenses (1)	Investment Expenses (2)	Total
Personnel costs:			
Salaries and wages	$ 13,597	$ 4,188	**$ 17,785**
Social security contributions	803	254	**1,057**
Retirement contributions	1,936	439	**2,375**
Employees' insurance contributions	4,881	608	**5,489**
Other employee benefits	29	198	**227**
Total Personnel Costs	21,246	5,687	**26,933**
Operating costs:			
Investment managers' fees	-	538,027	**538,027**
Custodian fees	-	496	**496**
Specialized services	22,945	6,467	**29,412**
Rental of real estate, electricity	1,928	196	**2,124**
Consultant and legal fees	3,508	4,432	**7,940**
Treasury and other commonwealth services	1,547	190	**1,737**
Postage	1,230	-	**1,230**
Contracted maintenance and repair services	1,478	-	**1,478**
Office supplies	183	8	**191**
Rental of equipment and software	3,587	245	**3,832**
Printing	165	-	**165**
Travel and training	213	19	**232**
Telecommunications	605	-	**605**
Equipment (non-capital assets)	584	-	**584**
Miscellaneous expenses	931	1,822	**2,753**
Total Operating Costs	38,904	551,902	**590,806**
Other charges:			
Depreciation	2,086	-	**2,086**
Total Other Charges	2,086	-	**2,086**
Total Operating Expenses	$ 62,236	$ 557,589	**$ 619,825**

(1)Includes administrative expenses of $2,112 related to Postemployment Healthcare Premium Assistance and $22,644 related to Postemployment Healthcare Health Options Program for the fiscal year ended June 30, 2013.

(2)Includes investment expenses of $56 related to Postemployment Healthcare Premium Assistance for fiscal year ended June 30, 2013 and does not include $9,183 in capitalized broker commissions for the fiscal year ended June 30, 2013.

Supplementary Schedule 2
Summary of Investment Expenses*
Year Ended June 30, 2013
(Dollar Amounts in Thousands)

		Fees
External management:		
Domestic equity	$	2,287
International equity		27,941
Fixed income		118,293
Real estate		75,006
Alternative investments		137,211
Absolute return		149,764
Commodities		17,409
Master limited partnership		4,966
Risk parity		5,150
Total External Management		**538,027**
Total Internal Management		**14,634**
Total Investment Management		**552,661**
Custodian fees		496
Consultant and legal fees		4,432
Total Investment Expenses	**$**	**557,589**

* External management fees classified on an asset allocation basis

Supplementary Schedule 3
Schedule of Payments to Non-Investment Consultants
Year Ended June 30, 2013
(Dollar Amounts Greater than $50,000)

Consultant	Fees	Services Provided
CoreSource Inc.	$ 16,179,136	Postemployment healthcare benefits administration and claims adjudication
ViTech Systems Group Inc.	5,205,228	Pension administration system services
Rx Solutions, Inc.	4,010,219	Administration of postemployment healthcare benefits and prescription drug plan
The Segal Company, Inc.	2,359,018	Actuarial services and consulting for HOP and prescription drug plan
Buck Consultants LLC	475,619	Pension benefit actuarial services
Independent Pharmaceutical Consultants, Inc.	391,800	Pharmacy benefit consulting services
CliftonLarsonAllen LLP	120,000	Financial audit of pension system and postemployment healthcare programs

Investing in Your Future

Income from investments is the major source of revenue to PSERS, accounting for 71% of total revenues over the twenty-year period from FY 1994 to FY 2013.

Investment Section

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

James H. Grossman Jr., CPA, CFA
Acting Chief Investment Officer

October 29, 2013

Dear Members of The PSERS Board of Trustees:

It is a privilege to present to you the Investment Section of the Comprehensive Annual Financial Report for the year ended June 30, 2013.

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 System has a return objective of meeting or exceeding the targeted actuarial rate of return of 7.5% 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 is a custom benchmark, based on the Board-established asset allocation structure that seeks 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, via its Finance Committee, provides oversight of investment activities. 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, Investment Accounting staff, and Internal Audit staff, assist the Board in achieving investment objectives and monitoring compliance with investment policies. For the fiscal year ended June 30, 2013, Wilshire Associates Incorporated (Wilshire) served as the general investment consultant to assist the Board and Staff 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 guidelines established in the Investment Policy Statement, Objectives and Guidelines regarding asset allocation, manager selection, security selection, and other objectives directed by the Board.

The Board employs both external investment management firms and internal investment managers to manage the investment portfolio of the System. At fiscal year-end, 54 external public market investment management firms were managing $17.6 billion in assets of the System, $12.1 billion in assets were managed by the System's internal investment managers, and the remaining $19.8 billion in assets were managed by numerous emerging, alternative investment, and real estate investment 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 the manager's 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 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, takes 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, 2013 included an equity target allocation of 17.5% consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (8.5%) and non-U.S. equity exposure (9.0%). Within the U.S. equity target, the portfolios are diversified between large, small, and micro capitalization investment mandates, and growth and value investment exposures. 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 23.0% consisted of U.S. core fixed income exposure (5.0%), leveraged Treasury Inflation-Protected Securities exposure (6.0%), high yield exposure (6.0%), emerging markets fixed income exposure

(2.0%), non-U.S. developed market fixed income exposure (1.0%), and cash (3.0%). The Board, Staff, and Wilshire deemed it prudent to have an allocation to cash given the known and potential cash flow requirements of the System. Within these categories, all sectors of the bond market are represented. The high yield exposure is a mix of publicly traded high yield securities and private debt.

Alternative investments had a target allocation of 22.0%. The primary vehicle used to invest funds in this asset class is the limited partnership. The partnerships are established by individual management groups that have been selected by the System for the purpose of investing in and managing private equity, venture capital, and unlisted subordinated debt positions on behalf of PSERS and other limited partners.

The real estate target allocation of 13.5% consisted primarily of limited partnerships. The types of partnerships the System invests in include core, value-added, and opportunistic real estate limited partnerships.

The absolute return target allocation of 10.0% consisted primarily of investment managers retained by the System to generate positive returns over time that are 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, commodity trading advisors (CTAs), currency, and relative value strategies such as insurance-linked securities and long/short credit. The absolute return program is included in the allocation to generate returns equal to or greater than the targeted actuarial rate of return of 7.5% with low correlation to the public markets to diversify the System's total portfolio risk.

The commodities target allocation of 6.0% 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.

The risk parity allocation of 5.0% consisted primarily of global equities, global nominal bonds, global inflation-linked securities, and commodities in an allocation that balances risk across these assets with structurally offsetting biases to the primary drivers of asset class returns, growth and inflation. Risk parity provides diversification and liquidity to the System. The risk parity allocation is managed to a targeted risk level of 12.0%.

The master limited partnership (MLP) allocation of 3.0% consisted of publicly traded partnerships that own and operate assets such as natural gas, crude oil, refined products and pipelines, and storage facilities that are a vital part of the U.S. energy infrastructure. MLPs are included in the allocation due to their attractive current yields, strong growth potential, and ability to diversify the System's total portfolio risk.

Liquidity and Asset Allocation

The System's risk profile is, in part, driven by its liquidity needs in any given year. During each of the past four fiscal years, the System has paid out over $3.5 billion more in benefits than it received in member and employer contributions. This funding has amounted to more than 7.0% of beginning net assets each year and represents the amount of investment return needed each year to make up the shortfall. The large annual cash flow shortfall will continue and necessitates a larger liquidity position and lower risk profile than a retirement system that has smaller liquidity requirements. Given the legislated reduction in the employer contribution rate, which is expected to continue for the next few years, the System anticipates only a modest improvement until the employer contribution rate rises to the actuarially required level.

Given the significant cash outflows projected, the Board has prudently reduced the risk profile of the System. It has done so by decreasing its dependence on the equity markets for returns and balancing the risk exposures into less correlated asset classes such as inflation-linked bonds, commodities, and absolute return. The goal of such an allocation is to generate the desired return profile with less volatility. While such an allocation will not provide for a large upside in returns, it is expected to minimize downside risks to the System's assets in the event of a large equity drawdown as experienced in 2008.

Investment Results

As of June 30, 2013, the fair value of the investment portfolio was $49.5 billion, an increase of $1.0 billion from last year's value. This increase was primarily due to net investment income ($4.1 billion) and member and employer contributions ($2.5 billion) exceeding the deductions for benefits and administrative expenses ($6.4 billion) plus net changes in other investment assets and liabilities ($0.8 billion). The investment portfolio, as invested, was composed of 19.4% common and preferred stocks (equity), 23.7% fixed income investments, 21.8% alternative investments, 14.1% real estate, 11.7%

absolute return portfolios, 3.6% commodities, 2.9% master limited partnership, and 2.8% risk parity at June 30, 2013. The table immediately following this letter illustrates a more detailed description of the investment portfolio's asset classes in dollars and as a percentage of the total investment portfolio.

This past year was characterized by a strong rally in developed market equity markets, specifically U.S. equities. The Federal Reserve implemented another asset purchase program during the year (QE3) in which they committed to purchasing $40 billion a month of mortgage-backed securities which represents approximately 50% of the gross mortgage issuance and over 100% of the net issuance. In December, Operation Twist (a plan to sell short-term notes and purchase long-term Treasuries to reduce interest rates) came to an end and was replaced with outright purchases of longer dated U.S. Treasuries in the amount of $45 billion a month starting in 2013. The Fed's objectives were to lower the cost of borrowing money so that the economy, housing, and employment conditions could continue to improve. This Fed program partially offset the effects of U.S. fiscal tightening through sequestration (government spending cuts of about $40 billion), the payroll tax increase, the expiration of some of the Bush-era tax cuts, and the Affordable Care Act tax increase during 2013 which acted as a drag on U.S. growth of about 1.0 – 1.5%. Sequestration was part of a last minute deal between the White House and Congress to avoid more severe automatic tax hikes and fiscal spending cuts. The European Central Bank remained accommodative throughout the fiscal year. Japan had a dramatic shift in fiscal and monetary policy during the fiscal year as they elected a new Prime Minister, Shinzo Abe. The Bank of Japan introduced a 2% inflation target, announced open-ended purchases of assets amounting to 13 trillion yen per month, and fiscal stimulation amounting to over 1% of Gross Domestic Product (GDP) for 2013. These loose monetary conditions led to a strong "risk-on" environment for the first three quarters of the fiscal year when the Morgan Stanley (MSCI) All-Country World Investable Market Index with USA gross (ACW IMI Index) was up 17.91%. During Fed Chairman Ben Bernanke's congressional testimony in May 2013, he discussed reducing ("tapering") the Fed's asset purchase programs which led to a significant re-pricing of assets in the global markets. Global equities were adversely impacted by the threat of tapering as the MSCI ACW IMI Index returned -0.41% during the second quarter of 2013. Especially impacted were the emerging markets as the MSCI Emerging Market Index was down 8.08% during the second quarter of 2013. Emerging markets have been significantly impacted by a slowing Chinese economy as well as a reduction of capital flows from developed markets which have been fueled by easy money policies. As monetary policies are being priced to tighten by the market, capital flows to emerging markets are becoming squeezed leading to currency weakness as well as weakening equity and bond markets.

U.S. economic activity as represented by the GDP was fairly tepid during the past fiscal year. The U.S. real GDP increased by 2.8%, 0.1%, 1.1%, and 2.5% in the third quarter 2012, fourth quarter 2012, first quarter 2013, and second quarter 2013, respectively. The official unemployment rate (otherwise known as the U3 unemployment rate) fell during the fiscal year from 8.2% as of June 2012 to 7.6% as of June 2013, but four years into an economic recovery the rate still remains high relative to past recoveries. The more encompassing U6 unemployment rate, 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 14.3% as of fiscal year end, down from 14.9% at the end of the last fiscal year but significantly above the low point over the past 10 years of 7.9% in December 2006. Housing during the past fiscal year has been strong, up 12.07% as measured by the S&P Case-Shiller 20-City Home Price Index.

With the continued backing of accommodative monetary policies during the past fiscal year, there was, on net, a strong increase in risk assets worldwide which led to positive returns in most asset classes, especially equities. The MSCI U.S. Investable Market Index, a U.S. equity index, returned 20.56% during the fiscal year. Returns for the first and third quarters of the fiscal year were exceptionally strong, posting a 6.10% and 10.80% return, respectively. Returns for the second and fourth quarters of the fiscal year were more modest, posting -0.03% and 2.58%, respectively. Foreign markets, in U.S. dollar terms, were weaker than the U.S. but strong nonetheless as the MSCI All-Country World (ACW) ex. U.S. Investable Market Index, an international equity index, returned 13.90% for the fiscal year, driven primarily by multiple expansion, accommodative monetary policies, and more stable economic conditions. The Thomson ONE 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 Thomson Reuters, returned 5.66% for the fiscal year (reported on a one-quarter lag) as these investments were written up to prices comparable to gains in the public equity markets.

Commodity markets performed very poorly in this environment as slowing Chinese growth and falling inflation expectations overshadowed loose monetary policy. For the fiscal year, the Dow Jones UBS Commodity Index, an index composed of futures contracts on 19 physical commodities weighted to account for economic significance and market liquidity, was down 8.00%.

Fixed income markets were generally negative in this environment as interest rates started to rise in anticipation of U.S. monetary conditions being tightened through tapering of asset purchases, possibly later in 2013. For the fiscal year, the Barclays U.S. Aggregate Index, a U.S. fixed income index, was down 0.69% as the yield curve rose from the June 2012 level. The Barclays Global Aggregate GDP Weighted Developed Market ex. U.S. Index (Unhedged), a non-U.S. fixed income index, was down 0.53%. The Barclays High Yield Index returned 9.49% during the past fiscal year due to a tightening of credit spreads as investors continued to bid up credit in search of yield. The Barclays U.S. TIPS Index, an index of U.S. treasury inflation protection securities, driven by rising real yields, had a negative return of 4.78% for the fiscal year.

To benchmark real estate performance, the System uses the National Council of Real Estate Investment Fiduciaries/Townsend Fund (NTF) Index, a quarterly time series of real estate partnership portfolios used to simulate the universe of core, value-added, and opportunistic real estate partnerships. The indexes are designed to reflect the performance of funds available to U.S. institutional investors, including private real estate/equity-oriented investments, without regard to geographic location. The NTF Index returned 9.74% during the past fiscal year. Index returns are reported on a one-quarter lag due to the time taken to acquire this information from private market sources, so this return is for the twelve months ended March 31, 2013. Investment performance in the private real estate markets has continued rebounding from significant declines sustained during the credit crisis in 2008.

The absolute return program had a below target fiscal year generating a total return of 4.01%, 349 basis points under its target return of 7.50%. The weak performance was driven primarily by the commodity trading advisors (CTAs) who were whipsawed by interest rate markets during the year. The absolute return program is structured to have low beta to the equity, fixed income, and commodity markets and to provide additional diversification from the remainder of the asset allocation, objectives that were achieved as a program.

The risk parity program had a negative return of 4.26%, trailing the policy index for this program by 158 basis points. The risk parity managers take a balanced risk approach to portfolio construction, leveraging low risk assets such as nominal and inflation-linked bonds to an equivalent risk level as equities and commodities and then balancing the risks in constructing their portfolios. Risk parity had negative performance given the very weak performance of global nominal and inflation-linked bonds for the fiscal year.

The master limited partnership market performed extremely well during the fiscal year as the companies in this market continued to exhibit strong growth in distributions and high yields which compressed during the year. For the fiscal year, the Standard & Poor's MLP Index was up 29.49%.

For the one-year period ended June 30, 2013, the System generated a total net of fee return of 7.96%. This return exceeded the total fund Policy Index return of 5.68% by 228 basis points. Annualized total net of fee returns for the three-, five-, and ten-year periods ended June 30, 2013 were 10.36%, 2.50%, and 7.72%, respectively. The three-, five- and ten-year returns ended June 30, 2013 exceeded the total fund Policy Index returns by 223, 51, and 139 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 retained by the Board to invest the System's assets. Performance is calculated using a time-weighted return methodology.

The following table provides the System's total investment returns 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, 2013			
	1 Year	**3 Years**	**5 Years**	**10 Years**
PSERS Total Portfolio	**7.96**	**10.36**	**2.50**	**7.72**
Total Fund Policy Index	5.68	8.13	1.99	6.33
Median Public Defined Benefit Plan (DBP) Fund Universe (Wilshire Database)	11.52	11.41	5.03	7.38
PSERS U.S. Equity Portfolios	**21.89**	**18.78**	**7.01**	**7.72**
U.S. Equity Policy Index (1)	20.56	18.03	6.84	7.78
Median Public DBP Fund Universe - U.S. Equities (Wilshire Database)	21.74	18.41	7.09	7.88
PSERS Non-U.S. Equity Portfolios	**16.08**	**9.56**	**2.42**	**10.43**
MSCI All-Country World ex. U.S. Investable Market Index (2)	13.90	8.13	0.57	9.18
Median Public DBP Fund Universe - Non-U.S. Equities (Wilshire Database)	14.94	9.26	-0.70	8.28
PSERS Fixed Income Portfolios	**2.62**	**7.87**	**8.47**	**6.83**
Fixed Income Policy Index (3)	-0.26	5.99	7.49	6.00
Median Public DBP Fund Universe - U.S. Bonds (Wilshire Database)	1.83	5.53	6.86	5.62
Median Public DBP Fund Universe – Global Bonds (Wilshire Database)	2.00	5.65	6.54	5.82
PSERS Commodity Portfolios	**-11.35**	**0.41**	**-10.05**	**N/A**
Dow Jones-UBS Commodity Index	-8.00	-0.25	-11.61	N/A
PSERS Absolute Return Portfolios	**4.01**	**6.54**	**N/A**	**N/A**
Benchmark - 7.5% Annualized Return (4)	7.50	7.67	N/A	N/A
PSERS Risk Parity Portfolios	**-4.26**	**N/A**	**N/A**	**N/A**
Risk Parity Policy Index (5)	-2.68	N/A	N/A	N/A
PSERS Master Limited Partnership (MLP) Portfolios	**37.08**	**27.84**	**N/A**	**N/A**
Standard & Poor's MLP Index	29.49	21.38	N/A	N/A
PSERS Real Estate (6)	**8.53**	**12.09**	**-6.36**	**6.66**
Blended Real Estate Index (7)	9.74	12.37	2.72	8.75
Median Public DBP Fund Universe - Real Estate (Wilshire Database)	8.81	13.25	0.74	7.94
PSERS Alternative Investments (6)	**10.34**	**12.71**	**4.98**	**14.32**
Thomson ONE Median Return, Vintage Year Weighted	5.66	7.69	3.22	6.11
Median Public DBP Fund Universe - Private Equity (Wilshire Database)	10.69	13.60	6.32	14.30

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. Aggregate Index (17.2%), Barclays Capital Global Aggregate GDP-weighted Developed Market ex-U.S. (Unhedged) Index (3.4%), Barclays Capital EM Local Currency - Government - MV Weighted (Unhedged) - 10% Country Cap Index (6.9%), Barclays Capital U.S. Treasury Long Index (10.4%), Barclays Capital U.S. TIPS Index (Series –L) (41.4%), and Barclays Capital U.S. High Yield Index (20.7%) effective January 1, 2012. The weights to these indexes have varied in previous quarters. Prior to January 1, 2012, the Barclays Capital U.S. Universal Index was used in place of the Barclays Capital U.S. Aggregate Index.
4. Absolute Return started April 1, 2009. The assumed actuarial rate of return for the fund was 8.0% from July 1, 2009 through June 30, 2011. The rate changed to 7.5% beginning July 1, 2011.
5. Returns presented are a blend of the MSCI ACWI ($Net) (35%); Barclays Capital U.S. Treasury Index (75%); Barclays Capital World Inflation Linked Bond Index Hedged (120%); Dow Jones-UBS Commodity Index (Total Return) (15%); Dow Jones-UBS Gold Index (5%); and 3-Month LIBOR (-150%).
6. Returns reported on a one-quarter lag, except for publicly traded real estate security investments.
7. NTFI Index effective July 1, 2010. The NTFI Index is reported on a one-quarter lag. Between April 1, 2010 and June 30, 2010, the NCREIF Index was used. Previously, returns presented were a blend of the FTSE EPRA/NAREIT Global Real Estate Index and the NCREIF Index.

The System also participates 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 cash collateral, which can be reinvested to generate income, or non-cash collateral plus a cash fee. This program generated $8.2 million in net gains during the year.

Accomplishments

The System continued its efforts to diversify its market exposures as the board approved allocations to risk parity, master limited partnerships, and U.S. long treasuries were implemented in 2013. The System has significantly reduced its risk profile since 2009 while maintaining a return profile which should allow it meet its actuarial return assumptions on a prospective basis.

Acknowledgement

I would like to acknowledge the dedicated service, leadership, and ingenuity of Alan Van Noord, the System's Chief Investment Officer since July 2002, who retired on June 30, 2013 after 11 years of service to the System. Alan successfully led the Fund through some of the most turbulent times in the financial markets since the Great Depression. During Alan's tenure, the System was named Large Public Plan of the Year by Institutional Investor in 2011. Alan received the Richard Stoddard Award from the National Association of State Investment Officers in 2008 for his service to the public fund industry. He twice received the Excellence in Financial Management Award from Institutional Investor (2006 and 2007). We wish Alan well in his retirement and all of his future endeavors and may the wind always fill his sails.

Summary

The System had a good fiscal year ended June 30, 2013 with returns of 7.96% which was in excess of the Policy Index return of 5.68%. This excess return amounted to an incremental generation of income of approximately $1.1 billion. Over the past three- and ten-year periods ended June 30, 2013, the System returned 10.36% and 7.72%, both in excess of the System's targeted actuarial rate of return of 7.50%. The equity markets had a strong "risk-on" year while fixed income markets and commodity markets had weak years. Even with a more risk balanced allocation, the System was still able to generate strong absolute returns. As the U.S. economy starts to normalize, the Fed will begin to taper its purchases of assets removing some of the monetary accommodation from the markets. It remains to be seen how asset prices will respond to these changes. The U.S. faces debt ceiling and budgetary debates later this year, Europe still has excess debt, austerity, and unemployment issues, China continues to slow, and the emerging markets are facing a potentially vicious cycle of capital outflows. We believe the System is well positioned for this uncertain environment due to its risk balanced allocation and asset class diversification.

James H. Grossman Jr., CPA, CFA
Acting Chief Investment Officer

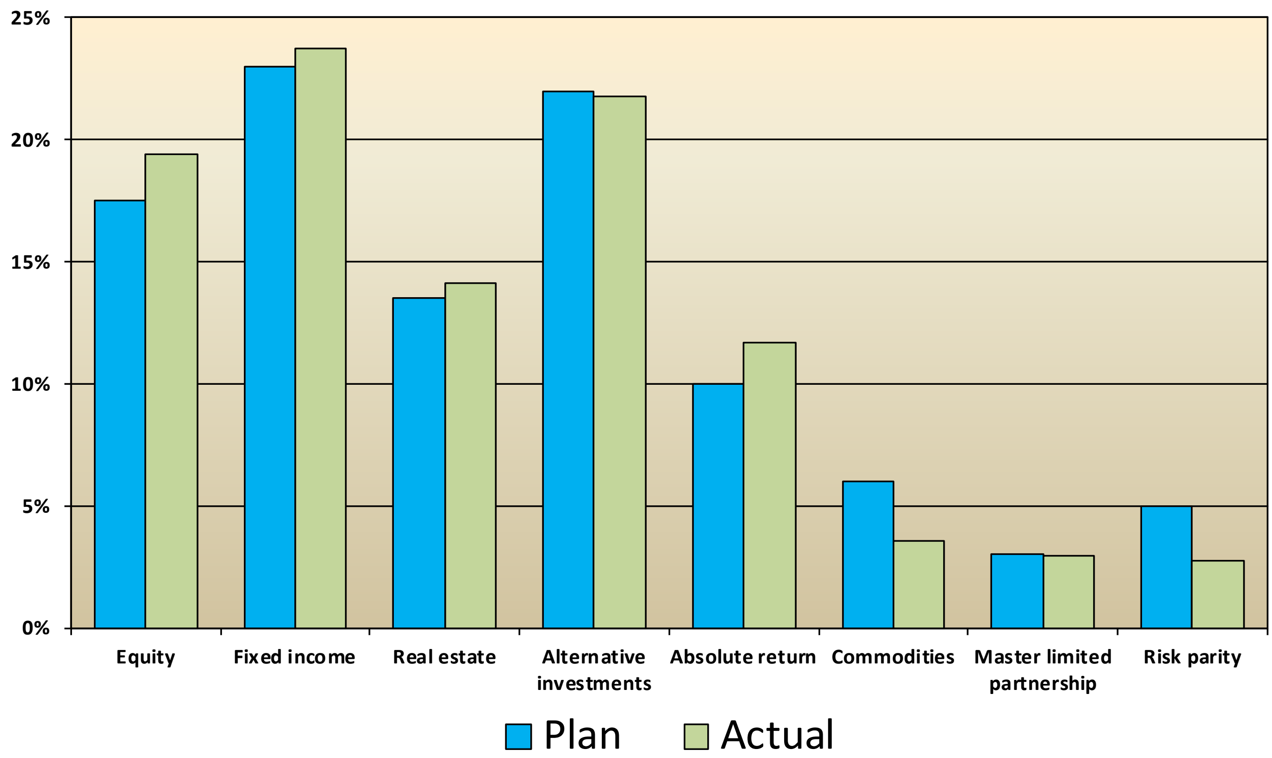
Portfolio Summary Statistics
Asset Allocation
As of June 30, 2013
(Dollar Amounts in Thousands)

Pension investments	Fair Value	% Fair Value
Common and preferred stock (Equity):		
Large cap stocks	$ 3,083,554	6.4
Mid and small cap stocks	679,202	1.4
Emerging markets stocks	1,198,783	2.4
Total Non-U.S. equity	**4,961,539**	**10.2**
Large cap stocks	3,240,053	6.6
Mid and small cap stocks	1,202,955	2.4
Microcap stocks	95,247	0.2
Total U.S. equity	**4,538,255**	**9.2**
Total Common and preferred stock - Asset Allocation Basis	**9,499,794**	**19.4**
Fixed income:		
Investment grade fixed income	3,664,187	7.4
High yield fixed income	3,039,974	6.2
Total U.S. Fixed income	**6,704,161**	**13.6**
Non-U.S. developed markets fixed income	2,246,091	4.6
Emerging markets fixed income	855,050	1.7
Total Non-U.S. Fixed income	**3,101,141**	**6.3**
Cash and cash equivalents	**1,869,574**	**3.8**
Total Fixed income - Asset Allocation Basis	**11,674,876**	**23.7**
Real estate	**7,040,252**	**14.1**
Alternative investments:		
Private equity	8,398,926	17.1
Private debt	1,403,198	2.9
Venture capital	843,302	1.8
Total Alternative investments - Asset Allocation Basis	**10,645,426**	**21.8**
Absolute return	**5,736,847**	**11.7**
Commodities	**1,763,717**	**3.6**
Master limited partnership	**1,447,434**	**2.9**
Risk parity	**1,352,220**	**2.8**
Total Pension investments - Asset Allocation Basis	**49,160,566**	**100.0**
Net Asset Allocation Adjustment*	135,574	
Pension investments per Statement of Plan Net Position	**49,296,140**	
Postemployment Healthcare investments	**$ 238,267**	**100.0**

* Includes reclassifications of certain investments between asset classes and investment receivables/payables to adjust the Statement of Plan Net Position classification to the basis used to measure Asset Allocation. See the table and graph which follow.

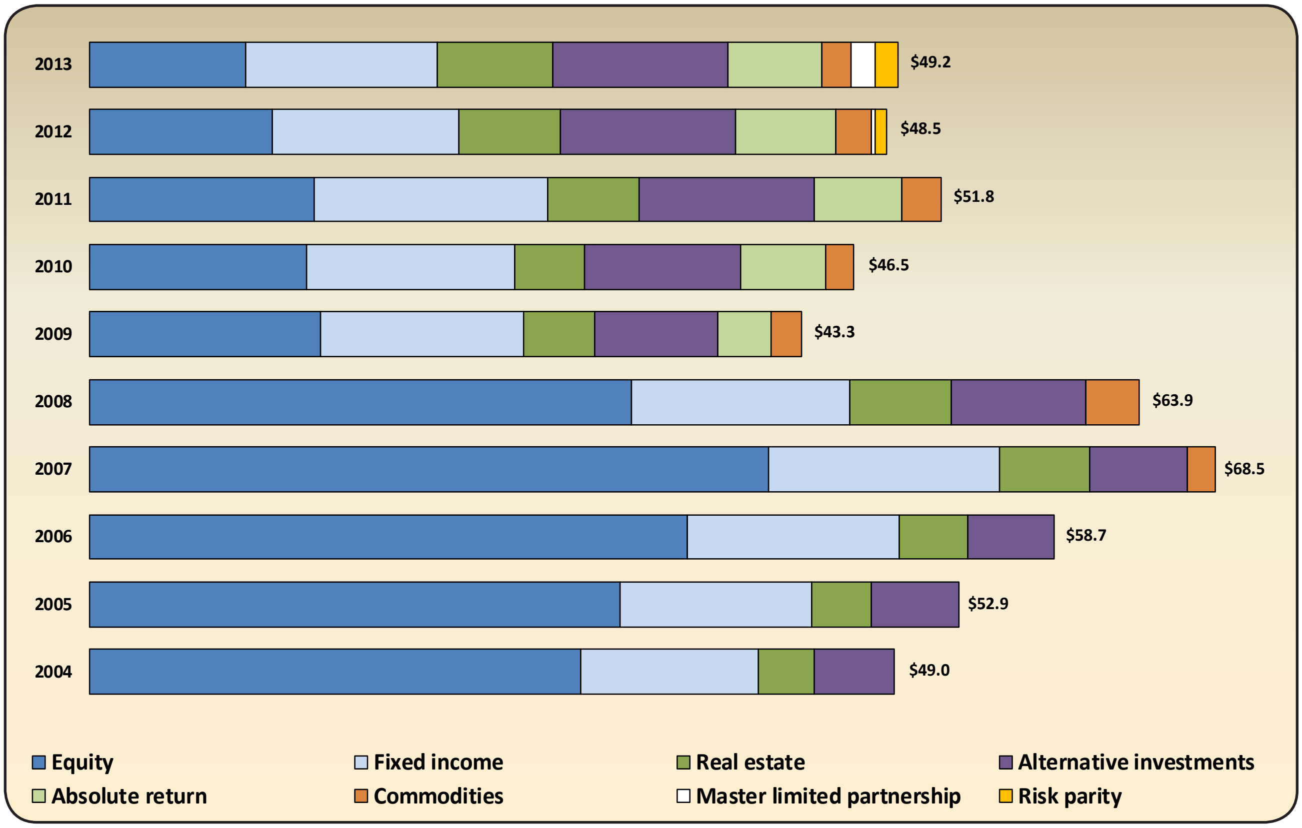
Comparison of Actual Portfolio Distribution to Asset Allocation Plan As of June 30, 2013

Asset Category	Plan	Actual
Common and preferred stock (Equity)	17.5%	19.4%
Fixed income	23.0	23.7
Real estate	13.5	14.1
Alternative investments	22.0	21.8
Absolute return	10.0	11.7
Commodities	6.0	3.6
Master limited partnership	3.0	2.9
Risk parity	5.0	2.8
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 public market asset classes. Information on the complete holdings of the System can be downloaded from the PSERS website at www.psers.state.pa.us.

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

10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2013

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value
BlackRock Emerging Markets Alpha Advantage Fund Ltd.- Class D	199	$ 205,733
The 32 Capital Fund Ltd.	98	166,983
BlackRock Emerging Markets Alpha Advantage Fund Ltd.- Class P	32	98,121
Nestle SA	1,093	47,934
Roche Holding AG	124	30,784
Samsung Electronics Company, Ltd.	28	30,666
Toyota Motor Corporation	481	28,987
Taiwan Semiconductor Manufacturing Company, Ltd.	8,186	28,311
Novartis AG	399	28,300
HSBC Holdings PLC	2,672	28,179
Total of 10 Largest Holdings		**$ 693,998**

Common and Preferred Stock - U.S. Equity

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2013

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value
Security Capital Preferred Growth	13,039	$ 196,212
Exxon Mobil Corporation	905	81,801
Apple Computer, Inc.	193	76,581
Microsoft Corporation	1,530	52,868
Google, Inc.	56	49,414
Johnson & Johnson	572	49,108
General Electric Company	2,105	48,826
Chevron Corporation	395	46,723
Procter & Gamble Company	558	42,967
Wells Fargo & Company	1,012	41,756
Total of 10 Largest Holdings		**$ 686,256**

Fixed Income

10 Largest Holdings in Descending Order by Fair Value

As of June 30, 2013

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value
PIMCO Multi-Sector Strategy Fund Ltd.	817	$ 850,673
BlackRock US Extended Core Global Alpha Bond Fund Ltd.	359	616,094
Bridgewater International Inflation-Linked Bond Fund	296	585,315
BlackRock Mortgage (Offshore) Investors, L.P.	N/A	417,318
Bridgewater Pure Alpha Fund II Ltd.	132	409,372
Sankaty Advisors LLC-Bank Loans	N/A	384,392
Bridgewater U.S. Inflation-Linked Bond Fund	199	368,606
Sankaty Credit Opportunities IV, L.P.	N/A	213,232
Black River Inflation Opportunity Fund Class B	250	177,843
LBC Credit Partners II, LP	N/A	161,095
Total of 10 Largest Holdings		**$ 4,183,940**

Absolute Return
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2013
(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value
Bridgewater Pure Alpha Fund II Ltd.	291	$ 854,197
Brigade Leveraged Capital Structures Offshore Ltd.	502	732,400
AQR Offshore Multi-Strategy Fund Ltd.	4	438,182
Brevan Howard Fund, Ltd.	3,095	425,319
Capula Tail Risk Fund Ltd.	3,977	355,176
Palmetto Fund Ltd. Class G	245	286,481
Black River Fixed Income Relative Value Opportunity Fund Ltd.	250	275,646
PIMCO Global Credit Opportunity Offshore Fund	142	266,383
BlackRock Capital Structure Investment Fund Ltd.	198	263,332
PIMCO Absolute Return Strategy V Offshore Fund	103	232,983
Total of 10 Largest Holdings		**$ 4,130,099**

Postemployment Healthcare Investments
10 Largest Holdings in Descending Order by Fair Value
As of June 30, 2013
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value	Fair Value
PSERS Short-Term Investment Fund	Various	Various	$ 131,426	$ 131,426
M & T Bank Repurchase Agreement	07/01/13	0.010	51,095	51,095
M & T Bank Repurchase Agreement	07/01/13	0.010	11,077	11,077
FNMA Guaranteed REMIC 2007-77 Class PC	09/25/35	6.000	2,173	2,243
FNMA Guaranteed REMIC 2010-58 Class LY	09/25/38	7.000	1,752	1,844
FNMA Guaranteed REMIC 2004-64 Class VE	01/25/25	4.500	1,804	1,824
GNMA Guaranteed REMIC 2009-46 Class G	09/20/34	4.500	1,371	1,405
Wachovia Corporation	02/15/14	4.875	1,000	1,026
Verizon Communications, Inc.	03/28/14	0.886	1,000	1,003
JP Morgan & Co., Inc.	07/01/27	0.000	1,000	990
Total of 10 Largest Holdings				**$ 203,933**

Comparison of Investment Activity Income
For Fiscal Years Ended June 30, 2013 and 2012
(Dollar Amounts in Thousands)

Investment Activity	**2013**	2012
Net appreciation in fair value of investments	**$ 3,427,309**	$ 537,586
Short-term	**9,290**	10,677
Fixed income	**228,760**	328,492
Common and preferred stock	**255,248**	258,258
Collective trust funds	**17,749**	5,209
Real estate	**251,742**	170,991
Alternative investments	**485,622**	255,769
Total investment activity income	**$ 4,675,720**	$ 1,566,982

Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2013 were $9.2 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, 2013, the System earned $112,000 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, 2013

Broker Name	**Fees Paid**	**Broker Name**	**Fees Paid**
Goldman Sachs & Company	$ 1,278,994	Fimat USA	$ 191,220
Citigroup Global Markets Incorporated	772,035	Macquarie Equities Limited	184,246
UBS Securities	521,375	Barclays	183,686
Instinet Corporation	432,774	Royal Bank of Scotland	147,328
Jones & Associates	429,101	Credit Lyonnais Securities	136,421
Credit Suisse First Boston	326,518	B-Trade Services, LLC	134,300
Merrill Lynch	313,328	ITG Securities	129,387
Deutsche Bank	265,432	Cantor, Fitzgerald & Company	127,782
Morgan Stanley & Company	250,502	Daiwa Securities	127,195
JP Morgan Chase & Company	242,029	UOB Kay Hian Pte Limited	106,054
Knight Securities	236,035	Securities Africa Limited	104,329
Liquidnet Incorporated	202,477	BTIG Securities, LLC	101,939

Professional Consultants
External Investment Advisors
As of June 30, 2013

Absolute Return Managers
- Apollo Aviation Services II, LP.
- Aeolus Capital Management, Ltd.
- AQR Capital Management, LLC
- Black River Asset Management, LLC
- BlackRock Financial Management, Inc.
- BlueCrest Capital Management, LLC
- Brevan Howard Asset Management, LLP
- Bridgewater Associates, Inc.
- Brigade Capital Management
- Capula Investment Management, LLP
- Caspian Capital Advisors
- Ellis Lake Capital, LLC
- Lazard Asset Management, LLC
- Nephila Capital, Ltd.
- Pacific Investment Management Company
- Robeco Investment Management, Inc.

U.S. Equity Managers
- AH Lisanti Capital Growth, LLC
- Conestoga Capital Advisors
- First Pacific Advisors, Inc.
- NorthPointe Capital, LLC
- Opus Capital Management

Publicly-Traded Real Estate Securities Manager
- Security Capital Research & Management, Inc.

Non-U.S. Equity Managers
- Acadian Asset Management, Inc.
- Baillie Gifford Overseas, Ltd.
- Batterymarch Financial Management, Inc.
- BlackRock Financial Management, Inc.
- Glovista Investments, LLC
- John Hsu Capital Group, Inc.
- Marathon Asset Management, LLP
- Oberweis Asset Management, Inc.
- Pyramis Global Advisors, Inc.
- Shah Capital Management, Inc.
- Wasatch Advisors, Inc.
- Westwood Global Investments, LLC

Commodity Managers
- Black River Asset Management, LLC
- Credit Suisse Asset Management, LLC
- Gresham Investment Management, LLC
- Schroder Investment Management North America, Inc.
- Wellington Management Company, LLP

U.S. Core Plus Fixed Income Managers
- BlackRock Financial Management, Inc.
- Piedmont Investment Advisors, LLC
- Pugh Capital Management, Inc.
- Western Asset Management Company

High Yield Fixed Income Managers
- Apollo Management International, LLP
- BlackRock Financial Management, Inc.
- Brevan Howard Asset Management LLP
- Brigade Capital Management
- Cerberus Institutional Partners, L.P.
- Haymarket Financial, LLP
- Intermediate Capital Group, PLC
- LBC Credit Partners
- MacKay-Shields Financial Corporation
- Mariner Investment Group, LLC
- Oaktree Capital Management, LP
- Radcliffe Capital Management, LP
- Sankaty Advisors, LLC
- The Carlyle Group
- TOP NPL(A), LP
- TPG Opportunities Partners II, LP

Non-U.S. Developed Markets Fixed Income Managers
- AllianceBernstein, LP
- Strategic Fixed Income, LLC

Emerging Markets Debt Managers
- Franklin Templeton Investments
- Stone Harbor Investment Partners, LP

Multi-Sector Fixed Income Manager
- Pacific Investment Management Company

Global Treasury Inflation - Protected Securities Managers
- Black River Asset Management, LLC
- Bridgewater Asociates, Inc.

Active Currency Hedging Overlay Program Manager
- Pareto Investment Management, Ltd.

Risk Parity Managers
- Bridgewater Associates, Inc.
- AQR Capital Management, LLC

Master Limited Partnership Advisors
- Atlantic Trust Private Wealth Management
- Harvest Fund Advisors, LLC
- Salient Capital Advisors, LLC

Professional Consultants (Continued)

Real Estate Advisors

- Charter Oak Advisors, Inc.
- GF Management, Inc.
- Grosvenor Fund Management US, Inc.
- L&B Realty Advisors, LLP

Real Estate Partnerships

- AG Core Plus Realty Fund III, LP
- Almanac Realty Securities V & VI, LP
- Apollo Europe Real Estate Fund III, LP
- Apollo Real Estate Finance Corp.
- Apollo Value Enhancement Fund VII, LP
- AREFIN Co-Invest Corp.
- AvalonBay Value Added Fund I & II, LP
- Avenue Real Estate Fund, LP
- Beacon Capital Strategic Partners V, LP
- Bell Institutional Fund IV, LP
- Blackstone Real Estate Debt Strategies II, LP
- Blackstone Real Estate Partners Europe III, LP
- Blackstone Real Estate Partners V, VI, & VII, LP
- BPG Investment Partnership V & VI, LP
- BGP/PSERS Co-Investment Fund, LP
- Broadway Partners Real Estate Fund II & III, LP
- Brookfield Strategic Real Estate Partners, LP
- Cabot Industrial Value Fund III, LP
- Carlyle Europe Real Estate Partners III-A, LP
- Carlyle Realty Partners III, IV, V, & VI, LP
- CS Strategic Partners Fund 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 & VII, LLC
- Exeter Industrial Value Fund II, LP
- Fillmore West Fund, LP
- Fortress Investment Fund I, IV, & V, LP
- Hines U.S. Office Value Added Fund, LP
- JP Morgan Strategic Property Fund
- Latitude Management Real Estate Capital III, Inc.
- Lazard Freres Real Estate Investors I, LLC
- Legg Mason Real Estate Capital I & II, Inc.
- LCCG High Yield CMBS Fund III, LLC
- LCCG Real Estate Special Situations Mortgage Fund, LLC
- LEM Real Estate High Yield Debt and Preferred Equity Fund III, LP
- LEM Real Estate Mezzanine Fund II, LP
- Lubert-Adler Real Estate Fund III, IV, V, & VI, LP
- Madison Marquette Retail Enhancement Fund, LP
- MGPA Asia Fund III, LP
- MGPA Europe Fund III, LP
- Morgan Stanley Domestic Real Estate Fund IV, LP
- Morgan Stanley Int'l. Real Estate Fund IV, V, & VI, LP
- Morgan Stanley Real Estate Fund II, LP
- Morgan Stanley Real Estate Fund V US, 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
- PRISA
- ProLogis North American Industrial Fund, LP
- RCG Longview Debt Fund IV & V, LP
- RCG Longview Equity Fund, LP
- Senior Housing Partnership Fund IV, LP
- Silverpeak Legacy Partners I, II , & III, LP
- 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
- Actis Global 4, LP
- Adams Capital Management, LP
- Aisling Capital Partners II & III, LP
- Allegheny New Mountain Partners, LP
- Apax Europe VII, LP
- Bain Capital Asia Fund II, LP
- Baring Asia Private Equity Fund III, IV, & V, LP
- Blue Point Capital Partners I & II, LP
- Bridgepoint Capital II, LP
- Bridgepoint Europe I, II, III, & IV, LP
- Capital International Private Equity Fund V & VI, LP
- Catterton Growth Partners, LP
- Catterton Partners V, VI, & VII, L.P.
- Clarity Partners I & II, LP
- Co-Invest Fund 2000, LP
- Co-Investment Fund II, LP
- Coller International Partners VI, LP
- Credit Suisse Equity Partners, LP
- Credit Suisse Intl. Equity Partners, LP
- Crestview Partners I & II, LP
- Cross Atlantic Technology Fund I & II, LP
- CS Strategic Partners Fund IV, IV-VC, & V, LP
- CSFB Strategic Partners II, III-B, & III-VC, LP
- CVC Capital Partners Asia Pacific III, LP
- CVC European Equity Partners V, LP
- Denham Commodity Partners VI, LP
- DLJ Merchant Banking Partners III, LP
- DLJ Strategic Partners, LP
- Dubin Clark Fund II, LP
- Edgewater Private Equity Fund III, LP
- Edgewater Growth Capital Partners, LP
- Evergreen Pacific Partners I & II, LP
- First Reserve Fund XI & XII, LP
- Franklin Capital Associates III, LP
- Furman Selz Investors III, LP

Professional Consultants (Continued)

- Graham Partners Investments, LP
- Greenpark International Investors III, LP
- Greenwich Street Capital Partners II, LP
- Halifax Capital Partners, LP
- Headland Private Equity Fund 6, LP
- Incline Equity Partners III, LP
- Irving Place Capital Partners II & III, LP
- Jefferies Capital Partners IV, LP
- Jefferson Partners Fund IV, 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
- Lexington Capital Partners I, LP
- Lindsay, Goldberg & Bessemer, LP
- LLR Equity Partners I, II, & III, LP
- Milestone Partners II, III, & IV, 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
- NGP Natural Resources X, LP
- Nordic Capital VII Beta, LP
- Novitas Capital I & II, LP
- Orchid Asia V, LP
- PAI Europe III, IV, & V, LP
- Palladium Equity Partners II-A, LP
- Partners Group Secondary 2008 & 2011, LP
- Permira IV, LP
- Perseus-Soros Bio-Pharmaceutical Fund, LP
- Platinum Equity Capital Partners I, II, & III, 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
- Summit Partners Growth Equity Fund VIII, LP
- Summit Partners Venture Capital Fund III, LP
- TDH III, LP
- Tenaya Capital IV-P , V-P, & VI, LP
- The Fifth Cinven Fund No. 1, L.P.
- The Fourth Cinven Fund
- TPG Partners V & VI, LP
- Trilantic Capital Partners IV, LP
- Trilantic Capital Partners V (North America), LP
- U.S. Equity Partners II, LP
- Wicks Communications & Media Partners, LP

Private Debt Partnerships
- Avenue Asia Special Situations Fund II & IV, LP
- Avenue Europe Special Situations Fund, LP
- Avenue Special Situations Fund III, IV, V, & VI, LP
- Cerberus Institutional Partners, LP (Series Two, Three, & Four)
- Cerberus Institutional Partners V, LP
- Gleacher Mezzanine Fund I & II
- Gold Hill Venture Lending, LP
- GSC Partners CDO Investors IV, LP
- GSC Recovery II & III, LP
- New York Life Investment Management Mezzanine Partners I & II, LP
- OCM Opportunities Fund VII & VII-B, LP
- Versa Capital Fund I & II, LP
- Windjammer Senior Equity Fund III & IV, LP

Alternative Investment Consultant
- Portfolio Advisors, LLC

Custodian Bank and Securities Lending Agent
- The Bank of New York Mellon Corporation

Hedge Fund Consultant
- Aksia, LLC

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.

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Investing in Pennsylvania

Providing a source of reliable, predictable income to the Commonwealth's economy, in calendar year 2012 nearly 91% of PSERS' $5.7 billion annual pension disbursements were distributed to Commonwealth residents.

Actuarial Section

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January 15, 2013

The Retirement Board
Public School Employees'
Retirement System of Pennsylvania
5 North 5th Street
Harrisburg, Pennsylvania 17101-1905

Re: Actuary's Certification Letter

Members of the Board:

An actuarial valuation of the Public School Employees' Retirement System of Pennsylvania (Retirement System or PSERS) is performed annually to measure the ongoing costs of the Retirement System and the progress towards the funding goals of the Retirement System over time. 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 level percentage of pay amortization schedules required by the Public School Employees' Retirement Code, 24 Pa. C.S. §8101 et. seq. (Retirement Code) as amended by Act 2010-120, i.e., a schedule of 24 years for the unfunded accrued liability as of June 30, 2010 and each change in the unfunded accrued liability due to actuarial experience after the June 30, 2010 valuation. Any legislation after June 30, 2010 that increases the liability will be funded over 10 years.

- As directed by Act 2010-120, use pension rate collars to moderate the rise of annual employer pension contribution rates to reach the full actuarially determined contribution funding level in a budgetary sound manner and within a financially responsible period of time.

Based on the June 30, 2012 actuarial valuation, a total contribution rate of 24.75% of payroll payable by employers for FY2013/2014, when taken together with the contributions payable by the members, current assets, and expected future asset returns, is sufficient to achieve the financing objective. However, Act 2010-120 limits the contribution for FY 2013/2014 to 16.93% of payroll. This has the effect of deferring part of the FY 2013/2014 contribution to future years.

The valuation takes into account all of the promised benefits to which members are entitled as of June 30, 2012, including pension and survivor benefits, and as required by the Retirement Code is the basis for the contribution rate for fiscal year 2013/2014. There were no legislative or administrative changes since the prior valuation.

As required under Section 8502(j) of the Retirement Code, experience studies are performed once in every five year period, the most recent being June 30, 2010. This valuation was prepared on the basis of the demographic and economic assumptions that were determined from the July 1, 2005 – June 30, 2010 Experience Review and approved by the Board of Trustees at the March 11, 2011 meeting.

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 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 requirements. 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.)

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.

The valuation 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.

In our opinion, the attached schedules of valuation results fairly represent the status of the Public School Employees' Retirement System and present an accurate view of historical data. The underlying assumptions and methods used for both funding and GASB disclosure purposes are consistent with the statutory specifications and represent a best estimate of the aggregate future experience of the Retirement System.

The following supporting schedules in the Actuarial Section were prepared by Buck Consultants:

• Summary of Results of Actuarial Valuation as of June 30, 2012

• History and Projection of Contribution Rates and Funded Ratios

• Summary of Actuarial Assumptions and Methods

• Schedule of Active Member Valuation Data

• Schedule of Retired Members and Beneficiaries Added To and Removed From Rolls

• Postemployment Benefits Other Than Pension
Schedule of Retired Members and Beneficiaries Added To and Removed From Rolls

• Solvency Test

• Analysis of Past Financial Experience
Reconciliation of Employer Contribution Rates

In addition, Buck Consultants prepared the "Schedule of Funding Progress" and the "Schedule of Employer Contributions" in the Financial Section.

To the best of our knowledge, this information is complete and accurate. The valuation was performed by, and under the supervision of, independent qualified actuaries who are members of the American Academy of Actuaries with experience in performing valuations for public retirement systems.

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The valuation was prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board and generally accepted actuarial procedures and methods. The calculations are based on the current provisions of the Retirement System, and on actuarial assumptions that are individually and in the aggregate internally consistent and reasonable based on the actual experience of the Retirement System.

Respectfully submitted,

Buck Consultants

Janet H. Cranna, MAAA, FSA, EA, FCA, MSPPA Principal, Consulting Actuary	Dana E. Spangher, MAAA, FSA, EA, FCA, MSPPA Principal, Consulting Actuary	Edward A. Quinn, MAAA, EA, FCA Director, Retirement Actuary

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SUMMARY OF RESULTS OF ACTUARIAL VALUATION
AS OF JUNE 30, 2012
($ Amounts in Thousands)

Item	June 30, 2012	June 30, 2011
Member Data		
1. Number of Members		
a) Active Members	273,504	279,152
b) Inactive Members and Vestees	122,286	115,102
c) Annuitants, Beneficiaries and Survivor Annuitants	202,015	194,622
d) Total	597,805	588,876
2. Annualized Salaries ($ Amounts in Thousands)	$ 12,714,371	$ 12,910,043
3. Annual Annuities ($ Amounts in Thousands)	$ 4,872,918	$ 4,650,798
Valuation Results		
4. Present Value of Future Pension Benefits		
a) Active Members	$ 59,970,002	$ 60,127,465
b) Inactive Members and Vestees	1,232,277	1,095,894
c) Annuitants, Beneficiaries and Survivor Annuitants	47,511,912	45,648,780
d) Total	$ 108,714,191	$ 106,872,139
5. Present Value of Future Pension Normal Cost		
a) Active Members	$ 9,836,166	$ 9,923,829
b) Employer	11,117,365	11,307,927
c) Total	$ 20,953,531	$ 21,231,756
6. Pension Accrued Liability		
a) Active Members (4a) – (5c)	$ 39,016,471	$ 38,895,709
b) Inactive Members and Vestees	1,232,277	1,095,894
c) Annuitants, Beneficiaries and Survivor Annuitants	47,511,912	45,648,780
d) Total	$ 87,760,660	$ 85,640,383
7. Health Insurance Assets for Premium Assistance	$ 93,753	$ 111,258
8. Total Accrued Liability for Funding (6) + (7)	$ 87,854,413	$ 85,751,641
9. Actuarial Value of Assets	$ 58,321,375	$ 59,252,389
10. Funded Status (9) / (8)	66.4 %	69.1 %
11. Unfunded Accrued Liability (8) – (9)	$ 29,533,038	$ 26,499,252
12. Total Normal Cost Rate	16.00 %	16.06 %
13. Member Contribution Rate	7.43 %	7.40 %
14. Employer Normal Cost Rate (12) – (13)	8.57 %	8.66 %
Employer Annual Funding Requirement	**Fiscal 2013/2014**	**Fiscal 2012/2013**
15. Employer Contribution Rate Calculated by Actuary		
a) Normal	8.57 %	8.66 %
b) Unfunded Accrued Liability	15.25 %	12.99 %
c) Preliminary Pension Rate	23.82 %	21.65 %
d) Act 120 Employer Pension Rate Collar	16.00 %	11.50 %
e) Health Insurance	0.93 %	0.86 %
f) Total Rate	16.93 %	12.36 %

HISTORY AND PROJECTION OF CONTRIBUTION RATES AND FUNDED RATIOS[1]

Fiscal Year Ending June	Appropriation Payroll[11] (thousands)	Contribution Rates[2]							
			Employer						
		Employee	Normal Cost	Unfunded Liability	Preliminary Pension	Final Pension[9]	Health Insurance	Total	Funded Ratio
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	75.1
2011[7,8]	13,510,000	7.34	8.08	(0.50)	7.58	5.00	0.64	5.64	69.1
2012	14,112,000	7.37	8.12	10.15	18.27	8.00	0.65	8.65	66.4
2013[10]	14,297,000	7.40	8.66	12.99	21.65	11.50	0.86	12.36	63.7
2014	13,720,000	7.43	8.57	15.25	23.82	16.00	0.93	16.93	61.5
2015	14,081,432	7.44	8.27	16.95	25.22	20.50	0.81	21.31	59.7
2016	14,451,877	7.45	8.01	18.40	26.41	25.00	0.80	25.80	58.5
2017	14,856,092	7.46	7.77	19.74	27.51	27.51	0.79	28.30	57.2
2018	15,277,378	7.47	7.54	20.84	28.38	28.38	0.77	29.15	56.6
2019	15,727,920	7.47	7.34	22.04	29.38	29.38	0.76	30.14	57.8
2020	16,199,868	7.48	7.14	22.99	30.13	30.13	0.74	30.87	59.1
2021	16,688,649	7.48	6.95	23.11	30.06	30.06	0.72	30.78	60.0
2022	17,199,637	7.49	6.76	23.29	30.05	30.05	0.71	30.76	61.4
2023	17,725,437	7.49	6.58	23.66	30.24	30.24	0.69	30.93	62.9
2024	18,263,477	7.49	6.40	23.90	30.30	30.30	0.67	30.97	64.5

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 or Collar 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.
8. Act 2010-46 recertified the fiscal year ending June 30, 2011 pension rate from 7.58% to 5.00%.
9. The Final Employer Pension rate is limited by the Act 2010-120 pension rate collars for fiscal years 2012 through 2016.
10. Revised actuarial assumptions based on a five-year experience review ending June 30, 2010 were used to determine the contributions for the fiscal year ending June 30, 2013 and thereafter, which includes an interest rate of 7.50%.
11. Beginning fiscal year ending June 30, 2005, the appropriation payroll shown is estimated payroll used for valuation purposes, not actual appropriation payroll. Prior to fiscal year ending June 30, 2005, the appropriation payroll shown is the annualized salary.

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS

ASSUMPTIONS

Investment Rate of Return: 7.50% per annum, compounded annually (adopted as of June 30, 2011). The components are 3.00% for inflation and 4.50% 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 (adopted as of June 30, 2011).

	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	12.50%	5.50%	2.00%	.037%	.024%		
30	10.50	3.20	2.00	.038	.024		
35	11.00	3.00	1.50	.056	.100		
40	13.00	3.50	1.25	.090	.180		
45	13.00	3.50	1.25	.121	.180		25.00%
50	13.00	3.50	1.70	.173	.280		25.00
55	11.00	3.50	3.00	.245	.430	15.00%	30.00
60	10.50	3.50	4.50	.363	.580	12.00	28.00
65				.592	.100		20.00
69				.810	.100		18.00
FEMALES							
25	13.00%	8.50%	5.00%	.018%	.030%		
30	13.00	6.50	4.00	.019	.040		
35	13.00	5.50	3.00	.022	.060		
40	10.90	4.50	1.50	.035	.100		
45	10.90	4.00	1.50	.055	.150		30.00%
50	10.90	3.75	1.75	.085	.200		30.00
55	10.90	3.75	3.00	.133	.380	15.00%	30.00
60	10.90	4.50	5.50	.197	.380	15.00	30.00
65				.301	.130		25.00
69				.428	.130		20.00

* Vested Withdrawal – At least 5 years service for Class T-C and Class T-D members and 10 years of service for Class T-E and Class T-F members but not eligible for Early or Superannuation retirement.

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

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS
(Continued)

Death after Retirement: The RP-2000 Combined Healthy Annuitant Tables (Male and Female) with age set back 3 years for both genders for healthy annuitants and for dependent beneficiaries. The RP-2000 Combined Disabled Tables (Male and Female) with age set back 7 years for males and set back 3 years for females for disabled annuitants. (A unisex table based on the RP-2000 Combined Healthy Annuitant Tables (Male and Female) with age set back 3 years for both genders assuming the population consists of 25% males and 75% females is used to determine actuarial equivalent benefits.) No provision has been made for future improvements in mortality.

Salary Increase: Effective average of 5.50% per annum, compounded annually (adopted as of June 30, 2011). The components are 3.00% for inflation, 1% for real wage growth and 1.5% for merit or seniority increases. Representative values are as follows:

Age	Annual Rate of Salary Increase
20	10.75%
30	8.25
40	6.25
50	4.25
55	3.75
60	3.75
65	3.75
70	3.75

Payroll Growth: 3.50% per annum.

MISCELLANEOUS

Option 4 Elections: 100% of Class T-C and Class T-D 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 reasonable based on the actual experience of the Retirement System.

Asset Valuation Method: A ten-year smoothed market average (five-year smoothed market average prior to June 30, 2010) value of assets that recognizes the 7.50% (8.00% prior to June 30, 2011, 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 ten years. The averaging period is being phased-in from fiscal year 2006.

DESCRIPTION OF ACTUARIAL ASSUMPTIONS AND METHODS (Continued)

Actuarial Cost Method for Pension Funding: Entry Age Normal Cost Method (modified slightly as of June 30, 2005 to use a pay-weighted average normal contribution rate). The results of each June 30 valuation normally determine the employer contribution rate for the second succeeding fiscal year. Act 120 revised the funding method effective with the June 30, 2010 valuation. Act 120 mandated that the outstanding balance of the unfunded accrued liability as of June 30, 2010, including changes in the unfunded accrued liability due to the funding reforms of Act 120, be amortized over a 24-year period, as a level percent of pay, beginning July 1, 2011. Future valuation gains and losses, and changes in the unfunded accrued liability resulting from changes in actuarial assumptions and methods, are amortized over a 24-year period, as a level percent of pay. Future increases in the unfunded accrued liability due to legislation will be amortized over a 10-year period, as a level percent of pay. Act 120 also modified the employer pension contribution requirements by imposing collars on the rate at which employer contributions may rise from year to year. For the fiscal years ending June 30, 2012, June 30, 2013, and on or after June 30, 2014 the pension contribution rate can be no more than 3%, 3.5% and 4.5%, respectively, of total compensation of all active members, greater than the prior year's final contribution rate. Beginning with the fiscal year in which the actuarially required contribution rate is less than the collared rate, the final contribution rate is the actuarially determined contribution rate, provided that the final contribution rate is not less than the employer normal contribution rate.

Actuarial Cost Method for GASB 25 Accounting for Pensions: Same as for pension funding, except that the GASB 25 amortization payment will be set equal to the level dollar amount that will amortize the unfunded accrued liability over a period of 30 years.

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, 2012 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.

SCHEDULE OF ACTIVE MEMBERS
VALUATION DATA

Valuation as of June 30	Number of Active Members	Annual Compensation (Thousands)	Average Compensation	% Increase in Average
2012	273,504	$ 12,714,371	$ 46,487	0.52 %
2011	279,152	12,910,043	46,247	1.99
2010	282,041	12,788,847	45,344	1.26
2009	279,701	12,524,593	44,779	2.43
2008	272,690	11,921,469	43,718	1.16
2007	264,023	11,410,257	43,217	(0.33)

SCHEDULE OF RETIRED MEMBERS AND BENEFICIARIES
ADDED TO AND REMOVED FROM ROLLS

Valuation Date as of June 30	Added to Rolls		Removed from Rolls		Rolls at End of Year		% Increase in Annual Allowance	Average Annual Allowance
	Number	Annual Allowance (Millions)	Number	Annual Allowance (Millions)	Number*	Annual Allowance** (Millions)		
2012	14,579	$ 332.7	7,186	$ 66.6	202,015	$ 4,872.9	4.78 %	$ 24,122
2011	16,228	453.7	6,540	76.4	194,622	4,650.8	7.17	23,897
2010	12,649	372.8	5,678	77.6	184,934	4,339.6	8.59	23,466
2009	9,651	314.9	5,228	74.4	177,963	3,996.3	4.85	22,456
2008	10,911	345.3	5,397	73.9	173,540	3,811.5	8.18	21,963
2007	10,612	307.5	4,399	56.0	168,026	3,523.4	7.60	20,970

* Excludes inactive members and vestees.

** Reflects changes in annuities for continuing payees due to finalization of benefit calculations and due to the commencement of supplemental annuity payments.

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
SCHEDULE OF RETIRED MEMBERS ADDED TO AND REMOVED FROM ROLLS*

Valuation Date as of June 30	Number		
	Added to Rolls	Removed from Rolls	Rolls at End of Year
2012	5,751	1,372	133,298
2011	8,185	2,074	128,919
2010	6,709	2,323	122,808
2009	6,285	3,079	118,422
2008	8,792	6,050	115,216
2007	7,072	2,637	112,474

* Number of retired members eligible to participate in the Health Insurance Premium Assistance; 66% of eligible retirees are assumed to elect premium assistance.

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)
2012	$ 12,535,442	$ 47,511,912	$ 27,713,306	$ 58,227,622	100 %	96 %	0 %
2011	12,242,308	45,648,780	27,749,295	59,141,131	100	100	5
2010	11,850,031	40,284,383	26,871,014	59,306,848	100	100	27
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

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)
2012	$ 0	$ 934,506	$ 430,161	$ 93,753	N/A	10 %	0 %
2011	0	909,076	430,368	111,258	N/A	12	0
2010	0	767,587	394,632	116,831	N/A	15	0
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

The solvency test compares the actuarial accrued liabilities by various categories with the Retirement System's actuarial value of assets.

ANALYSIS OF PAST FINANCIAL EXPERIENCE
RECONCILIATION OF EMPLOYER CONTRIBUTION RATES

Fiscal Year Ending June 30	2014	2013	2012	2011	2010	2009
Effective Prior Year Contribution Rate	12.36%	8.65%	5.64%	4.78%	4.76%	7.13%
Prior Year Adjustment for Legislation	10.15	10.27	2.58	(0.37)	(0.69)	N/A
Net Change Due to:						
Change in Normal Rate	(0.09)	(0.22)	0.04	0.00	(0.02)	0.00
Payroll Growth and Liability Experience	0.72	(0.21)	0.40	(0.03)	0.33	(0.88)
Investment Loss/(Gain)	0.78	0.59	1.94	2.04	(1.71)	(2.25)
Health Insurance Contribution Change	0.07	0.21	0.01	(0.14)	0.02	0.07
Assumption Change	N/A	3.04	N/A	1.94	1.72	N/A
Act 40 4.00% Floor*	N/A	N/A	N/A	N/A	0.37	0.69
Act 120 Funding Reforms	N/A	N/A	8.31	N/A	N/A	N/A
Amortization of Prior Legislation Deferrals	0.76	0.18	N/A	N/A	N/A	N/A
Legislation Deferrals:						
Act 46 Rate Cap**	N/A	N/A	N/A	(2.58)	N/A	N/A
Act 120 Collar***	(7.82)	(10.15)	(10.27)	N/A	N/A	N/A
Actual Contribution Rate	16.93%	12.36%	8.65%	5.64%	4.78%	4.76%

* Act 2003-40 amended the Retirement Code to increase the Employer Pension Rate Floor from 1% to 4%.

** Act 2010-46 recertified the fiscal year ending June 30, 2011 pension rate from 7.58% to 5.00%.

*** The Final Employer Pension rate is limited by the Act 2010-120 pension rate collar. For the fiscal years ending June 30, 2012, June 30, 2013, and on or after June 30, 2014 the pension contribution rate can be no more than 3%, 3.5% and 4.5%, respectively, of total compensation of all active members, greater than the prior year's final contribution rate. Beginning with the fiscal year in which the actuarially required contribution rate is less than the collared rate, the final contribution rate is the actuarially determined contribution rate, provided that the final contribution rate is not less than the employer normal contribution rate.

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
2012	$ 58,227,622	$ 87,760,660	$ 29,533,038	66.3%	$ 12,714,371	232.3%
2011	59,141,131	85,640,383	26,499,252	69.1	12,910,043	205.3
2010	59,306,848	79,005,428	19,698,580	75.1	12,788,847	154.0
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

*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
2012	$ 93,753	$ 1,364,667	$ 1,270,914	6.9%	$ 12,714,371	10.0%
2011	111,258	1,339,444	1,228,186	8.3	12,910,043	9.5
2010	116,831	1,162,219	1,045,388	10.1	12,788,847	8.2
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

* 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.

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
2012	$ 2,629,244	$ 1,001,140	38%
2011	2,436,602	647,000	27
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

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, 2012 was determined by the valuation completed as of June 30, 2010 which was based on an 8.00% interest rate).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2012
Actuarial Cost Method:	Entry Age
Amortization Method:	Level Dollar, Open
Remaining Amortization Period:	30 Years
Asset Valuation Method:	10 Year Smoothed Market
Actuarial Assumptions:	
- Investment Rate of Return*	7.50%
- Projected Salaried Increases*	5.50%
*Includes Inflation at:	3.00%

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
2012	$ 102,104	$ 80,936	79%
2011	119,320	88,796	74
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 Annual Required Contribution (ARC) beginning with the fiscal year ended June 30, 2009 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, 2012 was determined by the valuation completed as of June 30, 2010, which was based on an 8.00% interest rate). Prior to the fiscal year which ended June 30, 2009, 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:	6/30/2012
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*	7.50%
- Projected Salaried Increases*	5.50%
*Includes Inflation at:	3.00%

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Providing Stability in Retirement

The average annual annuity paid to a member has increased from $18,464 in FY 2004 to $24,603 in FY 2013.

Statistical Section

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, 2013.

The ***Schedules of Total Changes in Pension Plan Net Position*** and ***Total Changes in Postemployment Healthcare Plans Net Position*** show the historical combined effects of the additions and deductions of the plans' net position over the ten-year period ended June 30, 2013.

The graphs of ***Additions to Pension Plan Net Position*** and ***Additions to Postemployment Healthcare Plans Net Position*** provide visual details of the additions to the plans' net position over the ten-year period ended June 30, 2013.

The graphs of ***Deductions from Pension Plan Net Position*** and ***Deductions from Postemployment Healthcare Plans Net Position*** provide visual details of the deductions from the plans' net position over the ten-year period ended June 30, 2013.

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, 2013.

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, 2012.

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, 2012.

The ***Schedule of Pension Benefit and Refund Deductions from Plan Net Position*** provides summary statistics by payment type relating to retirement and refunds over the ten-year period ended June 30, 2013.

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, 2012.

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, 2012.

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, 2012.

Operating Information

The list of ***Ten Largest Employers*** shows the System's ten largest employers based on number of PSERS members during FY 2013 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	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Contribution Rates:										
Total Pension %	11.50	8.00	5.00	4.00	4.00	6.44	5.72	4.00	4.00	2.98
Health Care Insurance Premium Assistance %	.86	.65	.64	.78	.76	.69	.74	.69	.23	.79
Total Employer %	12.36	8.65	5.64	4.78	4.76	7.13	6.46	4.69	4.23	3.77
Average Member %	7.40	7.37	7.34	7.32	7.29	7.25	7.21	7.16	7.12	7.08
Contributions:										
Member - Pension $	991,087	952,887	1,042,707	952,047	911,118	879,598	855,322	827,647	788,310	783,691
Member - HOP $	234,516	213,642	201,014	191,184	178,801	159,563	144,185	155,199	167,199	160,731
Employer - Pension $	1,446,402	1,004,584	658,511	535,331	515,889	753,532	659,545	456,878	431,556	321,091
Employer - Health Care Insurance Premium Assistance $	108,676	81,343	89,242	102,703	92,483	81,317	86,763	74,065	26,252	85,631
CMS $ ***	40,698	33,462	32,080	33,901	31,556	28,426	27,789	13,941	-	-
Average Annual Member Compensation $ *	47,030	46,487	46,247	45,344	44,779	43,718	43,217	43,361	41,210	40,463
Market Value of Assets $	49,116,000	48,628,000	51,311,000	45,715,000	43,101,000	62,569,000	67,438,000	57,328,000	52,033,534	48,484,506
Actuarial Value of Assets $	**	58,322,000	59,252,000	59,424,000	59,887,000	61,018,000	57,155,000	52,558,000	51,219,300	52,094,500
Accrued Actuarial Liability $	**	87,854,000	85,752,000	79,122,000	75,626,000	70,941,000	66,593,000	64,720,000	61,129,444	56,978,143
Funded Ratio %	**	66.4	69.1	75.1	79.2	86.0	85.8	81.2	83.7	91.2
Total Benefits & Refunds $	6,373,363	5,992,979	5,617,247	5,269,175	4,931,854	4,941,681	4,320,440	4,115,865	3,877,842	3,497,365
Average Pension $ *	24,603	24,122	23,897	23,466	22,456	21,963	20,970	20,236	19,343	18,464
Annuitants & Beneficiaries	209,204	202,015	194,622	184,934	177,963	173,540	168,026	161,813	156,519	151,552
Active Members	267,428	273,504	279,152	282,041	279,701	272,690	264,023	263,350	255,465	247,901

* 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, 2013. Results for this valuation were not available at publication date.

*** Centers for Medicare and Medicaid Services

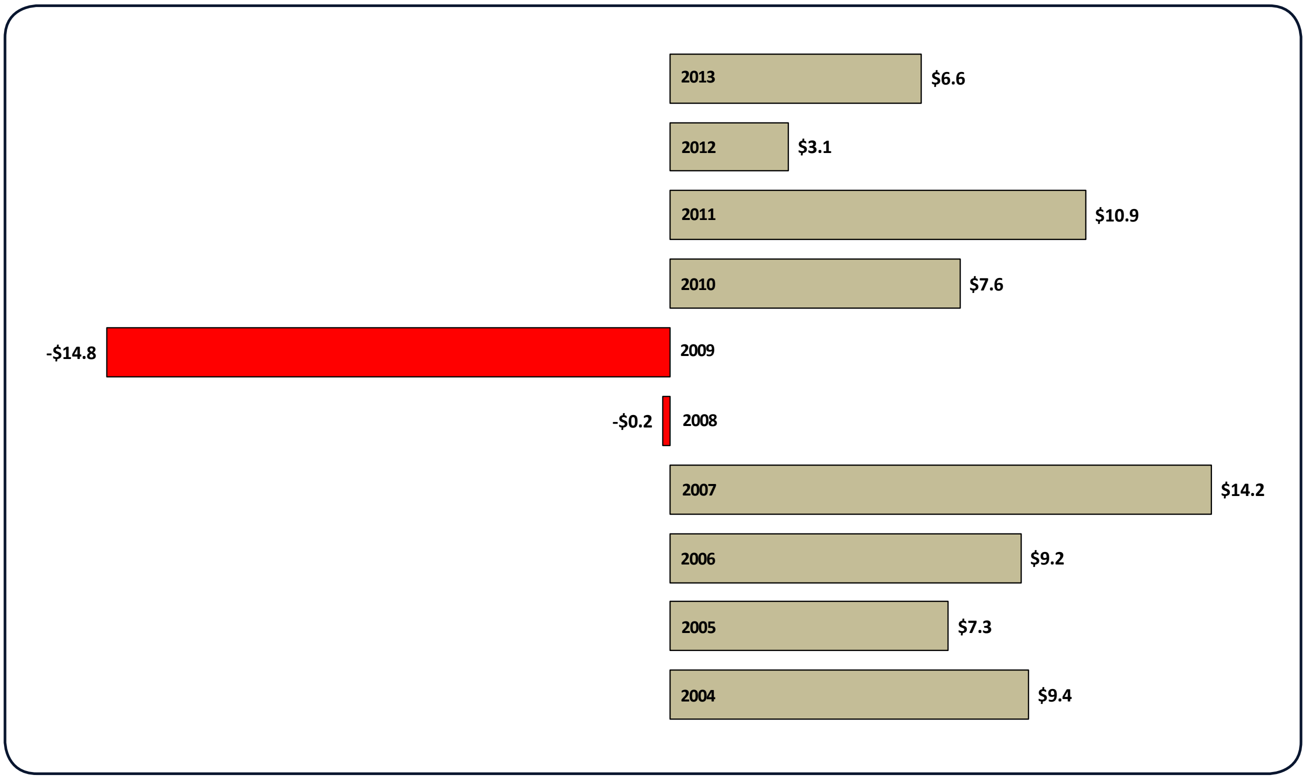
Schedule of Total Changes in Pension Plan Net Position
10 Year Trend
(Dollar Amounts in Thousands)

	Additions to Plan Net Position				Deductions from Plan Net Position						
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)
2013	$ 991,087	$ 1,446,402	$ 4,126,002	$ 6,563,491	$ 4,905,200	$ 1,111,692	$ 24,461	$ 37,480	$ 2,893	$ 6,081,726	$ 481,765
2012	952,887	1,004,584	1,093,319	3,050,790	4,691,250	964,056	24,675	34,242	2,765	5,716,988	(2,666,198)
2011	1,042,707	658,511	9,246,091	10,947,309	4,322,520	958,703	17,695	37,028	9,844	5,345,790	5,601,519
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

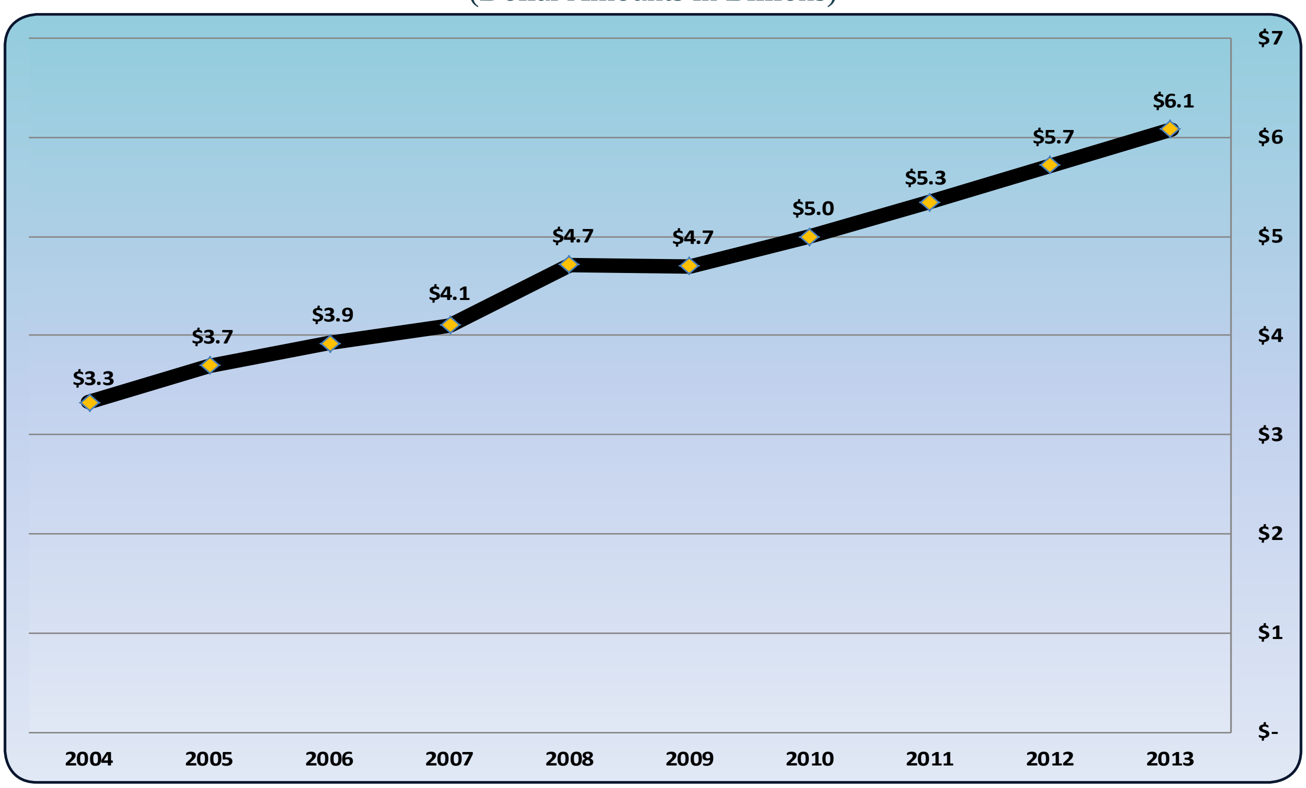
* Reporting of administrative expenses for fiscal year ended June 30, 2010 includes effects of the capitalization of intangible assets as a result of PSERS' implementation of GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets.*

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

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



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



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

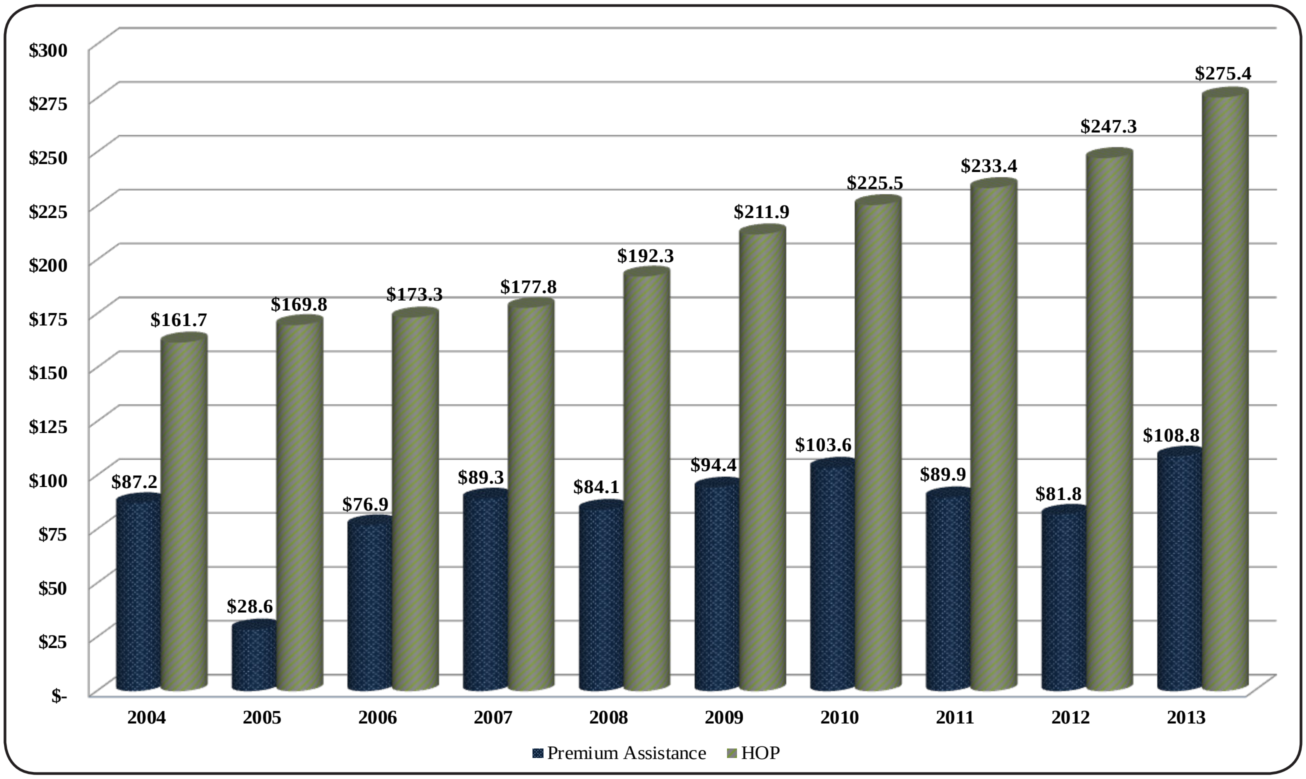
Premium Assistance

	Additions to Plan Net Position			Deductions from Plan Net Position			
Year Ended June 30	Employer Contributions	Net Investment Income	Total Additions	Benefits	Administrative	Total Deductions	Net Increase / (Decrease)
2013	$ 108,676	$ 110	$ 108,786	$ 100,078	$ 2,112	$ 102,190	$ 6,596
2012	81,343	423	81,766	97,206	2,065	99,271	(17,505)
2011	89,242	691	89,933	93,518	1,988	95,506	(5,573)
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

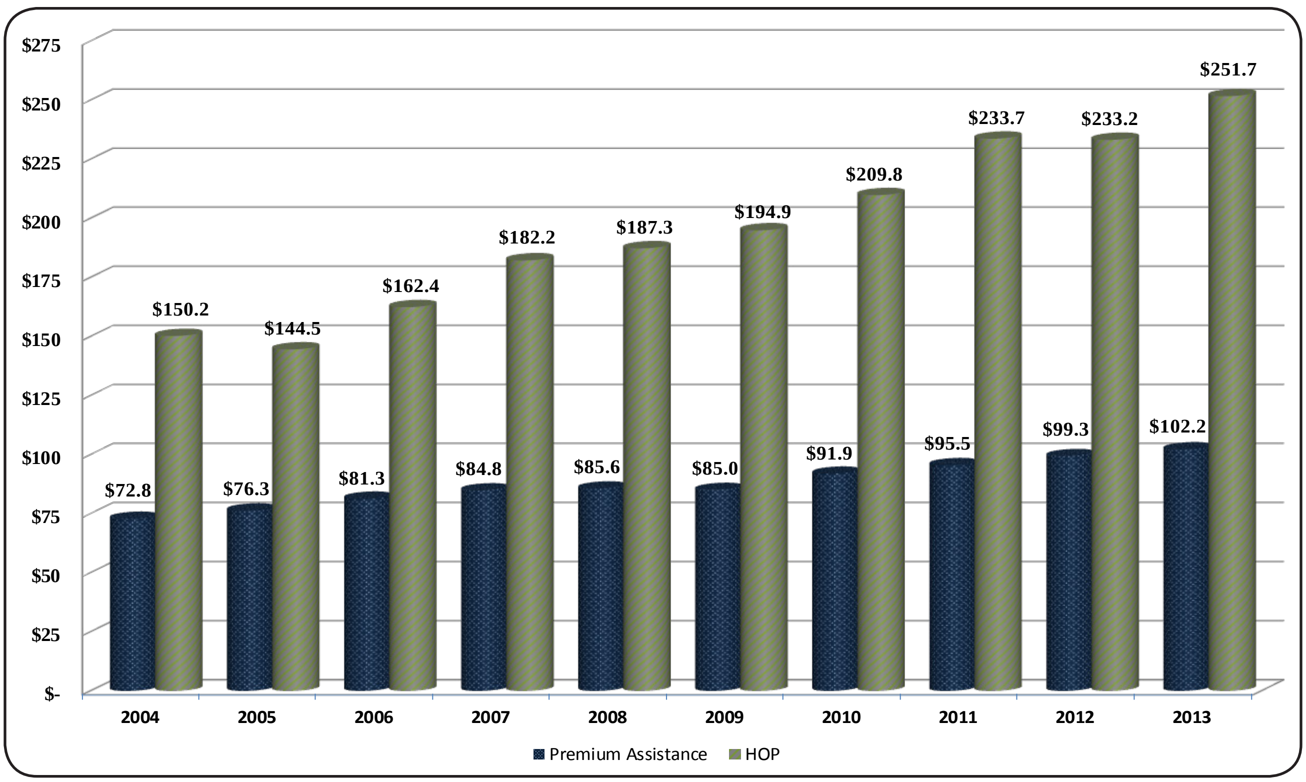
Health Options Program

	Additions to Plan Net Position				Deductions from Plan Net Position			
Year Ended June 30	Member Contributions	CMS Contributions	Net Investment Income	Total Additions	Benefits	Administrative	Total Deductions	Net Increase / (Decrease)
2013	$ 234,516	$ 40,698	$ 226	$ 275,440	$ 229,039	$ 22,644	$ 251,683	$ 23,757
2012	213,642	33,462	237	247,341	213,027	20,213	233,240	14,101
2011	201,014	32,080	310	233,404	214,967	18,729	233,696	(292)
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

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



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



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

For years ended June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Investment income:										
From investing activities:										
Net appreciation (depreciation) in fair value of investments	$ 3,428,449	$ 539,129	$ 8,616,152	$ 5,561,419	$ (17,007,821)	$ (3,763,649)	$ 10,457,473	$ 5,969,223	$ 4,463,930	$ 6,874,420
Investment income	1,246,879	1,027,141	1,137,339	1,066,017	1,310,460	2,331,266	2,524,655	2,154,654	1,789,078	1,544,159
Total investment activity income (loss)	4,675,328	1,566,270	9,753,491	6,627,436	(15,697,361)	(1,432,383)	12,982,128	8,123,877	6,253,008	8,418,579
Investment expenses	(557,533)	(481,234)	(514,647)	(522,268)	(477,520)	(399,098)	(313,726)	(211,247)	(192,629)	(191,267)
Net income (loss) from investing activities	4,117,795	1,085,036	9,238,844	6,105,168	(16,174,881)	(1,831,481)	12,668,402	7,912,630	6,060,379	8,227,312
From securities lending activities:										
Securities lending income	9,541	9,457	8,251	9,574	55,574	319,107	419,762	270,447	125,882	46,075
Securities lending expense	(1,334)	(1,174)	(1,004)	(1,063)	(82,394)	(270,254)	(393,837)	(247,491)	(109,779)	(31,379)
Net income (loss) from securities lending activities	8,207	8,283	7,247	8,511	(26,820)	48,853	25,925	22,956	16,103	14,696
Total net investment income (loss)	$ 4,126,002	$ 1,093,319	$ 9,246,091	$ 6,113,679	$ (16,201,701)	$ (1,782,628)	$ 12,694,327	$ 7,935,586	$ 6,076,482	$ 8,242,008

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

For years ended June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Investment income:										
From investing activities:										
Net appreciation (depreciation) in fair value of investments	$ (1,140)	$ (1,543)	$ (1,324)	$ (1,039)	$ (363)	$ 268	$ 88	$ (480)	$ (2,218)	$ (3,003)
Investment income	1,306	2,018	2,063	1,955	2,269	2,525	2,517	3,362	4,635	4,627
Total investment activity income	166	475	739	916	1,906	2,793	2,605	2,882	2,417	1,624
Investment expenses	(56)	(52)	(48)	(47)	(45)	(38)	(32)	(32)	(48)	(33)
Total net investment income	$ 110	$ 423	$ 691	$ 869	$ 1,861	$ 2,755	$ 2,573	$ 2,850	$ 2,369	$ 1,591

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

For years ended June 30	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Investment income:										
From investing activities:										
Net appreciation in fair value of investments	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 123	$ 672	$ -
Investment income	226	237	310	440	1,528	4,288	5,821	4,080	1,974	1,005
Total investment activity income	226	237	310	440	1,528	4,288	5,821	4,203	2,646	1,005
Investment expenses	-	-	-	-	-	-	-	-	-	-
Total net investment income	$ 226	$ 237	$ 310	$ 440	$ 1,528	$ 4,288	$ 5,821	$ 4,203	$ 2,646	$ 1,005

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
2012	44.3	10.9	$ 51,751	44.9	10.6	$ 44,513	273,504
2011	44.1	10.8	51,678	44.6	10.3	44,209	279,152
2010	44.2	10.9	50,770	44.6	10.3	43,306	282,041
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

* Actuarial Valuation for year ended June 30, 2012 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
2012	202,015	$ 4,872,918	$ 24,122
2011	194,622	4,650,798	23,897
2010	184,934	4,339,639	23,466
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

** Actuarial Valuation for year ended June 30, 2012 is most current valuation completed at publication date.

*** Total Annual Annuities dollar amounts expressed in thousands.

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

	Retirements *										
For year ended June 30	Normal	Early	Disability	Pension Lump Sum Benefits	Death	Beneficiary	Survivor	Net Transfers***	Total Pension Benefits Deductions	Refunds	Total Pension Benefits and Refund Deductions
2013	$ 2,811,906	$ 1,845,269	$ 161,995	$ 933,049	$ 86,974	$ 109,876	$ 67,823	$ 2,893	$ 6,019,785	$ 24,461	$ 6,044,246
2012	2,629,151	1,758,581	149,000	887,244	65,086	102,406	63,838	2,765	5,658,071	24,675	5,682,746
2011	2,420,883	1,664,903	141,273	847,482	55,479	91,318	59,885	9,844	5,291,067	17,695	5,308,762
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

* Data presented in Normal column for years 2004 to 2008 are aggregate amounts for all Retirement Types.

** Data for these years is not readily available in the format adopted for the year ended June 30, 2009 and thereafter.

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

Schedule of Average Monthly Pension Benefit Payments*
Total Annuitants 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, 2012										
Normal and Early	3,881	13,459	22,313	18,971	18,919	21,855	43,662	34,024	5,170	**182,254**
	$ 111	$ 176	$ 317	$ 680	$ 1,202	$ 1,972	$ 3,105	$ 4,078	$ 4,196	**$ 2,110**
Disability	-	1,698	1,882	1,517	1,397	1,257	531	15	9	**8,306**
	$ -	$ 694	$ 875	$ 1,166	$ 1,748	$ 2,583	$ 3,465	$ 2,917	$ 2,147	**$ 1,467**
Beneficiary and Survivor	-	5,234	772	784	780	797	1,261	1,281	546	**11,455**
	$ -	$ 702	$ 245	$ 390	$ 603	$ 850	$ 1,175	$ 1,341	$ 1,412	**$ 811**
Fiscal year ended June 30, 2011										
Normal and Early	3,695	12,263	21,497	18,343	18,199	21,042	42,507	33,045	5,045	**175,636**
	$ 114	$ 174	$ 305	$ 656	$ 1,158	$ 1,921	$ 3,064	$ 4,041	$ 4,133	**$ 2,091**
Disability	-	1,629	1,798	1,473	1,366	1,216	523	15	9	**8,029**
	$ -	$ 680	$ 839	$ 1,136	$ 1,686	$ 2,548	$ 3,476	$ 2,878	$ 2,147	**$ 1,441**
Beneficiary and Survivor	-	4,389	817	819	804	842	1,322	1,362	602	**10,957**
	$ -	$ 652	$ 239	$ 372	$ 583	$ 842	$ 1,170	$ 1,322	$ 1,383	**$ 796**
Fiscal year ended June 30, 2010										
Normal and Early	4,695	11,529	20,812	17,777	17,356	19,973	40,625	30,716	4,755	**168,238**
	$1,023	$ 349	$ 287	$ 613	$ 1,093	$ 1,839	$ 3,004	$ 3,933	$ 3,896	**$ 2,037**
Disability	-	1,633	1,761	1,453	1,352	1,227	517	18	11	**7,972**
	$ -	$ 694	$ 819	$ 1,098	$ 1,654	$ 2,513	$ 3,475	$ 2,563	$ 1,958	**$ 1,424**
Beneficiary and Survivor	-	2,604	772	735	755	773	1,192	1,280	613	**8,724**
	$ -	$1,008	$ 217	$ 336	$ 525	$ 770	$ 1,075	$ 1,200	$ 1,241	**$ 872**
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**

* Actuarial valuation for year ended June 30, 2012 is the most current valuation completed at the publication date.

Schedule of Average Monthly Pension Benefit Payments
Total Annuitants 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, 2007										
Normal and Early	2,812	8,675	20,554	17,448	16,304	18,664	37,422	25,100	5,382	**152,361**
	$ 54	$ 149	$ 256	$ 553	$ 971	$ 1,662	$ 2,821	$ 3,574	$ 3,488	**$ 1,820**
Disability	-	1,437	1,689	1,370	1,307	1,154	430	11	1	**7,399**
	$ -	$ 595	$ 770	$ 1,044	$ 1,569	$ 2,476	$ 3,466	$ 3,576	$ 4,550	**$ 1,356**
Beneficiary and Survivor	94	430	1,025	930	936	980	1,453	1,628	790	**8,266**
	$ 47	$ 119	$ 218	$ 342	$ 530	$ 768	$ 1,075	$ 1,201	$ 1,234	**$ 767**
Fiscal year ended June 30, 2006										
Normal and Early	2,723	7,810	20,380	17,198	15,979	18,140	35,227	23,660	5,465	**146,582**
	$ 53	$ 147	$ 249	$ 537	$ 945	$ 1,611	$ 2,747	$ 3,474	$ 3,397	**$ 1,756**
Disability	-	1,375	1,655	1,339	1,261	1,136	398	10	1	**7,175**
	$ -	$ 579	$ 750	$ 1,023	$ 1,510	$ 2,429	$ 3,422	$ 3,549	$ 4,550	**$ 1,320**
Beneficiary and Survivor	88	413	1,000	902	911	951	1,404	1,572	815	**8,056**
	$ 47	$ 116	$ 212	$ 327	$ 516	$ 742	$ 1,027	$ 1,154	$ 1,182	**$ 739**
Fiscal year ended June 30, 2005										
Normal and Early	2,654	7,117	20,423	17,022	15,827	17,732	33,402	21,971	5,615	**141,763**
	$ 67	$ 147	$ 244	$ 523	$ 921	$ 1,561	$ 2,669	$ 3,326	$ 3,278	**$ 1,679**
Disability	8	1,321	1,641	1,281	1,232	1,113	357	10	1	**6,964**
	$ 1,301	$ 550	$ 723	$ 975	$ 1,464	$ 2,377	$ 3,340	$ 3,546	$ 4,550	**$ 1,271**
Beneficiary and Survivor	79	400	976	881	876	913	1,322	1,530	814	**7,791**
	$ 47	$ 110	$ 204	$ 316	$ 496	$ 709	$ 987	$ 1,075	$ 1,099	**$ 700**
Fiscal year ended June 30, 2004										
Normal and Early	3,111	6,585	20,407	16,821	15,637	17,285	31,443	20,313	5,699	**137,301**
	$ 224	$ 148	$ 240	$ 509	$ 901	$ 1,516	$ 2,592	$ 3,191	$ 3,198	**$ 1,602**
Disability	24	1,256	1,589	1,205	1,225	1,083	305	8	1	**6,696**
	$ 873	$ 527	$ 700	$ 937	$ 1,435	$ 2,342	$ 3,212	$ 3,227	$ 4,550	**$ 1,229**
Beneficiary and Survivor	123	408	946	861	830	881	1,235	1,444	826	**7,554**
	$ 224	$ 107	$ 196	$ 303	$ 465	$ 680	$ 944	$ 997	$ 1,042	**$ 658**
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**

Schedule of Average Monthly Pension Benefit Payments and Average Final Average Salary * New Annuitants 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+
Fiscal year ended June 30, 2012									
Number of retired members	384	1,716	1,395	1,226	1,373	1,440	1,998	1,704	319
Final Average Salary	$19,074	$30,273	$35,706	$44,534	$54,305	$64,007	$74,534	$80,285	$80,899
Monthly Benefit	$ 126	$ 286	$ 635	$ 1,216	$ 1,977	$ 2,815	$ 4,097	$ 5,033	$ 5,630
Fiscal year ended June 30, 2011									
Number of retired members	380	1,591	1,323	1,131	1,247	1,418	2,309	2,023	281
Final Average Salary	$17,212	$30,174	$34,363	$44,577	$52,788	$64,398	$73,905	$79,420	$79,799
Monthly Benefit	$ 98	$ 315	$ 645	$ 1,238	$ 1,908	$ 2,893	$ 4,031	$ 4,981	$ 5,491
Fiscal year ended June 30, 2010									
Number of retired members	312	1,294	989	826	947	1,035	1,992	1,731	218
Final Average Salary	$21,528	$28,957	$34,500	$42,207	$52,104	$63,290	$72,258	$79,239	$80,405
Monthly Benefit	$ 312	$ 269	$ 634	$ 1,140	$ 1,906	$ 2,833	$ 3,979	$ 4,963	$ 5,550
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

* Actuarial valuation for year ended June 30, 2012 is the most current valuation completed at the publication date.

Schedule of Average Monthly Premium Assistance Benefit Payments and Average Final Average Salary * New Annuitants 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+
Fiscal year ended June 30, 2012									
Number of retired members		8	18	259	342	594	819	666	128
Final Average Salary		$33,448	$38,655	$45,382	$54,454	$64,728	$74,849	$79,041	$77,220
Monthly Benefit		$ 100	$ 69	$ 100	$ 100	$ 99	$ 98	$ 97	$ 99
Fiscal year ended June 30, 2011									
Number of retired members		24	39	325	475	853	1,543	1,402	207
Final Average Salary		$41,609	$51,763	$48,062	$54,261	$67,086	$74,658	$79,436	$77,751
Monthly Benefit		$ 100	$ 100	$ 98	$ 99	$ 97	$ 96	$ 97	$ 98
Fiscal year ended June 30, 2010									
Number of retired members		20	21	227	381	597	1,371	1,253	165
Final Average Salary		$36,052	$48,277	$45,245	$55,323	$65,244	$73,207	$80,413	$80,328
Monthly Benefit		$ 100	$ 100	$ 98	$ 98	$ 98	$ 97	$ 97	$ 100
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

* Actuarial valuation for year ended June 30, 2012 is the most current valuation completed at the publication date.

Ten Largest Employers *
As of June 30, 2013
(Based on number of reported members)

	Employer	Number of Reported Members	Percentage of Total
1.	Philadelphia City School District	19,056	6.88%
2.	Pittsburgh School District	4,172	1.51%
3.	Central Bucks School District	2,689	0.97%
4.	Allentown City School District	2,501	0.90%
5.	North Penn School District	2,064	0.75%
6.	Bethlehem Area School District	2,029	0.73%
7.	Reading School District	1,910	0.69%
8.	Council Rock School District	1,709	0.62%
9.	Pennsbury School District	1,642	0.59%
10.	Pocono Mountain School District	1,593	0.58%

* 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
Abington Heights
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-Limeston 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

Schedule of Employers (Continued)

Fort Cherry
Fort LeBoeuf
Fox Chapel Area
Franklin Area
Franklin Regional
Frazier
Freedom Area
Freeport Area

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
Hazelton Area
Hempfield
Hempfield Area
Hermitage
Highlands
Hollidaysburg Area
Homer-Center
Hopewell Area
Huntingdon Area

I

Indiana Area
Interboro
Iroquois

J

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

K

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

L

Lackawanna Trail
Lakeland
Lake-Lehman
Lakeview
Lampeter-Strasburg
Lancaster
Laurel
Laurel Highlands
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

Schedule of Employers (Continued)

Northern Lehigh
Northern Potter
Northern Tioga
Northern York County
Northgate
Northwest Area
Northwestern
Northwestern Lehigh
Norwin

O

Octorara Area
Oil City Area
Old Forge
Oley Valley
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 Township
Reading
Red Lion Area
Redbank Valley
Reynolds
Richland
Ridgway Area
Ridley
Ringgold
Riverside
Riverside Beaver County
Riverview
Rochester Area
Rockwood Area
Rose Tree Media

S

Saint Clair Area
Saint Marys Area
Salisbury 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-Stoneycreek
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
Union Area
Union City Area
Uniontown Area
Unionville-Chadds Ford
United

Schedule of Employers (Continued)

Upper Adams
Upper Darby
Upper Dauphin Area
Upper Dublin
Upper Merion Area
Upper Moreland Township
Upper Perkiomen
Upper Saint Clair

V

Valley Grove
Valley View

W

Wallenpaupack Area
Wallingford-Swarthmore
Warren County
Warrior Run
Warwick
Washington
Wattsburg Area
Wayne Highlands
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
Wilson Area
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 CountyTechnical High School
Butler County AVTS
Carbon Career & Technical Institute
Career Institute of Technology
Central Montco Technical High School
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 County 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 Institute
North Fayette County AVTS
North Montco Technical Career Center
Northern Tier Career Center
Northern Westmoreland CTC
Northumberland County AVTS
Parkway West CTC
Reading-Muhlenberg CTC
Schuylkill Technology Center
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 County School of Technology

Schedule of Employers (Continued)

Intermediate Units

Allegheny #3
Appalachia #8
Arin #28
Beaver Valley #27
Berks County #14
Blast #17
Bucks County #22
Capital Area #15
Carbon-Lehigh #21
Central #10
Central Susquehanna #16
Chester County #24
Colonial #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 Community College
Indiana University
Kutztown University
Lehigh Carbon Community College
Lock Haven University
Luzerne County Community College
Mansfield University
Millersville University
Montgomery County Community College
Northampton County 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
Act Academy Cyber C S
Ad Prima C S
Agora Cyber C S
Alliance For Progress C S
Antonia Pantoja Community C S
Architecture and Design Charter High School
Arise Academy Charter High School
Arts Academy C S
Aspira Bilingual Cyber C S
Avon Grove C S
Baden Academy C S
Bear Creek Community C S
Beaver Area Academic C S
Belmont Academy C S
Belmont C S
Birney Preparatory Academy C S
Boys' Latin of Philadelphia C S
Bucks County Montessori C S
Career Connections C S
Center for Student Learning Charter School at Pennsbury
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
Delaware Valley C S
Discovery C S

Schedule of Employers (Continued)

Dr. Robert Ketterer C S
Eastern University Academy C S
Environmental Charter School at Frick Park
Erie Rise Leadership Academy C S
Eugenio Maria de Hostos Community Bilingual C S
Evergreen Community C S
Fell C S
First Philadelphia Charter School for Literacy
Folk Arts - Cultural Treasures C S
Franklin Towne Charter Elementary School
Franklin Towne Charter High School
Freire C S
Gettysburg Montessori C S
Gillingham 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
Hope for Hyndman C S
Howard Gardner Multiple Intelligence C S
I-Lead C S
Imani Education Circle C S
IMHOTEP Institute C S
Independence C S
Infinity C S
John B Stetson 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 Charter School for the Performing Arts
Lehigh Valley Dual Language C S
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 Charter School - Clymer Elementary
Mastery Charter School - Harrity Elementary
Mastery Charter School - Mann Elementary
Mastery Charter School - Smedley Elementary
Mastery Charter School - Simon Gratz
Mastery Charter School - Pickett Campus
Mastery Charter School - Shoemaker Campus
Mastery Charter School - Thomas Campus
Math Civics and Sciences C S
Mathematics, Science & Technology Community C S
Medical Academy C S
Memphis Street Academy C S - J.P. Jones
Montessori Regional C S
Multi-Cultural Academy C S
New Day 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
Olney Charter High School
Pan American Academy C S
Penn Hills C S for Entrepreneurship
Pennsylvania Cyber C S
Pennsylvania Distance Learning C S
Pennsylvania Leadership C S
Pennsylvania Learners Online Regional Cyber C S
Pennsylvania Virtual C S
People for People C S
Perseus House Charter School of Excellence
Philadelphia Academy C S
Philadelphia Charter School for Arts & Sciences at H.R. Edmunds
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 School of Mathematics, Science, Technology & Careers
Propel - East C S
Propel - Northside
Propel Charter School - Braddock Hills
Propel Charter School - Homestead
Propel Charter School - McKeesport
Propel Charter School - Montour
Propel Charter School - Pitcairn
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 Charter School Collaborative
Spectrum C S
Stone Valley Community 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
Universal Audenried C S
Universal Bluford C S
Universal Creighton C S
Universal Daroff C S
Universal Institute C S
Universal Vare C S
Urban League of Pittsburgh C S
Urban Pathways K - 5 College C S
Vida C S
Wakisha C S
Walter D. Palmer Leadership Learning Partnership C S
West Oak Lane C S
West Philadelphia Achievement Charter Elementary School
Wissahickon C S
Wonderland C S
World Communications C S
York Academy Regional C S
Young Scholars C S
Young Scholars Frederick Douglas C S
Young Scholars of Central Pennsylvania C S
Young Scholars of Western Pennsylvania C S